Managing the Operating Budget

Volume 2: Operating Budget
          Financing the Operating Budget

Preface

The original Local Government Financial Management (LGFM) series was conceived in the mid-nineteen nineties in Lucenec, in Eastern Slovakia. The United States Agency for International Development (USAID), through a contract with the International City/County Management Association (ICMA), had initiated a local government capacity building programme in Slovakia and financial management was one of the areas targeted for development.

When the City of Lucenec was approached as a potential recipient of technical assistance for the specific purpose of developing a capital improvement budget, they were grateful but not impressed. They saw the need for financial management assistance for the local government and others in Slovakia in much broader terms. Working with a group of dedicated local finance officers in Slovakia, ICMA assembled a small team of LGFM consultants. Together they produced the initial fourteen handbooks in this series.

Over time, the series spread quickly to other counties in the central and eastern European region and beyond. Funding for the adaptation and translation of the materials came from a variety of sources, including The World Bank and private foundations.

While UN-HABITAT had contributed to the initiation of the series, their involvement in the development and dissemination up to this point had been minimal. Nevertheless, they recognised the series' potential for worldwide use. But, they needed to be updated to reflect new ideas in LGFM and revised to make them more user friendly as they crossed national borders and language differences. Among other things, the initial series was based on Slovak laws, regulations, and experience, which varied significantly from those in other countries. UNHABITAT commissioned a written user survey and convened a small group of experts to help determine how best to carry out the revisionist task. The expert group included the Slovak initiators and others who had used the materials in various countries around the world.

While the initial edition of these materials was directed to Slovak local government finance officers, this edition is intended for a much larger audience. It includes not just finance officers but all local government financial management personnel as well as chief executive officers, department heads, elected officials whom we refer to as policy makers, and others in local governments worldwide who might find them useful. National government departments that have oversight responsibility for local finances should also find them useful as should those educational institutions preparing students for jobs within local governments. And, of course, the audience includes financial management trainers and training managers. In other words, this series is aimed at a worldwide mix of training providers and training users.

Kay Spearman
Principal Author

Acknowledgments

The preparation of this revised and updated version of the Local Government Financial Management (LGFM) Series has drawn upon the professionalism and expertise of many persons and institutions.

First, we would like to acknowledge the various authors, both of the original series and the current revision, of each respective chapter in the series. **Introduction and Trainer's Guide** written by Fred Fisher. Chp 1: Policy Making. Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Original essay by Jack Matzer. Original exercises by David Tees. Chp 2: Financial Planning. Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Original essay by Winston Evans. Original exercises by David Tees. Chp 3: Citizen Participation. Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Original essay by Winston Evans. Original exercises by David Tees. Chp 4: Evaluating Financial Condition. Original essay by Sanford Groves and Maureen Valente. Published by International City/County Management Association (1990 Washington DC). Exercises by Kay Spearman and Fred Fisher. Chp 5: Operating Budget. Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Original essay by Kay Spearman. Original exercises by David Tees. Chp 6: Financing the Operating Budget. Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Based on original essays by Winston Evans, Kay Spearman and Maureen Valente. Original exercises by David Tees. Chp 7: Capital Investment Planning. Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Based on original essays by Jack Matzer and Allistar Law. Original exercises by David Tees. Chp 8: Financing the Capital Investment Plan. Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Based on portions of original essays by Jack Matzer, Winston Evans and Allistar Law. Original exercises by David Tees. Chp 9: Accounting. Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Based on portions of original essays by Jack Matzer, Winston Evans and Kay Spearman. Original exercises by David Tees. Chp 10: Performance Measures. Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Original essay by Jack Matzer. Original exercises by David Tees. Chp 11: Asset Management. Written by Kay Spearman. Exercises by Kay Spearman and Fred Fisher. Chp 12: Procurement. Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Based on original essays by Allistar Law. Original exercises by David Tees.

We also appreciate the participants of the User Survey that was carried out on the original LGFM Series. Their experiences and insights were instrumental in identifying gaps and shortcomings in the original series and thus shaping the content of the current series.

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How to Use This Series

This chapter and others in the series can be used in many ways by a variety of local government (LG) officials and officers, as well as those who want to provide training and consulting services to LGs and related organisations. To support this mix of potential users, each chapter, with the exception of the *Trainer's Guide*, includes two distinct parts. Part One includes a discussion of concepts, principles, and strategies associated with the specific topic covered in the chapter. Basic information is provided first. In the more technical chapters (*Accounting, Procurement, Financing the Operating Budget, Operating Budget* and *Financing the Capital Investment Plan*), Part One is divided into Basic and Advanced Concepts so that the reader or trainer can pick the most appropriate place to begin. Part One is supposed to have something for everyone—meet the needs of developing, developed, centralized, and decentralized countries. To meet this requirement, many of the chapters are divided into Basic and Advanced concepts. Our idea was that the Basic concepts would be for persons who had little or no understanding of the topic and the Advanced concepts were for those who already had a foundation. If we have erred in this balance, it has been to provide more basic information than advanced.

Part Two includes training or management tools that are primarily designed to support group learning. However, many of the exercises in Part Two can also be used to support self-study and, with some adaptation, can be turned into financial management tools to use on the job. Also, the *Learning Applications* provided in Part One can be easily modified for group exercises. In other words, this series is designed to be used in a variety of ways to meet the LG financial management learning needs of many audiences.

PART ONE: CONCEPTS, PRINCIPLES AND STRATEGIES

Part One of each chapter is designed to meet two needs. First, it has been written to encourage self learning by LG finance managers, their staff, elected officials, chief executive officers and department heads of LGs, and others who need to know more about specific functions important to LG financial management. To enhance the self-learning process we have inserted *Learning Application* exercises where we encourage you to stop for a moment and reflect on what you have been reading as it relates to your own work experience. Each learning application exercise is prefaced by a small box listing the four most important roles and responsibilities associated with LG financial management: the elected official; the chief executive officer (CEO); the finance manager; and the operating department managers. Readers are encouraged to use these reflective moments to think about the issues covered by the *Learning Application* from their own experience and perspective as elected or appointed officials.

Of course, readers are welcome to stop anytime to reflect on what they have read in terms of their own experience, so these are just friendly reminders of the importance of the financial management concepts, principles and strategies that have just been covered in the text. We also encourage readers to check out the training tools in Part Two of each chapter. Many lend themselves to individual learning moments as well.

The Part One essays are also designed to provide trainers, consultants, researchers, and others with in-depth information and ideas about specific roles, responsibilities and processes within LG financial management systems. While these essays are important resources for those who are developing group learning (training) programmes for their LG constituents, they can also be valuable resource guides for central government officials who may be responsible for monitoring LG financial transactions, or providing technical assistance to LGs.

PART TWO: THE MANAGEMENT TOOLS

The Part Two components in each of these chapters are targeted primarily to those individuals who are designing and conducting group-learning experiences in LG financial management. While the main recipients of the training will be LG officers who have financial management responsibilities, many of the chapter materials can also be tailored to work just as effectively with elected officials, chief executive officers (CEOs), operating department heads—such as public works, and others such as staff members of LG associations and public service research organisations.

Another feature of the tools in Part Two is the built-in encouragement for participants to incorporate their own work experiences as part of the learning event. We believe that professionals can and do learn a great deal from each other when given the opportunity. Since most of the tools are based on an interactive approach to learning, these value-added opportunities are not just available but encouraged.

While the training tools in each of the chapters have been organised in a sequence that could be used effectively in a workshop situation, trainers are encouraged to be creative in designing group-learning experiences based on these materials. For example, you can reorganise the various tools in each of the chapters, use some of your own designs, alter those we have included in the chapters so they are more suited for your learning audience, or even find something in a different chapter that might work better given your style of training and the participants' learning needs. *And don't ignore the various Learning Application exercises that are included in Part One as potentially valuable training tools.* We have highlighted this statement to draw your attention to this added-value reserve of group learning opportunities.

Finally, we want to remind the practitioners of LG financial management that a number of the tools we have included in the Part Two sections of these chapters can also be adapted for use as management tools. For example, they might be used to help develop policy positions for consideration by your governing body, or help a team of mid-managers to sharpen their skills in developing performance measures, or assist financial clerks to redesign the flow of financial documents within their work units.

A WORD ABOUT TERMINOLOGY

One of the challenges we have faced in developing this set of materials is the wide range of terms that are used in different parts of the world to describe LGs and the key roles associated with LG financial management. For example, LGs are called cities, towns, townships, counties, boroughs, regions, and other things depending on the country where they reside. Equally challenging are the names that are attached to the officials and officers. For example, elected officials are known as elected officials, legislators, councillors, supervisors, board members, or commissioners, to name some of the more common titles.

To reduce the potential for confusion among the readers and users of these chapters, we have decided to be consistent in our use of the most common terms that occur frequently through these chapters. In addition, we have included glossaries of technical terms to help users develop a common frame of reference about various financial processes when working together. Equally important, those who are given the task of **translating these chapters** into other languages can only be effective in this important task if there is consistency in the use of the more commonly used terms. We have highlighted the need for *translators* because they are unique users of these manuals and often come to the translating task with a limited knowledge of the technical aspects of financial management.

SEEKING COMMON GROUND AMONG KEY TERMS, WORDS, AND PHRASES

In the *Learning Application* exercises in Part One of each chapter we have identified four key LG roles that correspond to those individuals whom we consider to be the most important clients of these learning materials. They are: elected officials, chief executive officers (CEOs), finance managers, and department heads. Since these roles are given different names in LGs around the world, we have listed a few of the variations in the following discussion. Hopefully, this will clarify just who is included when we talk about elected officials, CEOs, finance managers, and department heads. We have also included a few more terms that can be problematic in writing for LG audiences.

Elected officials: We use this term to identify those individuals who are chosen, hopefully through a democratic election process, to represent the citizens of their respective LGs in the legislative/governing process. They are also referred to in different parts of the world as: *policy makers,° legislators, councillors, supervisors, commissioners,* and *board members*. You may also know them under some other name or term.

Chief executive officer (CEO): This term is used in these chapters to identify the individual who has the sole responsibility for making overall management or executive decisions that affect the whole LG organisation. The CEO position is complicated since it can be filled by either an elected official, i.e., a mayor, or an appointed official, i.e., a city manager. We don't make this distinction in our use of the term CEO. As just stated, the CEO might also hold one of the following titles depending on the country, local laws or tradition: *mayor; chief administrative officer; city, township,*

town, borough or county manager; general manager, town clerk, or even *commis-sioner* if the executive powers are shared among several elected officials.

Finance manager: This term is used to identify those individuals within LGs who have significant financial responsibilities on a day-to-day basis. Since we want more than just the chief finance officer to use these chapters, we are deliberately including anyone within the LG who has supervisory responsibilities within the financial management domain. Depending on the location, these individuals might be known as: chief finance officer; director of finance; finance director; accounts manager; chief auditor; controller; and no doubt many more names or terms. We want all those individuals who have finance responsibilities in their LGs to benefit professionally from using these materials.

Department head: We believe the responsibilities for financial management in any LG do not end with those who occupy the roles just outlined. Their success in managing the financial affairs of the LG is also dependent on those individuals who manage the staff and operational units of their respective LGs. Since this term encompasses many different titles, often associated with the mandate of the operating department, we offer only a few as descriptive of who we have in mind. They might be: highway superintendent; water plant manager; director of human services; head nurse; chief mechanic; case work supervisor, or so on.

In addition to the four terms that are used most frequently in the chapters, translators and other users will benefit from what we mean by some other commonly used words or phrases. For example:

Governing or elected body: This is the collection of individuals elected to represent the citizens of your LG as policy makers, decision makers, and community leaders. Depending on where you are in the world, they might be known as the: *legislative body or council; political body; city, town, village, or county council; local parliament; board of commissioners; policy making body;* or some other name.

Local government (LG): LGs are called all sorts of things: *cities, towns, counties, municipalities, parishes, townships, villages, boroughs, regional governments,* and we suspect many other things, but hopefully, you get the picture. Usually, the common element is that they are the lowest self-governing unit of government in the country.

Executive branch: You might come across this term in these chapters, so here is what we had in mind. The executive branch of LG consists of all those departments that operate under the general management of the CEO, whether or not that individual is elected by the citizens, or appointed by the elected body, or some other appointing power.

Legislative branch: This branch of LG consists of the elected officials and their staff members if they have any. Supposedly, they are the *policy makers,* but that term is muddled since many people in LGs have a role in making policies, whether legitimately or through default. (If this statement raises your curiosity, we recommend you go immediately to *Financial Policy Making* and discover how this happens.)

Citizens: These are all of the residents of the LG, including women, and low-income persons. We also use the term community interchangeably. While we recognize different cultures may place a lower value or no value on the input of women and low-income persons in decision-making, our use of the term "citizen" throughout the

series is that it includes ALL residents of the LG and that women and low-income persons have an equal place at the decision-making table.

Annual budget: This is such a common term that we suspect many of you are shaking your head in wonderment. However, it does come in for some confusion and it is important to understand what the *annual budget* means in these discussions. The annual budget, as discussed in these chapters, is both the operating budget and the one-year capital budget based on the multi-year capital investment or improvement programme.

Capital investment plan: Sometimes called the *capital improvement programme*, or mistakenly the *capital budget*. That's why we made the distinction above. The capital budget is the one-year increment of all those long-term investment costs that is folded into the annual budget.

Hopefully, this lead-in to each of the chapters on how to use these materials will help in appreciating some of the subtle differences in who the clients are for the series and how they are referred to around the world.

There are additional resources for this series on the UN-Habitat website at http://www.unchs.org/default.asp.

Introduction

A BIT OF HISTORY

This Local Government Financial Management (LGFM) training series has a short but rich history. We believe it's worth relating to you for several reasons. First, many individuals and organisations contributed to its development, and now its re-development. They deserve to be recognised. Second, the redevelopment of the series was largely demand driven. Financial management and training professionals who saw the original set of chapters wanted them for use in their own countries. Consequently, they transported the old series across national borders from Slovakia to their own countries and ultimately created a demand for this new version. Finally, there are some lessons to be learned from the "redevelopment" of the original Slovak version of these training materials.

The original series was conceived in the mid-nineteen nineties in the office of Eva Balazova, the Finance Director of a small city, Lucenec, in Eastern Slovakia. The United States Agency for International Development (USAID), through a contract with the International City/County Management Association (ICMA), had initiated a local government capacity building programme in Slovakia and financial management was one of the areas targeted for development. The focus of the USAID assistance to Slovakia's local governments was initially the budget process; more specifically, the capital improvement budgeting process. Under the old centralised socialist approach to local governance there was no need for a capital budget. But the emergence of local self governments in Slovakia established the need for many new administrative and financial systems. Eva Balazova and her colleagues were sitting on a powder keg of potential change in how local governments could, and would, operate in the future.

When the City of Lucenec was approached as a potential recipient of technical assistance for the specific purpose of developing a capital improvement budget, Eva was grateful but not impressed. She saw the need for financial management assistance for her local government and others in Slovakia in much broader terms. Essentially, Eva was telling those who came with external assistance that the development needs for local government financial management were much more complex than just capital budgeting. Eva's insights and tenacity prevailed. Working through Eva and a cadre of other dedicated local finance officers in Slovakia, ICMA assembled a small team of LGFM consultants. Together they produced the initial series of these chapters.

End of story? Not quite. Word spread in the region that these training materials had been developed and had even been designed to make adaptation by other countries easier. For whatever reasons, neither USAID nor ICMA put the fourteen LGFM manuals on their websites so they could be accessed by others outside of

Slovakia. Fortunately, a small women-owned firm in Texas did. Kay Spearman, one of two principals of that private company and a member of the original ICMA technical assistance team who worked with the Slovak finance officers, became the linking pin. Once available, the series spread quickly to other counties in the central and eastern European region and beyond. Funding for the adaptation and translation of the materials came from a variety of sources, including The World Bank and private foundations.

While UN-HABITAT had contributed to the initiation of the series, their involvement in the development and dissemination up to this point had been minimal. Nevertheless, they recognised the series' potential for worldwide use. But, they needed to be updated to reflect new ideas in LGFM and revised to make them more user friendly as they crossed national borders and language differences. Among other things, the initial series was based on Slovak laws, regulations, and experience which varied significantly from those in other countries.[1] Not to be deterred, UN-HABITAT received permission from USAID to revise and republish the series. They commissioned a written user survey and convened a small group of experts to help determine how best to carry out the revisionist task. The expert group included the Slovak initiators and others who had used the materials in various countries around the world.

While it's a fascinating story of how international technical assistance often unfolds, there are a few lessons to be learned for those who will be using the new series.

1. Never under-estimate your own ability to make a difference.
2. Always challenge those who think they know more about what your training and development needs are than you do.
3. Never hesitate to step into a void that others may have created, regardless of their motives.
4. Be willing to take risks in adapting what was not invented in your own back yard.
5. Don't hesitate to help others even though there may not be anything in it for you at the time, or ever.
6. And remember, training and development is individual and organisation capacity building at its best when it is demand driven. Demand it for you, your colleagues, and your institutions.

OVERVIEW OF THE SERIES

With that short history lesson out of the way, it's time to look at what else you can expect from this chapter and the rest of the series. Among other things, you will learn about:

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[1]   UN-HABITAT has produced other region-specific manuals e.g. UNCHS (1991) *Training Manual on Urban Local Government for English-speaking East and Southern African Countries* and UNCHS (1991) *Training Manual on Urban Local Government Finance for South Asian Countries.*

- Why this set of training materials was developed in the first place and how it has changed.
- The expanded audience of potential users.
- Good governance principles and how they relate to LGFM.
- A revamped conceptual framework that more accurately reflects financial management reality.
- What each volume in the series will cover.
- How to get the most from the series.
- How not to be overwhelmed as either a trainer or user of this series.

COMPARING THE ORIGINAL SLOVAKIA LGFM SERIES WITH THIS SERIES

We want to share with you the original reasons for developing this series of local government financial management chapters. We also want to see if these initial reasons are still valid; if not, why not; and what we plan to do about it. There were at least three good reasons why this series was originally written.

First was the fundamental importance of financial management for the economic health and stability of local self-government in Slovakia and other countries. The effective management of any local government's financial affairs ranks among its most important functions. How well this function is carried out depends in large measure on knowledge of the discipline, ability to perform effectively, and ethical conduct of the finance manager.

This assumption still seems valid with one exception. It's not just the ethical conduct of the finance officer that is important. It's the ethical conduct of all local government employees, the elected governing body, and those they interact with in the community and beyond. Local government corruption almost always involves individuals and organisations outside the official local government family. Consequently effective, ethical LGFM involves more than just the finance manager.

Second was the concern that training materials for training finance managers had been developed in a piecemeal fashion. While many training components related to an efficient finance management system existed at the time, it would be difficult and probably impossible to integrate them into a coherent whole. A comprehensive approach to the development and packaging of materials was needed to help finance officers recognize and appreciate the scope and complexity of a fully functioning financial management system.

This assumption is still valid although we now see the importance of this series for more than just the development of the finance manager as was mentioned in the initial assumption. Very few development agencies or training institutions have taken as comprehensive an approach to developing a LGFM training curriculi as that taken in Slovakia in the mid-nineteen nineties. Nevertheless, the original series left room for considerable improvement. For example, the original version was based on topics, not the interrelated functions of LGFM. This is one of the key changes in this edition of the series. The new conceptual framework is designed to make the series more user-friendly and help users appreciate the interrelated and systemic nature of many of the LGFM functions. We will get into this later when we discuss the conceptual frame

work for this series. The other key change is to emphasize how LGFM concepts and practices are fundamental to implementing the widely accepted principles of good governance.

Third was the absence of a systematic LGFM professional development delivery system that relies on local training resources rather than outside expertise. Such a system would provide training materials in a format designed to facilitate local use by local trainers with no additional technical assistance required after initial field tests and training of trainers.

This assumption is still valid and this new series will, hopefully, make the delivery of the training just that much easier. In this regard, we have cleansed the series of its Slovak examples and bias recognising the need to make it a global resource. We have also expanded the learning audience to include more than just the finance manager.

The original series was designed with all these considerations in mind. It provided a comprehensive perspective on financial management by addressing the basic functions and skills required. It also adhered to the learning needs of the Slovak local government finance officers as they were defined at the time which was, of course, what the series was intended to accomplish. The curriculum design also mirrored earlier UN-HABITAT training packages, such as the Local Elected Leadership series, by providing concepts, principles, and strategies in Part 1 and workshop training designs in Part 2 of each discrete chapter.

As the Slovak finance officers used the original series of handbooks, they discovered that the topical sequencing of the materials was not particularly functional. Nor did the design of training based on the content of individual handbooks provide for optimum learning experiences. There was just too much inter-connectedness and overlap of the various topics to present them in their original format. So, the Slovak financial officers and trainers experimented by reorganising the content of the individual handbooks to mirror the reality of their work environment. When UN-HABITAT convened the experts to provide guidance in developing the new edition, the Slovak experience in experimenting with the content and design of the original series proved extremely valuable. We appreciate their contribution in helping to make a good training product just that more effective.

But, there was another experience of the Slovak finance officers group that needs to be mentioned as a spin off of their involvement in developing the series and using it as part of their profession's development in Slovakia. These finance officers, and they happened to be mostly women, saw an opportunity to influence the direction and the quality of local government financial policies and management practices at the national level of governance. To do this, they needed to be organised so they created the Association of Municipal Finance Officers of Slovakia. This professional association continues to be a driving force in helping define the role of local government finances as an integral part of the nation building process in that country. Never underestimate the importance of training as an integral part of larger institution and nation building strategies.

THE EXPANDED AUDIENCE OF USERS

While the initial edition of these materials was directed to Slovak local government finance officers, this edition is intended for a much larger audience. It includes not just finance officers but all local government financial management personnel as well as chief executive officers, department heads, elected officials whom we refer to as policy makers, and others in local governments worldwide who might find them useful. National government departments that have oversight responsibility for local finances should also find them useful as should those educational institutions preparing students for jobs within local governments. And, of course, the audience includes financial management trainers and training managers. In other words, these volumes are aimed at a world-wide mix of training providers and training users.

This expanded audience, however, has made the adaptation of these materials difficult. It initially looked like they would either have to be so general that they would be of no use to anyone, or so comprehensive in scope that nobody would be able to lift them, let alone use them. In wrestling with this dilemma, we decided to put the main responsibility for determining what to use in each volume and/or chapter, and how to use it, in the hands of the training managers and trainers. Given this fundamental decision, we want to direct the following comments to these individuals. While the following comments might be more appropriate for the Trainer's Guide, they are also important for finance officers, elected officials and others to hear. Thus, we have decided to put them in this Introduction chapter in hope that all training providers and users would read them. In addition, we have provided this Introduction, How to Use the Series, and the Trainer's Guide at the front of each volume so that each volume "stands alone," with all of the information provided in one place.

HOW TO MANAGE THIS MASS OF MATERIALS

Here are several ideas on how to make the use of these volumes more manageable and productive for you and your training clients. If you are a potential training client and listening in on this conversation, these ideas should also help you oversee and monitor your training supplier's performance.

- Know who your training audience will be and match what your training offers with their learning needs. There is nothing more devious in the training world than the trainer defining the client's needs in terms of what the trainer can deliver.
- One of your best marketing and delivery tools as a trainer is to talk to members of your potential target group to learn what they think would be most useful, based on their needs at the time. For example, the development of the original series resulted from a comprehensive survey of key local government officials in Slovakia. The survey included not just the finance officers but mayors who also performed as chief executive officers, members of governing bodies, and the directors of operating agencies. Each role had their special needs in terms of financial management and many of these needs were general to all the roles.

- Think seriously about providing a training programme for senior local government finance officers in your country that includes all the volumes. This is obviously a heavy commitment on the part of trainers and finance officers but essential. It also means you will need to spread the training out over a longer time period. If you want to get the attention of these finance officers but not their attendance, schedule the programme during the budget preparation season.
- Since many finance officers may be concerned about making a long term time commitment, start with those modules that they believe are most important from their point of view. Also think about creating a certificate programme for those who successfully complete training in all volumes in the series. Some kind of official recognition for completing the series will be a good incentive to most professionals.
- As for those elected officials, several briefings using the chapters from Financial Policy Making, Financial Planning, and Citizen Participation in Volume 1, before the budget preparation cycle begins would be useful. Hopefully it would get them thinking about some of the longer term issues in terms of financial management. Follow this with sessions from the chapter on Financing the Operating Budget from Volume 2, before those budget hearings begin. In other words, target the training to their needs.
- Department heads could benefit from sessions on the Operating Budget, Financial Planning, and Performance Measures. These chapters are contained in Volumes 2, 1, and 4 respectively.
- Target those officers who have specialised responsibilities. For example, are there purchasing agents in the larger local governments? If so, schedule sessions using the chapter on Procurement in Volume 4. In some countries, the Procurement chapter might even become one of the study guides for developing national legislation that provides guidelines for local governments. If there are local finance clerks who have responsibilities for asset management, the Asset Management chapter in Volume 4 offers the concepts and training designs to meet their needs.
- Think about briefing sessions on the full scope of LGFM for specific local government teams of elected officials, managers and key financial personnel. One of the best times to do this is just before the budget cycle begins. This way they all get the big picture. It's also a good time to learn about specific training needs. For example, the governing body might have been talking about involving citizens more directly in the budgeting process. Or, they might be faced with some major capital expenditures and need more knowledge and skills on their options in undertaking long term investments in public infrastructure.
- In other words, be creative in cultivating the potentials for using this rich storehouse of learning materials with a wide range of local government audiences.

With these opportunities in mind, here are four important clues on how to use these volumes successfully.

1. Don't panic by their size and comprehensiveness. Remember the old joke about how to eat an elephant? As the joke goes, one bite at a time.
2. Figure out who your training audiences are and give them an opportunity to tell you what they need in the way of training. Remember, your potential audiences for LGFM training are both many and significant. We've only touched on the most obvious in the examples just given.
3. Design the training based on these needs and the knowedge and skill levels of your specific audience.
4. Finally, select from these volumes only what is needed to meet the needs of your specific learning audience. The worst thing you can do is to overwhelm them with either too much stuff or the wrong kind of stuff. We've highlighted what we think might be advanced principles and practices in each of the manuals but the judgement call is really yours as a trainer. And, your judgement about what to include in each training design should be based on the roles and responsibilities of your participants, their learning needs, and their general level of sophistication as a group.

LGFM AND GOOD GOVERNANCE

One of the shortcomings of the original series of chapters was the absence of any explicit attention to the principles of good governance that have become standards in the past decade to define the performance of local governments worldwide. While these principles were implicit in many of the concepts and strategies in specific chapters in the original version, we will make them much more explicit in this edition. Since the good governance principles vary a bit from one official proclamation to another, we will start by presenting two versions and then tie them to financial management as the operating framework for achieving these principles.

In UN-HABITAT's Global Campaign on Urban Governance[2], these principles are defined as:

- **Sustainability** in all dimensions of local development;
- **Subsidiarity** of authority and resources to the closest appropriate level consistent with efficient and cost-effective delivery of services;
- **Equity** of access to decision-making processes and the basic necessities of community life;
- **Efficiency** in the delivery of public services and in promoting local economic development;
- **Transparency**[3] **and Accountability** of decision-makers and all stakeholders;
- **Civic Engagement and Citizenship** with all citizens participating in and contributing to the common good; and

[2]   For more information on the Global Campaign on Urban Governance, visit http://www.un-habitat.org/campaigns/governance//. See also UN-HABITAT (2003) *Tools to Support Participatory Urban Decision-Making.*

[3]   See UN-HABITAT' (2004) *Tools to Support Transparency in Local Governance* for further information.

- **Security** of individuals and their living environment.

For a slightly different look at governance, we turn to The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). Their interpretation of good governance has eight characteristics:

1. It promotes and encourages participation including that of children.
2. It requires respect for the law and the full protection of human rights.
3. It involves transparency in decision making, and information is freely available and easily understandable to all.
4. It is responsive, implementing decisions and meeting needs within a reasonable time frame.
5. It is consensus-oriented, involving the mediation of different interests in society and sensitivity towards the relative influence of different actors including the poorest and most marginalised.
6. It promotes equity and inclusiveness, such that all members of society feel that they have a stake in that society.
7. It means that processes and institutions produce effective results that meet the needs of society while making the most efficient use of resources and promoting sustainability.
8. It is founded upon accountability, not only of governmental institutions, but also of private sector and civil society organisations.

As you can see, there isn't total agreement even within the larger UN community about what constitutes good governance principles. Nevertheless, most institutions that promote these principles agree that governance is much bigger than just government. The Global Campaign says that governance includes government, the private sector, and civil society.

ESCAP's definition of governance embraces just about every organised entity as well as individual citizens. For example, they include governments, NGOs, the private sector, the media, grassroots organisations, and more. To simplify our task of relating good governance to LGFM, we will take what we believe to be the most important principles in the two UN statements and provide some examples of what they might look like in practice.

- **Rule of law:** This principle is central to LGFM. For example, the budgeting process is established by law, even determining when elected and appointed officials must do what by when. Procurement standards and accounting procedures are often established by law and the development of financial policies by local governing bodies is also an act of law making, albeit local. Local government corruption is more often than not based on financial transactions that violate the rule of law.
- **Transparency:** This principle cuts across a variety of LGFM functions and responsibilities including financial policy making and planning, budget hearings and postings, financial audits, and the involvement of citizens in the full range of financial management activities.

- *Accountability:* This presumably is what the budget process is all about. It holds elected and appointed officials accountable by stating how public funds will be spent. Programme and financial audits should determine if public officials were accountable in their implementation of the budget.
- *Participation and civic engagement:* One of the current hot topics on the international circuit is participatory budgeting. The days when financial management was confined to the backrooms of city hall has passed.
- *Equity and inclusiveness:* These principles, when implemented, assure that financial decisions are made in the best interests of all citizens not just the privileged few. They cut across such financial functions as budgeting, procurement, financial policy making and planning, and the development of performance measures that focus on issues of equity and inclusiveness.
- *Subsidiarity:* This rather daunting term describes the process of determining how best to deliver services in efficient and effective ways. It may mean contracting out services to the private sector, or subsidising NGOs to perform certain services. These decisions cut across financial policy making and planning, the need to establish performance and accountability measures, the budgeting process, and a host of other LGFM activities.
- *Effectiveness and efficiency:* Financial management is really all about these two fundamental principles. Peter Drucker, the management icon, says "Effectiveness is doing the right things" and "Efficiency is doing things right." Budget decisions should sort out the right things to spend public funds on and the management of the expenditure of those funds and resources should assure that it's done right. These two principles should be your financial management mantra.
- *Sustainability:* We complete this principled look at LGFM by including UN-HABITAT's principle # One in their Global Campaign on Urban Governance: sustainability in all dimensions of local development. This covers a myriad of financial decisions: from making certain that maintenance of public buildings, infrastructure and equipment is covered in the annual budget, to long range financial planning of community programmes so their sustainability can be assured.

As you can see, LGFM is a very principled role and responsibility. Keep these good governance principles in mind as you use these training materials for your own professional development and the development of your local government organisation and community.

A NEW CONCEPTUAL MAP TO NAVIGATE BY

We mentioned earlier that the original version of these materials took a topic by topic, or function by function, look at the financial management roles and responsibilities associated with local government and the broader definition of governance. The original version included fifteen handbooks: Introduction; Accounting as a Management Tool; Financial Policy Making; Financial Planning; Operating Budget; Capital

Programming; Debt Management; Cash Management; Revenue Maximisation; Cost Containment; Procurement; Performance Measures; Construction Cost Management; Citizen Participation; and Grants Management.

When the Expert Group Meeting of LGFM users was convened by UN-HABITAT in Kenya to determine the content and format of the new edition of these materials, the members were challenged by the experience and insights of the Slovakia finance officers. Not only had they helped develop the original series, they also had experience using the materials to train other finance officers in their country and the region. Again, Eva Balazova proved to be the key person in helping to take this series to a new level of anticipated performance. After many variations of how to reorganise and revitalise the LGFM series for worldwide use, the team of experts agreed on the following strategy.

1. The short-term operating budget and long-term capital investment plans are the engines that drive local government financial management: The two chapters from the original series that covered these topics remain and are expanded to include materials from other manuals in the original series. In this series they are: Volume 2, Chapter 5, *Operating Budget* of and Volume 3, Chapter 7, *Capital Investment Plan*.

2. In each of these two major LGFM functions there are financing requirements that need to be addressed separately, thus we have two new chapters in this series that are, in a sense, companion learning tools; Volume 2, Chapter 6. *Financing the Operating Budget*, and Volume 3, Chapter 8. *Financing the Capital Investment Plan*.

3. Several of the financial management functions covered in the original series are integral to the operating budget and capital investment planning processes and are incorporated into the chapters covering these topics and their companion chapters that deal with their financing. These functions include: Debt Management; Cash Management; Revenue Maximisation; Cost Containment; Construction Costs; and Grants Management. In other words, the materials covered in these original chapters are now integrated into Volume 2, Chapters 5 and 6, and Volume 3, Chapters 7 and 8.

4. Three new chapters were recommended by the expert team and they are included in this series. They are: *Trainer's Guide*, which is included in all four volumes; *Evaluating Financial Condition*, Volume 1, Chapter 4, and *Asset Management*, Volume 4, Chapter 11.

5. The remaining chapters in this series, which mostly represent cross cutting competencies, are updated and expanded versions of handbooks in the original series. They are: Chapter 1. *Introduction*, which is in all four volumes, Volume 1 includes Chapters 3, *Financial Policy Making*;, Chapter 4. *Financial Planning* and Chapter 5. *Citizen Participation*. Volume 4 includes Chapters 9, *Accounting*, 10, *Performance Measures* and 12 *Procurement*.

We hope this provides a mental picture of how this set of training and management volumes/chapters evolved from the original series. Of course, there are many

ways to slice this complicated set of competencies, functions, and responsibilities within LGFM and we suspect that a few of you are already saying, "Well, the next time they are updated I think they should ……" We do to but in the meantime we hope you find this new series a bit more easy to use as trainers and public officials responsible for LGFM in your communities.

VOLUME CONTENTS

The contents of the remaining LGFM volumes and chapters are summarised below to give you a brief idea of what to expect from each.

VOLUME 1: CREATING A FINANCIAL FRAMEWORK

INTRODUCTION

TRAINER'S GUIDE

This chapter is designed to help trainers and other key individuals use these materials in a variety of situations with a wide range of participants. It covers the adaptation and possible translation challenges of making the chapters more user friendly in the context of their use and the planning process of developing and delivering effective training. Clues will be included on how to design and deliver interactive learning experiences based on the input of concepts and strategies from the chapters and participant experiences in their application within local governments. The materials can and should be adapted by trainers to meet the learning needs of their clients and ways to do this will be provided. Various training design techniques will be covered, such as how to write a critical incident, case study and role play situation. Finally, there are ideas on how to evaluate training and its impact.

CHAPTER 1: FINANCIAL POLICY MAKING

This chapter examines ways that formal, written financial policies are developed and implemented at the local government level. We will provide a definition of financial policy and describe the benefits to a local government that establishes and uses sound financial policies. We will delineate the basic steps to take in identifying, proposing, adopting, and implementing financial policies. We will also discuss various obstacles to the financial policy making process.

CHAPTER 2: FINANCIAL PLANNING

This chapter will examine ways that financial planning can be developed and implemented in local governments (LGs). The focus of the chapter is primarily on one aspect of financial planning—medium-term financial forecasting of revenues and ex-

penditures. We will provide a definition of forecasting and relate it to good governance, citizens, performance measures, and financial policies. We will also describe the benefits that accrue to LG when implementing a financial forecasting process, considerations for organizing the process, types, and methods of forecasts. Included in the discussion will be obstacles, limitations, and risks inherent in developing a financial forecasting process.

CHAPTER 3: CITIZEN PARTICIPATION

This chapter examines ways that citizens interact with their local governments (LGs). We provide a definition of citizen participation and describe the benefits to a local government that establishes and uses citizen participation policies and techniques. We discuss obstacles to the use of these policies. We provide ten steps to involving citizen participation in resolving an issue. Finally, we provide a compendium of techniques that can be used by local governments to involve citizens in a timely and constructive way in the development and implementation of public programs.

      This chapter is written for LG officials, managers, and policy makers. It does not attempt to provide a citizen's point of view towards dealing with LGs. Because some reviewers indicated an interest in Participatory Monitoring which focuses on citizens monitoring the LG, Appendix B: World Bank Information on Participatory Monitoring has been added to the chapter.

CHAPTER 4: EVALUATING FINANCIAL CONDITION

This chapter focuses on identifying, measuring and analysing various financial and demographic factors that affect a local government's financial condition. The financial data needed for the analyses is taken from the local government's financial records. Managers can use the information to: better understand the local government's financial condition, the forces that affect it, and the obstacles associated with measuring it; identify existing and emerging financial problems; and, develop actions to remedy these problems.

VOLUME 2: MANAGING THE OPERATING BUDGET

INTRODUCTION

TRAINER'S GUIDE

CHAPTER 5: OPERATING BUDGET

This chapter is divided into basic and advanced sections. This basic section describes how to design and implement an operating budget system for LGs. It defines operating budget terms, explores concepts, and examines the benefits and potential obstacles associated with establishing and using a system. It provides a 12-step

process for preparing, reviewing, adopting and monitoring the operating budget. The advanced section provides information on cost containment, various management analysis techniques and awarding grants within the LG community.

This chapter deals with budgeting matters in general and does not apply or take into account each individual country's laws or regulations. LGs are responsible for making local decisions, including compliance with any applicable laws, statutes, decrees or regulations.

CHAPTER 6: FINANCING THE OPERATING BUDGET

The concept of "financing the operating budget" combines many functions across the local government (LG) organization. It involves estimating revenues (covered in the Financial Planning chapter), cash budgeting, revenue billing and collections, investing idle or excess cash, setting prices and user fees and the day-to-day monitoring of all of these functions to ensure that sufficient monies are available in the bank to actually pay for the day-to-day operations of the LG—the operating budget. It is important that all of these separate but very interrelated functions are considered when developing policies, procedures and making decisions about the LG programs and services.

This chapter examines how you can use the revenue structure, cash management, internal controls, the accounting system, revenue billing, and collections, investing idle cash, and cash budgeting to assure that the revenues needed to fund the operating budget are available when needed.

VOLUME 3: MANAGING CAPITAL INVESTMENTS

INTRODUCTION

TRAINER'S GUIDE

CHAPTER 7: CAPITAL INVESTMENT PLAN

This chapter is divided in basic and advanced sections. The basic section will describe how to design and implement a capital investment planning and budgeting system at the local level of government. We will define capital investment planning terminology and examine the benefits and potential obstacles associated with establishing a system. We will also discuss the steps involved in preparing, reviewing, adopting, and monitoring a capital investment plan and budget, including an extensive section on actually constructing facilities. The advanced section includes an introduction to value management and real estate analysis.

CHAPTER 8: FINANCING THE CAPITAL INVESTMENT PLAN

It seems that most policy makers and staff are familiar with putting together the capital investment plan—holding public hearings and putting a plan together that will move the LG towards the policy maker's vision of the future. Unfortunately, few have taken the time to understand the equally important function of financing the capital investment plan. Decisions made about it have a much longer-term effect than those made about the operating budget—they may affect several future generations of citizens.

This chapter examines how the financing for the investment plan is developed and implemented. We will provide definitions of debt management and other related terms. We will also review the benefits of instituting a debt management program, identify and provide examples of policies that should be developed, and discuss the legal environment surrounding the use of debt. We will address types of financing, methods for selecting credit instruments and the mechanics for obtaining financing, as well as a review of credit analysis, disclosure requirements and administration of the debt.

VOLUME 4: MANAGING PERFORMANCE

INTRODUCTION

TRAINER'S GUIDE

CHAPTER 9: ACCOUNTING

This chapter is divided into basic and advanced sections. The basic section includes background information on basic concepts and definitions of accounting, the importance of accounting and good governance, accounting standards, the accounting cycle, and types of accounting. It also includes policies, obstacles and benefits to accounting.   There is a section on management accounting and various costing techniques. The advanced section includes information on computer technology, modernizing the accounting system, accounting manuals, fund accounting, utility funds, depreciation, and advanced financial and budgetary reporting.

CHAPTER 10: PERFORMANCE MEASURES

This chapter examines the development and implementation of performance measurement at the local level of government. We will define performance measurement and describe the benefits to a local government that uses it to improve the odds of success in achieving its service goals. We will also discuss the steps involved in setting up a performance measurement system and obstacles that may be encountered along the way.

CHAPTER 11: ASSET MANAGEMENT

This chapter examines how you can use asset management as an effective management tool. We define the term assets, as it is used in this chapter, asset management systems, and plans and describe the benefits of using asset management to better plan capital investments and achieve service delivery goals.

The best place to start developing an asset management plan is with the basics. According to the World Bank, these include:

- Developing basic asset inventories including surplus real property,
- Documenting asset operation and maintenance processes,
- Developing primary asset information systems,
- Preparing basic asset management plans, and
- Developing staff skills and governing body awareness.

We have structured the book to provide information on these basic components from two perspectives. The first deals with the assets that are used to provide day-to-day services to the citizens of the LG. The second recognizes that some countries are in a decentralization process where the central government is giving LGs responsibility for assets for which they have not previously been responsible. For those local governments that may be in the second category, we have provided a section on Surplus Real Property since it represents a different challenge than working with the assets used to provide ongoing services. However, this chapter does not deal with managing apartment or housing units.

CHAPTER 12: PROCUREMENT

This chapter is divided into a basic and advanced sections. The basic section examines the process of procurement in local government with emphasis on procurement planning, legal procedures for the acquisition of goods, services and public facilities, and details of procurement administration. It also includes policies, benefits and obstacles in the procurement process. Steps for a comprehensive procurement process for goods, services and public works are also included. The advanced section deals with construction contract administration, store operations, procurement and e-Government, and procurement and economic development issues.

USING THE SERIES

We have designed the series described above to be used by a variety of individuals and institutions. Obvious among these are the trainers and training institutions on the supply side of training and finance officers on the demand side. But, we see the potential users as many more as alluded to earlier. We hope that chief executive officers (CEO) and department heads in local government will use them along with staff members of municipal associations. There should be interest likewise on the part of community NGOs that are hoping to see citizens get more involved in the budgeting processes of their local governments. And community colleges and other educational

institutions that are preparing entry level public financial management professionals for future employment could easily integrate many of these chapters into their curriculum.

For those mainstream users like finance trainers and finance management professionals we offer the following ideas. Use these chapters:

1. As self-study guides. We hope policy makers, CEOs, department heads, and a range of financial management personnel from local governments will be inclined to pick up these chapters and read them. To add value to the reading we have interspersed each essay with Learning Application tasks. With each of the short application tasks, we have identified in a call-out box who might best benefit from undertaking each of these tasks. Of course, we encourage all users to pause from the reading to critically assess what they have been reading in relation to their own financial management responsibilities and challenges.

2. As workshop learning guides. We anticipate that these chapters will become the basis for a wide range of learning experiences for local government elected and appointed officials. As we mentioned earlier, there are many ways to organise these materials to meet a variety of learning needs within the broad local government community. For example, if you are operating as a trainer or manage a public sector-oriented training institute, think about the following options:

   - A ten-day workshop that includes approximately a half day on each of the substantive topics;
   - A five-day workshop that covers fully three or four of the topics included in the series based on the assessed interest of finance managers in a particular region of the country;
   - Twelve workshops, each one to one and one-half day in length, covering all of the topics;
   - A three-hour program in conjunction with an annual conference of local finance officers that deals with the most important aspects of one particularly high-interest topic in the series.
   - A presentation at the annual meeting of the national association of local governments on the advantages of supporting LGFM training for key local government elected and appointed officials.
   - Teaming up with a formal educational institution to offer a certificate programme based on the series, or to integrate selected materials into their degree programme in public administration, with you being an adjunct instructor who delivers the education modules.

In addition to the options mentioned, there are other ways to use these materials. For example, think about meeting with an interested group of finance officers from the same region every Friday afternoon for several weeks to hold discussions on several of the topics. Rather than give you any more ideas, we suggest you do a bit of brainstorming for other ideas by completing the following Learning Application exercise. By the way, these interludes in your reading are identified by the term just

used, Learning Application. You will find them throughout the texts of Part One of each of the chapters. Trainers have also found them to be useful as learning exercises for workshops and other structured learning events. Just modify them to meet your specific training design needs and add them to your training toolkits.

LEARNING APPLICATION

Take a few moments and jot down some ideas about how these chapters might be used in your country to support the further professional development of your public officials and institutions.

_____

_____

_____

_____

_____

Of these ideas, which ones do you think are the most important?

_____

_____

_____

_____

_____

What can you do personally to help support these ideas so they become real?

_____

_____

_____

_____

_____

PART TWO: MANAGEMENT TOOLS

PURPOSE

The materials included in this overview are designed to be used by the trainer to initiate a series of workshops on financial management. In other words, they are intended to serve as an introduction when several of the topics on financial management are to be covered during the same workshop series. On the other hand, they can be adapted to supplement the content of a program devoted to just one topic. Either way, they are intended to get the training off to a successful start by helping participants get acquainted with each other, providing them with information on workshop content, and letting them experience the type of interaction to be used throughout the workshop series.

While we have stressed in Part One of this chapter and in the Trainer's Guide the importance of adapting these materials to meet the needs of your training participants, we want to reemphasize it again. Many of the exercises can be changed to meet the needs of various audiences with differing levels of knowledge and experience in financial management. Don't hesitate to adapt them to meet the learning needs of your participants.

CONTENTS

A brief description of each learning activity is shown below with an approximation of the amount of time required. If you wish to change the order, to omit something, or to add training material of your own, feel free to do so. In addition, use your judgment and experience about the time needed to complete the tasks involved in the exercises. While we have attempted to judge the times it might take to carry out a group task, for example, it will vary from group to group. Adapt to the learning needs of your participants in these workshops and you will be successful.

0. 1   WARM-UP EXERCISE: GETTING ACQUAINTED

Introductions should be made to acquaint participants with each other and the training staff, let them know what will be expected of them, and help them to feel more comfortable in the learning environment. (15 - 60 minutes)

0.2   EXERCISE: ASSESSING KNOWLEDGE AND EXPERIENCE

Participants individually assess their level of knowledge and experience in relation to a list of financial management topics, and compare results in small groups. (60 - 75 minutes)

0.3 EXERCISE: IDENTIFYING FINANCIAL RESPONSIBILITIES

An alternative to the preceding exercise. Participants work in small groups to identify and compile lists of financial management responsibilities and rate the responsibilities on challenge and the need for training. (60 minutes)

0.1 WARM-UP EXERCISE: GET ACQUAINTED

TIME REQUIRED:

15 - 60 minutes

PURPOSE

This exercise is to help participants get to know each other and the trainer, let them know what will be expected of them, and cause them to feel more comfortable in the learning environment.

PROCESS

After welcoming remarks by the host agency representative and a short description of program objectives, scheduling and logistics, give a brief personal introduction and invite participants to get acquainted. Here are some alternative ways to organize the get-acquainted exercise.

Self-introductions —Ask participants to say a few things about themselves such as their names, the local governments they represent, the number of years they have served as finance officer or some other position, and why they have chosen to take part in this workshop or workshop series.

Paired introductions—Ask participants to pair up to get acquainted, to gather some personal/ professional data on one another, and then, in turn, for each participant to introduce his or her partner to the group.

Small group mixer—Have participants write on a card the name of the finance management area in which they would most like to be more skillful. Since many of the participants may not be aware of the topics to be covered by the training, you may have to make a list of them on newsprint or a blackboard before starting the exercise.

After participants have completed the task, ask them to get up and wander around the training room until they locate another participant with a similar need. After a few minutes, have participants who are interested in the same area of financial management to join together in small groups to discuss what they would like to know or be able to do better about that area. Ask for volunteers from the various groups to introduce their group's members and report on their group's results.

0.2 EXERCISE: ASSESSING KNOWLEDGE AND EXPERIENCE

TIME REQUIRED:

60 - 75 minutes

PURPOSE

This exercise is to help participants relate their own professional experience to the various financial management topics included in the workshop series.

> *(Note: If participants have not read the essay at the beginning of this chapter and are not familiar with the topics included in the series, substitute Exercise 1.3 for this one.)*

PROCESS

Using a questionnaire like the one shown on the next two pages, ask participants to provide some information about their own performance and the performance of their respective local government organizations in relation to various topics.

When participants have completed the task individually, ask them to share their responses in small groups. Suggest that a recorder in each small group make a list of the responses and tabulate them to identify the patterns (i.e., which topics are most often mentioned in response to items in the two boxes).

After about 30 minutes of small group discussion, reconvene the participants. Ask for a summary report from each small group. Encourage a discussion of similarities and differences in small group results.

Assessment of Financial Management Knowledge and Experience: A Questionnaire

INSTRUCTIONS

Read the descriptions of functions performed by local governments in conducting their financial management responsibilities that are presented in Table 1. After you have read each of the functions, fill in the information as requested in the boxes in Tables 2 and 3.

Table 1. Description of Financial Management Functions

Accounting	Provides the basic concepts of accounting and reporting for LGs.
Asset Management	Provides a method for identifying and managing the assets of a LG.
Capital Investment Plan	Examines the process of planning for the financing of future physical development needs to ensure that construction priorities and schedules are coordinated with the availability of needed financial resources.
Citizen Participation	Provides a guide for local government officials in their efforts to involve citizens in a timely and constructive way in the development and implementation of public programs.
Evaluating Financial Condition	Provides a illustrative set of indicators to be used in evaluating a LG's financing condition.
Financial Planning	Examines in depth the process by which local governments anticipate their future financial needs using a variety of planning and forecasting methods.
Financial Policy Making	Explores the nature of financial policy and how policies are formulated and used systematically by local governments to guide and direct their financial affairs.
Financing the Capital Investment Plan	Describes the short and long-term financing portion of the capital investment plan.
Financing the Operating Budget	Describes the revenue and short-term financing portion of the annual operating budget. Also includes cash budgeting and investment of excess.
Operating Budget	Concentrates on the annual operating budget and its use as a primary tool for financial planning and management as well as for estimating annual income and controlling expenditures.
Performance Measures	Describes the use of performance measures to determine if and how well the intended purposes of local government are being achieved and how to set up a performance measurement system.
Procurement	Reviews in detail the lawful, efficient and ethical procurement of goods and services by a local government including a step-by-step tour of the public procurement cycle.

With respect to my own management performance, I would rate the finance functions described in Table 1 as follows:

Table 2

My Performance	Function
The function in which I do the best is:	_____
The function in which I am least successful is:	_____
The function that is the most challenging for me is:	_____
The function that is the least challenging for me is:	_____
The three functions in which I want training the most are:	_____
	_____
	_____

With respect to my local government's performance, I would rate the finance functions described in Table 1 as follows:

Table 3

My Local Government's Performance	Functions
The three functions in which my local government performs best are:	_____
	_____
	_____
The three functions in which my local government performs the least successfully are:	_____
	_____
	_____

Worksheet—Financial Functions: Challenges and Training Needs

INSTRUCTIONS

In Column 1, on the left side of the worksheet, make a list of 10 important financial functions performed by the local governments represented by members of your small group. After completing the list, agree as a group on five of the functions on the list as the ones that are the most challenging for the local governments represented. Indicate your group's choices by blackening the appropriate five circles in Column 2. Then, agree as a group on five functions from the list as the ones in which training is needed the most by finance officers representing the local governments. Indicate your group's choices for training by blackening the appropriate five circles in Column 3.

Column 1 Finance Function	Column 2 Most Challenging	Column 3 Training Needed
1. _____	O	O
2. _____	O	O
3. _____	O	O
4. _____	O	O
5. _____	O	O
6. _____	O	O
7. _____	O	O
8. _____	O	O
9. _____	O	O
10. _____	O	O

0.3   EXERCISE: IDENTIFYING FINANCIAL RESPONSIBILITIES

TIME REQUIRED:

About 60 minutes

PURPOSE:

This exercise is to help participants identify the various individuals or roles that per-form important functions within local government's financial management process. The intent is to increase awareness of the interrelated nature of the various functions and the importance of team work in carrying out these functions. This is an exercise that can be used with participant groups that include policy makers (elected officials), CEOs, and department heads as well as financial officers.

PROCESS:

Divide the participants into small groups of five to seven and give each participant a copy of the list of FM functions from Exercise 1.2; Table 1. Ask each group to dis-cuss who within the local government family of individuals, departments, boards, and commissions (such as the elected body or the planning commission) need to be involved in each of the twelve functions on the list. Out of the list for each function ask them to identify who does or should take the lead responsibility. Tell them they have about 30 minutes to come up with their responses.

This could get a little messy since many individuals, departments, and various boards and commissions need to be consulted or involved in many if not most of these functions. Remind the participants that the intent is to better understand the complexity of most LGFM functions. Ask each group to record their responses on flip chart paper so they can report on their findings in the following plenary session.

Don't hesitate to add any additional tasks to this exercise that you feel would be useful in helping the participants get a better understanding of the full range of functions within LGFM. For example, you might ask them to identify the roles that citizens should play, if any, in each of these functions.

Trainer's Guide

INTRODUCTION

When the Expert Group met in Kenya to plan this series of training and management materials the members agreed that the utility of the series would be enhanced by including a trainer's guide. While trainers will be the primary users of this guide, there are others that will also find it useful. For example, we have included a few notes for those who might be concerned about translating them into another language or perhaps adapting them to be more congruent with national laws and financing practices. We also see finance managers and other local government managers as potential users of this guide, particularly if they want to have an influence on the quality of training that is being provided for their employees. If your country has an association of finance officers, chief executive officers, or governing bodies, or is thinking about starting one, this guide might be useful. In other words, its potential users go beyond just those in the trainer role. We have tried to write it with this expanded audience in mind. We believe it's important to put training into a much broader context than just designing a learning event for a group of local government officials.

We will start our discussion in a moment by explaining what we mean by this. From there we will look at some of the challenges of adapting, and where necessary, translating the series into another language. We will also discuss some issues involved in planning and sustaining a successful local government financial management (LGFM) training programme. These aspects of training cover a range of training management tasks from doing a training needs assessment, to training trainers, and evaluating the impact of the training investment.

Finally, we will get to the trainer's concerns about how to use these materials to enhance their performance as learning facilitators. We will look at how to design successful learning interventions and how to carry them out successfully. It's one thing to design a successful training programme. It's another to conduct it successfully. In covering these aspects of the training trade, we will provide some clues about various kinds of learning tools such as case studies, role plays, and the use of instruments. We will also talk about the art of facilitating effective learning.

PRE-PLANNING CHECKLIST

Before sending out workshop announcements for LGFM training, it will be helpful to do a bit of preplanning to assure that you get the most from your efforts. To help

you do this we collected a few questions you need to ask yourself and others. Don't hesitate to add to the list as you engage in this preplanning planning.

- Who will be your primary training target group? Local government finance directors? Finance department staff members? Operating department heads? Local elected officials? Central government or provincial officials with local government oversight responsibilities? A mix of these possibilities?
- What are the potential numbers of training participants you might be able to attract from each of those target groups you want to serve?
- Have you thought about doing a training needs assessment of these potential training participants? If so, do you know how you will conduct the assessment?
- What will be the potential market for a training programme that involves the full series?
- Is there a pre-service training potential for this type of training?
- Have you thought about the potential of addressing good governance principles through special workshops for both local government and civil society participants based on the content of this series?

These are the kinds of marketing questions you need to be asking yourself and others before sending out the training announcement. They also get to the questions of what is feasible in terms of time commitments on the part of the participants you hope to attract to your training. Offering a training programme that involves the entire series is ideal for senior finance officers but may present some financial and time constraints. There are several ways to overcome these constraints and they probably involve partnerships. For example,

- Can you partner with another organisation or individuals to plan and deliver the training? Is there a professional association of finance officers, chief executives or governing bodies that would be a likely partner? Or a national association of local governments?
- Are there funding possibilities to help underwrite the cost of the training? International development agencies? Foundations? Professional or trade associations that are concerned about the quality of local government management?
- Have you thought about educational institutions that might want to offer this type of training as part of their continuing education programmes? They have the incentive of being able to offer a certificate or other credential that could enhance the careers of those who complete the series successfully.
- Have you taken time to get acquainted with the entire series with the intent of deciding how you might use selected ones to meet specific training audience learning needs? For example, elected officials? Or, auditors? Department heads of local government operating agencies?

These materials offer a wide array of marketing and partnering potentials. It will be helpful to spend some time thinking about these potentials before making any firm decisions about how you want to use these materials. We mentioned the potential of conducting training needs assessments (TNA) earlier. We believe they are important to help you and your training colleagues determine not only what to offer in terms of training content but also how to work within the time and other constraints your potential training clients might encounter in participating in the training. TNAs can also be important marketing tools. They help those who might need the training to better understand their needs and to help you in return explore some ways to overcome the constraints of participating in the training.

The next set of questions to ask involves the logistics of getting ready to offer the training.

- Will the materials have to be translated into the local language? If so, how will you arrange to have this done? And, how will you pay for the translation? We suspect you have had lots of experience in this process and know the pitfalls to be avoided. Nevertheless, we will make a few comments later about how to make this part of the planning process less troublesome.
- Will you need to adapt the materials to accommodate accounting or budgetary regulations, local legislation, management arrangements, or other peculiarities that might create resistance from the potential training audiences? We have tried to make the volumes as general as possible to minimise adaptation problems while not making them so general that they are useless. If you don't have to translate them into a local language you may be able to handle any essential adaptations with addenda to each chapter that are printed separately and inexpensively.
- Will you need to train trainers to conduct the training? If so, how will you conduct this training? Who will pay for this training?

There are many other questions you will need to be asking as you begin planning to use these materials. Don't hesitate to ask them. Better now than saying later, "Why didn't I think of that when I was considering the use of this series?"

TEN WAYS TO FAIL AS YOU USE THESE MATERIALS

One of the members of the Expert Group who helped to shape the content and format of these materials suggested we include a short discussion of how you can fail in using these materials. It comes from an earlier version of the Local Elected Leadership series also published by UN-HABITAT[1]. With a few adaptations to the source document here are some contrary thoughts on how to fail.

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1   UNCHS (Habitat) (1995) Local Governance Manuals: Training for Elected Leadership Series. Set of 13 volumes.

1. Don't bother to discuss the training with any finance officers before they come to your first workshop on this series. After all, you're the training expert, and they are just your training clients.
2. Plan to hold the training in places that are convenient for you and your training team. Don't worry about the training participants. They all have big travel budgets. If they don't, it's their own fault since they put together the budget.
3. The same goes when you hold the training. Your clients should be able to adjust their schedules if they are really interested in the training. And, don't let their excuse that it's "budget time" bother you.
4. Don't waste time checking out the training venue before the workshop begins. Everyone knows it's the content of the training that counts.
5. UN-HABITAT training materials are always so complete that there is no need to check them out before the workshop.
6. Stick to lectures and guest speakers as much as you can and don't bother with small group exercises and other stuff. They waste a lot of time and take up too much space.
7. If you feel you must use exercises, just go with the ones in the chapters. Start with the first and go through them in sequence until time runs out.
8. Don't bother to make changes in the exercises in the chapters. Obviously, the authors knew what they were doing or UN-HABITAT wouldn't have hired them.
9. Always go with the time the authors suggested in the exercises. Even if the participants are really into learning, don't hesitate to shut them off when the time the authors said the exercise should take runs out.
10. Don't bother with evaluations or follow up. Those finance officers are the kind who will call you if they have any questions or want more training.

These comments sound familiar. Sure, we've all known trainers who operated this way. Did you notice the past tense of that last statement? Hopefully they are no longer conducting training!

ADAPTING AND TRANSLATING THE SERIES

We mentioned briefly in the introduction some concerns about the possible translation and adaptation of the LGFM series for use in your country. Given the importance of these potential tasks, we want to share some lessons learned in preparing other training materials for local use.

The tasks of *adapting* and *translating* these materials will depend on a number of circumstances. If the training is to be conducted in your country in English and you have a cadre of seasoned trainers who are adept at modifying training materials to meet their needs, you may be able to use the series as published. Or, you might feel that new materials are needed to more accurately reflect the legal, cultural, political or managerial approaches to financial management in your country. If this is the case, you might want to produce a supplement for use by trainers and others.

For example, it might include different approaches to financial management tasks like oversight or procurement that are different in your country and need to be highlighted in the training; adaptation or abandonment of training tools that are not appropriate or otherwise acceptable to the potential participants of training; and development of new training and management tools that would be more user friendly and acceptable to your training clientele. We encourage these additions and changes.

If you need to translate the chapters into your local language, the tasks become more complex. Before you do anything, you should check with UN-HABITAT to see if any other institution or group has translated the series into your language. If they haven't, consider doing both an adaptation and translation if those who review the original text believe it will be necessary or desirable. The adaptation could include, for example, local case studies, role plays, and critical incidents, and changes of examples in the text to make them more country specific.

The following are some guidelines you might want to consider if you need to undertake adaptation and translation.

- Don't hesitate to make changes in the text and other important features in the materials.

    While there are often rules and regulations that warn you not to copy, change, or otherwise mutilate someone else's published documents, they don't apply when working with this series of training materials. One reason UN-HABITAT training materials have been so successful is the freedom that users have to make them more compatible with their own circumstances.

    In one country where one of the authors worked, he thought he had been clear about their right to make necessary and useful changes in the text. Only after the in-country version was translated and published in the local language did he discover that few, if any, changes had been made in crucial parts of the materials. Don't assume the permission to alter the materials has been clearly communicated. Even if it is clear to all concerned, don't assume the adaptation of even the most basic materials, such as case studies and role plays, has taken place.

- Assemble a small team of potential users, trainers, language specialists, and other key stakeholders to help with the adaptation and translation.

    The task of adapting and translatiing these materials should not be left to one person although one person should have responsibility for pulling together the insights and inputs of others to produce the final product.

    The selection of this team is important and might on rare occasions be problematic. For example, you will need one or two highly respected finance officers to serve on this team who are open to the need for training and understand the importance of introducing new concepts, principles and strategies into the management of financial responsibilities at the local level. Not only should they be familiar and skilled in LGFM principles and practices within your country, they will also provide a reality check on the use of these materials in their work environment. Their task will be to assure that the financial management concepts and strategies are either

compatible with local legislation and practice or represent improved approaches to current practices. In selecting these individuals, it is important to identify those who are open to change and willing to support new ways of doing things.

Include if possible one or two finance officers who also have training experience with adult education principles and strategies. They should also have a commitment to experiential learning, i.e., *learning by doing.* Let them know before they commit to working with your team that they will be responsible for helping to revise role plays, critical incidents, and case situations based on their own field experience and input from other members of the adaptation team.

Having a linguistics specialist on the team, in addition to the translator, may be important. For example, there may be certain words that are problematic even in the same language.

- Agree on some basic ground rules for working together as a team before you begin the adaptation and translation process.

  For example, how will your team handle disagreements and differences of opinion about what to adapt and why? Be clear about each team member's role and responsibilities. Establish objectives, expected outputs and outcomes, and realistic time tables for reaching key milestones.

- If you are translating the materials into another language, hire the best translator available and don't allow that person to work in a vacuum.

  The translation process is too important and difficult to be carried out without supportive interaction with a small bilingual team of trainers and finance specialists who are responsible for reading the translations and giving constructive feedback. We had an instructive experience when working with a two-language team in the development of the initial set of these materials. Much of the dialogue about how to translate certain technical terms took place between two continents and sometimes the interactions were, well, amusing. As some of the technical terms went from one language to another and then back again to the originating language, the initiator of the discussion often could not recognize the concept that was being discussed. Never underestimate the difficulty and importance of the adaptation and translation processes.

- Share the wealth of your experience and labour with others.

  The translation of these learning materials can be a difficult, costly, and time-consuming venture so think about how you can share your final products and experience with others who communicate in the same language. If there is a regional language that is dominant, such as Spanish in Latin America, you may want to encourage joint production to optimize your production investments.

Adapting and, if necessary, translating the financial management series will be among the first and most important actions you will take once the decision has been made to use these materials. Stop for a moment and reflect on how you and others will undertake this responsibility. Jot down your thoughts on what kinds of adaptations might be needed to make this series of training materials more acceptable and useful in your country and culture; some of the key persons to be involved in adapting and translating; and how best to get this part of the process underway.

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PLANNING FOR TRAINING IMPLEMENTATION

There are so many tasks associated with planning a successful training programme. For example, how do you get organised to conduct LGFM training? Who can, or will, be your sponsors? How do you market the training and follow-up activities? How do you build the trainer capacity to do this type of training if it doesn't exist? And how will you measure the impact of this training on the individual, the organisation and its various operations, and the community?

To help you sort through these many tasks, we are going to start with a technique that should serve you well in a number of situations. We borrow it from the consulting profession, but it works equally well in the training business and other entrepreneurial ventures. What we are about to discuss is called, among other things, *Contracting with your client.* This is not a legal contract; rather, it's a psychological contract. The concept and strategy has a rich history in the helping professions like consulting, training, and coaching, to name a few. Moreover, it's a great management tool and an effective tool for trainers and finance managers to use as well in conduct-

ing their business. As a trainer, think about how you can use this process as part of your LGFM training offerings.

BUILDING EFFECTIVE WORKING RELATIONSHIPS

Ed Schein wrote an important book called *Organizational Psychology* (Englewood Cliffs, NJ: Prentice-Hall, 1965, p.11.) In that book he took the concept of the "social contract" and gave it an organisational spin. Here's what he had to say at the time.

> *The notion of a psychological contract implies that the individual has a variety of expectations of the organisation and that the organisation has a variety of expectations about him. These expectations not only cover how much work is to be performed for how much pay, but also the whole pattern of rights, privileges, and obligations between the worker and organisation.*

If you substitute *training manager* for the <u>individual</u> and *training client* for the <u>organisation</u>, then you can easily see how this concept applies. Schein's definition also relates to many of the issues involved of putting together an operating budget in a local government organisation.

Design Learning (DL) has described what is involved in setting the psychological contract between two people or entities better than any we have seen. The elements DL believes are important to cover in an initial meeting between the training manager and client are these:

- Personal Acknowledgement. This is the first exchange of information and feelings between the training manager and the training client. The goal is to make contact and to establish a working relationship. For example, express your appreciation for the opportunity to meet. If the client initiated the contact, then this is a good time to learn why the client decided to get in touch. If you as the training manager initiated the contact, then you might want to say why you wanted to meet and how the contact was made.
- Communicating and Understanding the Situation. Talk about the role of the finance official and the challenges inherent in this important community role. If you initiated the discussion, talk a bit about financial management training and what it involves. If the client has reservations about getting involved, this is the time to understand what they are and to discuss them.
- Client Wants and Needs. Understand why the client might want to get involved in financial management training, what their expectations are about such training, and why they think it could be an important investment for their department and organisation. If you have initiated this conversation, then it's important to help the client express what he or she can offer to help make the training effective. It may be financial, logistical, even symbolic such as endorsing the programme. Discuss the client's

concerns about costs, schedules, and the format of the training and other issues that might be associated with planning and implementing the training.

- Training Manager's Wants and Offers. Be clear about what you will need from the client to make the training successful and what you can bring to the training relationship. This can include such issues as the numbers of trainees you think you need to conduct a successful training programme, how the training will be delivered, the quality of the trainers, possible venues, the time commitment required, what the training content and process will be, and other "wants and offers" you have that will factor into this being a successful working relationship.

- Closing the Conversation. If you have reached an agreement to go ahead with the training, summarize the key points of the agreement and talk about next steps. Most initial discussions about your offer of financial management training will probably not result in a firm commitment immediately, so you will need to talk about follow-up steps. Otherwise, you may have wasted your time and theirs. Make plans to meet again within the near future to move toward a firm commitment. If this is not the right person or group to work with to initiate elected leadership training, then determine who is and ask if the person you are talking to can help make the contact.

What we have just covered is a process of establishing a working relationship with your training client. It is also a process you might want to work into a training session with finance officers to help them develop better working relations with department heads, the chief administrative officer, and elected officials in developing the annual budget.

SOME THOUGHTS ON FINDING SPONSORS AND CLIENTS

Sponsors of your local government financial management training efforts come in two basic types: those that provide monetary or other concrete kinds of support; and those who lend their name and prestige, and even clout, to support local government training.

Your concrete support list should include the usual grant giving institutions, i.e., bi-lateral and multi-lateral development institutions, foundations, private organisations, national and international NGOs that want to support local government capacity building initiatives, and more. If you have an association of local governments or several associations that represent local governments in your country, they may also be sources of direct support if they believe that financial management training can benefit their mission. The same is true of professional associations. The central government may give funds to support training, or they may be able to help introduce you to third parties they know who would be interested in supporting your training initiatives.

Some of the same sponsors you thought might be able to provide monetary or other direct support might also be able to lend moral support by endorsing your

financial management training efforts or by providing entrée to key stakeholders. Think about conducting a stakeholder analysis to identify potential direct and indirect sponsors. You could do the same to identify potential clients for the training. By stakeholder, we mean any person, group, or organisation that has an interest, pro or con, and would be affected in any way by financial management training at the local governance level and the consequences of such training. As you can see, even the planning of elected leadership training can cut both ways.

THE SPONSORSHIP-FUNDING DILEMMA

Before we go any further, it is essential to talk about the longer-term funding trap that is often associated with many of the kinds of sponsors we just mentioned. Many services and programmes often die on the vine once the sponsor's financial support is discontinued. Given this reality, you need to develop a strategy for sustaining the training after the donor or sponsor leaves town and to plan that strategy before you accept their money.

Here are some suggestions. Develop a sliding scale of participant training fees. As the acceptance and popularity of financial management training grows, you can increase the fees without suffering serious decreases in enrolment. Make sure you build as much of the developmental costs as possible, i.e. materials, translations, training of trainers, into any initiating grant or contribution. If you don't, you may be forced to increase costs later on to recoup these costs. In one country, regional training centres are supported by local governments through a modest membership fee based on population. In turn, the local governments are represented on the centre's policy board and get discounted and often free registrations to attend training programmes.

A POTENTIALLY DIVERSE CLIENTELE

It is easy to define the "clients" of financial management training too narrowly, i.e. as only individual finance officers attending short workshops. As a trainer, training manager, head of a professional association of local government officials, or an elected official concerned about the quality of your local government's financial management you need to think "outside the box" (the box being the traditional way of handling things!) in terms of ways these learning materials can be used. Here are just a few ideas.

- Involve local elected officials, the local policy makers, in LGFM training by focusing on their need to understand the big picture regarding their local government's financial management responsibilities. If there are national meetings of local elected officials, get on their programme to make a short presentation on the potential benefits of supporting LGFM training, not just for their finance officers but other key stakeholders including themselves. The conceptual framework used to put this new series together and the various components is a good place to begin such a presentation.

Follow this with a summary of the kinds of short training sessions you can provide elected officials. For example: a one day session on the various components of an effective and efficient financial management process for their local government; a half day briefing on the operating budget and the financing of this budget timed to happen just before they will be getting the budget from their administrators; a similar briefing on capital programming for those local governments that are establishing a capital programme or faced with major infrastructure expenditures; a similar briefing on assess management and evaluating the financial conditions of their local governments is another possible one-half day training opportunity; and, of course, special sessions on financial planning and policy making and citizen participation in the financial management of their governments are important elected official roles and responsibilities that can benefit from training. As we said, think outside the box in exploiting these materials for your benefit and those who can benefit from training.

- We assume that you already are planning a series of workshops for senior local government finance officers, but don't forget their subordinates who might want to enhance their opportunities to make a career of LGFM. This series, as mentioned before, provides a solid foundation for developing a certificate programme in conjunction with an educational institution, such as a community college or an association serving financial institutions or finance officers.

- Most countries have national government agencies that have oversight responsibilities over local government finances. Professionals in these departments could benefit from training in areas like evaluating financial conditions, asset management, and performance measures.

- One of the co-authors of this series has successfully combined key elected and appointed policy makers with finance officers in one day financial management workshops in Indonesia. She and her local colleagues covered the concepts, principles and strategies of certain topics in morning sessions involving a mix of these participants. In the afternoon, they held skill development workshops for technical and professional staff members on the same topics.

This series is a potential gold mine of opportunities for creative and entrepreneurial trainers and training managers.

MARKETING FINANCIAL MANAGEMENT TRAINING

The potential use of these materials will benefit from creative marketing on your part. While every country has its own values and behaviours regarding marketing, it will be up to each country team to decide what will be most effective in promoting this new training opportunity. Based on our experience and that of others who have carried out successful marketing initiatives, here are some ideas for you to consider.

- Get information out to as many media sources as possible about the financial management series and how you plan to use it. Raise awareness about the need for this kind of training, opportunities for attending such training, and the benefits to be realized. Think about addressing those audiences who are themselves concerned about improving the quality of local governance. These include service clubs, chambers of commerce, and others you are familiar with in your country that support the development of local governments.

- Contact key elected leaders who are trend setters and influential with their colleagues and ask them to help you mobilize support for financial management training. If corruption is a problem in local governments in your country, for example, emphasize the importance of this training. Work with public officials and civic leaders who have expressed concern about the need to curb corruption in local governments.

- If you have one or more local government associations or associations of local government professionals, get them involved in your marketing efforts. If there is no association of local government finance officers, help start one. If there is one, get them involved in your marketing initiatives. If they have a newsletter or journal, get an interview with the editor and provide them with a short article describing the series and how it can help them meet their association's goals and objectives.

- Get invited to their annual meeting or other membership meetings. Offer to make presentations to both explain the series and to solicit interest in follow-up training. Conduct short demonstration training events based on the series.

- Work with trainers and training organisations who have established working relationships with local government and other public and civic institutions. Of course, they may be your competitors. If this is the case, try to figure out how to collaborate so it's a win-win situation for everyone concerned.

- Hold information and demonstration workshops on a sub-regional basis within your country. Often potential training participants expect training to be a series of dull lectures. This series is designed to help you conduct practical, skill oriented, and interactive learning events. Short demonstration workshops can win over those who have had negative experiences with academic-oriented training. It also helps if you can offer these introductory workshops at no cost to the participants. Consider it an investment, an expected cost of launching a new programme.

- Conduct periodic or targeted training needs assessments of local financial management officers and others focusing in part on various roles and responsibilities of potential training participants. Share the results with those who have been assessed and with other key decision makers.

- Once your programme has a sufficient number of graduates, conduct impact assessment evaluations to learn how participants have used their new knowledge and skills to be more effective in carrying out their roles and responsibilities. Use this data and personal testimonies from key par-

ticipants to market new programmes. Also, use the evaluation feedback to strengthen your financial management training initiatives.

- If your region doesn't already have an organisation devoted to building the capacity of other institutions that have the responsibility for local government capacity building, consider creating one. With support from the Local Government and Public Service Reform Initiative of the Open Society Institute in Hungary, Partners Romania Foundation for Local Development (FPDL) has conducted a very successful regional program for capacity building in governance and local government development for central and eastern European countries. They conduct training of trainer programmes based on new materials like this series and provide other on-going support initiatives to trainers and training institutions in the region. FPDL's yearly steering committee meeting involving users of the program assess progress, share ideas and materials, and recommend new initiatives for future support based on their collective needs.

To summarize, raise awareness about the potential benefits of LGFM training in every way possible. If your potential clients for this training don't know what is available, it's hard for them to be motivated to take advantage of it. Hold demonstration workshops at municipal association and other likely meetings. Take your show on the road by offering short one-half or full-day demonstration workshops wherever there is a cluster of potential clients. Join forces with key stakeholders who are concerned with good governance in your country and develop a strategy that involves financial management training as a major component. Create a training capacity building programme and train trainers. Mobilise these trainers to help in the marketing of your programme. Organise it so it's in everybody's self-interest. Carry out impact assessments with participants when they return home from the training. Use the results from these assessments to improve your programme and promote future programmes through personal testimonies from past participants and concrete examples of the training's impact on local government performance.

With this "pep talk" under your belt, it's time to move on to another key component in preparing for training implementation: training trainers.

PREPARING A CADRE OF TRAINERS

Your potential pool of trainers for this financial management series is considerably less than what might be available for a less technical series on leadership or interpersonal skills, for example. Given this potential constraint, it will be important to forge a relationship with a few local government financial managers or individuals with knowledge and skills who you believe will make competent trainers. If there is an association of local finance officers in your country or region, this may be the first place to begin the search for your human resource needs.

Our preference for developing a cadre of trainers is to conduct a training of trainers (TOT) in-country even thought the initial market for such training might seem small. The rationale is simple. A TOT is one of the best ways to field test the adapted or translated series. It is also an effective way to identify those potential

trainers you will want to work with initially in your LGFM training programme. It is important to recognise that everyone who completes a TOT workshop will not become a trainer. Nevertheless, they may become boosters for your programme. Assuming you agree with our rationale, here are some ideas about mounting that TOT.

- It's important to have a small team of competent trainers to train other trainers. Our experience in conducting TOTs suggests that a two person team is sufficient to conduct an effective TOT with this training series. But there are no hard and fast rules on how many to include on the TOT training team. Whatever the number, they need an in-depth knowledge about financial management and what's in the manuals, and confidence in their ability and skills to conduct experiential learning events. "Experiential" means interactive, knowledge enhancing, skill-based learning experiences that tap the needs, personal attributes, and experiences of the participants. It is also important for these trainers to be willing to take risks in their designs and training delivery and to be willing to experience occasional failure.

- The quality and number of TOT participants are also important ingredients for achieving TOT success. Before we talk about the quality of your TOT participants, let's talk about numbers. Your TOT for these materials probably should be limited to between eight and sixteen. Many of the training of trainer workshops we are familiar with have organised participants into four person teams who then become responsible for designing and delivering training modules to a group of finance officers on the second week of the TOT. You may be constrained in the numbers you can recruit for your initial TOT because of the requirement that they have knowledge, skills and experience in local government financial management. In terms of recruiting participants for your initial TOT, here are some lessons we've learned over the years.

  o It helps if the TOT participants come from organisations that will support their efforts to participate in financial management workshops once the TOT is completed.
  o Opportunities for success in launching and sustaining LGFM training programmes are enhanced if the participants come as teams who can work together after the training.
  o Requiring previous training experience doesn't seem to be an important factor in the success of TOT participants, although it helps to have mentoring relationships in the initial stages of their development as trainers.
  o When you are fortunate to recruit individuals who have a financial management background and training experience, it is important for them to come to the experience with an open and willing attitude to engage in new learning. The training materials and approach may be quite different from those they have used in the past.

- The tools in each of the manuals are designed to be modified at the trainer's discretion. We encourage trainers to tinker with them, to improve upon them, and on occasion, to take only the core design idea and construct their own learning experience around it. In the TOT part of your programme, encourage your participants to incorporate their own ideas based on the needs of their training clients.
- While there are many ways to design TOT workshops, we are partial to one that is about two weeks long. During the initial week, participants work in teams to design a day or more of training based on the materials in the seriess. The second week these teams of two to four participants conduct one or more days of training to a group of finance officers with minimal assistance from the TOT training staff. In other words, the TOT participants conduct training work sessions with real live experienced participants. Since this particular TOT design has worked remarkably well in many parts of the world we are confident in recommending it.

As stated before, don't expect every participant to become a competent and successful trainer of elected officials based on a two-week TOT. Nor should you be too concerned about the initial quality of the training your TOT participants deliver when they return home based on such a short TOT experience. We have learned over the years that it is better to have trainers from the same country or culture working with local officials, even though they might not be polished trainers, than some outside trainer with long experience. Trainers graduating from your TOT programme will have another advantage. They will be working with materials that are user-friendly.

ASSESSING IMPACT

While it's impossible to cover all the details about planning for implementation of your LGFM programme in this short User's Guide, we want to mention one more planning detail we think is important. It's the importance of assessing the impact of the training on individual learning and behaviour as well as the impact in the organisations where the participants are carrying out their financial management responsibilities. For example, what will be the impact of the training on improved systems of budgeting, introduction of capital programming, the use of performance measures, asset management systems, better procurement procedures, and more?

The importance of collecting data about the impact of training on organisation and community performance, such as participatory budgeting practices, is very important to your ability to sustain your LGFM training. However, determining how you will measure the impact of your training needs to be determined before you conduct the training, otherwise there are few benchmarks against which you can measure success. To learn more about impact assessments, contact UN-HABITAT for a copy of their *Manual for Evaluating Training's Impact on Human Settlements.*

TRAINING DESIGN AND DELIVERY

Training design and delivery includes a lot of planning tasks although they are different from those we just discussed. In the following discussion you will find an overall checklist of some key design and delivery factors to keep in mind; a look at some logistical factors to consider, such as time, venue and equipment; the importance of adaptation and creativity in using these materials; the art of writing learning objectives; and, how to design learning events that will keep your clients coming back.

There are many factors to consider in designing and delivering effective, efficient, and engaging learning experiences. The following checklist targets some of the more important ones. It is followed by more in-depth discussions about each. By the way, *effectiveness* has to do with providing training experiences for your clients that meet your client's immediate and short-term learning needs. *Efficiency* is how you deliver the training. *Engaging* is the process of involving your participants through sharing their ideas, life experiences, and visions about the future.

- Effective, efficient and engaging training is driven by purpose. Your ability to write clear and concise objective statements that describe what you plan to accomplish during the learning experience is the most important design task you will undertake.
- The quality of your learning events will be determined in large measure by the time and energy you invest in adapting these materials to fit the situational context of your participants.
- Complete learning events involve the infusion of new knowledge, ideas and insights and the opportunities for participants to process and apply these infusions based on their individual and collective experiences and needs.

The most insightful learning design can be sabotaged by external factors. Fortunately, most of these externalities are within your control, but they need to be managed.

Since the need to cope with the last set of factors often precedes efforts to sit down and design the training event, let's look at them first.

MANAGING THE EXTERNAL FACTORS

It's impossible to design and deliver an effective training programme without taking into consideration many of the external factors that will often determine just how successful you will be when you begin the training. While most of these may be obvious to many of you, they are still worthy of review.

EXPECTATIONS

To the extent possible, narrow the expectation gap between you as the trainer and the workshop participants. Your workshops are more likely to be effective if the par-

ticipants know ahead of time what they will be learning and the process to be used to facilitate their learning. This can be important if your intended audience is likely to have experienced only lecture-oriented training in the past. You might also consider developing a training calendar that can be provided to client organisations such as municipal associations, so they can announce when workshops on various topics will be available, their length, and location.

We encourage you to negotiate a mutually agreed-upon contract with potential training clients. These clients might be a cluster of local governments, an association of local governments, or even an educational institution that wants to broaden their services to local governments. Individual training contracts allow the trainer and the client organisation to be much more explicit about training content and scheduling. In any case, it is important that information on training content and approaches is specified beforehand so that participants know the learning opportunities being made available to them.

DURATION AND TIMING

The number of workshops to be conducted, their duration, and the sequencing and timing of training exercises depend on a number of considerations. If you can schedule the training as a single programme (e.g., one or two weeks in length) involving participants from many organisations, you will have considerable control over content and schedule. A series of 2 or 3-day workshops designed to cover the entire series presents a different design and scheduling problem. Since the materials provide lots of optional learning exercises for each of the subjects covered in the series, there is a substantial amount of design freedom built into their use. Be particularly careful to include enough time for participants to process the information being covered in every exercise or workshop fully before moving on to the next. Build reflective time into the overall design so that individuals and small groups can informally explore in more depth the issues and topics being covered.

LOCATION AND PHYSICAL FACILITIES

It is important to create an environment that supports learning, one that removes participants from everyday distractions and encourages them to think and act in new and different ways. Some of the worst training venues are those associated with the everyday work activities of the participants. Some of the best locations have been somewhat remote and rustic settings. These kinds of environments seem to foster a greater willingness to be open and to take risks in their interactions with others.

The physical facilities are also important. Look for workshop venues that offer privacy, have movable furniture, and provide enough space for several small groups to meet concurrently. Auditoriums and large, open buildings are usually not flexible enough and lack the intimacy needed for effective interaction. It is also important to arrange things so that participants are not interrupted by non-participants, telephone calls, or other annoyances during training sessions.

EQUIPMENT AND TRAINING AIDS

Be sure that you have access to materials and equipment that can be transported easily or can be supplied by the training venue. Essential items include flipcharts, easels, numerous pads and markers, and an overhead projector or other audio-visual equipment that is compatible with your needs and expectations. If you plan to use power point presentations, check to see that everything is in good working order and have contingency plans when something malfunctions. Our experience tells us that anything that can go wrong will and at the last moment. Prepare participant hand-out materials including instruments, questionnaires, checklists, and worksheets in advance and make provisions to have access to photocopy equipment or service at the training site.

NUMBERS OF PARTICIPANTS

We discussed earlier the number of participants we believe optimum for training trainers. While we won't be dogmatic about the number of finance officers or other public officials you can involve in LGFM training, we think there are some good guide-lines to consider. Groups of 16 to 24 are just about ideal for one or two trainers to facilitate. These numbers also lend themselves to small group work sessions of four, six or eight members each. If you begin to include more than twenty four, although we realize this number is arbitrary, it makes the experience less intimate, more im-personal, and cuts down on the time that each member of the group has to contribute to the interaction. Unfortunately, these decisions are often determined by funding constraints.

We've covered only a few of the important external factors that can influence the quality of the learning experience you will be designing and delivering for the benefit of others. While there are obviously many more, we don't want to deprive you of the opportunity to discover them yourself as you initiate your LGFM training programmes.

KNOW WHAT YOU WANT TO ACCOMPLISH AND STATE IT CLEARLY

As we said earlier, effective, efficient and engaging training is driven by purpose. Your ability to write clear and concise objective statements that describe what you plan to accomplish during the learning experience is the most important design task you will undertake. Here are some thoughts about how to do this and maybe even a few that are unconventional.

The best roadmap for guiding you to successful learning experiences is a clear statement of your overall goal and objectives. If you are able to state these clearly, you have increased your chances of success immeasurably. Now writing learning goals and objectives can be dull, deadly business. We don't know a trainer who enjoys doing it. And yet it has to be done. The old adage, "If you don't know where you are

going, you probably won't know when you get there," applies to learning design. It's not a very attractive alternative for either you or your workshop participants.

We are using two terms, *goal* and *objective*, to describe aspects of your learning roadmap. The *goal* we see as the accomplishment of the overall expectations you hope to fulfil with your participants as a result of the learning experience. It's the super-ordinate objective you hope to achieve, a statement of the big learning picture. *Objectives* are sub-goals, or statements of those things you want to accomplish through specific learning experiences during the workshop.

Many training textbooks recommend writing objectives in the following way: *By the end of the training, participants will be able to demonstrate their ability to write a policy statement,* or some other concrete task. This implies that we are going to be testing them in some way to make sure they can do it. This strikes us as being a bit too academic. Given this, we will reveal our own bias about this onerous training-design task, but not before making it clear that you should feel free to write learning objectives in any way that you feel clearly states what you plan to accomplish in the workshop.

We often write learning objectives based on what it is possible to accomplish through experiential learning. This includes:

1. increased knowledge and understanding;
2. new or improved skills, either technical or relational;
3. new or altered attitudes and values; and
4. creative acts.

The first two are standard learning objectives associated with knowledge and skill-based training. The next two are harder to defend. Let's look at the third one on attitudes and values. Some still argue that you can't change these personal attributes through training. We disagree. Take, for example, someone who believes strongly that citizens should not be involved in the local government budgeting process. Now that's an attitude, but it might also be a value that this person believes in. Through a learning experience, this person begins to understand the importance of citizen participation. Beyond the workshop, this person demonstrates this new attitude and value by supporting a move to involve citizens in local budgeting decisions.

There is no question that helping others alter their attitudes and values is a difficult learning objective to accomplish, but often it is the cutting edge of important community changes. Don't shy away from these more emotionally charged learning opportunities.

Regarding the fourth objective, "creative acts," it's more curious than difficult. What if you ask participants to develop an action plan as part of your learning objectives or outcomes? It hardly fits in the first three categories, so we invented a fourth.

The ultimate learning outcome is, of course, behavioural change. If local government officials and others do not change their behaviour as a result of learning new concepts or strategies, acquiring new or improved skills, or even changing a few attitudes and values in a learning experience, then the training investment is lost.

Another important distinction to keep in mind when designing learning programmes is the difference between *outputs* and *outcomes.* For example, when partici-

pants demonstrate that they know how to develop financial strategies to assure that basic local government services can be provided to low income neighbourhoods, this is an "output." They have learned how to develop such delivery strategies during a workshop. When they go back to the organisation and lead the charge to implement their strategy, based on the knowledge and skills gained in the workshop, it is an "outcome."

ENGAGE IN ADAPTATION AND CREATIVITY

You need to take advantage of the opportunities in your immediate working environment to make these materials and the training you will be conducting as relevant, timely, and client-centred as possible. Here are a few guidelines to train by:

1. If you decide to use a case study, role play, simulation, or any other tool from any of these materials in your training programmes, adapt it to meet your needs and the learning needs of your participants. Change names, locations, circumstances, and anything else that says, "Not invented here!"
2. Talk to some finance officers or other practitioners before you sit down to finalise your workshop design. Ask them if they have any interesting experiences that might relate to the topics you plan to cover. If so, check to see if you can incorporate them into your design.
3. Whenever possible, exploit your participant's experiences in the financial management competencies you are covering in the workshop. Use these experiences to create new learning exercises, or to modify those in the materials. For example, you can create a role play right on the spot based on something that might be bothering many in the workshop. Or you can have a participant describe a particularly difficult situation that he or she is experiencing and break the others up into small discussion groups to determine what they might do in this situation.
4. Look in Part One section of each chapter, the *Concepts, Principles, and Strategies* part, for clues to develop your own exercises. For example, many of the Learning Application exercises are ready-made to be turned into workshop learning experiences.
5. Don't be afraid to deviate from your workshop design or agenda when you see an opportunity for significant learning emerging out of the dialogue and energy that has been created by your participants.

DESIGNING LEARNING EVENTS

If you are able to decide with clarity what you want to accomplish during a workshop, seminar, or some other kind of planned learning event, you have cleared the first and most important training hurdle. We are, of course, assuming that you have also arrived at these conclusions in consultation with your client(s) and their training needs and transformed your ideas into written statements of purpose, goals, and objectives

that are concise, understandable and doable. If so, then the next step it to figure out how to accomplish them within the time allotted. This is the training design part of the puzzle.

As we said in our overview comments leading into this discussion on training design and delivery, effective, efficient and engaging learning events involve three interrelated activities: 1) the infusion of new knowledge, ideas, and insights; 2) the opportunities for participants to process these infusions, based on their individual and collective experiences; and 3) the application of what they have learned to their individual, work team and organisational needs and opportunities. Complete learning designs should, whenever possible, include a mix of input, processing and application.

The first two of these interrelated components are common to most experiential training designs. We provide new ideas, information, concepts and strategies as input, and we design some kind of interactive experience so participants can process the new input. The third, *application*, is less frequently used mostly because it is more difficult to design into training, or so it seems. Application is evident when we have participants complete an action plan design a new revenue reporting form in a financial management workshop, or develop a list of stakeholders who might be important to consider in carrying out a community development project.

The most important thing to remember about these three interrelated components is their complete flexibility. You can start with any one of the components and move to the other two in whatever sequence you want. While it is fairly common to provide a lecture, for example, and follow it with some kind of exercise to process the content of the lecture, it is less common to start with an exercise and then insert the lecture. When you realize you can start with any one of the three components and move to the other two in whatever sequence you choose, you have one of the most important value-added dividends of experiential learning at your command[2]. Before we move on to training implementation, we want to share with you the workshop template that Eva Balazova, the godmother of these materials, uses in designing her learning events. The overall framework includes:

1. The aims and objectives of the workshop;
2. The timeframe and agenda which spell out in detail what the participants can expect from one session to another; and
3. Lessons learned during the experience, back home planning, and evaluation.

Within the overall framework Eva designs around the following agenda:

1. Welcoming statement and introductions of staff and participants;
2. Learning aims and objective: what she and her staff plan to accomplish;
3. Information about the programme and logistics;
4. Ice breaker or energiser, depending on which seems most appropriate given the group;
5. First learning block includes cognitive input from the chapter being covered, i.e. lecturette, guided discussion, interactive presentation using visual aids;

6. Second learning block includes use of experiential materials from the tools or from her experience as a trainer, i.e., case study, role play, assessment instruments, problem solving exercise;
7. Based on the length of the workshop and the maturity of the group in the subject matter Steps 5 and 6 would be repeated; and
8. The completion of the workshop experience includes a participant look at lessons learned, preparation of personal plans by participants to indicate how they plan to use lessons learned back in their organisation, and workshop evaluation.

We believe this template is an effective one to use in designing experiential learning experiences for professionals. Of course, it's up to each individual trainer to arrive at a process that works best based on experience and results. As the expert group reminded us on more than one occasion these materials need to be *descriptive* and not *prescriptive.*

IMPLEMENTING TRAINING DESIGNS

Each of the volumes in the *Local Government Financial Management* series consists of exercises and activities developed and sequenced to provide a comprehensive learning experience for your participants. They include role plays, case studies, simulations, instruments, and other learning opportunities that can be arranged in various combinations. These are designed to help participants make sense out of the concepts and ideas being presented in Part One of the chapter.

The exercises we have included in the chapters are all structured in about the same way although the subject matter from chapter to chapter is different. For example:

- Each exercise begins with a general statement of the objective to be achieved and an estimate of the time required. While staying within the recommended time frame is recommended, don't be a slave to it. Use your judgment. If the exercise has sparked lively and important discussions don't cut it off by saying, "Sorry, but we've scheduled a role play, and we need to get on with it." That's an example of the trainer meeting his or her needs and not the needs of the participants and is very dysfunctional. If it takes longer to complete an exercise than scheduled, you can either make up the time elsewhere in the workshop or discuss with the participants the need to add a bit more time to the schedule.
- Following the objective and suggested timeframe we have provided a step-by-step set of instructions on how to conduct the learning event. We call this the *process.* Occasionally, the process will include variations or alternatives for your consideration particularly if the exercise is to be used with participants who work together and may be interested in improving their team performance. A time estimate may be provided for various steps in the process.

- The process description is often followed by worksheets to be either read or written on by participants. Typical worksheets include cases, role-play situations and role descriptions, instruments to be completed, questions to be answered by small groups, and other participant-involving things. Hopefully the instructions on these worksheets are clear and easy for participants to read. If not, change them to meet your needs. All worksheets included in the chapters are designed and intended for mass duplication.

Each chapter includes an example of a warm-up exercise. Warm-ups are the means by which you begin moving participants from the known to the unknown and start the process of getting them acquainted as early into the workshop as possible with others, the learning process, and you. We haven't included different warm-up exercises in each of the chapters since most trainers and many of the participants have their own favourite exercises they like to use. Don't hesitate to involve your participants in providing and conducting their own warm-up exercises and energisers.

Many of the exercises in this series are designed to involve discussions and group problem solving on specific aspects of financial management. The intent of these exercises is to help workshop participants gain a working knowledge of a useful idea, strategy or process and at the same time some experience in using the new knowledge. For example, participants are introduced to brainstorming in one of the manuals, one of the common methods for generating ideas to solve a problem or make a decision. In another chapter participants are encouraged to use *force field analysis* as an analytical aid in planning ways to remove obstacles to the attainment of an operational goal. Many of the chapters include exercises that have general applicability to more than just the topic being discussed. Given this, you might want to get acquainted with what is available in all of them before designing workshops on specific aspects of financial management.

A number of the training tools are designed to build on participant-contributed situations or problems. Working in small task groups, they are asked to analyse the situation and suggest courses of action to be reported on during a plenary session. In other suggested workshop designs, there are problem-solving activities supported by worksheets. These are intended to be completed by participants working in small groups as an aid to analysis and for later reporting. Worksheets are useful for at least two reasons: they provide a record of small group reactions to the assigned tasks, and they give participants written record of their small group's results to take home with them.

At the completion of each workshop design is a skill-transfer exercise. The intent is to help participants begin the transition back to the "real world" of participating elected officials. It is important that participants begin making definite plans for trying out or changing certain aspects of their performance responsibilities. These plans are more effective if they are made in writing, realistically critiqued, and shared openly with other participants.

We have been talking about the tools in each of the chapters as though they are also workshop designs. They are, and they are not. They <u>are</u> because they include a sequence of training exercises that can be selected to conduct a workshop based on the substantive material covered in Part One of each chapter. They are also sequenced to help you develop a learning rhythm in your workshops.

However, we never intended that you should use all the exercises in one work-shop, nor to adhere rigorously to the sequence in which they are presented. In this respect they are not workshop designs. Use your imagination, and your design knowledge, skills, and experience to develop a workshop design that will work for you and your participants.

FACILITATING SUCCESSFUL SMALL GROUP LEARNING ACTIVITIES

With the possibility that we are repeating ourselves on some of these issues, we will nevertheless press on with some clues about how to work with small groups. We will focus on three aspects of managing small group learning: giving instructions, monitoring their progress or lack thereof, and helping them to report out and process what they have learned.

GIVING INSTRUCTIONS

Most experts on giving instructions agree on one thing: begin the instruction by giving participants a rationale for the task or exercise. When participants know *why* they are being asked to do something, they will be far more interested in learning *how*. Beginning with this expert-driven mandate, giving good instructions can be viewed as a simple, four-step process.

- Introduce the exercise by giving a rationale. This should include the objective of the exercise and anything else you might add to help participants see the importance of the exercise from their point of view.
- Explain the task. Describe what participants will be doing. Usually the task of a small group is to produce a product. Use active verbs to describe the product such as, "list the three most important…" or "describe an incident in which you were involved that…" Make the transition from the rationale for the task to the explanation as smoothly as possible.
- Specify the context. It is important for participants to know who they will be working with, under what conditions, and how long. The context of the exercise spells out how they will be accomplishing the task.
- Reporting. Let them know that they will be asked to report out to the larger group the results of their small group discussions. The purpose is not just to explain what happened but to advance the process of learning. Reporting allows participants to share their experiences with one another, hopefully enabling them to expand, integrate and generalize learning from their individual or small group experiences. Ask them to decide on who will represent them in this reporting process before they begin their discussions.

MONITORING SMALL GROUP ACTIVITIES

When participants are busy carrying out the tasks you have assigned them, you need to be busy keeping track of how their work is progressing. We call this monitoring. Monitoring is important for two reasons:

- It gives you feedback on how well participants know what they are supposed to be doing and how committed they are to the task. If you sense confusion, misdirection, or misinterpretation in a group, you may need to restate the task, perhaps by paraphrasing the original instructions or augmenting them with an example.
- It helps you to adjust the time needed for the task. Even the most carefully designed small group exercise will require some adjustments in the amount of time it takes to complete certain tasks. Each participant group is different. Therefore, your concern should be with assuring the small groups enough time to gain the most learning value for its members.

When you have given small groups their instructions, stand quietly and wait until they have convened and have gotten underway on the task. After a few minutes, circulate to find out how things are going. Enter the work area quietly being careful not to interrupt. If you are asked questions, and you usually will be, answer them briefly. If one small group's questions suggest there may be confusion in the other groups, then interrupt the others and re-phrase appropriate parts of the task for all of them.

As groups proceed with the task, there are several aspects of their activities you should be aware of and intervene in if it seems necessary to help them be more productive:

- Is the physical space and seating conducive to participation by all the members, or are some participants isolated?
- Are there changes in the noise level in the group? These changes may indicate that a group has finished its task, just getting down to work, or perhaps confused about the task. In any event, you need to check it out.
- Do participants seem to be working on the task, or are they engaged in idle conversation? If participants are discussing matters unrelated to the task, they may be finished, or they may be avoiding the task. Check it out.

Based on the task given and the time remaining, are participants behind, ahead, or on schedule? If time is running out but participants are still working intently, it may be more desirable to give them more time. When you notice that some groups are finished and others are not, you might offer a time check, "You have two minutes left," for example.

FACILITATING THE REPORTING PROCESS

By reporting, we do not mean a detailed, "this is what we did during our meeting" recital. Rather, the term "reporting" is intended to mean an opportunity to share the most important observations and conclusions of the time spent by a small group on a task.

Logistics are an important aspect of facilitating small group reporting. What group will report when, and who will represent them? What kind of reports will be expected-- on newsprint, orally with no visuals, or by power point? One of the authors worked on a training programme in one of the Pacific Rim nations where every group was expected to make computer-assisted reports.

Time is also an issue in reporting and it needs to be managed. For example, you can have each group report two or three items from its list rather than report every item. Another approach to reporting is to have each small group examine and report on a different aspect of the same topic. Finally, where small groups have been working on the same task and some kind of synthesis or consensus is needed, a polling procedure can be used. For example, have each small group place its recommendations on a sheet of newsprint which is posted for all to see. When all the sheets are posted and reviewed, comparisons can be made, differences noted, and confusing entries clarified.

Three skills are required to facilitate the reporting process effectively:

- Asking initiating and clarifying questions. To help initiate and clarify group reports, you need to be able to ask direct, but not leading, questions. These should be open-ended questions usually beginning with what, when, where, how, or why such as, "What are the implications of this method given your role as a finance manager?"
- Paraphrasing. This is important to be sure you are actually hearing what the participant meant you to hear. Your objective is to assure the participant that you are listening and that you are eager to know if you have heard correctly. For example, if someone reports that, "*Elected officials have difficulty adopting the budgets we prepare for them*," you might paraphrase or restate what you heard for clarification by saying, "*You mean elected officials know they have the responsibility to adopt the budget but often find it difficult because of conflicting priorities.*"
- Summarizing. While paraphrasing is meant to mirror the meaning with a change of words, summarizing is to synthesize or condense a report to its essentials. The intent, once again, is to test for understanding. Efforts by a trainer to summarize or reduce information to its essentials might begin with phrases like:

  "In other words .... "
  "If I understand what you are saying, you mean...."
  "In summary, then, you feel..."

SOME THINGS TO CONSIDER IN USING TRAINING TOOLS

While the training exercises in each of the chapters provide some of the important tools needed to construct a series of elected leadership workshops, they still need the skills of the master builder to apply them with success. Here are a few ideas on how to work with these tools more effectively.

BE FLEXIBLE

Flexibility in working with the training materials and the participants may be the most important and often most difficult skill to develop as a trainer. While most of the exercises in the chapters can probably be conducted without a lot of modification, we don't recommend it. There are many reasons for this. You might experience time constraints that will require you to "cut and fit" the exercise to fit the time available. The participants may have different expectations from those assumed when the exercise you want to use was developed. There may be something about the exercise that just doesn't feel right in the culture in which you are working. Your participants may have actually raced ahead of you in discovering something that is important to them, and they want to talk about it in more depth. It's important to be flexible, to seize the opportunity of the moment.

ENRICH THE CONTENT

While we have tried to provide enough content materials in Part I of each of the chapters to get you through most workshops, we encourage you to enrich the content with local examples, new concepts or strategies that you might have discovered, or even evidence that refutes what we have written about so eloquently. The world of local government financial management is changing rapidly, and whatever we write today may be out of sync with tomorrow's reality. As you prepare for each workshop, enrich the content with current examples and new ideas that build upon, or even refute, the concepts, principles, and strategies we have provided.

There is another content enrichment opportunity that is available in every experiential learning experience that yearns to be tapped at any given moment. That's the experience, wisdom, and ideas of the participants. While we have included a number of different approaches to collecting and evoking information and ideas from your participants in the various chapters, we encourage you to invent your own. One of the most successful techniques we have found to get a lot of ideas out quickly and organize them into some logical framework is to use large index cards. Have the participants respond on these cards with their ideas, ask them to attach them to a blank wall with paper tape and then rearrange them into logical categories for processing.

There are, of course, many ways to tap the experience of participants to add to the content of each workshop. These include developing instant case studies or critical incidents based on their experience rather than using ones that have been included in the chapters; asking participants to take various positions in a role play that reflects a situation they might be struggling with in their own communities; or creating an instant simulation based on the needs of the participants. For example,

the simulation might involve a budget hearing where citizens have, for the first time, been given the opportunity to participate in the deliberations.

PROVIDING BALANCE AND RHYTHM

Designing workshops is a bit like writing a musical score. You need to take into consideration things like sequencing events, balancing your instruments and their impact on the overall production, and assuring that the rhythm doesn't bore either the audience or the conductor(s). For example, the arrangement of exercises and presentation should proceed naturally from the more known to the less known, from the less complex to the more complex, from the less interactive to the more interactive. Every component of the workshop should contribute to the attainment of workshop goals. Even the refreshment breaks, meals, and free times should be placed strategically.

And don't forget those ice-breakers, energisers, and openers that are so important to group growth and on-going maintenance. They serve the needs of those who join together to learn and implement what they are learning. Since some of us get these tools confused with each other, it might be useful to describe them and how they differ.

Icebreakers and openers have a lot in common, but also some differences. Icebreakers are relatively subject-free activities whereas openers are often related to the content of the workshop. Icebreakers are typically used when workshop participants don't know each other. They are designed to help members get acquainted and become more comfortable as learning partners. Openers, on the other hand, are tools to help participants ease into the subject matter. They tend to set the stage for interactive learning; help the group, including the facilitator, avoid abrupt starts; and generally help the participants get comfortable with the content material. An opener may be as simple as asking the participants to share in pairs what they think is meant by "asset management" when that particular topic is introduced.

The other type of climate-building and group-maintenance exercise is the energiser. Typically, it's a fun event to get the group's collective energy level up when the group seems to have hit a slump. Don't hesitate to use these group "environmental tools" to open your workshops, to help everyone get acquainted, and to infuse a bit of adrenalin into the learning community when it's fuel tank seems to be on empty. If you want to learn more about these tools, check with your training colleagues or get on the internet and surf for ideas. If these two options fail, just ask your participants to lend a hand. Our experience it that most groups have individuals who are skilled in running these types of exercises and enjoy the opportunity to become involved.

PROCESS THE WHAT, WHY, AND HOW OF LEARNING

Polly Berends, in writing about how we learn, said, "Everything that happens to you is your teacher. The secret is to learn to sit at the feet of your own life and be taught by it." To paraphrase Polly's metaphor about self-learning, everything that happens in a workshop is important. The secret is to keep on top of the *what*, the *why* and the *how* of your learning design and process them. Processing is simply an activity that is designed to encourage your participants to plan, reflect, analyse, describe, and com-

municate throughout the learning experience. These are the events that encourage the transfer of learning from the workshop environment to the real-world working life of your participants. Here are some processing techniques to consider:

- Use observers to report on the process or outcome of an exercise.
- Ask participants to serve as consultants to one another to stimulate thinking and problem solving.
- Divide participants into several smaller groups for rapid processing of new ideas and information and provide for reports and summary discussions.
- Leave time for participants to reflect on what they have been learning and doing.
- Encourage back-home application by having participants develop written plans about what they plan to do to apply what they have learned to their roles and responsibilities as elected officials.

ENCOURAGE PARTICIPATION BUT DON'T OVERDO IT

While an important trainer role is to stimulate participants to exercise more freedom in thought and action, it is important not to force any activity that might cause them to feel threatened or intimidated. This is particularly true if people are attending a workshop involuntarily or with strong reservations. Be sensitive to the feelings and needs of all participants. Don't expect your participants to involve themselves with equal enthusiasm in every single activity.

CELEBRATE OPPORTUNITIES TO LEARN

Every significant learning experience is a cause for celebration. While you will need to determine what is "significant" based on your experience and the norms of your situation, we tend to think that a week or more of training deserves some kind of celebratory event. It may be a closing luncheon, the handing out of certificates of participation, a group photograph, or something more significant depending on the time and personal commitment of your participants. If you have a large number of officials participating in the full series of workshops, you might consider holding one large celebration or reunion once a year. This could provide publicity for your program and also an opportunity to make it more elaborate.

HAVE FUN!

We came across a French proverb while writing this part of the Trainer's Guide that sums up one of the most important qualities of a learning experience. The most wasted of all days is the day when we have not laughed. Think about your own experiences as a trainer or participant and the ones you have treasured and remembered. So, have fun knowing that laughter in the midst of learning is a no-cost, value-added commodity.

LEARNING APPLICATION

While training is the accepted strategy throughout the world for workforce development, it's expensive. A good return on your training investment is assured when (1) the training addresses real performance discrepancies and skill needs; (2) the training is competently designed and delivered by experienced trainers; and (3) those who have attended the training apply their new knowledge and skills to improve work performance. All of these factors must be present for training to meet the expectations of those who invest in it. But it is the third that is the most problematic. Unless those who are trained make the effort to use what is learned to correct discrepancies or to modify or change their behaviour, the investment is lost. Here are some thoughts on what you might do to help participants apply what they learned when they return home from your workshop.

Sharing experiences. The opening session of any skill based workshop is not too soon to raise the importance of how the participants will apply their new-found knowledge and skills when they return home. If this is one of a series of open enrolment workshops on the various roles and competencies, you might ask if any participants have attended earlier workshops on the series. If so, invite them to share their experiences in applying what they learned. This sharing technique can provide continuity and remind other participants that it is important to think about how they will apply what they will be learning to challenges in their local leadership role.

Learning objectives. It is important to include near the start of any organised learning experience a discussion of the objectives you hope to achieve as a group. However, it's not so common to ask participants to develop their own set of learning objectives based on the workshop content and design. We suggest you do. Have them write their own learning objectives and remind them that they will be asked to return to them at the end of the workshop when they prepare an action plan based on what they plan to do when they return home.

Action Planning. In each of the chapters we have included a Learning Application Plan worksheet. We encourage you to have each participant complete this form, or one of your choice as a trainer, before the workshop closes. It's an important way to help participants reflect on what they have learned and how they plan to use what they have learned for their own continuing professional development and the development of their organisation.

BASIC TRAINING TOOLS

While the chapters offer enough training materials to help you design and deliver a full-scale local government financial management training programme, we decided to supplement these with a few basic tools of the trade. Think of these learning components as parts from which you can design and build an experiential learning event. They are largely interchangeable although their success depends on a number of environmental variables. For example, the number of participants you are working with, the time you have available, the mix of participants, and most importantly, what you hope to achieve. Start with your learning objectives and your learning audience and

then decide which of these might be helpful in constructing a winning workshop design.

PRESENTATIONS

Trainers who believe in andragogy, a fancy term for adult education, and experiential learning, which translates roughly into learning-by-doing, are usually horrified to even mention the word lecture in the company of other trainers. Instead we use such terms as *lecturette, guided discussion*, and yes, *presentations*. However, there are lots of opportunities when it is both appropriate and essential to present ideas, concepts, strategies, data, and other cognitive stuff to achieve your learning objectives even in the most interactive training experience. Following are a few ideas to help you make presentations that will keep your participants from snoring.

Presentations are useful for explaining new concepts and subject-matter details and to stimulate critical thinking. Used in conjunction with other learning methods, presentations help workshop participants become better informed, involved, and comfortable with learning new things.

Presentations are more than just a way of delivering information. You can use them at the start of a workshop to establish a proper learning climate, promote interest in learning, and reduce participant anxiety. You may present information spontaneously at any point in the workshop to stimulate thought, introduce exercises, clarify or interpret a new concept, or test for comprehension. Finally, you can take advantage of presentations at the conclusion of a workshop to summarize important lessons learned and encourage learning transfer.

Many trainers see the presentation only as a form of information delivery. Viewed from a broader perspective, the presentation is an opportunity for the trainer to get a group of participants involved in their own learning. This is more likely to happen when a presentation includes planned or spontaneous participant-involvement techniques sometimes referred to in the chapters as *guided discussions*. Here are a few clues on how to engage your participants in your presentation:

1. Ask participants to think about and discuss situations in their own work experiences that illustrate a concept you have just introduced to them as a way of helping them see its practical application to their own work.
2. Ask participants to answer questions about material just covered or restate in their own words what they just heard you say as a comprehension check before going on to new material.
3. Give participants a handout that covers some aspect of the material being presented orally and include some blank spaces in the handout for their use in writing down their own interpretations or possible job applications of the material being discussed.
4. Most important, use visual materials to supplement your oral presentations, i.e., flipcharts, chalkboards, overheads, and, if available, computer-assisted materials. These help to keep participants awake, lengthen their attention span, increase the retention of new information, and lessen the chance of your being misunderstood.

In summary, successful presentations are planned with four considerations in mind.

- They are brief, focused on a few key ideas and packaged to deliver information in "bite-sized" chunks.
- They are designed to include provocative beginnings, convincing middles, and strong endings.
- They give participants ample opportunity through question and answer techniques to demonstrate their comprehension, and to compare viewpoints and experiences with the trainer and other participants.
- They respond to the needs of participants to experience multiple ways of accessing information and ideas.

DISCUSSIONS

Discussion is any interaction between two or more people on a topic of mutual interest. The types of discussion used in this series are of two kinds depending on the trainer's role. In those that are trainer-guided, the trainer takes an active and direct part in guiding and directing the discussion. In what is sometimes called a structured discussion, you will be letting participants manage their own deliberations.

In the trainer-guided discussion, the objective is to encourage participants to think about, relate to, and internalize new ideas related to a particular topic. While usually planned as a way of processing case-study data, role-playing experiences, or other exercises, such discussions may occur spontaneously during a presentation or near the close of a workshop. How productive they are will depend on how experienced you are with the question-and-answer method and your knowledge of the subject.

In a structured discussion, the objective is to engage participants in idea generation or problem solving relative to an assigned topic and to demonstrate the value of teamwork — interdependence. You need little subject-matter expertise to initiate a structured discussion. Normally, you will divide the participant group into several small groups of about equal size and assign the same or different tasks to each group. After tasks are assigned, a period of time is allowed for the small groups to discuss the task. You might want to give instructions to the small groups about appointing a leader, a reporter, and a timekeeper. At the end of the discussion phase, small groups are asked to come back together and to report their findings, sometimes written on flipchart paper which can be taped to a wall of the training room.

Sometimes, the focus of small group discussions is on the process of working together as well as the product of the group effort. There is much learning value in exploring relationships or patterns of interaction among participants as they work together to solve a problem, decide on a course of action, or carry out some other task. You might decide to select one or two participants to be observers. Ask them to monitor the process of interaction among participants as they work together on tasks. Assure that this is being done with the knowledge and consent of other group

members. Their final task is to feed back their observations and conclusions to the group when it has finished work on its assigned task.

In summary, the discussion method can stimulate participant involvement in the learning process. Trainer-guided discussions are of value principally in stimulating logical thinking. However, subject-matter expertise is required if you plan to lead such a discussion. Structured discussions, on the other hand, help participants to become self-reliant, to develop team thinking and approaches, and to be less dependent on the trainer. Your role in discussions of this kind shifts to coach and interpreter. Through mutual exploration, struggle, and discovery, participants in small groups gain insight and the satisfaction that comes from having attained these insights.

CASE STUDIES AND CRITICAL INCIDENTS

Under this heading we will discuss two types of exercises that are used in this series: (a) the longer traditional *case study* used in many professional schools and (b) an abbreviated version of the case study called the *critical incident*.

TRADITIONAL CASE STUDIES

The case study is an actual or contrived situation, the facts from which may lead to conclusions or decisions that can be generalised to circumstances experienced by those taking part in the exercise. Put another way, a case study is a story with a lesson. Cases used in training can take many forms. They may be quite long, complex, and detailed. Or they may be short and fairly straightforward similar to the one-to-three page variety found in the series.

The case method assumes group discussion. The well constructed case stimulates participants to analyse and offer opinions about (a) who was to blame, (b) what caused a person to behave as he or she did, and (c) what should have been done to prevent or remedy the situation. The more important contributions of the case method to training include:

- Discouraging participants from making snap judgements about people and behaviour.
- Discouraging a search for the one "best answer."
- Illustrating how the same set of events can be perceived differently by people with similar backgrounds.
- Encouraging workshop participants to discuss things with each other and to experience the broadening value of interaction.
- Emphasising the value of practical thinking.

CRITICAL INCIDENTS

Closely related to case studies, critical incidents are brief, written descriptions of situations that are familiar to the workshop participants. They can come from several sources: (a) the workshop participants themselves; (b) participants in earlier workshops; (c) anecdotal information collected by the trainer through interviews and

surveys; (d) secondary source material such as journals, books, and manuals on the topic; and (e) the trainer's fertile imagination. When preparing a critical incident for use in a workshop, there are several design ideas to keep in mind:

- Keep them short —several sentences are usually enough—and simple so they be read and understood quickly by workshop participants.
- Because incidents are short, they need to be tied directly to the workshop objectives.
- Include enough detail about the problem to emphasise the point of the incident.

When asked to write a critical incident, participants are instructed to think of a difficult situation related to the training topic. They should describe the situation briefly, state who was involved in it, and the role they played. Depending on how the incident is to be used, participants might be asked later to explain what was done about the situation and the resulting consequences.

A critical incident can be as simple as a participant saying,

> *The mayor has been turning in travel, lodging and meal expenses that are far in excess of those allowed in the city's regulations. In fact, it looks like he is using these otherwise legitimate expenses to run his private business on the side. As the city's newly appointed finance director I'm concerned about the consequences of this for the city, the mayor, and, of course, my job. I raised the issue with him a month or so ago and he vehemently denied any wrong doing and told me to mind my own business. When I mentioned this to my assistant who had been with the city for several years, he told me that the previous finance director had been fired for confronting the mayor about his expenses and that I needed to be careful. I've only been in the job for about six months and can't afford to get fired. What should I do?*

ROLE PLAYING

Role playing involves asking workshop participants to assume parts of real or imaginary persons, to carry out conversations, and to behave as if they were these individuals. The intent is to give participants the chance to practice new behaviours believed appropriate for their work roles and to experience the effect of behaving this way on themselves and on others who are playing related roles. It is generally believed that on-the-job application of new behaviours increases to the extent that people are willing to try out and evaluate the new behaviours under supervised training conditions. Few training methods offer more effective ways to encourage experimentation with new behaviours than role playing.

To provide the context in which role playing can achieve significant participant learning, couple it with the case study or critical incident method. After reading and discussing a case study or critical incident, invite participants to step into the roles of the individuals featured in the situation. Realism is enhanced when detailed role descriptions are developed for each of the role players.

If an individual is resisting the opportunity to become involved in a role play, it is better not to push them into participating. It is up to the trainer to establish the tone for role playing. Provide firm direction when moving a group into role playing by establishing ground rules and the boundaries of good taste. Bring the role play to a close when it begins to lose its realism and learning value.

Here are some useful steps to take in setting up and directing a role play.

- Introduce the setting for the role play and the people who will be represented in the various roles. If names are not given, encourage role players to use their own names or provide them with suitable names for the roles they will be playing.
- Identify participants to play the various parts. Coach them until you are satisfied they understand the "point of view" represented by each part. Participants may be asked to volunteer for roles, or you may attempt to volunteer them for roles in a good-natured way.
- Ask participants who play roles to comment on what they have learned from the experience.
- Ask other participants to give critical feedback to the role players.

In summary, role playing is a highly interactive, participant-centred activity that, combined with the case-study method, can yield the benefits of both. When case situations, critical incidents, and role descriptions closely represent real-life conditions, role playing can have a significant impact on the participants' ability to learn new behaviour.

SIMULATIONS

Simulations are like role plays, but bigger. They are often simplified models of a process that is to be learned. Through simulation, workshop participants can experience what it is like to take part in the process and can experience their own behaviours relative to it in a safe environment. They help the participants learn while avoiding many of the risks associated with real-life experimentation.

Simulations are sometimes used to involve participants in organising physical objects to study how they make decisions. One example is to create small teams that are asked to compete against each other on the construction of a tower within designated time and resource constraints. The intent is to examine questions of planning, organisation, and the assumption of leadership within newly-formed teams. Another example of simulation is something called an in-basket exercise. Individual participants are asked to make quick decisions as a newly-appointed manager on how to delegate or otherwise dispose of a stack of correspondence left behind by a previous manager. The intent of this kind of simulation is to investigate how an individual sets priorities, delegates authority, and generally manages time.

As with role plays and case studies, simulations garner their learning value from the authenticity of the situations and the degree of realism provided by participants taking part. What has been said earlier in the guide about setting up the situation and being sure everyone knows what he or she is supposed to be doing applies equally to your trainer role in producing successful simulations.

In summary, simulations are workshop representations of situations participants are likely to be confronted with in their real-life roles. They allow participants to practice new ways of doing things and learn more about their own behaviour in role-relevant situations with a minimum of personal or professional risk.

INSTRUMENTS

An instrument is any device that contains questions or statements relative to an area of interest to which participants respond. Instruments are versatile. They can include questionnaires, checklists, inventories, and other non-clinical measuring devices. Normally, instruments focus on a particular subject about which workshop participants have an interest in learning. They produce a set of data for participants to study, either individually or in small groups or both. Often these instruments are designed to help participants discover more about their own beliefs, values, and behaviours and provide data on the norms of a larger population. Most participants, when confronted with their own data, are inclined to alter aspects of their future behaviour so they can be more effective.

There is a major distinction between just having participants complete an instrument and using it properly. The value of these learning aids is increased measurably when you apply the following steps.

STEP 1: ADMINISTRATION

Distribute the instrument, read the instructions to participants, ask for questions of clarification only, and instruct them to complete the instrument. Monitor the time carefully and encourage participants to help others if they are having problems in completing it. Expect some individuals to take longer than others.

STEP 2: THEORY INPUT

When participants have completed the instrument, discuss the theory underling the instrument and what it measures.

STEP 3: SCORING

Based on the way the instrument is designed, ask participants to score their responses. Sometimes instruments have a built-in scoring mechanism. At other times, it may be necessary to read out the answers and to give other instructions, e.g., how to combine scores. Since some scoring instructions can be difficult, we suggest you take the instrument yourself and become familiar with all aspects of it before trying it out on others. This is even more important if you devised the instrument yourself.

STEP 4: INTERPRETATION

It is generally effective to have participants post their scores on chart paper for others to see. Small groups are often formed to discuss their scores. Special attention should be given to the meaning of low and high scores and discrepancies between

actual and estimated scores, if estimating is done. Participants may be asked if they were surprised by their scores or other participant's scores.

In summary, instruments are used to derive information directly from the experience of workshop participants themselves. Owing to the personal nature of the feedback, instruments can be an effective method for helping participants learn more about specific behaviours and the impact these behaviours have on others. While we have included a number of instruments in the series, we encourage you to develop your own based on the needs of your participants and your own interests in expanding your training design knowledge and skills.

LEARNING APPLICATION

Speaking of *Learning applications* don't forget that each of the chapters includes a number of these efforts to encourage the reader to stop and reflect on what they have just read. These interludes in the Part One text of each chapter have the potential to be very effective training design and learning tools. Don't overlook their potential as you design workshops and learning experiences for your clients. Now, back to this specific opportunity to apply what you have just learned about the design of training programmes and experiences.

In an effort to better understand the many ideas that we have presented on developing effective training programmes for your constituents, we suggest you jot down five to ten of the most important lessons you have learned from this Guide that will help you become better prepared to offer this LGFM series.

_____

_____

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Now, take the best of these ideas and describe how you plan to put it into operation in planning and designing your next financial management workshop.

_____

_____

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IN CONCLUSION

The secret of being a competent and successful training manager or trainer is not measured by how many guides like this you may have read. It's measured by what others do with what they have learned from you and the learning experiences you have made available to them.

For example, about twelve years ago one of the authors conducted a three-week programme on the topic of managing change in Hungary. There were twenty-seven participants in that workshop but only one responded immediately to the potential of trying to manage changes back home. It was the early 1990s and Ana Vasilache was from Romania, a country that was undergoing significant political, social and economic changes. With new ideas on how to change things and a whole lot of tenacity and courage, Ana began to develop a regional training and capacity building programme to serve local governments and non-governmental organisations in her country and others in the region.

In the twelve years since that workshop on Managing Change, she and her Romanian colleagues established an organisation that has trained over 10,000 participants from 35 countries on four continents. Moreover, their training has included twenty-one national training of trainer (TOT) programmes involving 230 trainers. By the most conservative multiplier the number of officials consequently trained by the graduates of these TOT programmes far exceeded 100,000 at the time this was being written. She attributes the genesis of her success in large part to what she learned in that initial workshop, i.e. concepts, strategies and skills in experiential learning and change management.

As the author recalls the initial workshop that sparked this flurry of training opportunities in Romania and beyond, he admits that he has no verifiable data on the success of the other twenty-six graduates. If we assume that twenty-six of the twenty-seven participants in that change management workshop did very little to apply what they had learned, can we make the outrageous assumption that the workshop was successful? Or, was it a dismal failure? You decide.

We believe there is a lesson or two or more in this short parable. First, never underestimate the influence you can have as a trainer using chapters like the one you are reading. Second, don't expect every training programme you conduct to be 100% successful. You can't control nor dictate the impact that others will have from what they have learned in workshops that you conduct. Training of Trainer (TOT) workshops are notorious for the dropout rate among those who attend. Very few participants in a Training of Trainers programme will become accomplished and dedicated trainers. Not to worry. It only takes one trainer in a TOT who is dedicated to cloning herself to keep the propagation going.

Finally, be encouraged by the success that Ana and her colleagues have experienced and don't be discouraged by short term workshop results. Most external

evaluators would consider a programme like the one in Hungary a dismal failure. After all, the percentage of participants who went forth and actually "managed change" in their organisations and communities appeared to be miniscule. It probably was a dismal failure and waste of funds from conventional measures of success. Unless, you consider the consequences of the one participant who went home and turned her learning into a phenomenal success story that has spanned four continents. Social, political and economic revolutions often start not from the masses but from a few individuals who recognize the power of an idea whose time has come.

In closing this guide we want to go from *inspiration* to *perspiration*. In other words, we want to put you to work. The following worksheet is to help you and your colleagues begin to plan the application of these learning materials in your own country, region or community. Good luck and think outside the box. Ana Vasilache did and was one of seven persons world-wide honoured in 2000 by UN-HABITAT for their contributions to good governance.

> *Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it's the only thing that ever has.*
>
> Anthropologist Margaret Mead

PLANNING FOR SUCCESS

The following questions are designed to help you think through how you will put this series of Local Government Financial Management (LGFM) opportunities into action. We suggest that this is a task best accomplished by a few dedicated stakeholders involving not only those who will take the primary responsibility for providing the training but also those who will benefit from the training. Thus the first set of queries to consider. By the way, these questions may not follow your own sense of what the planning logic should be. Given this, don't hesitate to alter the sequence, add your own, or drop some of the tasks we are suggesting. Also to conserve space we have not left enough room after some of the questions to provide adequate answers. Given this, we suggest you plan to use a flip chart to record your answers, preferably working through the questions with one or two other colleagues who will make up the core of your planning team.

THE PLANNING TEAM

1. About how many persons will be on your planning team? ____
2. What expertise and points of view will they represent? For example: potential trainers? If so, who?_____; Finance officers? _____; Representatives of other potential client groups? _____; Potential sponsors of training:_____ ; Potential funding sources?____; Language specialists, if necessary? _____; Others? _____.

THE POTENTIAL CLIENTELE OF THE TRAINING:

In each of the following client possibilities, not only think about whether you want to target them, but try to estimate the potential numbers of training participants in each of the categories mentioned. Just check those you want to target and provide a guess-timate of the numbers. This part of the planning will provide a sense of the potential there might be for the training given out-of-the-box thinking and marketing.

1. Senior local government finance officers? ____; #s? _____
2. Staff members of finance departments? ____: #s? _____
3. Operating department heads, i.e. public works, fire protection, library? ____ #s? ____
4. Local elected officials? _____ #s? _____ Members of specific committees of the governing body, i.e. finance or oversight committees? _____#s? ____
5. State government officials with local government oversight responsibili-ties? ____#s? _____
6. Pre-public service students who want to work with local governments? ____#s? _____
7. Citizens, i.e. those who might serve on citizen boards or committees to help plan and manage the budget? ____ #s ____
8. Others? _____#s ____.
9. Speaking of potential clients, do you plan to conduct any training need assessments? If so, with whom? _____; And how? _____
10. Now, go back to each of the potential client groups and think about what chapters would be most appropriate for each category of training partici-pant. For example, senior finance officers should ultimately be trained in all the chapters. Elected officials might need to concentrate on topics like operating budgets and their financing, evaluating financial conditions, and a few others with an overview on all of the chapters.

MATERIALS AND TRAINER PREPARATION

1. Will the series have to be translated into a local language? ____ If so, how will you undertake this task? _____
2. Who will pay for the translation? _____ And, the printing in the local language? _____
3. How will you monitor the integrity and accuracy of the translation? _____
4. If translation is not necessary, do you see the need to adapt the materials for local use? ____ If so, what does this mean? _____ How do you plan to carry out these adaptations? _____
5. Who do you plan to work with to accomplish these adaptations? ___ How will you compensate those who do the adaptations? ____
6. What other questions do you need answers to regarding the preparation of the materials for local or national use? _____
7. Who do you plan to use to conduct the LGFM training? _____

8. How will you prepare them as trainers who both understand the content of the materials and the experiential learning process? _____

9. Will you conduct a training of trainers (TOT) to develop a small cadre of trainers who can undertake the initial series of training events? _____ If so, how do you plan to organise and staff such a programme? _____

10. How will you recruit the participants for the TOT? _____ What will be your criteria for selection of these participants? _____

11. How will you finance the cost of the TOT? _____

PARTNERSHIPS, FUNDING, AND OTHER NECESSITIES

1. Do you plan to partner with other organisations or individuals to plan and conduct the training? _____ If so, who are they, and what will they contribute to the endeavour? _____

2. How do you plan to fund the training of LGFM participants? _____ How will you organise these potential funding possibilities? _____ What are the possibilities of sustaining each of these funding options? _____ What is your strategy for sustaining the LGFM training over time? _____

3. How do you plan to market the training? _____

4. What kinds of evaluations do you plan to use to assess the quality of the training experiences associated with LGFM training? _____ How do you plan to assess the impact of the training within the participant's work setting? _____

5. What is the first thing you plan to do to put this plan into action? _____

There are no doubt many more questions to be asked and answered before you begin to spend time and money on launching a new programme of local government financial management training. We hope this volley of queries has helped to begin the dialogue toward action. We encourage you to add to this list of questions as you go down the road toward training implementation. The more you can define the *what, who, why, where, when,* and *how* dimensions of this new venture before you even

Operating Budget

PART ONE: CONCEPTS, STRATEGIES, AND PRINCIPLES

SUMMARY

This chapter is divided into basic and advanced sections. This basic section describes how to design and implement an operating budget system for LGs. It defines operating budget terms, explores concepts, and examines the benefits and potential obstacles associated with establishing and using a system. It provides a 12-step process for preparing, reviewing, adopting and monitoring the operating budget. The advanced section provides information on cost containment, various management analysis techniques and awarding grants within the LG community.

This chapter deals with budgeting matters in general and does not apply or take into account each individual country's laws or regulations. LGs are responsible for making local decisions, including compliance with any applicable laws, statutes, decrees or regulations.

RELATIONSHIPS BETWEEN CHAPTERS OF THE SERIES

The following matrix shows the interrelationships between Operating Budget and other chapters in the series.

	Operating Budget
Introduction	The Introduction provides the framework for using the entire series.
Trainer's Guide	Provides guidelines for using the chapters to provide training.
Financial Policy Making	Policies establish the financial decision-making framework for a LG. Operating budget policies are an integral part of this framework.
Financial Planning	Financial planning is the long-term projection of both revenues and expenditures. The expenditure data used in the operating budget should be consistent with that projected in the long-term planning process.

Citizen Participation	Citizens should participate in setting a LG's priorities for spending in the operating budget. Citizens should also monitor the actual use of budgeted funds to ensure that they accomplished the priorities and service goals of the operating budget.
Evaluating Financial Condition	Financial condition indicators should identify the following types of conditions that may affect the operating budget: (1) excessive growth in overall expenditures as compared to revenue growth or growth in community wealth (business and personal income), (2) an undesirable increase in fixed costs, (3) ineffective budgetary controls, (4) a decline in personnel productivity, or (5) excessive growth in programs that create future expenditure liabilities.
Financing the Operating Budget	The Operating Budget chapter focuses on preparing the proposed expenditures where Financing the Operating Budget focuses on preparing or forecasting the revenues for the operating budget. The two should be studied together. If your country does not have separate operating and capital budgets then the four chapters (Operating Budget, Financing the Operating Budget, Capital Investment Plan, and Financing the Capital Investment Plan) should be studied together.
Capital Investment Plan (CIP)	The CIP is the long-term budget for the acquisition of capital investments like buildings, water systems, etc. The operating budget focuses on one year only and may not include the acquisition of capital investments. If your country does not have separate operating and capital budgets then the four chapters (Operating Budget, Financing the Operating Budget, Capital Investment Plan, and Financing the Capital Investment Plan) should be studied together.
Financing the Capital Investment Plan	Financing the Capital Investment Plan does include information on short-term borrowing that may be helpful to those studying the operating budget. Primarily, Financing the CIP focuses on long-term revenue generation and borrowing for acquiring capital investments. If your country does not have separate operating and capital budgets then the four chapters (Operating Budget, Financing the Operating Budget, Capital investment plan, and Financing the Capital investment plan) should be studied together.
Accounting	The operating budget is a plan. Accounting shows how the monies were actually spent. The accounting and reporting system underpins the budgeting system and makes it possible to compare actual use of monies to what the governing body budgeted. It is one of the primary ways to hold LG officials accountable.
Performance Measures	Performance measures should be an integral part of a LG's operating budget. Performance measures specifically identify what or how much will be accomplished with the operating budget. Performance measures are very important tool in providing LG accountability.
Asset Management	The operating budget and the capital budget are used to acquire and maintain the assets of a LG. For example, the maintenance of a roof on a clinic (a LG asset) is usually budgeted in the operating budget.

Procurement	The procurement process is normally used to acquire all goods, services, materials, etc. that are budgeted in the operating budget. In many countries this can be 35-65% of the total operating budget.

INTRODUCTION

We recognize that basic or introductory concepts are relative—depending upon your background and frame of reference for both finance, budgeting and local government. Users of this material will range from those who have no knowledge of budgeting principles or concepts to those who have a very sophisticated understanding. The following are our ideas of what represents the most fundamental principles and concepts needed to understand budgeting, especially the operating budget, at a beginning level.

BASIC CONCEPTS AND DEFINITIONS

An operating budget is a clear, logical plan for the allocation of resources for day-to-day operations of essential public service programs such as clinics, parks, fire protection, transportation, street and bridge maintenance and construction, and other functions supporting a safe, healthy, and pleasant community environment.

An effective LG budgeting system should have the following characteristics:

- Important policies[1] and procedures are explicitly stated, fully documented, and communicated to all necessary parties.
- The system is workable and understandable to both policy-level personnel and operating personnel.
- The budget structure is compatible with the accounting system[2] so that actual results can be readily compared to budgeted amounts.
- The process is fully documented.
- Outputs or performance measures[3] are an integral part of the budget.

DIFFERENCES BETWEEN OPERATING AND CAPITAL BUDGETS

The capital investment plan is a multiyear (usually 5-6 year) plan of capital investment projects listed in priority order by year. The capital budget is the first year or one-year spending plan for the capital investment projects, where the operating budget is a one-year spending plan for the day-to-day, routine operations of the LG. Examples of capital investments are constructing a fire station or community center.

When properly prepared, the operating budget along with the capital budget are the financial framework for implementing the financial and program policies of the governing body, which is ultimately responsible for the welfare of the community.

All country's LGs have an operating budget. Some countries include the capital budget as part of the operating budget; others separate the capital budget from the operating budget.

There are several important reasons to consider separating the capital budget from the operating budget:

- First, most capital investment projects require multi-year expenditures because they are expensive and may take more than one year to design and construct. If the capital project is included in the operating budget, then each year, it is competing for a budget allocation with the routine operations of the LG. For example, if the capital project is constructing a new building, then land must be purchased, cleared and the building designed before construction actually begins. This may be a 2-3 year process in itself before construction even starts. There is a good chance that it may be started with a budget allocation for purchasing and clearing the land in the first year, but never completed if it must compete for scarce resources each year to provide monies for building design and then construction. By separating capital projects into a separate multi-year fund with dedicated revenues, there is a better chance that the capital project will be completed.
- Second, capital investment projects often involve multiple sources of financing such as current revenues, debt, reserves, and grants that must be accounted for separately. Setting this money aside in a separate multiyear account keeps the money segregated and kept from being spent on something else.
- Third, capital investment projects have future operating budget impact, which requires careful planning.
- Finally, financial resources for capital investment projects are limited and therefore must be considered and allocated in a systematic manner. Capital projects are frequently deferred over and over again when they must compete with the day-to-day operations of the LG.

LEARNING APPLICATION

In the first Learning Application in each of the chapters in this series we will be reminding the reader about how to get the most from each of these exercises. First, there is a box identifying the four key LG roles that most readers represent. These are Policy Makers (elected officials), CEOs (Chief Executive Officers such as mayors, city managers, etc.), Finance Managers (the chief finance official in the LG), and Department Heads (those individuals who are responsible for the management of specific LG departments such as public works, planning, and human resources). Second, we will indicate in the box those readers we believe will benefit most from completing the learning application task. Finally, when more than one official is listed, we see this as an opportunity for these individuals to get together and compare their responses. These Learning Application opportunities can also be modified to become training exercises for group learning. So, our advice is to make the most of these reflective interludes in the text.

Take a few minutes now to think about the information that has been provided on operating and capital budgets. Does your LG separate the capital budget from the operating budget? Why or why not?

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VITAL LINK BETWEEN STRATEGIC PLANNING AND BUDGETING

A budget is primarily a planning device and the central ingredient to how an organization plans and implements its yearly plan. It is the foundation for providing accountability and evaluating program performance. A strategic plan is a longer-term blueprint for change and performance that may have components that do not have financial consequences. When it does, the budget is the engine that drives and energizes that change and performance.

Strategic planning is both a process and a product and should be integrated into the budgeting process. As a process, it uses organization and environmental analysis in an attempt to identify internal and external strengths, weaknesses, opportunities, and threats that will shape an organization's future direction. This information is then used to formulate strategic alternatives over the next ten to twenty years. A strategic planning exercise typically creates layers of goals, objectives, and strategies that provide a target path for the operations of an organization. These should be integrated into the operating budget. In recent years, strategic planning is being used more and more in LGs around the world and typically involves the governing body in a systemic process that seeks to establish a new direction for the LG and thus overcome the traditional incremental decision-making. The product is a plan that establishes the organization's future strategic direction. That direction must ultimately be reflected in the budget. While the budget has always been a choice between different revenue sources and program expenditures, in the future the budget must reflect strategic choices. Budgets can be used to implement strategic plans, in effect, as strategic financing plans to stimulate economic development. On the other hand, the lack of strategic financing planning may, by default, constrain development, local planning, and investments.

Following are some excellent resources from the Internet on the interrelationships between strategic planning and the budgeting process:

http://www.gov.on.ca/OMAFRA/english/rural/facts/93-041.htm
http://www.des.calstate.edu/processmodel.html
http://www.des.calstate.edu/history.html
http://www.themanager.org/Knowledgebase/Strategy/Planning.htm
http://www.gov.on.ca/OMAFRA/english/rural/facts/89-173.htm
http://pppue.undp.org/toolkit/MOD020.html
http://www.cityofgp.com/citygov/bettergov/links/Default.htm
http://www.cityofgp.com/citygov/dept/DeptVisions.htm#Top
http://www.savivalda.lt/eng/nn/strategic.htm - Lithuania training centre

DECENTRALIZATION AND THE OPERATING BUDGET

For those LGs in countries where decentralization is currently happening, it may be either a time of slow or radical change. Many LGs are having new opportunities to decide their own local priorities and allocate resources based on those priorities rather than on central government priorities. However swift or slow the decentralization process is moving, it is important, from the very beginning of decentralization, to include the community in setting budgeting priorities.

DEFINITIONS

Financial and governmental terminology can be confusing. Terms or definitions of seemingly similar terms may differ due to culture or national laws. For example, Country A may have different names for the different levels and classifications than Country B. Usually they are providing the same basic service they have just chosen to structure it differently.

Country A:	Country B:
Function: Public Safety	Department: Public Health
Activity/Dept: Health	Function: Clinics
Division: ABC Clinic	Activity: ABC Clinic
Section: Women and infants	Work Unit: Women and infants

But because each country may choose to use differing approaches to how they classify expenditures, then readers may get confused when they try to apply the information from this chapter.

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Take a few minutes to think about the organizational structure of your LG. Is it set up by departments? Functions? Ministries? What is the secondary level? What is the lowest budgeted level called? In the following space identify the hierarchy used in your LG.

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To provide a common frame of reference for understanding and using this chapter we have defined the following terms and will use them accordingly throughout the chapter. The structure is similar to Country A above.

Activity—a specific and distinguishable service performed by a LG to accomplish a function for which the LG is responsible. For example, the police department, fire department, or health department all can be activities within the public safety function. Sewage treatment and disposal, waste collection, waste disposal and street cleaning are activities performed in carrying out the function of sanitation.

Administrative, organization, department—these terms are used interchangeably.

Appropriations—legal authorizations made by a LG's governing body to make expenditures and incur obligations for specific purposes. These authorizations usually are limited by the amount and the timeframe in which expenditures or obligations are to be made.

Basis of accounting—when accounts are recorded on a "cash" basis, expenses are recorded when payment is actually made for the cost of goods received or services rendered. When accounts are recorded on the "accrual" or "modified accrual" basis, expenses are recorded when the goods are actually received or services actually rendered rather than when payment is made.

Capital budget— a plan for proposed capital improvements projects and the means of financing them; a budget that contains capital projects included in the first year of the capital program.

Capital investment plan—a multiyear (usually 5-6 year) plan of capital investment projects listed in priority order by year with anticipated beginning and completion dates, annual estimated costs, and proposed methods of financing. Annually, the plan is reviewed, revised, and prioritized for one additional year.

Citizen participation—any process through which citizens influence public decisions that affect their lives and the lives of other citizens.

Cost centre—a specific organizational unit, program, or activity under the control of a manager who has authority to incur and control costs. Examples of cost centres are parks, street cleaning, procurement, building inspection, custodial service, and vehicle repair.

Encumbrances—commitments related to unperformed contracts for goods or services. Used in budgeting, encumbrances are not considered accounting expenditures or liabilities, but they represent estimated expenditures resulting from the completion of a contract in process.

Expenditures—current financial obligations requiring the use of LG funds.

Function—a group of related activities aimed at accomplishing a major service or regulatory program for which a LG is responsible. Public safety and sanitation are examples of functions.

Generally accepted accounting principles (GAAP)—uniform minimum standards and guidelines for financial reporting and accounting in each country.

Goals—a general-purpose statement describing what a LG department/ agency would like to accomplish in the future.

Line-item budget—a budget that is based on departmental lists of goods and services, such as wages, supplies, utilities, and capital items to be purchased. These lists are usually at the character or object level of expenditure.

Objectives—statements of desired or planned accomplishment that are measurable within a given time. Objectives break broad goals into narrower more operational terms and serve as a basis for developing performance measures. They are action-oriented and results-oriented. A unit uses them to monitor progress in managing its challenges, fulfilling its mission, and meeting the public's expectations.

Operating budget—plan for current expenditures and the proposed means of financing them; it is the primary means for controlling most of the financing, acquisition, spending for service delivery activities of a LG.

Outcome (output) measures— report the results and quality of services provided. These measures describe the extent to which services are accomplishing their intended mission, goals, and objectives.

Performance budget—a budget that bases expenditures primarily upon measurable performance of activities and work programs. A performance budget may also incorporate other bases of expenditure classification, such as character and object class, but these are secondary to activity performance.

Performance measures—quantify the resources used, services provided, results, and cost of services. Used to determine the extent to which objectives are accomplished.

Program budget—a budget that bases expenditures primarily on programs of work.

Program—a group of activities, operations or organizational units directed to achieving specific purposes or objectives.

Reserves—an account used to indicate that a portion of the LG's cash balance is legally restricted for a specific purpose and not available for appropriation and subsequent spending.

Target-based budget—in its simplest form, each department is given a maximum amount for its budget request to accomplish specific objectives.

Zero-based budget—a budget that conducts an annual evaluation of each program's purpose and priority, weighing it against all other spending possibilities.

GOOD GOVERNANCE, FISCAL TRANSPARENCY AND OPERATING BUDGETS

The concept of good governance[1] incorporates how decisions are made, how power is balanced between institutions, individuals and the community, and the ways politicians and managers are held accountable by the citizens of the LG. It refers to the setting within which public policy is decided and executed. The operating budget decision-making process provides citizens with a way to hold decision makers accountable.

There are several principles on which good governance is built and each is essential to the budgetary decision making process:

- Transparency – open processes and systematic reports on results toward meeting goals and objectives,
- Accountability – actions, decisions and decision-making processes open to scrutiny by citizens, public agencies, the governing body and civil society,
- Responsiveness – the capacity and flexibility to respond to changing regional, national and international circumstances,
- Future orientation – the ability to anticipate future priorities and develop policies that take into account costs and anticipated changes,
- Rule of law and integrity – equitable enforcement of transparent laws, regulations and codes, so that they become a part of the culture in the LG in supporting ethical behaviour and taking vigorous action to fight corruption.

Effective governance should provide:

- An environment in which all people (men, women, children and low-income) are treated fairly and equitably,
- An atmosphere of transparency which limits monopolistic behaviour and stimulates efficiency and innovation,
- Stability and predictability for social investment,
- A way of bringing coherence to diverse policy objectives, including both short- and long-term interests, and
- Separated responsibilities and accountabilities to prevent the misuse of power by individuals or groups.

There are no recipes to balance the cost of producing and disseminating information and enabling the right of the public to know in the budget decision making process. However, the level and detail of the information should be sufficient to hold the LG accountable for the sources and uses of monies, including aspects of corruption and efficient production of services by the LG.

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1   For further information on urban governance visit the UN-HABITAT website at http://www.un-habitat.org/campaigns/governance

ROLES AND RESPONSIBILITIES FOR THE OPERATING BUDGET

The chief executive, governing body members, department heads, citizens, and interest group representatives should all participate in budget decision making. The goal of budget participation is to allow potentially contradictory demands on limited resources to be expressed and resolved rather than suppressed or ignored, while at the same time ensuring that conflict does not overwhelm the process or render decision making impossible.

Chief executive (CEO)—The CEO (mayor, LG administrator) normally is responsible for carrying out the following budget tasks:

- Preparing the draft budget to be reviewed by the governing body;
- Explaining the current and projected financial status of the LG;
- Implementing the budget as approved by the governing body; and,
- Monitoring and reporting on the status of the budget throughout the budget year.

The executive may choose to delegate some of these tasks to other staff members such as the budget officer. CEOs should provide overall guidance to the budget process by identifying any issues to be addressed and surfacing other expectations that should be met in the budget preparation process.

The CEO's active involvement in the budget process is important because there are inevitably conflicts among the goals the budget process is intended to achieve. It is part of the CEO's job to set priorities when goals clash. For example, the goal of making the budget more open and interesting may increase the level of conflict and delay decisions. Creating more opportunities for citizen participation may subject the governing body to a barrage of contradictory advice that may, in turn, give way to deep conflicts within the community and on the governing body.

Budget officer and budget staff—If most budgetary tasks will be delegated by the chief executive officer to the budget officer, the budget officer has a key role to play in the budgeting process. The role usually takes one of the following forms:

- Coordinator of the budgeting process—The budget officer may play a limited role in the budget process as coordinator of budget-related documents. In this role, the budget officer does not evaluate the requirements presented by the different departments, submits no suggestions, and does not match revenues with expenditures. The role is to assure adherence to budget-related schedules, and the presentation of accurate and complete budget-related documents in a uniform and intelligible format. Some of the following duties may be delegated to budget staff members:

  - Setting the budgeting calendar.
  - Drafting budget-related forms and worksheets.
  - Assisting departments in formulating their performance indicators.
  - Compiling instructions for department heads to guide them in filling out budget-related forms.

- Controlling the accuracy and completeness of budget-related forms submitted by department heads.
- Preparing revenue estimates.
- Coordinating budgeting activities including timing and planning of meetings.

- Guidance of the budgeting process—The budget officer (and budget staff), in addition to coordination, have some analytical and control functions, such as:

  - Developing instructions for departments concerning reducing or expanding services and providing any assumptions to be considered in budget development.
  - Reviewing department requests to ensure adherence to guidelines.
  - Setting budget objectives including any restrictions.
  - Matching budget requests with expected revenues.
  - Preparing recommendations for governing body members.

- Control of the budgeting process—The third role is direct control of and responsibility for tasks related to budget implementation. In this role the budget officer (and budget staff) will be:

  - Ensuring that departments do not exceed budget authorization. This is accomplished through regular monitoring of revenues and expenditures.
  - Reviewing requirements for transfer of budget funds between departments.
  - Developing and updating budgeting process procedures.
  - Providing progress reports on budget implementation for the chief executive officer and the LG governing body.
  - Monitoring department activities to prevent negative developments.

- Department heads (service managers)—While these individuals are responsible for providing day-to-day services to citizens, they also have significant financial management responsibilities. They:

  - Develop department budgets for providing services and provide assumptions to be considered in budget development.
  - Review sub-department requests to ensure adherence to guidelines.
  - Prepare budget objectives including any restrictions.
  - Prepare recommendations for governing body members.
  - Ensure that the department does not exceed budget authorization. This is accomplished through regular monitoring of revenues and expenditures.

- Provide progress reports on budget implementation for the chief executive officer and the LG governing body.

Governing body (policy makers, parliament)—Governing bodies of LGs define LG budgetary policies. In approving the budget, the governing body establishes LG policy and direction, and sets public service priorities. The governing body is also responsible for maximum possible satisfaction of public service needs within existing resources.

Early in the budget preparation process, policy makers should help set priorities among goals and inform management of their preferences on allocation issues. Governing body members may not always be willing or interested in setting priorities but they should be given the opportunity.

The appointed staff should create the best possible conditions for the mayor and governing body to make policy. Staff should help frame the policy issues and, where appropriate, make recommendations on preferred policy alternatives. While staff recommendations can assist the governing body to make most budget decisions. The more politically divisive issues are best reserved for the governing body, with staff providing objective analyses of the merits of each alternative.

The budget office may frame some issues, especially those dealing with finance or budget format, and make recommendations in those areas. The budget office should also undertake some policy analysis, such as determining how much revenue will be generated by various changes in tax rates, or whether leasing is more economical than purchasing.

Citizens, community, NGOs—The public should play a substantial role throughout the budget-making process. It is especially important to involve citizens when community goals are being developed and to seek their opinions on key policy decisions related to taxation and expenditures. Unfortunately, public involvement in local budget making is frequently superficial and undertaken only to satisfy legal requirements.

There are three typical concerns expressed by LG officials about citizen participation in the budget preparation process:

- Elected officials do not want to raise expectations they cannot satisfy. Many LGs resist greater public involvement because they fear citizens' expectations for spending or tax reductions will be unrealistic.
- Different areas of the community may want different or even contradictory programs, leaving public officials in the difficult position of not knowing how much of what to deliver to whom.
- A third argument raised by local officials is that citizens are simply not interested in participating and that trying to involve them is time consuming and frustrating.

Although there is some basis for these concerns, all of them can be addressed in ways that will allow budget makers to benefit from citizen participation. Strategic planning sessions, focus groups, neighbourhood governing bodies, citizen budget commissions, and capital budget committees are all ways of involving the public in the budget process before final approval. Once the budget is final, the chief executive

can make press presentations and take the budget proposal on the road, presenting it to civic groups, service clubs, and neighbourhood and homeowners associations. Another chapter in this series, Citizen Participation[5], provides excellent suggestions for getting citizens involved in the budgeting process.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Consider, for a moment, the budget roles played by officials in your own LG. In what ways are they similar to the role descriptions presented here?

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In what ways are they different?

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If you could change the ways budget tasks are assigned within your LG, what would you change?

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HISTORY OF TYPES OF BUDGETS IN THE US

Public budgeting has been an evolving process in most countries, including the United States. To provide a historical perspective on this financial management tool, let's look at how the process evolved in that country. During the past century, US local governments have either adopted, adapted, or experimented with five major types of budgets.
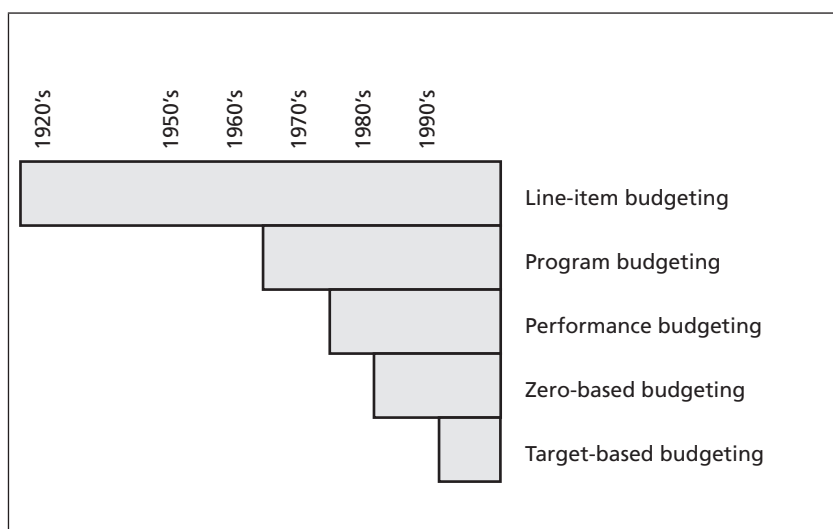
LINE ITEM BUDGET

A line item budget (also called an object-of-expenditures budget) provides a list of the goods and services to be purchased by each department with a cost estimate for each. Examples include labour, supplies, utilities, and capital outlay. A list of specific items to be purchased emerges from a work plan that lists the items needed to carry out the work plan. A list of specific items makes it possible to compare the costs of these items to the costs of similar items purchased elsewhere. This, in turn, makes it possible to determine the reasonableness of a funding request. Once the governing body approves the budget, the departments can start procuring the authorised goods and services.

Approved budget (in 000)

5104	LG POLICE	7,800
	Wages and salaries	5,600
611	Tariff salaries, basic salaries	3,000
612	Bonuses	2,060
613	Compensations for waiting times	30
	Goods and other services	2,200
631	Travel expenses	30
632	Energies, water, telecommunications	232
633	Materials and supplies	888
634	Transport costs	316
635	Routine and standard maintenance	177
636	Rental fees	4
637	Other goods and services	231
	Capital assets acquisitions	
711	Purchase of land and intangible assets	22
713	Purchase of furniture and office equipment	190
715	Purchase of operating equipment and machinery	100
716	Project documentation development	10

PROGRAM-BASED BUDGET (INCLUDING PLANNING, PROGRAMMING BUDGETING SYSTEMS—PPBS)

Program budgeting, also called PPBS, came about as a result of attempting to find a way to choose among alternatives for providing services, and addresses the following questions:

- What are we trying to accomplish (goal)?
- How much will it cost to meet this goal?

This method of budgeting provides a method for organizing activities into programs (activities or services with a common goal), identifying alternatives for achieving each goal, determining the costs and benefits for each alternative, and selecting the alternative to maximize benefits. Since total cost and performance levels are what matter— not the cost of each line item—budgetary allocations can be provided "lump sum" by program rather than in traditional department line items. Program budgeting is often accompanied by various kinds of performance measures.

PPBS, in its fullest sense, requires a tremendous amount of analysis and paperwork. Remnants of the methodology have been used in other forms of budgeting such as performance and zero-based budgeting. So, LGs still use many of PPBS' features such as developing goals for each program and reporting budget information by program rather than by department.

PERFORMANCE BUDGET

The purposes of a performance budget are to:

- Produce a work plan that justifies the budget total;
- Provide a basis for comparing the cost and quality of services; and
- Provide a running check on whether programs are achieving their goals.

Workload measures, such as number of clients served or number of arrest warrants issued, help justify the budget. Cost and input measures, such as cost per client or cost per warrant issued, help evaluate whether service delivery is efficient and economical. Outcome and impact measures such as the amount of citizen participation, length of waiting period for clients, or recidivism rate, reveal to what extent programs are achieving their goals. Ideally, the budget should compare the performance level budgeted for the coming year with the actual performance levels of prior years.

Another chapter in this series, Performance Measures, provides extensive guidance on the preparation and use of performance measures. The following example represents how most LGs have integrated program and performance budgeting into current budgets.

PROGRAM: Line maintenance   DEPARTMENT: Water

Summary of Responsibilities: The water line maintenance division is responsible for the repair and maintenance of the water distribution main lines, service lines, valves, fire hydrants, and manholes. Major activities include digging up and repairing or replacing leaking or burst main and service lines, including service connections; operating and repairing inoperable or malfunctioning fire hydrants and water main valves; and adjustments in the height of water meters, main valves, and fire hydrants. This division operates a central warehouse providing parts and equipment in support of the fleet.

1997-98 Accomplishments:
- Repaired 1,510 main breaks.
- Installed 25 valves, 5 hydrants, and 10 mains.
- Completed 8,875 jobs for the year.

1998-99 Objectives:
- Provide an effective water distribution system while minimizing loss of service and related expenses.
- Provide effective support through the efficient operation of the central warehouse and equipment maintenance program.
- Establish an effective customer service relationship with the public.
- Identify problems within the distribution system and assist in finding solutions to the identified problems.

Performance Measures:

	07-08 Actual	08-09 Actual	09-10 Target
Repair main breaks in an average of 4.5 hours or less	4.3	4.4	4.5
Replace services in an average of 3.5 hours or less.	3.3	3.4	3.5
Maintain fleet downtime at 2% or below.	0.68%	0.77%	2.0%

ZERO-BASED BUDGET (ZBB)

The basis of zero-based budgeting is to conduct an annual evaluation of each program's purpose and priority, weighing it against all other spending possibilities. Each program prepares a "base level" budget reflecting the minimum requirements to continue the program. "Enhancement packages" are provided for areas of the program where additional services can be provided. Governing body members can then make decisions like: not renewing an existing program, choosing instead to fund an enhanced spending package for another program, or even to provide base-level funding for an entirely new program.

Like program budgeting, remnants of ZBB are still used by United States LGs in the form of "decision packages" which present incremental spending levels for varying levels of effort and cost. Each decision unit (the lowest level in the organization at which budgetary decisions are made) prepares at least three packages:

- A base level package, which meets only the most basic service needs,
- A current service package, which ensures delivery of services at the current level, and
- An enhanced package, which allows the decision unit to extend its services to currently unmet needs.

Decision units can prepare more than one enhanced package, each representing a different level of expanded effort. Packages from all the decision units are then ranked according to the perceived need for the package. Unlike PPBS, which uses more objective criteria for funding, ZBB relies on the subjective judgment of governing body members in ranking packages.

TARGET-BASED BUDGET (TBB)

Target-based budgeting reversed the trend towards increasingly complex budget preparation but retained the elements of a performance budget. In its simplest form, each department is given a maximum amount, or target, for its budget request with which it is to accomplish a minimum level of service. Targets are based on revenue estimates for the coming fiscal year, adjusted for any changes in priorities communicated by governing body members. The more complex part of TBB involves estimating each department's current services budget. Generally, the current services budget is the department's current year appropriation plus or minus some adjustments (i.e., one-time purchases, or money for a position that was filled well into the fiscal year). Once established, the target typically is set at some percentage of the current services budget—for example, 95 percent for lower priorities in the current year or 105 percent for higher priorities.

Although TBB includes some elements of ZBB, it greatly reduces conflict and the use of subjective judgment since departments know up front their probable level of funding for the next year. Target-based budget forms are the basis for the 12 steps in budgeting later in the essay.

CURRENT STATUS OF BUDGETING IN THE U.S.

These budget formats have evolved and developed over the last century, and LG operating budgets in the United States today are a blend of them. The operating budget in many LGs will contain some "line item" information, "performance" measures, and even enhancement ("ZBB") packages for new spending. Departments even may be given "target" funding levels at the beginning of the process. But the requirement for being able to specifically measure what has been accomplished with the monies has been retained. Performance measures should be an integral part of all budgeting.

Following is a summary table of the advantages and disadvantages of the various types of budgets. Many of these have been adapted—taking pieces that work from each type of budget—and are in use in other countries in the world.

Advantages and Disadvantages of the Budgeting Systems

	Advantages	Disadvantages
Line item budgeting	• Very familiar; governing body members may not want to change budget systems because of a concern for getting less information. • The more detailed the objects of expenditure, the greater the governing body's control over the department. • Provides information only on the resources or inputs used in providing public services—it does not provide any information on what is accomplished with the use of the resources.	• The more detailed the line items, the less flexibility managers have. • The level of detail may be overwhelming to citizens. • Usually based on an incremental approach. Prior year's expenditures are the base, with amounts added to reflect inflation, increased demand, or improved level of services provided. The incremental method does not deal with issues such as: how to reduce costs while keeping the same service level or how the service provided corresponds to current needs.
Program budgeting	• Emphasizes the quality and cost of services as opposed to the cost of things purchased (line item). • Usually accompanied by performance measures for output. • Gives managers the flexibility to achieve "service level targets" in any way that works (i.e., not limited by line items) as long as they stay within the overall budget allocation.	• Increasingly complex. • Very analysis and paperwork oriented. • May intensify conflict because it reveals that if one service is increased another must be decreased. For example, for police patrols to be increased so that 5% of citizens feel safer, there may have to be a 30% decrease in opportunity for kids to play soccer. • Determination of the budget for current services is somewhat subjective.
Performance budgeting	• Improves program efficiency. • Allows for better evaluation of results of program operations. • Provides governing body members and the public with better information on the quality of services.	• Increasingly complex; more information must be provided. • Focuses attention on efficiency and effectiveness, but does not address more fundamental questions such as whether a program is necessary at all or how best to allocate limited resources among competing programs.

Zero-based budgeting	• Allows governing body members to determine whether a program is necessary at all, or to choose between varying levels of service. • Proposals are assigned priorities. • Discretionary items are funded based on governing body's goals and objectives. • Identifies unmet needs.	• Increasingly complex; much more information must be provided. • May generate conflict between competing programs. • Department heads resist disclosing estimates of the cost of minimum service levels because to do so invites deep cuts in services if spending must be reduced.
Target-based budgeting	• Less detailed information has to be provided. Less conflict for policy makers. • Proposals are assigned priorities. • Identifies unmet needs. • Discretionary items are funded based on governing body's goals and objectives.	• May generate conflict between competing programs. • Department heads resist providing reduction packages.

PARTICIPATORY BUDGETING IN BRAZIL

Many of these same elements of budgets are found in the participatory budgeting that started in Brazil in 1989[2]. It has a very strong emphasis on citizen input and monitoring.

Participatory budgeting from Brazil
(by Aaron Schneider)[3]

A novel and exciting institution of public finance is taking hold in Brazil. Participatory budgeting was first implemented at the municipal level, has now been implemented by a number of state governments, and is attracting international attention. In each jurisdiction where it has been implemented, participatory budgeting has expanded citizenship, empowered excluded members of society, redefined rights, deepened democracy and stimulated civil society. Still, we are only beginning to understand its potential, and we should be wary of what makes it successful in particular instances before trying to extend it to different political and social contexts.

Mechanics and Issues—Participatory budgeting, as practiced in its current form, began at the municipal level in Porto Alegre, capital of Rio Grande do Sul state in 1989. Since then, it has spread to over 190 municipalities, been scaled-up to six Brazilian states, and has been experimented in a few other countries. What follows is a description of the process in Porto Alegre, the most famous example, which is the model on which most other experiments in participatory budgeting are structured.

Participatory budgeting in Porto Alegre includes regional and thematic meetings within the municipality, in which citizens discuss priorities and enter them directly in the city investment budget. The meetings also elect councillors who are charged with the task of overseeing the implementation of the budget during the fiscal year. All meetings are open and encourage deliberation and direct communication with the government, which sends representatives to receive citizen demands, explain government priorities, and defend government actions.

Second, once the amount to be invested has been determined, the decisions made in the participatory meetings are aggregated to determine 1) how much will be spent in each of thirteen investment areas (roads, health, etc.) and 2) how much will be allocated to each region. Voting and participation in each region determines representation in the council of elected delegates, who decide the amount to be spent on each investment area. Next, the allocations for each investment area are divided among the regions according to a formula that takes into account regional population, regional need, and the priority placed on each investment area in the regional meetings. In some instances, the process of aggregation raises thorny issues of representation, as more mobilized regions and participants that are more vocal are likely to sway priorities towards their preferences. On the other hand,

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2   See also UN-HABITAT (2004), 72 *Frequently Asked Questions about Participatory Budgeting.*

3   Aaron Schneider is with the Institute of Development Studies at Sussex University in the UK. He has written extensively about Brazilian budgeting practices.

the transparent and seemingly rational-bureaucratic nature of the allocation formula legitimizes the allocation of resources, both for civil society and for bureaucratic and political actors operating in other phases of the budget process.

Third, when sent to the legislature in late August-early September, the executive budget includes the budget priorities decided by the elected council and the division of resources decided by the allocation formula. Thus, the legislature receives a document in which investments have already been exhaustively discussed and decided during several months of regional, thematic, and council meetings. The legitimacy provided by participation makes it extremely difficult for the legislature to engage in its traditional activity of amending the investment budget. The case of Porto Alegre, this was a marked improvement, as legislative amendments were often used to fund patronage networks.

Fourth, even after the passage of the budget and the commencement of the fiscal year, the participatory meetings remain active. They are responsible for tracking the progress of the investments and communicating with the executive through the elected council. After the completion of the budget, the meetings review and evaluate the projects implemented. It should be noted that this oversight role of the participatory meetings occurs simultaneous to other duties. During the first months of the year, the budget implemented last year and decided two years prior is evaluated; the budget decided last year is implemented and tracked; and next year's budget allocations are discussed.

Fifth, the participatory budgeting structure, though well institutionalized, has no legal framework. There is no law that forces the executive to accept the priorities voted by the participatory structure nor is there any prohibition on the legislature to amend the executive budget. This extra-legal format is necessary given the constitutional restrictions on the formal institutions of budgeting, and this flexibility perhaps allows the participatory structure to adjust to fit changing fiscal, political, and economic circumstances. On the other hand, though the party favourable to participatory budgeting has been dominant in Porto Alegre, the institutions have not fared as well in other jurisdictions where this party has not remained in power.

Impact and Applicability—In addition to the issues raised above, a number of other characteristics of the process deserve attention. For example, the open, participatory nature of the meetings has broadened the scope of voices included in policymaking, and in so doing, has expanded citizenship to previously excluded groups. The specific groups to which inclusion has most been extended are, unsurprisingly, those with civil society associations able to mobilize supporters and gain representation in meetings. A cynical and perhaps realistic view might suggest that this has been no mistake, as the left-leaning, worker-based party that introduced participatory budgeting is the most capable of mobilizing its supporters and their associations for meetings. Of course, this has had salutary effects on the allocation of resources, as these citizens are often poor, and usually pressure for more social spending and attention to the needs of poor neighbourhoods and citizens.

A word of warning deserves to be extended before applying participatory budgeting in other contexts. Many of the beneficial effects may depend on characteristics specific to Porto Alegre, such as sufficient resources for investment, an ineffective legislature, an active civil society, and a left-leaning party in power. Where these

ADDITIONAL RESOURCES ON TYPES OF PUBLIC BUDGETING APPROACHES:

World Bank
>   http://www.worldbank.org/html/fpd/urban/urb_age/porto.htm
>   http://www1.worldbank.org/wbiep/decentralization/Topic13.7.htm
>   http://www.worldbank.org/participation/

Inter-American Development Bank
>   http://www.iadb.org/exr/IDB/stories/2000/eng/JAN00E/e200e1.htm
>   http://www.iadb.org/exr/idb/sidebars/2000/eng/e200e4.htm

Conference proceedings on Participatory Budgeting
>   http://www.idrc.ca/lacro/docs/conferencias/stren.html
>   http://www.ssc.wisc.edu/~wright/deliberative.html

ACCOUNTING AND THE OPERATING BUDGET

The accounting system is a fundamental building block for the budgeting system. So that revenues and expenditures can be monitored, the accounting system provides a record-keeping framework to log transactions authorized by the budget. Every financial transaction is recorded, whether a bank deposit, the receipt of property taxes, or a roof repair payment at the community centre. These individual transactions are aggregated in various ways and included in interim reports issued throughout the year. At year's end, all transactions should be gathered and reported in a comprehensive annual financial report (CAFR). Interim reports help maintain balance during the year. The CAFR looks backward to determine how well the LG maintained balance and how close actual figures were to the budget as amended.

The accounting system must parallel budget programs in order to implement, measure and report budget results. So, if a new budget program is established in a particular department, all related costs of the program should be identified and related to the program within the accounting system. The accounting system must be in a form that answers key financial control questions and matches the format used in the budget. Without the continuous flow of information from the accounting system, LGs cannot take timely, corrective action when necessary.

In summary, the accounting system tells department heads how much money they have left to spend; it tells the budget office whether revenues are available to commit; and it tells everyone whether the LG succeeded in balancing the budget, and how closely budget implementation followed the budget.

IMPACT OF ACCOUNTING REQUIREMENTS ON BUDGETING

There is some inconsistency between the assumptions that underlie the budget and the standards that guide the accounting system and the reports that it generates. Budgets reflect the need to pay bills incurred during the budget period—that is, the fund's cash condition. The value of fixed assets such as the LG main building or a water tower may be considered of less importance because the imputed value will not be available to pay bills.

As a result of these differences in perspective, totals in the budget and in the annual financial reports based on the accounting data often differ— although intuitively, they should match, since the accounting records reflect every financial transaction. From the point of view of fiscal control, however, summaries of assets and liabilities in the year-end accounting reports are frequently considered less important than the continuing and even daily reports of revenues and expenditures that the accounting system provides.

CLASSIFICATION OF ACCOUNTS

The mechanism relating accounting to the budget is the classification or chart of accounts. A chart of accounts organizes into categories all the items that might be purchased and all the transactions that might occur. All recording depends on the chart of accounts. If the chart of accounts does not contain useful categories, the accounting system will not produce useful information.

Any accounting system must be tailored to the needs and capabilities of the user LG. Telephone costs, for instance, may justify a separate cost or object code because of the need to relate communications costs to different program accounts. On the other hand, should specific information for communications not be necessary, and then telephone, gas, electricity, and water costs might be grouped under an object code named "Utilities." Below is a sample classification code structure.

	Fund	Department	Division	Expenditure/Revenue
Code	100	201	3010	2100
	General	Finance	Accounting	Salaries

Use the following to evaluate your LG's chart of accounts: The Accounting chapter in this series has additional information on the chart of accounts.

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Overall

_____ Does a systematically determined number identify each fund?

_____ Does a systematically determined number identify each program, activity or department within the appropriate fund?

_____ Does each type of cost have an identifying number? An illustration of uniform coding would be to number the cost or object code for expenditures for regular salaries in the police department with the same object code as regular salaries in the street department.

_____ Are the categories in the chart of accounts small enough to be informative but large enough to be flexible?

_____ Can the chart adapt gradually to changing purchases, revenues, or financial control requirements without being radically altered?

_____ Are all related costs charged to this account?

</div>

PERFORMANCE MEASURES AND THE OPERATING BUDGET

Performance measures should be an integral part of the operating budgeting process. For more information, see the Performance Measures chapter in this series. Following are some of the performance measures used for budgeting by the Best Value program from the United Kingdom.

Water

• Operating costs for the treatment and distribution of drinking quality water per megalitre.
• Number of breaks in water mains per 100 kilometres of water main pipe in a year.
• Weighted number of days when a boil water advisory issued by the Medical Officer of Health, applicable to a municipal water supply.

Solid Waste Management (Garbage)

• Operating costs for solid waste collection, transfer and disposal pertonne or per household.
• Operating costs for solid waste diversion per tonne or per household.
• Average operating costs for solid waste management per tonne or per household.
• Number of days per year when a Ministry of Environment compliance order for remediation concerning an air or groundwater standard was in effect for a solid waste management facility, bu site and total number of sites in the municipality.
• Number of complaints received in a year concerning the collection of solid waste and recycled materials per 1,000 households
• Percentage of residential solid waste diverted.

Land-Use Planning

• Percentage of new development with final approval which is located within settlement areas and the number of new lots, blocks and/or units.
• Percentage of land designated for agricultural purposes which was preserved and number of hectares of land originally designated for agricultural purposes which was redesignated for other uses.

PERFORMANCE AUDITS AND THE OPERATING BUDGET

Performance audits address elusive type questions, such as why the money was spent, what results were achieved, and whether a LG's programs could be more economically and efficiently run. Some of the questions an auditor will consider in assessing management's performance include:

- Have the goals of the previous year(s) been achieved?
- Have standards for measuring the degree of goal accomplishment been sharpened?
- Has management abandoned obsolete goals, organizational structure, and activities?
- Were alternative means considered, tested, and evaluated?
- Are necessary management analytical techniques in use? Can they be improved?

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

What controls over the budget process have been established by your LG? Describe them in the space below.

_____

_____

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_____

Which official or work unit has primary responsibility for budget controls?

_____

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Describe the auditing process(s) used by your local government. For example, is it done because the law requires it or for other reasons?

_____

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If auditing is not done, what, in your opinion, are the financial hazards or risks of not engaging in this process regularly?

_____

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DEPARTMENTAL USE OF AUDITS

All countries require some type of comprehensive annual financial report. This may be done by an independent auditor or by an agency of the central or provincial government. It also may be performed by an agency of the LG. If the report is presented at a departmental level, then the report may be of interest to department heads and program managers. For example, if your country uses fund accounting, then for each fund the CAFR usually presents the beginning balance, revenues, expenditures, total transfers in and out, and the end-of-year fund balance. This part of the report shows not only whether the budget was in balance at the end of the year, but also whether operating revenues covered operating expenditures, whether the fund balance was drawn down to cover a revenue shortage, or whether transfers were used to balance the budget. In some LGs, this part of the CAFR may be the only source for such information.

POLICIES

LG budgeting should be guided by a set of policies adopted by the local governing body. Since another chapter in this series, Financial Policy Making, provides comprehensive information on formulating policies covering all aspects of local government financial management including the budget, we have limited this discussion to some of the more important budget related policies your LG should consider.

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Sample operating budget policy statements

- A five-year forecast of revenues and expenditures, to include a discussion of major trends affecting the LG's financial position, shall be prepared in anticipation of the annual budget process. The forecast shall examine critical issues facing the LG, economic conditions, and the outlook for the upcoming budget year.
- The LG will project revenues and expenditures for the next three to five years and will update the projections annually.
- New policies being introduced in the operating budget and capital investment plan will be clearly described.
- Budget information will be presented in a way that facilitates policy analysis and promotes accountability.
- Fiscal policy objectives and an assessment of fiscal sustainability should provide the framework for the annual budget.
- The LG shall assure fiscal stability and the effective and efficient delivery of services, through the identification of necessary services, establishment of appropriate service levels, and careful administration of the expenditure of available resources.
- The LG shall operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues plus the planned use of fund balance accumulated through prior year savings.
- The CEO shall authorize periodic staff and third-party reviews of LG programmes for both efficiency and effectiveness. Privatization and contracting with other governmental agencies will be evaluated as alternative approaches to service delivery. Programmes, which are determined to be inefficient and/or ineffective, shall be reduced in scope or eliminated.
- Budget data will reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.
- The LG will develop a programme to integrate performance measures and productivity indicators into the annual budget.
- Debt or bond financing will not be used to finance current operating expenditures.
- Within the resources available each fiscal year, the LG shall maintain capital assets and infrastructure at a sufficient level to protect the LG's investment, to minimize future replacement and maintenance costs, and to continue service levels.
- The LG will conduct a cost analysis of all services on a regular basis.
- The LG will project future operating costs associated with new capital investments and will include them in the operating budget forecasts.
- The chief executive officer or designee will perform a mid-year budget review and analysis and provide the information to the governing body.

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- The LG will adopt and maintain a balanced budget.
- Expenditure deferrals into the following fiscal year, short-term loans, or use of one-time revenue sources shall be avoided to balance the budget.
- The LG shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit (i.e., projected expenditures in excess of projected revenues) is projected at year-end.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Hopefully, your local government has one comprehensive policy statement that covers the topics identified above, as well as others that are important to managing the operating budget. However, it is not uncommon for them to be scattered. If this is the case, you might want to pull them together into one comprehensive policy document covering your budget process. The following questions are designed to help you better understand just where your local government stands when it comes to policies that cover your operating budget process.

- To what extent are the operating and capital budgets integrated? For example, an annual budget policy should specify whether the operating and capital budget cycles proceed concurrently or separately, and briefly explain the reasons for the choice.

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_____

- Does the policy specify which funds should be reported in the operating budget? ____Yes ____No ____Do not know

_____

_____

_____

_____

- Does the annual budget have to be balanced?
  _____Yes _____No _____Do not know

- At what point must it be balanced?
  _____ When the executive proposes it?
  _____ When the governing body adopts it?
  _____ Or, at the end of the fiscal year?

- What revenues or expenditures can be counted toward the current year's balance?

_____

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_____

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_____

- Can borrowing be used as a strategy to balance the budget?
  _____Yes _____No _____Do not know

- Are revenues left over from last year treated as current revenues?
  _____Yes _____No _____Do not know

- Can revenues left over from last year be used to balance this year's budget?   _____Yes _____No _____Do not know

- To protect against unforeseen events or to accumulate money for future purposes, LG's can establish reserve accounts in various funds and then earmark the money for some specified purpose. The following are some of the most common types of reserves. Check those that you know your LG either uses now or has used in the past. Add others if applicable

  _____ Cash flow requirements
  _____ Revenue stabilization (rainy day funds)
  _____ Equipment replacement
  _____ Building repair or other improvements
  _____ Debt service
  _____ _____

- What position is assigned principal responsibility for budget preparation?

_____

_____

_____

_____

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- What is the authority of the responsible position? Does the person have the authority (Check those that apply and add more if applicable):

    _____ To standardize budget documentation?
    _____ To prepare the budget calendar?
    _____ To review departmental budget requests for accuracy and conformity to guidelines?
    _____ _____

- Are performance and efficiency measures required for each activity where relevant?   _____Yes _____No _____Do not know

- What position is responsible for forecasting revenue?

_____

_____

_____

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_____

14.	What is the frequency with which revenue forecasts are to be prepared?

_____

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_____

- What position specifically is responsible for overseeing budget imple-
  mentation— including preparing and reviewing interim financial reports,
  monitoring revenues, reviewing departmental expenditure requests for
  conformity with the budget, authorizing transfers across accounts or de-
  partments, and reviewing supplementary appropriation requests?

_____

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_____

- Are one-time or temporary revenues used to obtain capital assets (equip-
  ment, buildings, and land) or to make other nonrecurring purchases?

  _____Yes _____No _____Do not know

- Are user fees reviewed annually to ensure that they are covering all costs
  associated with providing the LG service?

  _____Yes _____No _____Do not know

- Which enterprise funds are expected to balance themselves—and, of those
  that are not expected to balance, what proportion of costs can be subsi-
  dized by the general operating fund?

_____

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- Are there clear procedures for amending the budget during the fiscal year?
  _____Yes _____No _____Do not know

- Is there some limit on the amount that can be transferred by executive authority before the consent of the governing body is required?

  _____Yes _____No _____Do not know

- What is the nature and frequency of budget status reports?

_____

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- Are the standards to be used for accounting, financial reporting, and auditing by your LG specified?

  _____Yes _____No _____Do not know

Based on your responses to the above questions, jot down some concrete things you believe your LG should do to improve its operating budget policies.

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BENEFITS

There are a number of benefits resulting from a thorough operating budget preparation process. These include:

- Legal documentation—Preparing the operating budget through an established decision making process should ensure compliance with applicable laws or statutes.
- Policy compliance—It ensures that adopted policies are implemented through goals, objectives, priorities, and implementation strategies. It provides: a method for establishing priorities among various service needs, especially among new and expanded programs; and allocating limited resources.
- Political impact—It provides a way to reflect the impact of political changes on the activities of the LG, the level of services and financial prosperity, and gives official recognition to new financial and non-financial problems important to the LG officials.
- Financial plan—From a financial planning perspective, a thorough budget preparation process: regulates annual financial operations; provides an overview of current and last year's financial activities by department or function; projects the LG's financial status at the end of the year; gives an overview of current and proposed revenue sources; and shows a clear relationship between the operating and capital budgets.
- Management plan—It manages services and expenditures by allocating money to specific programs designed to accomplish clearly defined objectives; sets forth a detailed plan for what services will be provided and how; provides the basic guideline through which elected officials control the staff in providing services; and outlines the categories, service objectives, and financial system to be used as the basis for periodic reports on the status of LG operations.
- Communications tool—Finally, a comprehensive operation budget preparation process: provides a rationale for elected official decisions in terms of priorities and future changes; provides for citizen feedback; publicizes what the LG will be doing during the fiscal year and the amount or extent of services to be performed; and, illustrates unfilled needs by highlighting programs that are desirable but unfunded by the current operating budget.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Review the benefits of budgeting enumerated above. Which are currently given the greatest weight by officials in your LG, and why?

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     Which of them are given the least weight, and why?

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     What changes should be made in the preparation of the operating budget to make it more effective and efficient as a tool to serve the needs of all concerned?

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OBSTACLES, LIMITATIONS, RISKS AND OTHER CONSID-ERATIONS

Modernizing or making changes in any operating budget process can be a time consuming, costly, and at times, difficult process. The following are some of the obstacles that are often encountered when changing the budget decision making process.

- Management resistance—Management, especially department heads, may be concerned that elected officials, citizens and the media will use any new information generated by a change in the current budget process to assign blame and withdraw resources to cut costs. Some managers may view changes in the budget process as a "passing fad" or "make work" exercise and see no benefit in it.
- Political resistance—If modifying the budget format or adding a different orientation to the budgeting process, the political support of elected officials can be won by involving them early in the process. Elected officials need to be informed about the benefits of proposed changes in the budget process and how these changes will produce information helpful to them in making better political decisions. Elected officials need to be asked from time to time if the operating budget information they are receiving is useful and if they want anything done differently.
- Lack of resources—A substantial obstacle may be the lack of analytical staff, time, funds, and information technology to implement changes in the budget process. Obstacles can be reduced by training in-house staff to implement a pilot project—for example, zero-based or target-based budgeting in one or two departments. Use the information gained from the pilot project to determine how the process might be improved and if you want to use the new process with other departments.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Take a few minutes now to think about the obstacles, limitations, or other considerations in preparing the operating budget we have identified. Are there others? If so, what steps will you take to overcome them?

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12 STEPS TO DEVELOPING AN OPERATING BUDGET

Within the framework of an effective budgeting system, we have identified twelve steps for you to consider in preparing your annual operating budget.

STEP 1: INVOLVE THE CITIZENS

It is important to involve the citizens in identifying priorities at the very beginning of the budgeting process. If possible, this should be done through a strategic planning process where the community, governing body and other interested parties have the opportunity to define their vision of the LG's future. Citizen Participation provides a number of ideas and methods for involving citizens in the decision making process.

STEP 2: INTEGRATE OTHER PLANS

If your LG is using a strategic planning process, capital investment plan, or other planning processes, they should be integrated into the operating budget decision making process. This is where monies get allocated to accomplish all plans. Financial Planning[7] provides additional information on other planning processes.

STEP 3: ORGANIZE THE PROCESS

The chief executive officer (CEO), or designated staff member, is responsible for developing budget tools – a set of rules and principles as well as forms and guidelines to regulate budget preparation and implementation. They include the following:

Budget manual—This is the key budget tool and either includes all of the following tools or refers to where they can be found. The budget manual is designed to assist department heads in the proper and complete preparation of budget requests by providing step-by-step instructions. A comprehensive sample budget manual for US Texas cities is found at www.state.tx.us/lga/budget/apdxd.html

Policies —A review of the expected financial situation for the upcoming fiscal year with principles or financial policies needed to guide budget preparation. Department managers should be encouraged to use this information to reassess the benefits of current service activities as well as justify requirements for any new and/or expanded services.

Budget calendar —A calendar or detailed time/event schedule that identifies: due dates for budget-related activities; steps to be taken during budget preparation; the person or group responsible for each step; and the date on which each step must be completed. Preparation of the budget calendar might start with the date on which the LG's fiscal year begins and work in reverse from that time, allowing adequate time for each step, and providing for scheduling as fixed by ordinance (local government law) decree, statute, regulation or law.

Sample Budget Calendar			
	Tasks	Deadlines	Responsibility for the task completion
1.	Reviewing the revenue assumptions	Aug.31	Finance Dept.

2.	Setting priorities for next budget year	Sept.15	Arises from the election program of the Mayor and from the development concepts of the various areas as submitted by LG governing body. Commissions, Mayor's General Meeting
3.	Analysis of budget implementation	Oct.15	Finance Dept.
4.	Review of 2009 budget concept and philosophy	by Oct.17 by Oct. 23	Economy Commission of CP Other CP Commissions and Mayors General Meeting
5.	Collection of public comment input for 2009 budget	by Nov.3	Finance Dept.
6.	LG governing body members´ inquiry	between Oct.26- Nov. 3	Finance Dept.
7.	List of all suggestions for action ranked according to priorities	Nov. 10	Finance Dept.
8.	Qualification and quantification of commitments under existing agreements	Nov.11	Finance Dept. Section administrators
9.	Qualification and quantification of commitments to provide for necessary operation of the LG Office and simple replacement needs	Nov.10	Finance Dept. Section administrators
10.	Reviewing of partial suggestions, by sections, by relevant CP Commissions and reviewing of suggestions submitted by contributory LG organisations	by Nov.20	Section administrators CP Commissions Chairmen
11.	Setting up of first draft of budget revenues and expenditures sections by positions	by Nov. 28	Finance Dept.
12.	Draft budget balance and reviewing of the specific draft	by Nov. 29	Finance Dept. CP Economy Commission Mayor's General Meeting
13.	Reviewing of draft budget by CP members political clubs	by Dec.1	Finance Dept. Vice-Mayor
14.	Submission to LG governing body of draft budget	Dec.7	Finance Dept. Economy Commission Chairman
15.	Publishing of the 2009 draft budget	Dec.8	Finance Dept.

16.	Preparation and sub-mission to LG governing body of draft budget for approval	Dec.8	Finance Dept. Economy Commission Chairman

Guidelines—Specific guidelines should be provided by the chief executive or budget officer to instruct departments on how to budget for each of the following:

- Inflation adjustments.
- Mandates from other levels of government.
- Labour agreements.
- Service demand, especially any planned increases or decreases.
- Population changes.
- Workload changes.
- Service standards.
- Social indicators.
- New positions.
- New and expanded programs.
- New revenue sources.
- Unmet needs.
- Non-departmental estimates such as benefits, pensions, insurance, and debt service.

Forms—Budget forms to be completed, together with examples and necessary instructions. In most countries, sample budget forms have been developed and distributed. Check to determine if your LG is required to use them in preparing the annual budget. We have provided several sample forms in Appendix A to demonstrate the different formats used. Following are the types of forms that we encourage each LG to use:

- **Basic budgetary forms**—These are the basic forms used to prepare departmental budgets. This will normally include personnel request and expenditure request forms. It may also include capital outlay request forms.
- **Revenues**—If this form is not mandated, then information should be prepared for any new revenue account that has been created or revised during the last fiscal year or will be created for the upcoming budget year. You may want to design your own form for this.
- **Departmental objectives and measures form**—If this is not mandated, then it should be introduced. Departmental objectives and measures provide the LG governing body and citizens with pertinent information regarding the department's purpose, goals, and progress towards achieving stated objectives. Objectives and measures form the basis for a department's operations and are the yardstick against which the department's services are measured. All objectives and measures must be quantifiable and must represent goals that are achievable if the governing body adopts a department's basic budget request.

Departmental objectives and measures should include information such as the primary purpose of the department considering:

- What is the department's major contribution to LG operations?
- Why does the department exist as a separate entity?
- What is unique about the department's responsibilities?
- What role does the department play in providing services to the public?
- What is the primary reason for the department's existence?
- What is the department's overall objective, the common aim of all divisions and centres (sub-departments)?

Objectives should focus on presenting the department's basic work plan for the upcoming fiscal year.

- Effectiveness objectives—demonstrate how well the department performs or implements a service, program, or department function in relation to those who benefit from the service.
- Efficiency objectives—illustrate the cost and service-level parameters for particular departmental activities or functions.
- Workload objectives—demonstrate the amount of work completed within a specific period of time.
  Ensure that objectives are:

  - Consistent with departmental responsibilities,
  - Achievable within base budget request,
  - Specific, quantifiable, and measurable,
  - Challenging and progressive.
  - At least one objective should be developed for each division (sub-department) or decision unit in a department.
  - Objectives should be listed in descending order with the highest priority objectives first.
  - Department measures indicate the progress the department is making in achieving stated objectives.
  - Develop at least one performance measure for each objective; however, an objective may have multiple performance measures.
  - Quantify each performance measure; for example, a percentage or ratio, numerical quantity, or dollar amount.

Training—Training, based on the budget manual, should be provided each year to prepare staff for efficient handling of the budget preparation process.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Recall for a minute the budget preparation process used by your LG – the policies, procedures, scheduling, forms, training, etc.

What do you consider the best features of the process currently in use? Describe these features below.

_____

_____

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_____

What aspect or aspects of your process are most in need of improvement? What, in your opinion, needs to be done?

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STEP 4: REVENUE ESTIMATES

The experience of past years is a widely used method for estimating revenues. The amount of revenues collected from a given source for a five-year period provides a good starting point for estimating revenues. Five years' data show performance for several years, revealing seasonal fluctuations and extraordinary changes thus providing a reliable picture of normal growth in a revenue source. Other considerations should also be taken into account. For example, what is the nature of primary business activity in your community? If, for example, your local government relies prima-

rily on tourism tax revenue, you will need to consider the prospect for travel or conventions in the coming year. Those LGs that are heavily industrialized should consult local business indices. Small towns dominated by one manufacturing concern or one major industry should contact the company and inquire about projected sales for the coming year, anticipated expansions or cut-backs that might affect employment, etc. Bankers are also a good source for information about the local economy. Another chapter in this series, Financial Planning, provides information on trend monitoring as well as other revenue estimating techniques. Financing the Operating Budget provides additional information on revenues as well.

The finance or budget department usually develops revenue estimates. If a revenue source is specific to a department, the department may be requested to provide estimates.

New revenue sources—LGs are constantly looking for new sources of revenue. The following checklist provides a way to evaluate your LG's process for identifying new revenue sources:

Checklist for New Revenue Sources

_____ Does the chart of accounts lump together a number of different revenue sources under the general heading of miscellaneous income?

_____ Is the level of aggregation in, for example miscellaneous income, so high that it obscures important patterns—for example, increases or decreases in particular revenue sources; or variations in the way that revenue sources respond to recessions or decreases in revenue caused by collection problems?

_____ Does the level of aggregation of revenues provide a level of detail sufficient for management's needs? Note: it is important to avoid creating categories that are too small and too numerous.

_____ Is the LG (or key employees) a member of professional associations that inform their membership of new revenue sources for specific or general purposes?

_____ Is one employee responsible for review of professional and technical publications in the government sector that provide information on innovative examples of revenue sources used by other LGs?

_____ Is the LG (or key employees) a member of professional associations that inform their membership of new revenue sources for specific or general purposes?

_____ Is one employee responsible for review of professional and technical publications in the government sector that provide information on innovative examples of revenue sources used by other LGs?

_____ Does the LG maintain an inventory of revenues it is legally permitted to collect?

_____ Does the LG maintain close liaison with key officials in higher levels of government for the purpose of obtaining additional revenues or for obtaining information on potential sources of funds?

_____ Does the LG periodically determine that fees and service charges are adequate to cover the costs of providing the service?

STEP 5: DEPARTMENTAL REQUESTS

The staff of each department should complete the budget forms contained in the budget manual. Forms should be submitted to the budget office in accordance with the budget calendar. The following are some questions for the departmental director to consider when preparing budget requests.

- Does the base budget allow the department to continue providing services at the current level?
- Does the proposed service level justify the budget request?
- Are resources being put to the best use, or can money be used better in another program?
- Are the department's objectives worthwhile?
- Is the best approach being taken to achieve the objectives?
- Is there adequate funding for the service level proposed?
- Will spending more on the service next year save money in the long run?
- Can costs be reduced by performing existing services in ways that are more efficient?
- Is the department organized to prevent duplication of work?
- Have price changes, inflation, salary increases, etc., been taken into account?
- Do the proposed capital outlay requests coincide with the long-range objectives of the LG?
- If there isn't enough money to fund all services, which should be eliminated first?
- Is the budget too conservative, or is it heavily padded?
- Is this the right time to attempt to raise additional revenues, change user fees, or introduce new revenue sources?

Department heads should be given the opportunity to request all the resources (personnel, materials, and equipment) they feel are needed to perform the services desired by citizens. Budget forms can be designed for "decision packages for program

Decision Unit Summary

Decision Unit	Goal	Cost Center	Decision Unit Number
Street Lighting	Transportation	Street Lighting	35

Pkg. 1   Minimum Service

This level includes no funds or provisions for streetlighting maintenance and spare parts, and it is doubtful that enough is available here to pay a full year of energy costs.
This level does not provide insurance coverage on the streetlights.
Basicall current year's level with possible shortage in maintenance funds and/or spare parts. (Lack actual experience to date to substantiate this.)

Expenditures	This Level
Personal services	$18,753
Commodities	240
Contractual Services	24,065
Capital Outlay	
TOTAL	$43,058
Activity Measures	
Percent of street miles lighted to planned intensity	No effect
Percent of units out of service	Significant
Mean time to reinstate service	Infinite
Percent of contracts completed on time	Unacceptable
Time spent in manual record keeping	Much
Lighting design fees saved	
No streetlights	

Pkg. 2   Current Service

Basically current year's level with possible shortage in maintenance funds and/or spare parts. (Lack actual experience to date to substantiate this.)
Last two paragraphs of Decision Package 1 applicable here, too.
This level also assumes no automated means of inventorying capital equipment, distribution system, maintenance, or spare parts inventory.

Expenditures	This Level	Cumulative
Personal services	$	$18,753
Commodities	3,504	3,744
Contractual Services	11,028	35,093
Capital Outlay		
TOTAL	$14,532	$57,590
Percent of street miles lighted to planned intensity		No effect
Percent of units out of service		Undesirable
Mean time to reinstate service		Average or more
Percent of contracts completed on time		Average
Time spent in manual record keeping		Much
Lighting design fees saved		
No streetlights		Unaffected

Pkg. 3   Expanded Service

This level would increase maintenance ($9,493) and spare parts ($4,500) to realistic amounts over Package 2.

Last two paragraphs of Package 1 still apply as well as last two paragraphs of Package 2.

Expenditures	This Level	Cumulative
Personal services	$	$18,753
Commodities	4,500	8,244
Contractual Services	9,493	44,586
Capital Outlay		
TOTAL	$13,993	$71,583
Percent of street miles lighted to planned intensity		No effect
Percent of units out of service		Nominal
Mean time to reinstate service		Acceptable
Percent of contracts completed on time		Average
Time spent in manual record keeping		Much
Lighting design fees saved		
No streetlights		Unaffected

Decision Unit Summary

Decision Unit	Goal	Cost Center	Decision Unit Number
Street Lighting	Transportation	Street Lighting	35

Pkg. 4 Greater Service Expansion

A person is added to
1) manage Street Lighting Center and relieve traffic engineer of street lighting, which would also alleviate situation in third paragraph of Package 2; and
2) provide OPTCS backup for vacation leave, sick leave, overtime, possible shift work, and other times. Recall this was critical item in OPTCS Decision Unit.

Expenditures	This Level	Cumulative
Personal services	$19,940	$38,693
Commodities	2,680	10,924
Contractual Services	1,126	45,712
Capital Outlay		
TOTAL	$23,746	$95,329
Activity Measures		
Percent of street miles lighted to planned intensity		No effect
Percent of units out of service		Significant
Mean time to reinstate service		Infinite
Percent of contracts completed on time		Unacceptable
Time spent in manual record keeping		Much
Lighting design fees saved		
No streetlights		Unaffected

Pkg. 5 Greatest Service Expansion

A computer is proposed for automation of Street Lighting and Traffic Services items cited in those Decision Units, various packages.

	This Level	Cumulative
Personal services	$	$38,693
Commodities		10,924
Contractual Services		45,712
Capital Outlay	10,000	10,000
TOTAL	$10,000	$105,329
		No effect
		Nominal
		Acceptable
		Above Average
		Little
		Unaffected

Pkg. 6 Expanded Service

	This Level	Cumulative

improvement" to provide this opportunity. Obviously, there will never be enough money to meet all the requests. However, the needs might never be expressed unless the department head is given the opportunity to fully explain them. Besides, if department heads are not given the opportunity, they may feel little or no responsibility for the budget plan approved by the governing body.

STEP 6: BUDGET REVIEW BY THE CEO

The information provided by departments on standardized forms provides a basis from which evaluation and assimilation can begin. In small LGs, the review will be done by the CEO. In larger LGs, there may be staff available that can review the budget initially on behalf of the CEO. (Editor's Note: The following is written assuming that there is some staff available to help the CEO.) Careful investigation of each department's budget request by budget analysts (budget office staff) and the budget officer, along with a review of proposed new programs, will give a better idea of the validity of the requests and provide a less biased view of the importance of each request. Following is one sample format used to present expanded programs as compared to the previous service level provided. When target-based budgeting is used in conjunction with decision packages, department heads have a more direct influence on priority setting than in the past when the budget office ranked the proposed changes in service. The following Decision Unit Summary is an example showing minimum, current and expanded service levels. The second example shows greater and greatest service levels.

Technical review—Each department's request should be reviewed by the assigned budget analyst for numerical accuracy and completeness. The budget office may choose to provide a checklist for departments to ensure that all necessary forms and supporting materials are turned in on time.

Program review—Each program request should be reviewed to ensure that the current levels of service are still provided within the base budget. Service goals, objectives, and performance measures should also be available to ensure the current level of service is maintained,

Revenue review—If target-based budgeting is used, revenues were established early in the process so that departments would have target amounts on which to base their budget requests. Regardless of the budgeting method in use, each revenue source or category of revenue sources should be reviewed again, at this point in the process, for numerical accuracy and reasonableness.

Departmental hearings—Consultations with department heads after departmental requests have been submitted can be valuable in getting a better idea of the nature of the requests. A meeting with the individual department heads can help clarify the overall requests of each department and thus aid the budget officer / CEO in making decisions or recommendations

If the budget officer is not the CEO—After careful consideration of each of the departmental requests, the budget officer is ready to confer with the CEO. The budget officer should have recommendations prepared for balancing the proposed expenditures to the estimated revenues. Whether this means finding additional funds or

trimming the requests, the budget officer should be prepared to make and defend his or her recommendations.

Conferences with the CEO—If the chief executive chooses to do so, department heads may have an opportunity to meet and explain their budgets. In larger LGs, department heads may meet with assistant LG managers or the deputy administrative official before meeting with the CEO. At the conclusion of all of these preliminary conferences, the budget officer develops a summary of the draft budget to present to the CEO for discussion and final management approval.

In choosing which services will be recommended to the governing body, the CEO must do more than merely consider the cost of the services. He/she must weigh the pros and cons of each, consider the requests of the department heads and the recommendations of the budget officer, and decide on an overall program of LG services that will be of greatest benefit to the citizens. The CEO is the key person in recommending LG priorities for the coming year. It is this official who should make all final decisions about the magnitude and specifics of the proposed budget to be submitted to the governing body.

Review by the CEO—The following questions are very similar to those suggested for use by the department head when preparing the budget request. As the CEO prepares for recommending a draft budget to the LG governing body, the following factors should be considered:

- Does the proposed service level justify the budget request? Could the money be put to better use elsewhere?
- Are the objectives of the service worthwhile? Is the best approach being taken to achieve the objectives? Is there adequate financing for the service level proposed?
- Will spending more on the service next year save money in the long run?
- Can doing existing services in ways that are more efficient reduce costs?
- Is each department organized to prevent duplication of work?
- Have price changes been taken into account?
- Do the proposed capital outlay plans of the department go along with the long-range objectives of the LG?
- If there isn't enough money to fund all services, which can be eliminated first?
- What is the general budgetary approach of each department head? Is one too conservative while another overly extravagant?
- Are the estimated revenues sufficient to meet long-term needs? Is this the right time to attempt to raise additional revenues?

STEP 7: PREPARING THE DRAFT BUDGET DOCUMENT

The ideal budget should provide a picture of both the work to be performed in the coming year and the financial program that will enable this work to be carried out. The budget should be easy to read, simple enough for ordinary citizens to understand, yet complete enough to satisfy the needs of financial experts. Budget documents vary widely in style and content.

Good budgets have a number of characteristics in common. They: (1) meet basic legal requirements; (2) include all the necessary components; (3) focus on information essential to decision making; and, (4) present information in a clear and accessible way.

Legal requirements—Above all, a budget document must conform to the law. A LG's charter may include detailed budget provisions, requiring, for example, the use of a line-item format. Some higher-level governments require particular financial information in the budget and may even provide the forms on which the budgets are to be filled out. Fortunately, requirements included in these laws have served primarily as a minimum for budget documents. Once they have complied with state law, LGs are generally free to set up more sophisticated budgeting systems if they wish.

Necessary components—A good budget document must include all the requisite components. Not every budget document will have every component, but most good budgets contain the following:

Budget message or transmittal letter

A budget typically begins with a budget message or a letter of transmittal. A budget message, usually a long document, outlines the proposed budget for the LG governing body. The budget message usually includes:

- A summary of the LG's financial status;
- A list of policies reflected in the current budget;
- A list of major accomplishments achieved during the past year;
- The overall size of the proposed budget accompanied by the tax level necessary to pay for it;
- Major changes or proposed new programs and,
- If the budget contains cutbacks, a description of and rationale for the cuts.

By contrast, a letter of transmittal may be brief and formal:

"I herewith transmit the budget proposal for fiscal year 1999 to the LG governing body. The total budget is $15,234,670. The property tax levy will be $3,245,000."

Even a brief transmittal letter usually includes the size of the proposed budget and the tax rate, but it may contain little more. If the mayor writes a brief transmittal letter, the budget director may write a budget message describing the important elements of the proposal.

Table of content—The table of contents follows the budget message or transmittal letter. It should divide the budget document into main sections. These might include, for example, an overview of financial conditions, revenues, and expenditures by fund, expenditure details by department, capital projects, debt repayment plans, personnel detail, and glossary.

Introduction—The introduction sets the context for the rest of the budget. It may list goal statements and describe both the budget process and the policies that shaped the budget. If the LG uses a target-based or zero-base budget, the results may be summarized or laid out in detail.

Summary tables—The budget should include at least two summary tables: One that shows total revenues and expenditures for each fund, and a second that provides projected revenues by source and expenditures by department for the general fund. A similar table providing revenues by source and expenditures by department can be included for each fund other than the general fund. If this information is not included here, it should be included later in the budget.

Revenue details—This section is optional and should be used only if the summary revenue table needs additional supporting detail.

Expenditure details—The next section of the budget usually presents detailed information on proposed expenditures. The information is presented by department, by program, or by both department and program. Information usually includes:

Historical data comparing prior years' proposed and actual spending,

Proposed and estimated spending for the current year compared with the budget request for the next budget year.

Personnel summaries by department and program can be included here, as can descriptions of performance goals, prior year's accomplishments, and explanations for changes from year to year. The departments' explanations for year-to-year changes are often called "budget highlights."

Capital outlays and debt—This section should include a description of debt and debt repayment schedules and a summary of major projects planned for the budget year. The detailed description of specific projects may be presented as an appendix or as a separate document.

Supporting material—The budget may include supporting or explanatory material of various types— for example, a detailed position classification (this may be mandated by law), a glossary, or an index. Some LGs include a brief statistical section listing the number of lane-miles of streets, fire, and police stations, squad cars, books in the library, and movie theatres and restaurants. The statistical section may also include demographic data as general background for policy making. Given their political sensitivity, performance reports are often presented in a separate volume so that circulation will be limited.

"Budget in brief"—Many LGs develop a short version of their budget to hand out to citizens and the press. If the budget is long and difficult to understand, then such a summary may have a number of advantages: First, giving away multiple copies of the budget-in-brief is less expensive than distributing the whole budget. Second, it is always easier to speak to one audience than to multiple audiences, and the intended audience for the budget summary is clear. A third advantage of such a publication is that it can be lighter in tone, with lots of graphics, but without giving the impression that officials do not take governing seriously.

SELECTING AND DISPLAYING INFORMATION

Budget design—The physical appearance of the budget affects whether people will read it and what they will gain from it. The design of the budget is an important factor in its overall quality. Poor design— confusing charts, page after crowded page of unbroken text—may ultimately interfere with the role of the budget in providing LG accountability. It is not enough for information to be present in the budget, it must also be accessible.

Layout of the budget document—Since layout of the budget has a strong impact on the understandability and transparency, it represents an important element of the budget document. Basic rules to improve the readability of the budget document include:

- Alternating text with graphs, illustrations, tables, schedules and maps,
- Wide margins and spaces in the text (crowded pages reduce the general overview),
- A simple style,
- Use of illustrations for crucial points,
- Coordination of text and graphics.

Three reasons for using graphics—Graphics can be used to capture the essence of a point and make it quickly and dramatically. For example, a bar chart showing the property tax yield and the total tax yield over time enables readers to grasp the relationship at a glance. (If charts and graphs require a great deal of scrutiny to be understood, they probably should be simplified.)

Graphics make it easier for readers to find their way around what can be a large and confusing document. Pages (or page separators) of different colours can be used to distinguish between various sections of the budget; sketches on divider pages can also be used to indicate the contents of each section.

Graphics increase visual diversity, which makes the budget easier to read. The particular choice of illustrations can also help reinforce for readers the budget's central focus: the delivery of LG services. For example, in colder climates, a sketch of a snowplough in action can dramatize the work of LG hall; a sketch of a visiting nurse caring for an elderly woman can bring home the connection between public health expenditures and everyday life.

Hints for budget layout
Design issues

_____	Alternate charts, graphs, and illustrations with solid text.
_____	Leave wide margins and a reasonable amount of white space around text; filling all available space may overwhelm the reader.
_____	Keep tables and diagrams as simple as possible—they make up a significant portion of the budget
_____	Keep the art simple.
_____	Use graphics to underscore the main points.
_____	Coordinate the text with the graphics.

Graphics

_____	Use graphics to introduce important information that will highlight the object of the budget.
_____	Used correctly, graphics represent the strongest visual tool.

_____ Place graphics after the text that introduces the information or before the text that deals with the information in detail.

_____ Eliminate graphics if they do not significantly contribute to the understandability of text.

_____ Graphics should be appropriate for the purpose. Tables, charts, and graphs should be simple—with one or two clear points—and the main points should be repeated in the text.

_____ Some graphics are designed to lead the eye to important parts of the page. Such graphics may be decorative but should not be too fussy. For example, arrows can point to parts of a table that are discussed in the text. The reader sees instantly that the highlighted material should be compared to the material in black and white.

_____ Use histograms to illustrate development or to compare certain parameters over time. Use them for example, to compare unemployment rates within the LG with the average unemployment rates at the national level for the most recent five-year period.

_____ Fill in bar graphs with shapes that represent the subject; for example, in a graph showing the volume of garbage picked up daily, barrels or dumpsters can be used as the bars.

_____ Use line diagrams to illustrate trends, cycles, or relationships among variables.

_____ Use pie diagrams to represent circles subdivided into "slices" that illustrate the relationship of the selected part to the whole—they add up to 100%.

_____ Use pie charts to illustrate the share of the various types of revenues or expenditures.

_____ Surrounding information with a box calls attention to the box's contents.

_____ Outline sketches can also be used to frame material. For example, performance measures for the ambulance service might appear within the outline of an ambulance.

_____ Use a frame around each page; various frames can be used to distinguish one program, department, or type of information from another.

_____ Limit the number of columns in tables to avoid confusing or overwhelming readers.

_____ Lines on graphs should be thick and dark, and the key should be clear so that the points stand out.

_____ Graphics can be tedious if they all look alike (e.g., if all use the same dotted lines or plus signs; the same faint type; and the same colour, shape, and size).

_____ Transform a static picture into something that is moving and visually interesting. For example, substitute an arrow for a line on a graph—pointing in whatever direction the line is headed.

_____ Vary line graphs by filling in the space under the line, which makes an interesting shape.

Table of Contents

_____ If the budget document is more than 15 pages long, a table of contents should be added.

_____ The table of contents shows the structure of the document.

_____ Provide page numbers to help readers find the section they are looking for.

_____ The contents should show the major sections and subsections.

_____ Use large or highlighted characters for line or column headings.

_____ Separate headings from data and groups of data in lines and columns by lines as necessary.

_____ Use shadows to highlight important data.

_____ If the budget includes an index, a general table of contents may work; but, if there is no index, the table of contents should be detailed enough to indicate, for example, the page on which the police department expenditures can be found.

Introduction

_____ This is a natural location for attractive graphics.

_____ Include a detailed description of revenues by source and a history of the LG's finances.

_____ If the LG has been running deficits, a description of the origin of the deficits and of efforts to eliminate them should appear here.

_____ If your LG uses target-based budgeting, list the total for the funded requests, then describe the criteria used to determine whether supplementary requests would be funded (e.g., whether the project would reduce operating costs within a relatively short period or whether the project fits in with the LG's current goals). The descriptions of the target-based budget outcomes show the trade-off made during the budget process and link spending to LG goals. This shows citizens what they are getting for their tax dollars.

_____ Describe each of the LG's major revenue sources in everyday language, showing the estimate for each revenue source and the reasons for that estimate. For example, the section on sales taxes could briefly describe the law that enables the LG to raise sales taxes, including any limits, exemptions, or mandates. The section might go on to describe projected sales tax revenues for the upcoming year and the assumptions underlying the projection.

_____ Include tables showing the proportion of tax revenue generated by each major revenue source over time to help highlight trends. If, for example, the proportion of total tax revenue generated by property taxes is dropping and the proportion generated by sales taxes is rising, the LG may be increasingly vulnerable to recessions.

_____ Include tables showing trends in the level and proportion of total revenues generated by state and federal grants and payments. This can be useful in signalling dependence on an unreliable source.

_____ Include a table showing the assessed valuation, tax rate, and tax levy over a ten-year period.

_____ If the LG has been struggling to deal with tax limits; the introduction should describe the results of efforts to diversify the revenue base.

_____ If the community has been growing quickly in land area or population, graphics can be used to map out that growth, showing the jurisdiction's boundaries at intervals of five years, for example, or depicting the rate of population growth at regular intervals.

_____ Include a list and explanation of Interfund transfers included in the proposed budget. The budget office can include historical data, which makes large increases or decreases in transfers visible and requires explanation of the changes.

_____ Include a comparison of last year's planned and actual transfers with explanations for any discrepancies can also be useful. Clear descriptions of transfers may reduce the temptation to balance one fund at the expense of another fund without identifying and resolving underlying problems.

_____ Reporting on transfers takes very little space and helps ensure that: (1) earmarked money, such as utility revenue, is spent for the designated purposes; and, (2) enterprise fees are set to cover expenditures.

_____ Any subsidies to or from enterprise funds should be a matter of policy and clearly described as such; they should not be the result of unreported interfund transfers during the year.

_____ Include a description of outstanding debt. It should list, for each bond and note, the date the money was borrowed, the due date, the interest rate, and the principal and interest payments by year until maturity.

Expenditure Details

_____ A line-item budget might list, for each department, personnel costs, insurance, training, travel, and equipment, or it might break down these costs into more detailed items.

_____ A program budget usually divides departments into programs. For example, the police department might include programs for the recovery of stolen goods, drug prevention, and traffic safety.

_____ Examples of programs that cross departments include policy making, resource management, and health and safety. For each program, full-time equivalent staffing and total dollar costs should be listed. A hybrid of line item and program budgeting breaks out program costs into line items.

_____ In a performance budget, each program has a series of measures to describe demand, workload, output, outcome, and impact. Program managers build, in particular, workload levels and promise a particular quantity and quality of outputs for a particular level of budget allocation. Prior years' promises and actual levels of service can be reported here so that governing body members can judge the likelihood that promises underlying the current budget proposal will be fulfilled.

The budget message can be one of the most important portions of the budget document. It provides an opportunity for the CEO to explain various aspects of LG that are not reflected by the budget numbers. The following are recommended for inclusion in the budget message.

Budget Message Checklist

_____ Summary of policies reflected in the proposed budget.

_____ Summary of the plan of operations reflected in the numbers.

_____ Summary of how the annual budget ties to strategic plans.

_____ Outline the basis for the requests that have been recommended.

_____ An outline of major changes in LG services.

_____ Comment on job being done by each department.

_____ Comment on the important or unusual items that have caused extraordinary changes in any departments' expenditures or in total expenditures of the LG (i.e., insurance costs, chemicals).

_____ Comment on the principal dollar items (i.e., salaries).

_____ Comment on or point out more economical methods of operation that enables a department to do the same job at no additional cost, or point out unavoidable changes that caused a department to greatly increase its budget.

_____ An outline of trends in revenue collections, expenditures, and growth patterns.

_____ A summary of financial operations proposed for the budget year.

Comment on last year's budget including:

_____ Remarks concerning the accuracy with which it was followed.

_____ The extent to which it forecasted revenues and expenditures properly.

_____ Any major departures from the adopted budget.

Comment on state of affairs in the community including:

_____ Whether the LG is adequately performing the services it has undertaken.

_____ Comments relative to the progressiveness of the community as compared to communities of comparable size.

_____ Financial position of the LG as compared to same time last year.

_____ Outline long-range plans with comments on what portion of the plans are being accomplished with the proposed budget. This is helpful to ensure that long-range goals are accomplished.

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

How satisfied are you with the contents and layout of your LG's operating budget? What one or two changes do you feel are most needed? Use the space below to describe these.

_____

_____

_____

STEP 8: GOVERNING BODY REVIEW WITH DEPARTMENT HEADS

The CEO's budget should be distributed to each governing body member at least one week before the meeting when the governing body will first consider the proposed budget. Some countries require that one month be given for the governing body review. This gives each member a chance to become familiar with the contents and nature of the budget before being called upon to make comments or to ask questions.

Many LGs have work sessions at which departments make budget presentations to the governing body and answer questions. Citizens can attend these sessions, but they are designed primarily to give governing body members an opportunity to ask questions of department heads in a less formal setting.

STEP 9: PUBLIC HEARINGS ON THE PROPOSED BUDGET

Legal requirements—Most LGs have a legal obligation to create conditions for citizen input into the budgeting process. Some LGs do nothing more than hold the legally required budget hearing. At that time, citizens are allowed to comment and ask questions about the proposed operating budget. Other LGs go to great lengths to publicize the operating budget.

Press releases, presentations, forums—In some communities, after the budget proposal has been made final, the chief executive, and the budget director present the budget to citizens by holding press conferences and making presentations to civic organizations and neighbourhood groups. Some LGs solicit citizens' views before formulating the budget and circulate the budget proposal widely after it has been assembled.

Other LGs take a different approach when taking their budget proposals to the community. Governing body members may have forums in their districts throughout the year. When the proposed budget is ready, governing body members may use these forums to give citizens' a chance to respond to the proposals.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

What are the most successful things you are already doing to involve citizens in the budget process?

_____

_____

_____

_____

What additional things could your LG do to increase and improve the input of citizens to your budget process?

_____

_____

_____

STEP 10: FINAL REVIEW AND APPROVAL

After the public budget meetings, the CEO and the governing body must prepare a final budget for the coming year. Responsibility for the budget now passes from the CEO to members of the LG governing body. Their action will determine the final form of the operating budget.

While reviewing the proposed budget, the governing body should be performing a number of functions beyond those of "broad policy determination" which is so frequently emphasized as the major role of the governing body. Specifically, governing body review should accomplish the following:

- Increase governing body understanding of current policies and service levels, and an improved capacity for comparing them with proposed changes in policy or service levels in the future.
- Provide an opportunity for general oversight of administrator performance
- Create the conditions for expansion of community understanding of LG activities and performance.
- Permit citizens to voice their views regarding proposed service levels.
- Identify specific weaknesses in the budget that may not have been identified by the CEO.
- Establish policies and service levels for the following year consistent with both revenues and expenditures.

Governing body consideration of the proposed budget should not be a routine procedure of ratifying what the CEO has recommended. It should be a serious consideration of the services to be provided by the LG in the coming year. Decision-making for the budget requires the consideration of competing priorities and services that may all be very important. No LG ever has enough money to do all that it wants to do! In considering the budget, governing officials should ask:

- Does it provide properly for the needs of the community?
- Have adequate plans been made to ensure that monies will achieve the best possible services for citizens?
- Are revenue estimates reasonable? Are expenditure requests adequate for the service levels proposed? Have all the costs been considered?
- Will the budget, in its present form, provide the services desired by the community?
- Have long-range plans been adhered to?
- Will the proposed budget be consistent with established policy and past governing body action?

A well-written and well-documented budget will answer most of these questions. If it does not, the governing body should request further explanations or supporting documentation.

The governing body will then make whatever changes it believes are necessary and formally approves the budget by adopting one or more appropriation laws, or ordinances. This action gives the chief executive and his or her designees the legal authority to make financial obligations. An appropriation does not grant departments money. Rather, it grants them budget authority—authority to enter into binding agreements, such as contracts and purchase orders that will result in the disbursement (payment) of money. Most Western democracies require some sort of governing body approval before the executive (or any other branch of government) may make financial commitments.

LEARNING APPLICATION

POLICY MAKER _X_ CEO _X_ FINANCE MANAGER _X_ DEPARTMENT HEAD _X_

How would you describe the budget review process as practiced by your LG governing body? Is it perfunctory in nature or an educational opportunity for governing body members? Use the space below to enter your observations.

_____

_____

_____

STEP 11: APPROPRIATIONS, AMENDMENTS, AND TRANSFERS

Length of appropriations—Most appropriations granted by a LG governing body are for one year. At the end of the fiscal year, any unused budget funds, or expenditure authority lapses— "use it or lose it"—meaning the funds cannot be redirected to other priorities in the following year's budget.

Given this, most, program managers closely monitor their available spending authority (budget funds) to ensure that all appropriated funds are obligated before the end of the fiscal year.

In some LGs, it is possible to make -multiyear appropriations that give departments or grant recipients budget authority for two or three years.

Multiyear appropriations allow program managers more latitude for planning and enable them to make longer-term commitments to suppliers and contractors. Some LGs approve their capital budgets on this basis. Doing so enables project managers to enter into contracts that, for example, run for the duration of a construction project.

Budget amendments, supplemental appropriations, and unappropriated surplus—The budget amendment (also called a supplemental appropriation) is a formal process requiring governing body approval. When amendments are made, any changes are incorporated retroactively into the legally adopted budget. Budget amendments may occur in cases of emergency, such as flood damage to park facilities. In this case, funds would be added to the departmental budget so that repairs can be made. The budget also can be formally amended to account for revenues that are lower or higher than anticipated.

Many country laws allow, and LG policy may permit supplemental appropriations or budget amendments after some percentage (e.g., 90%, 95%, 100%) of the total budgeted revenues for any fund have been collected. Other LGs do not appropriate 100% of budgeted revenues, thus retaining an un-appropriated surplus. Supplemental appropriations can also be made from these funds.

During the final quarter of the fiscal year, revised estimates are usually made of the anticipated closing status of the unappropriated surplus account.

A close watch is essential if appropriations from this account have been proposed or enacted for the next year.

Transfers—Transfers at the local level are of two types:

- Budget transfers—Budget transfers may constitute a reimbursement for services, such as the police department paying central supply for rental of a photocopy machine. Typically, a department head can initiate this type of transfer on his or her own authority, usually with an interdepartmental order.
- Interfund transfers—The second type of transfer occurs between funds— for example, from a water fund to the general fund. Since LGs are forbidden to run deficits, legal transfers from a fund running a surplus to one with a deficit may be important in balancing the budget. Such transfers often have policy implications that require governing body review and approval. Because interfund transfers are sometimes abused, some state laws either forbid them or require that they receive governing body ap-

proval. Transfers out of earmarked funds are tightly controlled as a rule to prevent the money being spent for a purpose other than specified by law.

STEP 12: BUDGET ADMINISTRATION

Administration of the adopted budget requires a complex mix of leadership, shared responsibility, operational directives, controls, new and adjusted planning and programming, and frequent reviews and reappraisals. Administration of the approved budget varies widely from one LG to another. In some organizations, administration amounts to little more than establishing budgetary accounts and recording expenditures as they are processed for payment. In others, management controls are in place that involve the establishment of procedures that require, for example, management approval before personnel vacancies are filled and before large expenditures are made.

Program budgeting and performance budgeting, if properly used, will introduce further devices for budget administration. These kinds of budgets set goals and establish work programs.

The governing body can hold the CEO and department heads accountable for these production or performance targets. Likewise, the chief executive can measure departmental operations on a performance basis, and heads of departments can, in turn, fix responsibility for performance by their subordinates.

Under the older, more conventional type of budget control, the question asked by the governing body is: "Has management lived within the monetary limits set?"

Under the newer, more progressive type of budget control, the questions are more likely to be: "Did management perform as promised?" "Was performance within the cost standards laid down?" There is, of course, no reason to say that one type of budget control is inherently better than another is. Rather, the adequacy of the system in use is measurable only by its ability to achieve the goal of delivering public services at a reasonable cost.

Departmental responsibilities—Responsibility for budget control is primarily at the department level. Departments must provide the services that have been authorized. They hold the key to success or failure in achieving the objectives laid out in the budget requests approved by the governing body.

Budget office responsibilities—LG budgets, generally, are revenue driven—meaning that the amount of spending approved in the budget must be less than or equal to expected revenue. The budget office tries to estimate revenues as accurately as possible. Of course, the exact amount and timing of revenues cannot be known in advance. Therefore, actual spending must be monitored and matched to the revenues as they come in. If actual revenues turn out to be higher than budgeted, the budget can be amended or set aside in the unappropriated surplus of the fund balance.

If revenues fall short of budget estimates, the LG must reduce spending or use some of the unappropriated surplus from the fund balance to cover the gap. The budget has to be implemented more or less as passed, and balance has to be maintained.

There are four main reasons for budget administration and control. These are to:

- Provide an orderly means for the achievement of approved, annual levels of expenditure for a service.
- Assure that no expenditures are undertaken unless they have been authorized.
- Manage prudently the resources of the LG as required to achieve a given service level for the current budget year.
- Provide for an accounting, at appropriate intervals, of the manner in which accountability for the use of entrusted resources is being managed.

Tools of the budget office—There are a number of controls the budget office can use to ensure that expenditures do not exceed revenues.

- Position control—The approved budget usually details the number and level of positions authorized for each department. Since as much as 80% percent of the expenditures for general government operations (e.g., public safety, health, and recreation) can be for personnel-related costs, this is an essential cost category to monitor. As a way of monitoring expenditures, the budget office reviews and approves all requests for new hires, to fill vacant positions, or to reclassify existing positions. This is a very powerful cost control tool. Position control is especially important when revenues are not coming in as planned. Positions are sometimes "frozen" to curtail spending. Even though the adopted budget might grant approval to hire an additional person, or to fill an unfilled position, the budget office may delay the hiring because money is not currently available. The budget office must always balance the permission given in the adopted budget against actual funding availability, with the latter taking priority.
- **Salary savings**—To create a small amount of savings for reallocation during the year, budget offices sometimes hold up permission to hire even when the money is available. This creates some flexibility and allows adaptations during the year. Such funds can also be reallocated by the governing body to meet an unexpected political need. Departments may also choose to temporarily not fill a position so that "salary savings" can be used for another purpose such as a capital purchase not approved in the budget
- **Capital outlay**—Even though the purchase of capital outlay has been approved in the adopted budget, the budget office still may ask to review and approve the purchase before funds are actually committed. If revenue shortfalls occur, capital outlays may be delayed for either a short period or indefinitely.
- **Allotments or allocations**—Some LGs have found it advantageous to establish an allotment system under which expenditure estimates for the fiscal year are broken down into shorter time spans, usually quarterly or monthly. The allotment system, when established properly, provides a check on expenditures and avoids year-end deficits without the prior

knowledge and approval of the LG governing body. For example, the total budgetary appropriation for motor fuel for the police department may be divided into four equal allotments. The allotment should be sufficient to purchase fuel for three months. The police budget is then monitored during the three months to ensure that the allotment is not exceeded. In more sophisticated budget systems, allotments can be used to hold department heads responsible for the work actually performed in relation to planned. If the workload measures do not indicate that the work is occurring in proportion to the expenditures made to-date, then the CEO or budget officer may choose to make funds for the remainder of the year available on an allotment basis.

- **Encumbrance controls**—Another device that helps prevent departmental overspending is a system of encumbrances. An encumbrance is a way of "setting aside" part of a department's budget that has not yet been spent (expenditure) but that is obligated. Accounting systems in United States LGs divide a department's budget into three general categories: one in which funds have been spent (expenditures); one that is set aside (encumbered) to pay for items that have been ordered but not yet received (or billed); and, one that is available (unencumbered) for expenditure. Each time a purchase order or contract is entered into the accounting system, funding is shifted from the unencumbered to the encumbered column from which bills are paid. Once the unencumbered portion is reduced to zero, no further spending will be approved.

- **Rescissions**—When it becomes clear that revenues are not keeping pace with projections, something must be done quickly so that the LG can end the budget year in the black. Since there is not enough time to mobilize support for, pass, and implement a tax increase, the only realistic option is a spending reduction. Rescissions may be handled formally through a governing body approved budget reduction amendment or informally through a reduction of available departmental balances in the accounting system.

Accounting office responsibility—Accountants play a major role in budget administration. Budgetary accounting supplies the control mechanism for enforcing allotment and appropriation limits, namely encumbrance accounting and periodic internal budget reports. Cost accounting, or adaptations of financial accounting which produce cost figures, plus statistical reporting, permit the production of work unit costs and comparison with performance and cost standards. Project budgets for construction, work schedules, cost centres, performance standards, standard costs per work unit, and reports all constitute the accountant's stock-in-trade.

Some accounting reports provided on a monthly basis are necessary for any effective fiscal control system. Key personnel in the departments must be kept informed of their available balances in order for them keep expenditures within authorized limits. By the same token, the LG governing body must have reports of both revenues and expenditures in order to effectively govern and guide the LG. The detail and frequency of these reports must be tailored to the needs and capabilities of each LG. However, it is suggested that these reports be done monthly.

Some developing countries may not be able to provide monthly or even quarterly reports. They may have insufficient staff and expertise to prepare accounting reports that frequently. Instead they may provide reports on a semi-annual basis. Providing the report less frequently is okay as long as the report is prepared and distributed to policy makers in a timely manner. Like, for example, within 2 weeks after the close of the first six months of the budget year. But, if reports are prepared semi-annually and it takes 2-3 months for the report to be released to the governing body, then there is insufficient time for the governing body to take action if there is overspending. They do not have enough information to govern adequately.

LEARNING APPLICATIONS

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Review the following checklist for accounting reports and check those to which you can answer, "Yes."

Checklist for Accounting Reports

_____ Do you receive a monthly financial report of actual expenditures for your departments(s)?

_____ Is the report timely?

_____ Is the report accurate?

_____ Is the report useful and meaningful?

_____ Does the report indicate precisely where the department stands relative to the adopted budget?

_____ Does the report show encumbrances accurately?

Based on your answers what changes in accounting reporting do you recommend for your LG?

_____

_____

CEO responsibility—The CEO also has a responsibility for control. If any of the departments does not produce the services that have been promised, then both the department and the CEO have failed. It is essential that the CEO have in force a number of procedures to help ensure that:

- The promised level of service is achieved.
- The service level is achieved within the dollars approved by the governing body (expenditure projections).
- Any significant deviations from the original plans upon which the adopted budget was based are prevented or called to the CEO's attention at the earliest time.

Governing body responsibility—The governing body's most direct means of maintaining control over the budget is through the level of detail in the appropriation ordinance. At the local level, the appropriation ordinance may specify a lump-sum amount of budget authority for each department, or the budgetary authority may be at a fund level.

To carry out their fiduciary responsibilities, LG governing body members must review the periodic budgetary and performance reports to ensure that the budget is being administered as adopted.

- Reports for governing body—The monthly accounting report enables the budget office to monitor the budget status of each department—and of each line-item appropriation within the department—and to identify potential areas of concern. This information may then be summarized to show the proportion of the year that has elapsed and the proportion of the total budget that has been expended. The summarized information should be provided to the governing body. If 55 percent of the budgeted total has been spent or committed by the sixth month of the fiscal year, that figure may or may not represent a problem, depending on the department's seasonal spending patterns. If expenditures should be relatively constant throughout the year, the expectation would be that about 50 percent of the budget would have been spent halfway through the year.

  If the expenditure and revenue reports suggest that revenues are falling seriously short and are not being made up by unexpected increases in revenues from other sources, the budget office should recommend corrective action.

  Alternatively, monthly budgetary information can be summarized graphically to give governing body members a pictorial representation of the trends in actual revenues and expenditures. Or, a one-line-per-department summary by fund showing the status of revenues, expenditures, and encumbrances may be provided.
- Performance reports—Just as the financial situation should be reported, so also should performance or work statistics be reported periodically. The governing body and the citizens deserve to know what is being accomplished with the expenditure of public funds.

Budget reserves—Budget reserves are an essential part of a LG's budget control strategy. There are different kinds of reserves. These range from very informal to "governing body-adopted" formal.

Examples of informal budget reserves are: (1) gradually releasing funds designated for other purposes (e.g., road maintenance); or, holding back commitments for a short time (e.g., delay awarding a contract for a renovation project). Salary savings—the funds that become available when a position is vacated and not filled immediately or when a senior person quits or retires and another person is hired at a lower salary—are another source of reserves. Others, sometimes called "rainy day" funds, are formally established to protect against emergencies, to satisfy the requirements of bond-rating companies, or to cope with an uneven flow of revenue.

The formal kind of budget reserve may be an account or fund set up explicitly to deal with unexpected events. These reserves may be located in the budget of each major department, centralized under the CEO, put in a segregated portion of the general fund balance, or established as a separate fund.

Size of reserves—What is the appropriate size for reserves? For U.S. LGs, the most influential guidance comes from bond rating firms, which use a "rule of thumb" of at least 5 percent of annual operating expenditures. Others view from thirty to ninety days of operating expenditures as an acceptable level for reserves.

Perhaps one of the best criteria is the instability of a LG's revenue base—the more unstable the base, the larger its reserves should be. For example, LGs that rely on revenues such as sales and excise taxes should maintain a higher level of reserves to compensate for fluctuation in the amount of revenue these sources produce.

Elected officials need to decide whether to create separate reserve funds, set up reserve accounts within existing funds, or both. A separate fund is more visible and thus more likely to attract the attention of both citizens and the governing body. Citizens may want to know why a LG is building a surplus instead of reducing taxes.

Governing body members may want to use the money for a more politically attractive purpose. The advantage of creating a separate fund, however, is that the purpose and the procedures for using the resources can be explicitly defined in law.

Reasons Why LGs establish Reserves

- Providing a cushion against the ups and down of revenues, such as the uneven flow of tax   revenues,
- Money for adverse court decisions involving cash settlements,
- Natural or technological disasters,
- Unanticipated delays in receiving state or federal aid,
- Need to accumulate sufficient funds to replace a building or a large piece of equipment.
- To ensure the timely payment of debt service (principal and interest). Bond-rating agencies place considerable emphasis on debt repayment reserves. LGs that fail to maintain such reserves are given lower bond ratings.

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LEARNING APPLICATIONS

POLICY MAKER _X_ CEO _X_ FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Now that we have completed the 12 steps, review the following checklist for budgeting to evaluate your LG's budgeting process. Please check those that apply and to which you can answer "Yes."

Management Checklist for Budgeting

Procedures
_____   Are comprehensive written procedures published and used in the budget process?
_____   Are the procedures in a form that makes modification easy if required?
_____   Is enough time allowed for preparation of the budget?

Do the written procedures include the following (evaluate separately)?

_____ Identification and responsibilities of all individuals (or groups) involved in the budgeting process?

_____ Deadlines for completion of specific tasks (e.g., a budget calendar)?

_____ Standardized formats for financial schedules and other budget documents?

_____ Required supporting documentation for specific requests?

_____ Adequate procedures for determining that the operating budget requests have been integrated with the comprehensive plan of the LG?

_____ Procedures to assure that the impact of capital projects coming on-line on the operating budget is properly assessed?

_____ Detailed budget review, by the mayor, LG manager, or designated official, before submission to the LG governing body for approval?

_____ Formal LG governing body approval of the budget?

_____ Control by LG ordinance of administrative transfers between line items in organizational unit or departmental budgets?

_____ A monthly report generated by the accounting system of actual versus budgeted expenditures?

Responsibilities

_____ Is overall responsibility for coordinating the budgeting process assigned to one person or a group?

_____ Do department managers prepare budget requests covering all activities and operations for which they are responsible?

_____ Is responsibility for the budgeting of certain general governmental expenditures assigned to the appropriate individual?

Revenues

_____ Are preliminary revenue projections made early in the budget process?

Policies

_____ Are key assumptions (i.e., population growth rates, inflationary factors, etc.) communicated to department managers so budget requests are consistent in the use of such information?

_____ Is a statement of budget policy issued by a designated official, such as the mayor and/or LG manager, early in the process?

_____ Have policies been established that identify the conditions under which an approved budget is revised during the fiscal period?

Budgetary information

_____ Are all funds (including enterprise funds), revenues and expenditures budgeted?

_____ Is adequate historical and current information on financial operations provided to individuals responsible for preparing budget requests?

_____ Are revenues and expenses required to be budgeted at an appropriate level of detail (reasonable number of line items)?

_____ Is the number of individual positions for each department required to be authorized and budgeted?

Performance information

_____ Does the budget document include explicit statements of department goals and objectives and measures?

Final budget document

Does the final approved budget document include:

_____ A statement or message from the chief elected official setting forth important features of the budget?

_____ Summary revenue and expenditure information for a recent period of years?

_____ A summary of current budgeted revenues and expenditures by fund?

_____ The number of full-time equivalent (FTE) personnel by department or other appropriate organizational unit?

_____ Interfund charges and contributions?

_____ A summary of expenditures by major type?

_____ Does the budget document disclose how grant funds that specify a different fiscal year are to be handled?

_____ Are significant changes in revenues and/or expenditures from prior year explained in the budget document?

Based on your answers above, what recommendations for change will you make for your LG's budgeting process?

_____

_____

_____

_____

_____

_____

_____

_____

_____

INTERNET RESOURCES

Local government budgeting in Croatia
http://www.ijf.hr

OECD Best Practices for Budget Transparency
http://www.oecd.org

Australian budget glossary
http://www.dofa.gov.au/publications/portfoliobudgetstatements/glossary%5Fand%5Facronyms%5F2003%2D200.html

International budget project
http://www.internationalbudget.org

Moscow, Russia "On-line budget"
http://moscowdebt.ru/eng/debt/

State of Texas – Budgeting for Local Governments
www.state.tx.us/lga/budget/apdxd.html

ADVANCED BUDGETING CONCEPTS

We have included several additional topics that may be of interest to LG officials. These are cost containment, cost finding, several management analysis techniques such as benchmarking and total quality management, and then a section on awarding grants to organizations within the community.

COST CONTAINMENT

Cost containment is also known as cost control and productivity improvement. It can be defined as a systematic program of continuously looking for opportunities to reduce the cost of LG operations while maintaining and even increasing the quality of services provided. It is not "cutback management" (e.g., any strategy intended by local officials to freeze hiring, layoff employees or reduce the frequency or quality of services simply to save money during a budget crisis). Cost containment, by contrast, strives to protect service outcomes while eliminating unnecessary or avoidable costs.

The ability to undertake two kinds of financial analysis is an important prerequisite to any serious effort to initiate cost containment. The first is an ability to monitor and control expenditures. The second is an ability to identify the actual cost of providing a service. Without knowledge of these two basics, it will be almost impossible to know if a cost control strategy is really effective and why.

LOOKING FOR OPPORTUNITIES

While you as a local official may have a sense that your LG's services can be provided in a less costly manner, for a cost containment program you need a starting place for identifying the specific service areas where improvements can be made. For example, local officials can look at:

- Operations and departments where visible problems have already been documented by citizen and employee complaints;
- Operations and departments where employees perform a series of essentially repetitive tasks, or where their tasks are repeated again in some form by another department later (e.g. data entry);
- Operations and departments where there is an availability of new technologies, especially technology that has already been proven successful in other LGs;
- Operations and departments that seem to always have backlogs of work, or that always miss assigned deadlines;
- Operations and departments that use the largest percent of LG resources, because the returns can be the greatest;
- Successful ideas and approaches that have been used by other organizations, especially other LGs.

If considering establishing a cost containment program, make sure that your LG is able to perform two analytical functions: (1) monitor and restrict the spending of the LG to approved budgets; and, (2) establish the costs of services/programs/departments. See the sections on Cost Containment and Cost Finding in the Advanced Budgeting Concepts portion of this chapter.

STEP 1: EXPENDITURE MANAGEMENT AND CONTROL

Program and department managers, generally, are given an appropriation at the beginning of each fiscal year. They are, in return, expected to be accountable for insuring that the total is not exceeded and that the funds are spent prudently. They are expected in addition, to ensure expenditures are in accordance with the LG's policies and by-laws for purchasing and staffing and that they are consistent with the responsibilities of the program/department. Finance officials have a responsibility for the development of a monitoring and control system that can detect instances where expenditures approved by department heads do not comply with these requirements.

One of the first requirements of a cost containment program, therefore, is to insure that the accounting division of the finance department has a reliable system, preferably automated, that evaluates all outside vendor-payment requests from departments before payment is made. Each request should be authorized by an appropriate senior manager, who signs a statement that the time has been worked or that the goods and services have been delivered and found acceptable. This should occur before the transaction is received for payment certification by the accounting department. The accounting department performs a check at this point to insure

that there are still funds available in the department's budget. It is the accounting department's responsibility, at this point, to certify that the department making the request has performed all mathematical operations correctly. This must be done before the payment request is entered on the payroll or accounts payable list for that period.

The accounting department also is responsible for preparing and distributing monthly reports for each department and/or program on expenditures to date. These reports should show the beginning appropriation for each program, how much has been spent to date and the remaining balances. To be useful, these reports must be prepared promptly, after the close of each month. Automation of this recording and reporting function is key to this timeliness. With an automated expenditure monitoring system, the accounting officer can detect trends (early warning) indicating excessive spending, alert department, and program managers of potential problems. The accounting department can then give the finance director and other local officials a "heads up" on pending situations that are not being resolved by department heads and pin point areas of poor departmental cost control.

The use of purchase orders is an additional form of expenditure management. Purchase orders are approved encumbrances of budgeted funds to vendors for ongoing or large expenses. Assume, for example, that the treasurer's office has an annual appropriation of $50,000 including $30,000 for salaries and $20,000 for other expenses. It is relatively easy to monitor and assess whether or not the office is spending according to expectations if the treasurer is required to open purchase orders at the beginning of the fiscal year for all planned expenses equal to the $20,000. It's less easy, on the other hand, if purchase orders come in at intervals during the year. Should the treasurer open a purchase order for $4,800 for banking service charges after already having approved banking charges of $500 per month for the last seven months, the accounting division could appropriately point out that if the trend continues, there will be a shortfall of approximately $1200. This trend information would be useful to the finance department and the treasurer in developing alternative plans to avoid the shortfall. They might see fit, in addition, to restrict spending in other areas of the treasurer's budget to free up the funds to cover the banking charges. This information could be used, in addition, to investigate why the purchase order was opened for lower than actual annual costs, the accuracy of assumptions used for budgetary preparation, and the department's plans has for keeping costs within budgetary limits.

STEP 2: COST ANALYSIS

Cost analysis is a tool that underlies the strategies and alternatives employed by LGs faced with choices of all kinds. Cost analysis might be used to decide:

- How to price a service;
- Who should provide a service;
- What vendors should supply goods or services to the LG;
- What parts of a project could be changed or eliminated if savings must be achieved;
- Where technology can be substituted for labour;

- And, so forth.

There are different approaches for performing cost analysis. Which one is appropriate depends on the objective of the cost study. For example, a cost study to answer the question "how much should we charge for providing a service? " would be seeking to identify and quantify all the costs, direct and indirect (overhead), for providing a service to determine the average cost. A cost study to answer the question "how much would we save if we contracted out a service? " would be seeking to identify all the avoidable costs.

Analyzing the cost of a service will not, in itself, reduce or control any costs. In fact, analysis will increase overall costs, because it requires time and expertise to conduct costing studies. Results of a costing study, however, can provide the data to:

- Justify implementing cost containment strategies;
- Establish "before" numbers for comparison to "after" numbers;
- Identify progress that is being made or failures to improve;
- Give goals to employees for improvement;
- Identifying lower cost alternatives for service delivery; and,
- Identify high performing operations

Over the long run, as stated before, both expenditure management and cost analysis are necessary basics in a program to control costs. They enable LGs to understand the costs of the services they are delivering and their ability to manage those costs. With these two fundamentals established, local officials can turn to strategies for changing and improving programs in order to improve productivity and contain costs.

STEP 3: ALTERNATIVE SERVICE DELIVERY APPROACHES

Alternative service delivery approaches involve the use of private firms, neighbourhoods and other nonprofits organizations, volunteers, or other LGs to deliver or assist in the delivery of local services. In this section, six alternative services approaches are discussed:

The discussion of each alternative is designed to describe the practice and then give examples of how the alternative has or might be used. Where possible, benefits and drawbacks of each alternative are presented. It is the responsibility of policy and finance officials to evaluate the potential appropriateness of these approaches, especially for reducing the overall cost of LG, as part of a larger, systematic review of public services provided in the community. There are several considerations for making this evaluation as described below.

- Determining the service to be provided—This includes examining and re-examining existing and potential new services to determine if the LG can shows, based on data analysis, that current levels of services are meeting the needs of the community. For example, if the LG provides ambulance service, the examination would include determining if the service is still a compelling need of citizens.

- Determining the level of service that is necessary—Local officials are in a position to decide on the quantity and quality of services to be provided. Trash pickup, snow removal, care for the elderly, etc., are all examples of services that can differ according to how often and how extensive they are provided. This is a policy issue for local officials.
- Determining who should pay for the service—Again, this is a policy question that faces local officials, but analysis should support the decision. Another chapter in this series, Financing the Operating Budget, discusses payment arrangements including taxation and user charges, or possibly some combination of the two, if the user charges are not set to provide full cost recovery.
- Identifying who can deliver the service—Once local officials have decided what services are to be provided to community residents next is to decide who can deliver the service in the most responsive and efficient manner. Some possibilities include using the LG's own employees, having an agreement with another LG to provide the service, or using one of the alternative service delivery mechanisms described below.
- Determining the most suitable service delivery approach—There are five primary criteria for local officials to consider in determining which service delivery approach (LG employees, interlocal agreement, or alternative service delivery approach) that will best meet the needs of residents and the LG. These are as follows.
- Cost—Includes all direct and indirect costs including the time of local officials to administer an alternative service approach.
- Effectiveness and quality of service—Includes assessing the capability of the service provider, ensuring there is a method for evaluating the quality and effectiveness of the service.
- Impact on other local services—Addresses the possibility that LG employees and or equipment may provide more than one service, and saving money by using non-LG employees for one service may affect their availability for other services, particularly in emergency situations.
- Potential for service disruption—Includes assessing how easily a decision to use non-LG employees can be reversed if the alternative provider is not available, not responsive or provides poor quality service; and
- Responsiveness to citizen's needs and expectations—Includes an assessment of how easily and effectively the alternative provider of the service can keep LG policy makers informed of changing citizens needs.
- Planning the implementation of the service approach—If a change in service provision is to be used, the LG administrators needs to make plans for the new requirements of the LG employees and equipment/capital which used to be involved in the service, including providing training for employees
- Evaluating the service on a regular basis—LG administrators have a responsibility to develop and implement an on-going review process to assess and inform policy makers of the success of the new service provision approach, and continue the systematic periodic review of how services are provided.

This section focuses on examining possibilities for privatizing operating services (as opposed to privatizing capital facilities). Contracting out is a binding agreement in which the LG pays a private firm or non-profit organization to provide a specific level and quality of service. Citizens pay the LG for the service, through user fees or taxes, and the LG pays the vendor. Contracting out is most widely used for services like public works projects, transportation projects, and health and human services. It is also used for some support functions and some public safety services.

One extreme of contracting out is to begin a costing and competition process before the decision is made to contract out a service. In this approach, the decision to contract a service to a private vendor is only one possible outcome of a process that encourages the current LG employees to compete for the right to provide the service and document cost savings over the private sector. Accurate costing is the key to success in this approach. Cost accounting is vital, and well as third party, independent verification of the in-house bid and the costs it includes in its proposal. Public agencies may have a difficult time especially in documenting and counting indirect costs such as pensions, insurance, etc.

Activity-based costing (ABC) is a method of accounting that determines costs of LG activities and services on an outcome basis. For each activity of LG, ABC determines the cost of all inputs that go into producing that activity. ABC fully recovers operating costs for a department or service by segregating expenses by area of operations, and then assigns expenses based on the "drivers" of activity. Costs traceable to specific activities, including functions that support that activity, are attributed to those customers or products. Costs are divided into such categories as administrative costs, contractual services, labour, and supplies. The following are principles of a competition/contracting out program:

- All services provided that are available from multiple, private vendors are candidates for competition/contracting out.
- Each contracting out recommendation should include an assessment of the effect on employees, plus recommendations for handling human resource issues.
- Efforts should be made to minimize the impact of contracting out on current employees.
- Cost computations for performance by LG employees and by its private contractors should be carefully evaluated to ensure true comparisons.

ALTERNATIVE 2: PRIVATIZING INFRASTRUCTURE

Public-private partnerships are an approach for finding the revenue for needed infrastructure by establishing a partnership with one or more private firms to build and operate needed facilities. One approach mentioned is Build-Operate-Transfer (BOT). We'll also look at two other public/private approaches: (1) complete privatization of infrastructure, and, (2) corporatization.

- Privatization of infrastructure—The outright sale of LG assets is an approach that both brings in revenue to a LG and relieves it of the cost of running the service and managing the asset. This is an attractive approach where there is no compelling reason for the LG to be the service provider, such as with electricity companies, transportation systems, telephone systems, toll roads, etc. Private firms run systems like these under market conditions in many countries around the world.
- Corporatization—This is a term coined in New Zealand. Corporatization involves the LG creating a for-profit corporation typically composed of members from the LG as well as from the local business community. The LG owns all the stock in the new corporation. This process enables the newly created corporation to correct inefficiencies and bypass bureaucratic red tape, operating free of most of the constraints of LG. At the same, LG is allowed to maintain control and ownership. The new corporation is also required to earn its own revenues after incorporation. While this approach does not produce new revenues, it does attempt to reduce costs through greater efficiencies. New Zealand has successfully used this approach for its post office, energy services, airways systems and land and survey trading activities.

ALTERNATIVE 3: PUBLIC-PUBLIC PARTNERSHIPS/ CONSOLIDATION/ REGIONALISM

Public-public partnerships are agreements between two or more public entities, such as LGs, which has a potential for cost-effective consolidation of services due to economies of scale. These partnership arrangements generally take one of two forms: (1) ad hoc agreements among communities; and, (2) and formal approaches that establish consolidated, regional agencies for service provisions.

- Ad hoc agreements—These are relationships between one or more LGs to share services, purchase supplies or equipment, or solve mutual planning or resource protection problems. Some of these agreements have no formal basis; the handshake of two local officials seals the cooperative deal. In other cases, formal, written agreements or contracts set forth the roles, responsibilities, and costs of the parties. Some notable successes have been seen in sharing of highly skilled technical personnel, such as planners, property appraisers, data processing specialists. They are particularly beneficial in cases where individual communities cannot afford the salary demands individually. Sharing of specialized expensive equipment, such as recycling vans, or wood chippers, has also contributed to cost savings for LGs. And group purchasing of services, such as health insurance for employees, supplies, trash disposal sites, etc., can achieve lower costs for member LG, because a larger group can generally demand larger discounts, and spread the risk over a larger population. Good analysis and thoughtful planning must precede entering into public-public partnerships. Contracts that establish the shared costs, benefits, and responsibilities of all parties are especially necessary tools.

- **Formal regional entities**—Some services seem to naturally work better on a regional basis, and in these cases, an agency may be created to provide the service. Transportation is such a service, where the planning and maintenance of a region-wide system of trains, buses, subways, trams, etc., makes more economic sense than individual efforts by LGs. In these cases, each LG usually is represented on a governing board of the regional agency.

ALTERNATIVE 4: FRANCHISE AGREEMENTS

This is an arrangement is which a LG grants a private organization(s) authority to provide a public service within a geographic area. The citizen or user pays the provider directly for a service. The LG may regulate the service level, quality, or price charged to users. Franchising allows a LG to completely turn over a service to a private firm while still allowing LG officials to set service standards, levels, and the rate structure. Franchising is a possibility for services such as solid waste collection, ambulance and emergency medical services, utility operations, and vehicle towing and storage.

ALTERNATIVE 5: VOUCHER ARRANGEMENTS

Vouchers are a particularly useful approach for LGs that wish to make certain, privately supplied goods and services available to a targeted group of citizens. For example, vouchers for day care, housing, food, medical care, transportation, etc., could be distributed to citizens, who are then free to make their own decisions on which provider to access. For vouchers to be successful, it should be neither difficult nor time-consuming for clients to switch from one supplier to another.

ALTERNATIVE 6: SUBSIDY ARRANGEMENTS

Subsidies are an approach that generally works best when there is a private provider of services but when the level and/or kind of service can be improved by the LG. One example is health clinic services in targeted areas. LGs can subsidize a clinic in general, or for the provision of health services at a lower cost to citizens who might not otherwise be able to afford the services.

COST FINDING

One of the most important tools for LG to have is a process to identify the actual, complete cost of services being provided. Costing differs from traditional LG budgeting and accounting in three ways:

- Costing looks at the cost of all resources used to provide service rather than expenditures made to operating budgets;
- Costing includes all costs of providing a service, not just those found in the budget or financial reports of the department responsible for the service;

- Costing focuses on the cost of the resources used to provide a service during a given period of time, regardless of when cash disbursement are made to purchase these resources.

Benefits of cost finding analysis—The benefits of cost finding are not simply the collection of data. Cost finding can provide LG managers with information to make better management decisions. Examples of such areas where cost information are useful include:

- Setting fees for services. If a new service is being implemented, cost finding can identify all the costs that should be considered in setting the price (the fee) for the service.
- Maintaining the appropriate cost recovery level. If policy makers determine a fee should cover a certain percentage (e.g. 75%) of the costs of a related service, cost finding reveals if those policies are being followed;
- Choosing among alternative methods of providing services, such as contracting with the private sector or regionalizing;
- Demonstrating to rate payers the cost of providing the specific services;
- Identifying the causes of problems you may be experiencing in different components of a service, such as employee theft, waste or mismanagement
- Identifying components of cost of a service, such as benefits associated with personnel providing the service, or capital, that may be overlooked or underestimated.
- Creating cost consciousness in a political environment. Costing data can help reinforce the concept that the costs associated with a service should be paid for by the user of a service
- Assessing the potential service delivery impacts from decisions to reduce a department's budget or level of service.

Impediments to cost finding analysis—Costing is not a precise science, nor is it a simple or easy process. It will require detailed data gathering, and many calculations, and depends on the accuracy of recordkeeping in the finance department and the operating departments. Further, the success of a costing effort will require the cooperation of many different staff members. These operating staff members may be resistant if they fear the analysis shows they are inefficient or have other management problems. Finally, those in charge of the costing analysis must be clear on their objectives at the outset, because this will influence the kind of data and analysis used in the cost finding. The cost finding process in this chapter has six major steps, detailed below.

STEPS IN PERFORMING COST FINDING ANALYSIS

STEP 1. DETERMINE RESPONSIBILITIES

While a cost finding analysis will require a team effort from many individuals, the overall responsibility for the costing process should be the responsibility of the fi-

nance department. The finance department should determine the overall objectives of the costing analysis, design all worksheets, determine all indirect and other related costs, and calculate the final cost figures. They should also develop many of the procedures and materials that will be discussed below. Operating staff must be involved in the process as well. For example, if the service area being analyzed is ambulance service, then the department responsible for providing this service will need to provide much of the data that is critical to the costing study.

Choose a service area. You cannot analyze all departments or all services at once. Choose your first service area for analysis carefully, as this will be where you will learn lessons, refine your methodology, and establish your credibility with other local officials.

Choose a costing purpose. Costing studies will be service specific; that is, each costing service will vary depending on the service studied and the objectives of the analysis. The benefits section on the preceding page gave examples of some possible objectives. Each of these objectives tries to determine a specific kind of cost.

Full costs. This kind of study tries to identify the full costs from all resources to deliver a service. This kind of cost study is important when trying to determine the costs of delivering services where some costs might not be easily apparent.

Average unit costs. This kind of study tries to identify a cost number that can be used for as the basis for setting a fee or charge.

Job costs. This kind of study tries to identify the costs of performing a job just once, such as filling a pot hole in a street, repairing one broken water main, etc.

Incremental costs. This kind of study tries to identify the cost to expand a service, such as opening the library on Sundays or providing custodial services at one more building.

Avoidable costs. This kind of study tries to identify the costs that would be avoided if some or all of a service were dropped, or if a different service delivery method (e.g., contracting out) were used.

Choose a measure of output. Before collecting data, project staff will also need to determine how the service will be measured. The concept of output will need to be defined for the purposes of the study. We use the term output to describe the amount of a service provided by a LG. Measures of output vary with the nature of the service being provided. Some are easier to measure than others are. Once you have an idea of the output, you will measure, you then can identify one unit of the output (e.g. one customer served, one report written, one bill issued), and therefore a unit cost established. This assumes that the output is reasonably standard from case to case.

Choose a time period. The appropriate time period will depend on the purpose of the study, and the nature of the service. For example, if the purpose of the study is to find out the cost of a service for an entire year, and the service is fairly uniform over the entire fiscal year, and then costs for just a two-week period may be collected, and then the annual costs estimated from the two-week period. However, this will not work if the service is provided differently at different times of the year.

Distinguish between expenses and expenditures. Costing requires that the expenses incurred to provide a service be calculated for the time period in which the service is provided, regardless of when the expenditures necessary to purchase the resources took place. Be sure to look out for the following situations: 1) expenses incurred before the expenditures are made (i.e. the service or work was performed in one fiscal year, but paid for in the following fiscal year) and 2) expenses incurred after expenditures are made (i.e. a purchase is made in one fiscal year of an asset, such as a public works truck, that will provide service to the LG for five years. In this case, one fifth of the cost is the expense for each year of service). Long-term assets should be shown as an expenses distributed over the asset's reasonable useful life. If the asset is financed through long-term debt for a term similar to reasonable life of the asset, then the annual debt service payments can be used for this purpose.

A particularly difficult expense to establish is the pension costs of employees. Future pension costs for current employees are called the annual normal pension costs, and are expressed as a percentage of the current payroll costs. This may be difficult to estimate without the assistance of expert help in the area of pension administration. If a useful percentage cannot be reasonably be determined, at the minimum you should be aware they are a cost of the service, and your costing figures will be somewhat underestimated due to the un-included pension costs.

Identify the sources of cost data. The primary source of cost data is expenditure records; general and subsidiary ledgers, warrants for payments, debt service records and expenditure reports. Information is also contained in budgets and non-financial records such as equipment purchase and maintenance records, building records, mileage reports, and payroll and personnel records.

STEP 3. COLLECT COST INFORMATION

After the cost study has been defined and organized, the third step in the costing process is to collect the costs of the resources used to provide the service. There are two categories of costs to be collected: direct costs and indirect costs. Direct costs are those costs clearly identifiable and attributable to a specific service or department. Information on direct costs are found in the department's operating budget as salaries and wages, purchase of service, purchase of materials, etc. Indirect costs are those costs that are not readily attributable to a specific service or budget. For example, if the recreation department is located in a building shared with five other departments, then the costs of lighting, heating and cleaning the building are usually not assigned to the recreation department but to another department. In a similar fashion, the service of the finance department, payroll department, and LG manager's office serve the recreation department needs, but the portion that is attributable to the recreation department are not found in the their budget.

There are no hard and fast rules for categorizing a cost as direct or indirect, and in many ways it is not as important as being consistent in how a cost is categorized, and insuring that all costs are included in one category or the other.

Direct costs. It is important to remember that though direct costs are easily identifiable and attributable to the service, you must check to see that you are including expenses rather than expenditures. Also, any direct cost item that is shared with another service should be prorated. For example, if you are collecting the costs for

water service, and the clerks in the water department handle work related to trash collection, you should estimate the percentage time spent on each function, and only include that percentage relevant to the water service. In a similar fashion, the direct supervisor(s) of the clerks may oversee several functions. This time should be prorated if appropriate. Fringe benefits can be handled in one of two ways. If data is easily available, actual costs for each employee can be calculated and included in the study. If the data is not easily available, then approximations can be substituted. For example, you may be able to develop a fringe benefit percentage that is fairly accurate for each class of employee (e.g. benefits are approximately 27% of salaries and wages for public works workers).

This part of the costing process can best be handled by the department responsible for the service being studied. They should know the staff involved in a service, and the amount of time spent over the course of the time period you have chosen. They will also know what other equipment, materials and supplies are used over the time period.

Estimating direct capital costs is important, and the annual expense should be calculated for all fixed assets. As stated earlier, if the debt service is for a term similar to the expected useful life, the annual debt service can be used for the costing study. Otherwise, straight-line depreciation is the simplest and most commonly accepted technique, as it assumes a constant rate of asset devaluation. This rate is calculated via the following equation

Devaluation rate = original value of asset - salvage value if any/economic life of asset

One common mistake in cost finding is the understatement of the capital costs of providing a service. Particularly where the purpose of the cost finding is to aid in establishing user fees for a service that is intended to be completely self-supporting, the expense of using up capital assets should be carefully included in the cost study.

Indirect Costs. Indirect costs are more difficult to identify and attribute to individual services. Indirect costs are those incurred when one section of the LG provides benefits to the section providing the service you are analyzing (e.g. the vehicle maintenance division provides a service to the street department).

Typically, indirect costs are estimated by developing reasonable factors that approximate the indirect costs. A factor for administrative overhead can be developed by first creating an indirect cost pool comprised of all similar costs, then considering the proportion of support services relevant to the service being analyzed. Then if the department being analyzed represents 30% of the total LG budget, you could allocate 30% of this indirect cost pool to the service. Other indirect cost pools might include utilities (e.g. electric, heat, water, etc.), or capital (if a building is shared with other departments, for example). Thus, indirect costs are usually allocated to a particular department or service as approximate rather than exact costs. Don't let this bother you. It is better, and ultimately results in more accurate costing figures, to include good estimations rather than omit them because they are not precise. This chapter discussed a simple and easy to use indirect cost allocation method. More precise allocation methodologies are available elsewhere.

Examples of Direct and Indirect Costs

Service: Ambulance		
Category	Direct	Indirect
Personnel	Salaries & Wages	Pensions
	Holiday Pay	Fringe Benefits
	Overtime Pay	
	Supervision by Fire Chief	
Equipment & Supplies	Ambulance	
	Maintenance	
	Vehicle Supplies	
	Ambulance Insurance	
	Communication Equipment	
	Service-related Supplies	
Facilities		Capital Plant & Outlays
		Utilities
		Building Insurance
		Maintenance
Other	Training	Finance Indirect Cost Pool
		Billing
		Collections
		Accounting
		Administration Indirect Cost Pool
		Payroll
		Insurance
		City Manager's Office

STEP 5. USE THE RESULTS

Once the cost data has been collected, you now have valuable information to help you in many ways: improving the efficiency of your operations, making decisions about expanding or reducing the level of a service, choosing to privatize the delivery of a service, or alternatively, stop using private contractors and begin using LG staff to provide a service.

Step 5.1. Pricing a service/setting user fees

Once the full costs of the service are established, policy makers can decide on a price (amount of the fee) for the service, and if the user charge should be set to achieve full cost recovery or partial cost recovery. In full cost recovery, fees are set to enable the service to self-sufficient. In partial cost recovery, fees are intentionally set at a lower rate, and may only cover the cost of operations and maintenance, and the LG's general fund is expected to subsidize other costs.

Pricing a LG service can range from a simple to a complex process. In its simplest form, the price is just the total cost of the service divided by the number of

units of the service is the price per unit. For example, if it cost $50,000 per month to provide an after school program for children, and the LG expects 500 children to enrol in the program, the price would be $100 per child per month to break even on the service.

On the other hand, if some children (e.g. five year olds) require more service than ten-year-old children do, the prices for each group could be estimated, as long as all the prices produced estimated revenues equal to the total cost of the service.

Knowledge of the service is key to successful price setting. Other issues to consider are:

- Statutory restrictions. There may be specific laws or ordinances prohibiting fees for certain services, or placing a ceiling on the amount of the fee.
- Ability to pay. Careful consideration should be given when charging a fee, or when raising one, to the impact on lower income residents. If the service is considered a particularly important one for reasons of public health or safety (such as immunizations for children, or trash pickup) alternative prices should be considered, such as sliding scale fees based on ability to pay, or the age of the service recipient.
- Administrative costs of billing. Theoretically, the amount of the cost a person pays for a service should be related to the amount of the service the person uses. For example, a person who uses 500 cubic feet of water should pay the cost of producing and delivering that amount of water. However, to make this pricing approach work, meters would have to be installed in each building, and the meters would have to be read periodically by LG personnel. This has a high cost. Instead, proxies are often used instead of meters, such as the number of residents or the area of a property, to estimate the cost of the service to the user. This does not recognize the difference between those who conserve water and those high volume users. But it does recognize the high administrative costs of the meter alternative.
- Collection costs. If a decision is made to begin charging a fee for a service previously paid for through general fund revenues, the added costs of collecting the fee, and enforcement action for non-payment, need to be considered and included in the pricing of the service. If the fee is a small one, added collection costs might eat up most of the revenue.
- Negative effects of charging for service. Once a fee is implemented, or raised beyond current levels, there will be those who will seek to avoid paying the fee. A classic example involves introducing fees for use of the landfill, then observing an increase in illegal dumping.
- The costs of capital. These costs should already be factored into your calculations of total costs, but they are mentioned here once again to emphasize that there needs to be a plan for paying for maintenance of the capital facilities used in providing the service, and for replacing it at the end of its useful life.

Following are some sample cost recovery ratios.

Cost Recovery Ratio Samples

Fee	Recovery policy	Current recovery ratio	Under recovery costs
Ambulance	100%	100%	0
Fire prevention service	88%	75%	25,000
Swimming pools	25%	20%	50,000
Golf courses	100%	85%	225,500
Trash collection	100%	85%	360,000
Business licenses	Set by law	75%	15,000

In summary, whether full or partial cost recovery is the goal of the service's budget and rates, the actual cost recovery goal should be set by policy makers, with input from the operating department and the finance department as to the impact of the issues raised above. In the cases where the actual cost recovery rate is less than the goal, the policy makers have several options: they will need to increase the price of the service, change their cost recovery goal to reflect the reality of the actual ability of the current fee to cover costs, ask the operating departments to recommend changes that will reduce the costs of the service, or some combination of the three options.

Step 5.2. Improve the efficiency of a service.

Costing analysis can help identify where costs are rising too quickly, or where improvements can be made by changing procedures, materials, personnel, or other aspects of the service delivery.

Step 5.3. Improve contracting out decisions.

In many situations, LG officials are considering the issue of either privatizing a service, regionalizing a service, or in some cases, ending privatization of a service, and having LG employees perform the service. The cost of the various alternatives should be a prime consideration in these decisions. Costing can not only help you identify which approach can produce the service at the lowest cost, it can help you isolate which among the in-house costs will remain after privatization. For example, many of the indirect support costs will remain, because they are shared with other service.

MANAGEMENT ANALYSIS TECHNIQUES

This part of the chapter presents several analytical techniques that have been used successfully in LGs to analyze current LG business practices and service delivery mechanisms. They have been used with the intent of identifying opportunities for reducing costs, eliminating inefficiencies, and improving the quality of a product. These techniques are not about introducing an alternative method of delivering service; rather, they are about analyzing and improving the current process. David Osborne and Ted Gaebler in their book Reinventing Government, ?????????????????? need full reference called approaches such as these "managing results" because they seek to measure performance, identifying successes and failures by outcomes.

A shared theme with all these techniques is the ability to identify and measure the costs of providing LG services, as well as assess the quality of the services provided by the LG. This is critical to the success of these techniques. For example, providing services at a higher cost in LG A than LG B may be acceptable if the quality of the services in LG A far exceeds the quality of services in LG B, and when LG A has chosen this higher level of service as a policy decision. Alternately, LG policy makers can anticipate the effect on quality from changing the costs of the service. The overall goal of these techniques is the ability to make intelligent, informed decisions about changes in service delivery that lower costs.

TECHNIQUE 1: RE-ENGINEERING

Also known as "business process re-engineering," re-engineering is a strategy that examines and seeks to improve standard operating procedures (SOPs), by redesigning procedures from scratch, and by using modern information technology in the redesigned processes. Re-engineering advocates argue that strategies such as hiring freezes, across-the-board cuts, layoffs, and postponements of major purchases are incremental short-term responses to a long-term problem of organizational fiscal strain. Re-engineering attempts to take a long-range strategy to change the basic business processes of a LG.

Re-engineering projects generally focus on one functional area of an organization (e.g., the financial management system) and attempt to map out the start-to-end sequence of tasks that define a process. This is called a current process map. Steps that do not add value, involve repetition, are cumbersome and time-consuming are identified. Next, information technology is applied to find out if the technology can eliminate any of the unproductive steps identified earlier. Automation for the sake of automating is avoided. The intent of re-engineering is not to enable the organization to operate bad processes at a faster rate; rather, it is to eliminate them altogether. Future process maps are then developed to integrate the technology with elimination of the unnecessary steps, and possibly, to integrate with a new organizational structure that supports the improved procedure. These future process maps should have goals such as the following six.

Goal 1: Challenge assumptions – Current business practices are often performed in a certain manner because of underlying assumptions or beliefs held by policy makers or administrators. Examples of such assumptions include how departments should or should not work together, the need for checks and balances, definition of the customers' role or needs, etc. Thus, if one assumes that Department B should not begin working on a process until Department A has completed its part of the process, changing that process would not even be considered.

Goal 2: Focus on processes rather than functions, and organize around outcomes – Instead of trying to improve the communication or teamwork between existing departments that each has a part of a larger process, re-engineering attempts to focus attention on the process itself. This leads to the development of new organizational strategies based on the process and the desired outcome.

Goal 3: Capture information once, at the source – Re-engineering seeks to illuminate data entry redundancies, especially those that frustrate customers and waste staff time and energy.

Goal 4: Substitute parallel for sequential processes – When each step in a process involves waiting for the next "handoff," time delays are introduced. Re-engineering looks for opportunities to minimize these delays.

Goal 5: Share information across the organization – If information is captured at the source, it must be available for others to use, or the other departments have an incentive to re-enter and use their own data. Re-engineering studies establish what information is needed by parties from beginning to end in the process. It identifies ways that information can be made available at the right time to the right parties.

Goal 6: Provide single point-of-contact for customers and suppliers – Passing off a customer from one office to another is frustrating for the customer and time-consuming for the organization. Re-engineering strives to identify and organize around opportunities for one continuous contact point with customers and suppliers.

The benefits of re-engineering efforts to date have been increases in quality and customer satisfaction, and savings in time and cost for the organization. The primary difficulties to re-engineering projects also are time and cost. Re-engineering projects need significant commitments of time and money to deliver meaningful improvements.

TECHNIQUE 2: MANAGEMENT AUDITS

Management auditing is defined as a formal and systematic review by qualified individuals to determine the extent to which an organization, or a unit or function within the organization, is achieving the goals prescribed by management and to identify conditions in need of improvement. It is a technique for systematically appraising an organization's effectiveness compared with appropriate standards and principals.

Management auditing is similar to other techniques - performance auditing and operational auditing. Audits of this type are not financial or compliance audits; rather, they are evaluative with an emphasis on identifying opportunities for achieving greater economy, efficiency, effectiveness, and accountability. These audits can be undertaken with in-house staff at a reasonable cost; but, greater credibility, as well as knowledge in the areas of survey research, can be achieved with outside assistance.

Generally, a management audit is based on the use of checklists that are developed to assess how well the function or program is being managed. These checklists, a set of questions, can be developed internally, using accepted standards or principles of management in the functional area. For example, in the area of financial management, checklists can be formulated to determine if the structure and staffing of the finance department is adequate to allow proper management of the department.

Another aspect of management audits is the development and use of two kinds of surveys - employee surveys and citizen surveys. Employees generally are asked to complete a questionnaire examining their attitudes about the jobs they do, their training, their organization, the service they provide, the citizens they serve, etc. Survey responses should remain confidential. Citizens may be surveyed, via telephone interviews or mail questionnaire, about their attitudes toward LG programs and services, and future expectations of the LG.

When the checklists have been completed and the survey results compiled, the coordinator of the management audit develops a summary report for LG manage-

ment, reviewing especially any problems that have been identified as a result of the audit, but also commenting on organizational strengths.

TECHNIQUE 3: VALUE ANALYSIS

Value analysis, also known as value engineering, value control, and value improvement, is a process that attempts to identify more economical, cost-effective, or resource-conserving alternatives to perform a function or operation without sacrificing performance and quality. A value analysis usually involves a "before" and "after" cost and performance analysis. It tends to be most useful in analyzing functions, programs, and projects where there are quantifiable performance standards (e.g., streets striped per hour), identifiable and predictable functions, and measurable costs for different levels of service provision.

Value analysis typically is performed in an "ad hoc" mode rather than as an ongoing institutionalized process. It is a short-term, but intense effort to identify cost savings that can be achieved over a time span on an identified project. Generally, the analysis is performed as a team effort, where people who are experts in one or more major aspects of the project, as well as some generalists, are led by a value analysis expert who has previous value analysis experience.

The VA process involves application of a standardized methodology to a project area. There are seven phases to this methodology, known as the job plan.

- Information phase: Data gathering
- Functional phase: Determining and evaluating the worth of all related functions
- Creative phase: Generating creative alternatives to satisfy functions
- Judicial phase: Evaluate and judge all ideas for merit
- Development phase: Selecting, developing and evaluating best idea
- Presentation phase: Presenting idea to management, with information on benefits
- Implementation phase: Incorporate the approved change
- Follow-up phase: Evaluate and report on costs/savings achievements.

While VA analysis has a distinguished record of accomplishment in the private sector, there are notable opportunities for usefulness in the public sector. Construction of public facilitates is one major potential application of VA in LG. Typically, VA analysis is applied after bids for projects have come in significantly higher than anticipated. Value consultants are often brought in under these circumstances to determine if costs can be reduced. Other LG applications have been noted. Procurement decisions, repetitive public works projects, and space utilization studies all have benefited from cost savings through the application of value analysis.

TECHNIQUE 4: BENCHMARKING

Cost benchmarking is a technique that involves comparison of similar processes across organizations, public, and private, to determine best practices and the costs of such practices. By comparing costs and practices, LGs can assess their standing

and objectively identify their strengths and weaknesses in quantitative and qualitative terms.

Benchmarks may be established through measurement of current costs of operations so that the results of cost interventions may be compared later. Or benchmarks can be created by using existing information sources maintained by professional associations, universities, public interest groups, etc. For example, the Government Finance Officers Association (GFOA) in the United States maintains a Financial Indicators Database, a computer file of financial data collected each year from approximately 1,500 comprehensive annual financial reports submitted to the GFOA's Certificate of Achievement Program. This is not a random sample of LGs. It is, rather, a compendium of those that might be considered "best-in-class," at least as far as financial reporting is concerned. Among the data presented are operating revenues, fund balance, revenues, expenditures, debt position, and cash and investments. These data can be used for comparison and improvement, especially if the data are used in conjunction with performance measures.

Data for benchmarks also can be developed using surveys conducted by phone or mail. For example, if LG officials want to improve the cash management function, they might survey other LGs to learn how they are running this operation, the procedures on which they rely the rate of return they have experienced on their investments, etc.

An example of using benchmarks to control costs might focus on the costs of processing tax payments, cleaning LG streets, preparing meals in cafeterias, repairing vehicles, etc. Benchmarking is still an emerging management analysis tool. Its popularity has risen as LG officials have become increasingly interested in learning how to measure performance as well as costs.

TECHNIQUE 5: TOTAL QUALITY MANAGEMENT

Total quality management (TQM) is a management process that identifies and corrects problems through data gathering and analysis. TQM uses employees in work teams who have been trained in statistical process control techniques, such as brainstorming, Pareto analysis, flow charts, histograms, surveys, etc. A formal TQM program follows established procedures. First, a product or service is selected for examination, customers are identified, and the work process is analyzed to determine where changes need to be made. Improvement possibilities are then suggested, evaluated, and one of these with an apparently good chance of working is selected for implementation. Implementation is on a small scale. Finally, the results are evaluated, additional modifications are made, and the tested changes are standardized, communicated, and implemented throughout the department or organization.

One of the key aspects of TQM programs is the role played by employees, specifically line employees and middle level management. In TQM, it is these employees, under the guidance of a trained facilitator, who conduct the analysis, develop, and implement the quality improvements. This is based on the assumption employees are the most experienced with the problems facing service delivery in their own areas. Thus, it is not analysts in the budget, manager's, or CEO's offices who develop improvements and impose them on service departments. To be successful, there must be extensive training of these employees in the statistical analysis techniques, and

continuous guidance and support of their work and opportunity for them to present improvements and take credit for the work. Successful TQM programs require committed leadership from top management of an organization, and much nurturing along the way. Examples of cost savings from TQM teams include improved processes in typical public works areas, such as responding to nighttime road emergencies, reading water meters more efficiently, etc.

While TQM uses processes that are similar to other techniques in this book, it differs significantly in that the employees who perform the analysis, as well as implement the improvements, are line levels of employees. One of the management analysis strategies mentioned earlier in this chapter, re-engineering, can also involve employees in the analysis of problems and solutions.

TECHNIQUE 6: TECHNOLOGY/CAPITAL SUBSTITUTION

LG is inherently labour intensive. Computers, calculators, and other office machinery have been adopted with great savings in staff hours; but, otherwise, there has not been great history of technological innovation and substitution in LG. Budget restrictions have been one major factor is this pattern. Significant capital investments are often necessary, and LGs, generally, do not use the type of analysis (i.e., life-cycle costing or cost accounting) that allows for the depreciation of assets and emphasizes long-term costs and benefits. Instead, LGs emphasize practices that ensure the lowest cost in a current fiscal year. Also, it is rare that LGs seek to acquire capital in the name of productivity improvement.

Some of the techniques described earlier, especially re-engineering and benchmarking, encourage the evaluation of technology and capital investment to reduce costs and improve the quality services. And if a capital acquisition decision is already on the agenda, life cycle costing can help clarify the total costs and benefits of that decision. However, few LGs have an ongoing program or process to identify and evaluate areas where technology and capital might substitute for costly labour. Nevertheless, an overall program to contain costs should not overlook this important area.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Take a few minutes now to think about the evaluation techniques used for budgeting in your own LG and use the space below to write down some ideas.

_____

_____

_____

_____

AWARDING GRANTS

Many countries encourage LGs to provide grants to civil society organizations or non-governmental organizations. But, all grant awarding programs should be developed based on a LG's needs and priorities rather than on the basis of applications submitted by outside organizations seeking access to LG funds.

A systematic process for evaluating which needs and priorities of the LG should be developed into a grant-awarding program should be developed and followed. This process should require the involvement of key people early on in the formulation process.

Grants should only be awarded to organizations that have submitted proposals describing details of their projects, including identifying staff, approach, timeline, budget, and the process to be used to measure and evaluate grant performance.

Grants should only be awarded to organizations after a thorough evaluation process using objective criteria.

A grant is a (relatively) unrestricted financial award made by a funding agency to a grantee to support a project or other work that has usually been sought by the grantee in a proposal or application and the funding agency believes is necessary. For our purposes, the funding agency is the LG, and the grantee is an organization in the community. It is important to distinguish grants (or funding subsidies) from service contracting and fee-for-service arrangements. In service contracting, the LG's expectations are explicit regarding service outputs and quality, and they can be measured. In fee-for-service arrangements, the private service provider is paid for the number of customers serviced, or on some other unit basis.

Grants are more appropriate than service contracting or fee-for-service arrangements when LG officials are interested in assuring or assisting in the provision of a service but they are not sure of the one best way to provide the service. The service area may be new to local officials, the problem officials are trying to address is poorly understood, or there is uncertainty about how to achieve a service goal. For example, local officials may want to provide management and financial planning assistance to small business owners in a section of the LG to encourage economic development, but they are not sure exactly how many business owners may need the assistance, what level of expertise they need, whether one-to-one counselling or group training would be more appropriate, etc. Rather than contracting with a service provider to set up a program, LG officials may find it more advantageous to make a grant award for a project on a demonstration basis. Then, based on that experience, the local officials will gain the knowledge to allocate future grants to well-defined projects with a successful record of accomplishment.

In some cases, LGs act as pass-through agents for funds that originate at a higher level of government. Such funds are often awarded in a "lump sum," or "block" grant with only general guidelines for their allocation within the community. An example is a multi-year allocation of funds to a LG for small business retention with a condition that the funds are to be distributed on a priority basis to organized com-

munity groups for locally developed and managed projects. In such cases, LGs have discretion in the size and nature of funding awards. However, the recipients must be eligible neighbourhood groups and the funds used for the purposes designated in the grant originator's policy guidelines.

BENEFITS OF AWARDING GRANTS

LGs awarding grants to private groups is not an approach used by all countries. There are two primary reasons: 1) except when the recipient of block grants, as described previously, LGs seldom have sufficient resources to run their own programs much less distribute funds to others; and 2) LGs lack the staff to design, evaluate, award, and monitor grant programs. Nevertheless, in limited circumstances, awarding grants can have several benefits for a LG. Grants to private organizations or persons in the community can be a mechanism for increasing the number of service providers in a community, especially in targeted parts of the LG. Grants can also enhance the services already being provided by encouraging competition and compelling more attention by service providers to quality and efficiency in service provision. And grants can help leverage funds from other sources to increase the pool of resources available for solving community problems.

GRANT POLICIES

LG officials should make clear, as a matter of policy, circumstances under which a grant will be awarded and the process that will guide such efforts. Below are some suggested policies.

- All grant awarding programs should be developed on the basis of the LG's or the local community's needs and priorities rather than the interests of applicants.
- All grant award programs will be approved by the governing body of the LG.
- No grant will be awarded unless and until the financial officials of the LG review the proposer's budget.
- No grant will be awarded unless and until the personnel officials of the LG review the staffing/ benefits requested in the grant application.
- No grant will be awarded unless and until the designated legal authorities for the LG have approved the method of grant allocation.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

We want you to take a moment to reflect on the grant awarding activities of your LG. Has your LG awarded grants? If so, describe the experience of your LG in grant program development and awards. If you have no experience in this area, write down your initial reactions to the idea as an important future practice for your LG including any legal or historical obstacles to engaging in such a practice.

BASIC STEPS IN DEVELOPING A GRANT AWARD PROGRAM

A systematic approach can simplify and streamline the process for developing a grant award program. And it can protect the LG staff from the many errors and omissions that a less organized program can experience. Below are seven steps we suggest in developing a grant-awarding program.

STEP 1: IDENTIFY THE SERVICE OR ACTIVITY DESIRED, AND DETERMINE FUNDS AVAILABILITY

There may be a number of reasons why you are contemplating awarding a grant. Maybe an elected official has suggested it. Possibly a private or non-profit organization has sent you a proposal. It could be that some citizens or business owners have approached the LG governing body requesting a program or service that your LG is not currently providing. You may be aware that a neighbouring LG is awarding grants in exchange for the performance of public services and is getting a good return on its investment. Finally, you may have received a sizable sum of money from another level of government with the condition that it be segmented and the fund segments awarded as grants to certain designated types of recipients. The "Issue Diagram" table presents a number of issues that should be considered when attempting to determine whether or not to proceed with a grant program to provide, or assist in the provision of, a particular service.

The Issue Diagram

1. Priority—is this service area a stated priority of your local government? A successful program that is not addressing an important need in your community is only diverting resources from other needs.
2. Cost—is it more cost efficient for the local government to have a private organization provide the service project? Could local government employees provide the same service and if so at what cost? What will be the cost of the government for administering and monitoring the grant?

3. Service levels, quality, and effectiveness —This may be more difficult for the government to control with the limited contact it will have with the private organization. If the service levels and quality are of critical importance, then a grant may not be the best approach for achieving results.

4. Impact on other local services— Local officials need to be concerned for the coordination of services, such as with other public and private efforts and programs in the same service area.

5. Potential for service disruption— Once local government takes a role in providing a service, officials have a responsibility to prevent the disruption of that service, and this is more difficult to do when the providers are supported by a grant from your government. Local officials need to assess the potential for this, and prevent it by insuring that the organization to whom they award the contract has sufficient resources, staff, and quality to avoid this.

6. Responsiveness to citizens—Local officials need to assess how they can insure that the private provider will be sensitive to citizens' needs and expectations.

7. Availability of providers—Local officials need to assess the number of potential applicants and how qualified they are. There is little point in putting efforts into developing a detailed RFP if there will be a shortage of qualified providers to apply for the grant.

8. Ability to attract funds–A private, non-profit organization may be able to apply for other grant funds to supplement those from your government, or to continue the work after your grant support ends. These grant funds could come from other local governments, from the central government, or from private foundations.

9. Ability to end or transition to self-sustaining—consider what will happen to this program or service once the grant ends. Some projects are for a specific purpose and duration, e.g., a grant to a community (neighbourhood) association to clean up an abandoned park, plant shrubbery, and install playground equipment. Other projects are more long-term in nature, e.g., a grant to a bus company to provide transportation for the handicapped. People become dependent on the service, and then the local government may have a problem beginning a long-term commitment with a short-term funding mechanism.

We suggest using these issues to develop a brief (2 to 3 page) draft concept paper on each grant award program under consideration. The draft concept paper can provide the guidance that staff will look to as they develop the details of each grant award program. The paper can serves as the basis for an FP, if a decision is made to issue one. The LG's operating budget also needs to be examined to determine if the funds available are sufficient for awarding a grant in this service area. The availability of funds and competing priorities for the use of these funds will be important factors helping to shape the grant program. Moreover, if use of the funds is severely restricted, the grant program may have to be scaled down or even reconsidered.

Remember that the primary consideration when deciding whether or not to proceed any further with grant awarding efforts should be whether a proposed project or activity will contribute to solving the needs of the LG or of the community the LG serves.

STEP 2: GET ORGANIZED

If a decision is made by a LG to move forward with a grant award program, it will be necessary soon to determine who is involved and in what capacity. There are a number of important roles to be played in a grant award program.

Project developer/director—This is a staff member who has a background, qualifications, and interest in the policy/project area and who can help develop the application materials, develop criteria for evaluating applications, and oversee the grant project including reviewing reports written by the grant recipient.

Contract specialist—This is a staff member with experience developing Requests for Proposals (RFPs) for contractually-based work. This person can provide advice on different aspects of developing a quality RFP for soliciting grant proposals.

Financial administrators—Finance staff members can help determine the number and size of grants that can be awarded. The finance staff can assist in calculating any in-kind contributions required from grant recipients and the indirect cost burden to be imposed.

Top level policy makers and administrators—The support and approval of policy makers and top administrators must be assured before moving beyond the concept paper stage. The project developer must be certain that the support from these people is reaffirmed at various points during the process.

Selection committees—A committee should be appointed, and made responsible for applying selection criteria, ranking the proposals received after applying the criteria, and recommending grant awards. There could be several committees depending upon types of grants and the policy objectives for awarding grants.

Other interested parties—Representatives of potentially affected groups, such as teenagers, business leaders, religious leaders, specific community representatives, and staff of non-profit agencies, might be asked to serve on a grant award committee. The involvement of citizens and non-governmental representatives can spread responsibility for the dispensing of grant funds and encourage ownership of the decisions made by those affected. The involvement of citizens in this kind of committee work is a meaningful exercise in citizenship and a valuable introduction to the working of LG in a complex, modern society.

STEP 3: DETERMINE YOUR LG'S LEVEL OF INVOLVEMENT

Minimal versus extensive—Typically, grant programs do not demand a detailed level of specificity as to how a program or project will be conducted and what will be accomplished. For example, your LG's grant priorities might include developing alternative transportation systems, improving adult literacy, reducing youth crime, or achieving another fairly broad goal. In a grant program, the grantor does not pre-determine how these problems are to be addressed. Instead, the grantor's role is to furnish policy guidelines and stated preferences, e.g., proposals submitted by institutional collaborations rather than individual institutions, projects that emphasize the building of capacity, or projects that focus on recreational opportunities for youth. The organizations that respond to grant opportunities will propose specific programs and projects that can operate within this umbrella of policies and preferences. These programs and projects can be accepted, rejected, or modified through negotiation. Remember, one of the most important benefits of awarding grants is to encourage creativity in solving a problem or delivering a service. If a decision has already been made how a service is to be provided, a contract-for service program is preferable to a grant award.

Grant proposals come in two varieties. The competitive variety involves an open, transparent process in which many interest parties compete for a grant. The non-competitive variety involves an invitation to a single party to submit a grant proposal or receiving an unsolicited proposal from a community group or a local service provider. Which approach to use is a matter influenced by legal requirements and the nature of the undertaking to be financed by the proceeds of a grant. Let's compare these approaches.

Competitive process—In a competitive grant process, the grantor publicly announces the existence of a grant program and markets the program to many interested and qualified parties in order to encourage alternative ways to carry out a project or program. Typically, the LG has access to a large sum of money that can be used for grants. Sometimes the money comes from a budget surplus resulting in a revenue windfall or unexpended operating funds. More likely, the money is legislated for local use by the national government or awarded by an outside multi-national corporation, foundation, or donor government with a specific interest to be served at the community level. For example, a foundation with an interest in experimental projects in balancing growth and environmental preservation might make money available directly to LGs that have made public policy commitments to programs of sustainable development. Proposals that are prepared following RFP guidelines and using formats provided by the grantor government greatly simplify the review and evaluation task. Of course, RFPs require a substantial amount of staff time to develop. But, the benefits are significant. RFPs:

- nsure that all parties receive the same information about the intentions and requirements of the LG.
- Clarify the LG's evaluation criteria for the benefit of applicants and staff.
- Specify deadlines for receiving applications and announcing decisions.
- Eliminate wasted time and effort for applicants in trying to guess at the ideal length and format for a proposal.
- Eliminate wasted time for staff in reading proposals that differ substantially in length, style, and organization.

Non-competitive, sole source process—There are occasions when a LG can and chooses to ask only one applicant to submit a proposal to undertake a project. This may be an appropriate course of action when the LG believes strongly that a particular individual or group is clearly the best and only reasonable candidate to perform the work, and there is little to be gained by encouraging any other organizations to apply. This might be the case if the organization is ideally suited to perform an essential task or if a community group is ideally positioned to serve as a model for the development of a new type of service or developmental approach. A community service and research group at a local university working in collaboration with an economically depressed urban neighbourhood on a new approach for building neighbourhood capacity and creating business opportunity might be a worthy sole-source grant venture.

Even if it is determined that a non-competitive approach is best for a grant program, the applicant can still be asked to prepare a proposal which details the idea, the administrative plan for implementing it and a budget.

Non-competitive, unsolicited proposal—On occasion, it is a private service provider or community-based association that approaches local officials with an idea or concept for a project. Local officials have three options in this case. You can reject the proposal if it does not meet any priority of the LG. If the proposal involves a priority area for the LG, it can be treated as a sole source proposal if the idea is so unique that it is worth an investment of grant funds without further action to obtain proposals. An alternative is to develop an RFP for the project and let the original proposer apply along with anyone else who may be interested in the project.

STEP 5: PREPARE A REQUEST FOR PROPOSAL/APPLICATION MATERIALS

This step assumes a grant is to be awarded on a competitive basis. RFPs take many different forms, usually depending on the purpose and goals of the issuing organization. They can also vary in length. Some are as brief as three pages. Others may be thirty pages and even longer. For a LG grant program, an RFP should include the following sections.

Introduction—This section usually states the title of the grant program and covers the following kinds of information:

Background—This is material that gives those who want to respond a perspective on why the LG is concerned about this service area and its past experience in addressing perceived problems in this area. If there is something unique about the source of the funds or the impetus for the grant program, it should be mentioned here.

Objectives of the grant program—The specific outcomes to be achieved by the program should be succinctly and clearly stated.

Application instructions—These include stating if special forms provided by the LG must be used. Instructions also state to whom the proposal must be sent, the number of copies required, etc. Finally, the instructions tell applicants what kinds of certifications and testimonials should or may accompany the proposal. An example is evidence of corporate existence, a prior year's audited financial statement, samples of applicant publications or reports, staff resumes, or other similar type of documents that will provide important information about the applicant.

Eligibility requirements—This specifies what kinds of organizations are not eligible to apply for the grant program. For example, you may not want to receive proposals from for profit firms. This also may state kinds of projects that will not be considered for a grant award. For example, financing the capital cost to construct, improve a building or equip and redecorate an office might not be considered an eligible project cost.

Pre-proposal arrangements—When many applicants are expected to be interested in a project, there are two steps that can be taken to ensure that only those applicants that are truly serious and capable will apply. First, is to conduct an informational conference for interested parties at which the project director can answer questions that prospective applicants may have. If this conference is anticipated, it should be announced in the RFP. Second, is to require potential applicants to

complete a pre-screening form and submit it before starting on a detailed proposal. Applicants who do not appear to be eligible can be screened out. A sample checklist for pre-screening is shown below.

Sample Checklist Pre-screening for Eligibility

Project Name _____

Project Applicant _____

This sheet is a checklist that an applicant must submit to be considered for this project. An applicant must submit this form by the due date on the timeline to assure that a project is eligible and should continue in the process.

__ Does the project fit the grant program?
     A. Briefly explain direct relationship to the grant program's objectives.
     _____
     _____
     _____

     B. What is the approximate amount of grant funds to be requested?
     _____
     _____
     _____

__ Is the project consistent with national, local, regional, etc. laws and guidelines (list all applicable) e.g., equal opportunity, environmental, prevailing wage laws.
     _____
     _____
     _____

__ Will the project be ready to go by the date indicated for implementation in the timeline? Describe   below the evidence supporting your answer.
     _____
     _____
     _____

__ Is the applicant financially capable of administering this project? Describe below the evidence   supporting your answer.
     _____
     _____
     _____

Program timeline—This lists the key dates that are relevant to the RFP.

A sample timeline showing key dates follows.

Project Timeline

Key dates for applying for this grant: _____
Project Name _____
Jan 20   ......   Grant RFP distributed

Feb 5	....	Applicant's conference at LG hall
Feb 20	......	Pre-screening eligibility forms due at LG hall
Mar 1	....	Eligible applicants are notified
Mar 30	.....	Grant proposals due at LG hall
Apr 10	......	Selection committee meets to evaluate proposals
Apr 15	.....	Interviews with applicants
Apr 30	.....	Decision made, successful grant applicant notified
Jun 1	.....	Funds available for distribution

Budget and match information—In this section, information is provided on the amount of money appropriated for the grant program, and whether more than one grant is expected to be funded from this amount. It is customary for the applicant to participate in the funding as a means of insuring their commitment to the project. If applicants are expected to make a monetary or in-kind contribution to the grant, the amount and type of contribution should be specified.

Standard LG bidding requirements—This is usually "boilerplate" or standardized information that requires applicants to conform to various local and national laws.

Proposal format—The eight basic sections of a proposal are:

- Title Page
- Summary/Abstract
- Statement of Purpose and Objectives
- Statement of Need
- Approach/Procedures
- Budget
- Project Evaluation
- Attachments

Each of these sections should be listed in the RFP, and applicants should be encouraged to use them as guides in completing their proposals. Specific information to be entered in each section should be clearly explained in the RFP.

Evaluation criteria—This section describes how the grant award decision will be made. This section also presents criteria or factors that the LG will use to make the decision. The Criteria Ranking Sheet below illustrates some potential criteria that can be used to evaluate grant proposals. In this illustration, the criteria are weighted, and it is shown how they will be scored. Weighting is not necessary, but grantors should be clear about the criteria that are to be used. You should also be clear about the information to be used to make proposal ratings. For example, one criterion suggested is:

Is the organization financially strong enough to successfully complete the grant?

Criteria Ranking Sheet for Evaluating Grant Proposals

Criteria ranking (each topic is worth 1-10 points)

____1. Does the project approach make sense?

____2. Are the proposed staff credible and competent?

____3. Are the goals and objectives well-defined?

____4. Does the applicant's record and reputation indicate effectiveness, results, efficient management, sound budgeting, and planning?

____5. Are there elements of creativity and innovation in the project?

____6. Does the applicant have the financial capability for the project? Adequate facilities?

____7. Does the applicant/project have community support?

____8. Is there a plan for evaluation? How can project accomplishments be judged?

____9. Is the match offered by the applicant acceptable? How is it guaranteed?

____10 Is the overall budget request reasonable? Does the applicant have the financial capability to carry out this project?

Information of this kind will be needed from the applicant, not only to make a "yes" or "no" determination, but also a comparative one, to determine if, for example, Organization A is financially stronger in this area than Organization B. Copies of financial statements from the applicants and pertinent budgetary information on their organizations can provide the needed information for comparisons of financial capacity. Applicants are also asked on occasion to provide a letter from a bank confirming their cash flow, or even required to present a letter of credit from the bank certifying the availability of funds to meet match requirements. Another suggested criterion is:

> *"Does the applicant's record and reputation indicate effectiveness, results, efficient management, sound budgeting and planning? "*

It may be necessary to see evidence of previous project management, and perhaps speak directly to references for the organization in order to measure the applicant's capabilities in this area. Resumes on proposed staff will help assess their qualifications.

An RFP should also provide information on the composition of the selection committee, including the number of people on the committee and their positions in the LG organization or in the community.

Forms—The last section of the RFP should include copies of blank forms that the applicants are expected to use in submitting their applications. Examples include copies of the application form, the pre-screening eligibility forms, budget forms, etc.

The grant program can be marketed directly to prospective applicants, and it can be announced in publications and places that have a high likelihood of being seen by the type of people expected to be interested in the program. For example, advertising space can be purchased in the local newspaper. Announcements of the grant program can be sent out to professional journals, local colleges, and places of worship. Announcements can be placed on a LG's Internet Web page or other sites that are appropriate for the type of program. Other LG officials also can be asked to recommend individuals or firms they may have used for similar programs.

STEP 7: REVIEW AND SELECT GRANTEE

We have suggested in this essay two prerequisites for this step: 1) develop evaluation criteria and 2) organize a selection committee. With criteria and a selection committee in place, a LG is in a position to review proposals, rate the projects and those who would be carrying them out, and select the grantee(s) in a reasonably efficient and objective way. The Criteria Ranking chart in the preceding text, which listed ten criteria commonly used to evaluate grant proposals, can be redesigned as a rating sheet for each grant project and given to committee members to use in doing the evaluations.

After a first review of the proposals, there may still be some doubt about which applicant to choose. A common approach to this issue is to use the selection committee to narrow the list of applicants to several "finalists" and then to invite the finalists to make presentations to the selection committee and be interviewed. Only applicants being seriously considered should be invited, as the process can be a costly one in time and resources for the organization and possibly for the applicants as well.

After this second round of evaluation, it should be possible to choose the most suitable candidate for a grant award and to prepare a recommendation for the most promising applicant to elected officials.

STEP 8: NEGOTIATE GRANT TERMS

At the end of the evaluation process, one or more of the applicants to receive the grant(s) is selected. If there is some aspect of the project approach, budget, or products that the grantor would like changed, but overall feelings about the applicant are satisfactory, the necessary changes can be negotiated with the applicant. In the event the applicant is not willing to change the proposal, an opportunity is provided for them to withdraw. Otherwise, it will be necessary to reach agreement with the applicant on such matters as payment terms, reporting, and budget requirements. It will also be necessary to prepare an agreement for the approval and signature of the grantor's governing body to formalize the negotiations.

STEP 9: ADMINISTER THE GRANT

The section on grant administration in Section A of this essay discusses the basic administrative Responsibilities involved in the operation of a grant program from the point of view of the grant recipient. The same responsibilities apply to the grant issuer but from the perspective of 1) insuring that the requirements of the grant are

being met, usually through reviewing of the reports prepared and submitted by the grantee; and 2) insuring that the funds are made available to the grantee under the terms negotiated.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

We have described the basic steps involved in awarding grants to outside organizations to achieve a goal or solve a problem of the LG that is prepared to make a grant award. In the space below, write your thoughts about this process as to how it might be used by your LG and who in your LG might be able to assist in the process.

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

APPENDIX A—SAMPLE BUDGET FORMS

The following sample forms along with the explanatory text are taken from the Budget Manual for Texas Cities. These are provided as samples only and designed for smaller LGs.

1. THE BUDGET SUMMARY

The budget summary should detail each department's expenses. By glancing at the summary, the reader can gain a quick understanding of the overall city budget picture for the next fiscal year, including anticipated revenue, sources of revenue and expenditure proposals. The budget officer should group all of the detailed revenue and expenditure data into summary accounts (Exhibit 1).

The amount of funds varies according to the complexity of the city's operations, but the general operating fund should always be included. If the city operates a utility such as water and wastewater, then separate water and wastewater funds should be used. When a municipality operates an electric or gas system, separate funds should be set up for each system. Each fund should include a beginning balance, which is the amount of money-estimated left over from the previous fiscal year.

Various sources of revenue to be collected during the course of the fiscal year are included. A list of other common sources of revenue follows.

- Property Tax. All property tax revenues, including delinquent tax payments, penalties, and interest.
- City Sales Tax. Receipts from the local sales and use tax were originally established at 1 percent. The city may, however, elect to levy an additional amount to reduce property taxes, for a special purpose district or for economic development purposes. The combined local sales tax rate for all purposes cannot exceed 2 percent.
- Other Taxes. Revenue from hotel-motel occupation tax and mixed beverage tax receipts among others.
- Franchise Fees. Revenues from fees imposed on investor-owned electric or gas utilities, telecommunication, cable, taxicab companies, and other private corporations using the city's streets and other rights-of-way. These fees are in addition to and separate from the property taxes levied against such companies.
- License and Permit Fees. Revenue generated from building permits and animal licenses among others.
- Fines and Forfeitures. Funds received from payments of traffic fines and other fines for violations of city laws or ordinances.
- Interest on Investments. Income from interest paid on deposits of idle city funds.
- Rentals. Receipts realized from rental of city-owned buildings, land, or other city resources.

Sample Line-item Budget — Budget Summary City of Great Expectations Fiscal Year 2000-01				
	General Fund	Water Fund	Wastewater Fund	Total All funds
Beginning Balance	$	$	$	$
Revenues				
Taxes	$	$	$	$
Property Taxes	$	$	$	$
Sales Taxes	$	$	$	$
Other Taxes	$	$	$	$
Franchise Fees	$	$	$	$
Charges for Services	$	$	$	$
Licenses & Permits	$	$	$	$
Fines & Forfeitures	$	$	$	$
Contracts with Agencies	$	$	$	$
Contributions with Agencies	$	$	$	$
Contributions from individuals	$	$	$	$
Interest Income	$	$	$	$
Water User Fees	$	$	$	$
Wastewater User Fees	$	$	$	$
Wastewater Tap Fees	$	$	$	$
Other Revenues	$	$	$	$
Miscellaneous	$	$	$	$
Total Revenues	$	$	$	$
Total Available*	$	$	$	$
Expenditures				
Personal Services	$	$	$	$
Supplies	$	$	$	$
Contractual Services	$	$	$	$
Capital Outlays	$	$	$	$
Debt Service Payments	$	$	$	$
Total Expenditures	$	$	$	$
Contingency Allocation**	$	$	$	$
Ending Balance	$	$	$	$

*   Revenues + Beginning Balance
** While some advocate the use of the Contingency Allocation as the Ending Bal-
     ance, it is prefereable to use the Ending   Balance in addition to the Contin-
     gency Allocation that is available for minor emergencies or cost overruns tha
     may arise during the course of the year. The Ending Balance should not be
     viewed as a surplus.

- Intergovernmental Revenue. State and federal grant funds and payments that provide city services to the county, school districts, and other jurisdictions.
- Utility Charges. Service charges paid by customers to various utility providers.
- Other Revenue. Miscellaneous revenue.

The summary should include the total estimated revenue that will be collected during the fiscal year or carried forward from the previous year.

Another section lists budgeted expenditures by classification. The expenditure classes could include the following:

- Personal Services. This includes the cost of salaries, wages, and fringe benefits for city employees.
- Supplies. This includes the cost of fuel, tires, office supplies, small items of equipment, tools, and clothing.
- Contractual Services. The cost of travel, office space rentals, purchased utilities, and professional services provided by attorneys, consulting engineers, architects, accountants, and other outside firms on a contractual basis. This category should not be confused with purchases of supplies and equipment for which the city enters into contracts on a competitive bid basis.
- Capital Outlays. Such as the cost of major equipment, vehicles, and other items, which have a useful life of several years.
- Debt service. Payments of principal and interest on general obligation (tax) bonds, revenue bonds, certificates of obligation and other debts that may be incurred by the city. Lease purchase payments that represent obligations only for the budget year should be included in the account, which is appropriate for the item being leased.

The total appropriation line, which represents total expenditures authorized, is toward the bottom of the Budget Summary form. This amount represents funds the city council has appropriated for the fiscal year.

An amount set aside for a "rainy day"—such as emergencies and other contingencies—is designated as a contingency allocation. To spend any money set aside in the contingency allocation, the council should adopt an amendment to the budget.

The ending balance becomes the beginning balance for the next year's budget calculations.

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2. THE REVENUE SUMMARY

The revenue summary lists all revenue funds available to the city. It includes a column for funds that were collected during the previous year as well as columns for funds that are budgeted for collection during the current fiscal year and funds projected to be collected during the current fiscal year. A fourth column summarizes funds that are proposed to be collected during the next fiscal year (Exhibit 2).

A glance at the revenue summary form offers the reader a ready understanding of the city's current revenue picture, revenue trends over three years (previous, current and upcoming fiscal years) and any indication of problems collecting revenue.

It should be noted that the revenue sources listed in the left-hand column of the revenue summary are classified exactly the same as revenue sources in the budget summary.

Using the same classifications throughout the budget is essential for consistency and clarity.

Preparation of the budget for the next fiscal year generally begins six months before the end of the current fiscal year. To project revenue the city expects to collect during the current fiscal year, the budget officer determines collections to date and adds to this figure the amount the city can reasonably expect to collect during the remaining months of the current fiscal year. For revenue estimating purposes, the later the city waits to estimate revenue the more accurate the figures will be in projecting next year's revenue. As a practical matter, however, the city should not delay beyond the reasonable time needed for adequate budget preparation.

Sample Line-item Budget — Revenue Summary
City of Great Expectations
Fiscal Year 2000-01

	Previous Fiscal Year Actual	Current Fiscal Year Budgeted	Current Fiscal Year Projected	Next Fiscal Year Proposed
GENERAL FUND REVENUES				
Taxes	$	$	$	$
Property Taxes	$	$	$	$
Sales Taxes	$	$	$	$
Other Taxes	$	$	$	$
Franchise Fees	$	$	$	$
Charges for Services	$	$	$	$
Licenses & Permits	$	$	$	$
Fines & Forfeitures	$	$	$	$
Contracts with Agencies	$	$	$	$
Contributions from individuals	$	$	$	$
Other	$	$	$	$
Subtotal	$	$	$	$
WATER FUND REVENUES				
Water User Fees	$	$	$	$
Water Tap Fees	$	$	$	$
Other	$	$	$	$
Subtotal	$	$	$	$
WASTEWATER FUND REVENUES				
Wastewater User Fees	$	$	$	$
Wastewater Tap Fees	$	$	$	$
Other	$	$	$	$
Subtotal	$	$	$	$
MISCELLANEOUS REVENUES	$	$	$	$
GRAND TOTAL REVENUES	$	$	$	$

3. THE DEPARTMENT EXPENDITURE SUMMARY

The department expenditure summary provides the information necessary to compare total departmental budgets for the prior year, the current year, and the budget year (Exhibit 3). The reader can tell at a glance which departments have increased or decreased overall spending. Presentation of this information provides the reader a basis for determining which departments deserve careful consideration as a result of increased or decreased expenditures. In addition, it provides a useful comparison between budgeted and actual expenditures for the current year.

Sample Line-item Budget — Department Expenditure Summary
City of Great Expectations
Fiscal Year 2000-01

	Previous Fiscal Year Actual	Current Fiscal Year Budgeted	Current Fiscal Year Projected	Next Fiscal Year Proposed
DEPARTMENT				
General Government	$	$	$	$
Public Safety	$	$	$	$
Sanitation	$	$	$	$
Health & Welfare	$	$	$	$
Streets	$	$	$	$
Culture & Recreation	$	$	$	$
Water	$	$	$	$
Wastewater	$	$	$	$
	$	$	$	$
	$	$	$	$
	$	$	$	$
	$	$	$	$
	$	$	$	$
	$	$	$	$
	$	$	$	$
	$	$	$	$
	$	$	$	$
	$	$	$	$
	$	$	$	$
Other	$	$	$	$
Total Expenditures	$	$	$	$
CONTINGENCY APPROPRIATION	$	$	$	$
GRAND TOTAL OF EXPENDITURES	$	$	$	$

4. THE DEPARTMENT BUDGET

A separate department budget is prepared for each city department, including the solid waste department, street department, police department, water and wastewater (sewer) department, and others. The city should budget for each expenditure group classification that is reported separately in the accounting records. The expenditures of each department are listed to show actual expenditures of the department or activity during the previous fiscal year, budgeted expenditures for the current fiscal year, projected actual expenditures for the current fiscal year, and budgeted expenditures for the next fiscal year.

By using uniform expenditure classifications in the budget for each department, corresponding items in all of the departmental budgets can be added together to arrive at expenditure totals in the budget summary. The expenditure classifications will be drawn from the city's accounting system.

Spaces are provided at the bottom of the departmental budget form for a description of the functions of the department and its accomplishments during the year. Space is also provided for a description of changes the department head proposes to implement during the next fiscal year and the specific ways those changes will improve the services provided by the department.

Sample Line-item Budget — Department Budget City of Great Expectations Fiscal Year 2000-01				

Department: _____ Fund: _____

Expenditure Classification	Previous Fiscal Year Actual	Current Fiscal Year Budgeted	Current Fiscal Year Projected	Next Fiscal Year Proposed
Personal Services	$	$	$	$
Supplies	$	$	$	$
Contractual Services	$	$	$	$
Capital Outlays	$	$	$	$
Total Expenditures	$	$	$	$

Describe department's functions and responsibilities:

Describe accomplishments during the year and major changes or improvements that will be made during the next fiscal year:

5. THE SCHEDULE OF OUTSTANDING BONDED DEBT

The schedule of outstanding bonded debt lists each of the city's long-term debts, including general obligation bonds, revenue bonds, leases, etc. The schedule should include a description of the debt issued and the purposes for which the debt was issued; the issue and maturity dates; the amounts outstanding at the end of the current fiscal year (this is the same amount that will be outstanding at the beginning of the first day of the upcoming fiscal year); and the amounts of principal and interest payments that must be made during the upcoming fiscal year (Exhibit 5).

Many budget officers will show the amount of principal and interest that will be required not only for the upcoming fiscal year, but also for each succeeding fiscal year until the bonds are retired. This information is important to the city's long-range financial planning.

Funding capital assets can be provided through debt, capital leases, grants, donations, taxes or budgeting capital funds. The latter method is akin to setting aside money for a car each month so that there is sufficient money in that account to buy the car when it is needed. This capital budgeting technique can be used for funding multiple projects through a capital fund, and it spreads the cost of assets over a period of years. Purchasing long-term assets using debt also spreads the cost over many years but adds interest to the cost. The alternative is to make the current taxpayers, ratepayers or users foot the entire bill for long-term assets in the current year.

Although each method of funding capital assets has its merits and pitfalls, a city should be particularly cautious about issuing too much debt. The danger is that debt could outlast the asset itself. This could leave the next council with the prospect of paying for the old asset while at the same time paying to replace it. Taxpayers in future years would be paying for an asset that was used by previous taxpayers. In either case, a city should have a long-term capital plan to develop its annual budget properly. Determining the best way to pay for projects is a local decision that should be based on reasonable long-term economic expectations rather than short-term political expediency.

		Sample Line-item Budget — Schedule of Outstanding Bonded Debt City of Great Expectations Fiscal Year 2000-01				
Issue*	Purpose	Amount Issued	Issue Date	Maturity Date	Amount Out-standing
		$			$
		$			$
		$			$
		$			$
		$			$
		$			$
		$			$
		$			$
		$			$
		$			$
		$			$
		$			$
		$			$

	Payments Due During Next Fiscal Year**		
Issue*	Principal	Interest	Total
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$

*   Include all long-term debt, i.e., General Obligation Bonds, Revenue Bonds, Leases, etc.

** Show total principal and interest due to be paid each fiscal year for each separate debt, whether it was to fund water or wastewater improvements, street improvements, building construction, lease-purchase, tax anticipation notes, etc.

6. THE SCHEDULE OF CAPITAL OUTLAYS BY DEPARTMENT

The capital outlays schedule lists each building, piece of major equipment and all other capital items approved for the various departments (Exhibit 6). The total amount of capital outlay for all departments is entered under "capital outlays" in the budget summary.

The capital outlay budget should be considered as part of a long-term—at least five years—financial plan to forecast spending. A multi-year budget plan provides a picture of what the city's financial status is likely to be. With a preview of where possible shortfalls or surpluses may occur, plans can be changed well enough in advance to avoid crises. Planning will be especially important for capital improvements such as buildings, major maintenance to buildings, vehicles and other equipment, or for developing recreational facilities.

Planning allows a municipality to identify future needs, provide long-term financing for those projects and coordinate community growth.

Sample Line-item Budget — Schedule of Capital Outlays by Department
City of Great Expectations
Fiscal Year 2000-01

Department:_____   Fund:_____

Item	Estimated Cost	Less Trade-in of Existing Equipment	Net Cost
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
	$	$	$
		Total	$

8. PERSONNEL ACTION REQUEST

A major part of a budget is personnel costs. Examination of personnel requirements can be linked to the budget, especially in case of any changes from existing staff levels. It is first necessary to determine the number, type, and salary requirements of all authorized positions in the department. Form 5, on the following page, is used to make the following personnel changes:

1. To establish one or more new positions. This form can be used to request more than one new person if all the proposed positions are for a new or expanded service program (for example, a new recreation centre or branch fire station) and all the new positions are needed to institute the new program.
2. To change the classification and/or salary of existing position(s).

Personnel Action Request

Department _____ Your Name _____

Purpose of form: This form is to be used to make the following personnel changes:

1. To establish new position (s).

2. To change job titles or salaries of existing position (s), including the deletion of existing positions.

---

1. Request to Establish New Position(s)

   Number of identical positions requested _____;

   Duration: _____ Permanent _____ Temporary for _____ months

---

Title of Position(s) Salary or Wage Level Title of Position (s)   Salary or Wage Level

---

Justification for Position(s)

---

2. Request to Change (or Delete) Existing Position(s)

   Number of identical positions _____; Action: Change_____ Delete _____

Present Title and Salary   Proposed Title and Salary
(do not use if position is deleted)

Justification of Proposed Changes

Additional Cost Data Section

List the cost of additional equipment required if this request is approved.

Approval Section

_____ Date   _____ Date

____ Approved _____ Disapproved   _____ Approved _____ Disapproved

_____   _____
Chief Executive   Governing Body

Submit this form for each position or group of identical positions.

9. PROGRAM SUMMARY WITH GOALS, OBJECTIVES AND MEASURES

This is a sample form which includes goals, objectives and measures for a Street Lighting program.

Program Summary with Goals, Objectives and Measures

STREET LIGHTING INFORMATION
Program—Goals and Objectives

200X Budget

Decision Unit	Department	Decision	Cost
Street Lighting	Transportation	Unit Number	Center No.

Program Title: Street Lighting

Goal Statement: Provide for the planning, budgeting, design, construction, operation and maintenance of city-owned streetlilghts in accordance with the standards published by the Illuminating Engineering Society/American National Standards Institute and policies adopted by the Governing Body. Also continue negotiations with private investor-owned Power and Light relative to the purchase of streetlights they own in the community.

Objectives: 1. Street Lighting Construction—Construction in 200X will be started and inspections conducted to see that applicable plans and specifications are met on Street Lighting Capital Improvements Projects (CIP) as previously budgeted and that construction is started on eighty (80) percent of the street lighting projects approved.

Project No.	Location	Description
1	Local Residential Streets	New
2	71st, Lamar to Nail	Replacement
3	95th, Quivira to Bluejacket	Replacement
4	95th, Lowell to Metcalf	Replacement
5	103d, Quivira to Pell	New
6	Metcalf, Interstate to College	New

(Should be reviewed with CIP for consistency.)

2. Planning and Design
   A. Provide all requested streetlight data for preparation of next year's budget and Capital Improvements Program.
   B. By mid-year, complete design of all streetlight projects budgeted for this year.
   C. By the end of the year, complete design of 75 percent of street light projects budgeted for next year.

Activity Measures:

1. Percent of street miles lighted to planned intensity	Current Level
2. Mean time to reinstate service	3 hours
3. Percent of contracts completed on time	98%

PART TWO—MANAGEMENT TOOLS

PURPOSE

The budget and budgeting have taken on new meaning in those parts of the world where many essential functions have been shifted from the national government to the local level. Local officials today have vastly increased responsibility for raising revenue, allocating resources, and monitoring LG operations. Limited resources place the added burden on LGs to maximize revenues, contain costs, and improve accountability to the public for how scarce resources are used. The budget process is the annual forum at which difficult allocation issues must be resolved; issues about how much will be spent for what and at the expense of what else. This workshop is designed to clarify the multiple purposes of budgeting and increase the ability of finance managers to use the budget to help policy makers more wisely and effectively allocate limited resources to alternative uses.

Don't forget to look back at the Learning Applications! Many of them can be easily adapted for group exercises and may be more appropriate than the following training tools for persons who are just being introduced to the concepts of budgeting.

CONTENTS

A brief description of each learning activity is shown below with an approximation of the amount of time required. If you wish to change the order, to omit something, or to add training material of your own, feel free to do so.

5.L   WARM-UP EXERCISE: PERSPECTIVES ON BUDGETING

Participants make a case for four different perspectives on the purpose of the annual budget and present arguments favouring their respective positions. (60 minutes)

5.2   TRAINER PRESENTATION

Brief concept presentation based on the preceding essay that provides participants with an overview of budget making, control and reporting with emphasis on alternative approaches to budgeting. (30 minutes)

5.3   CASE STUDY: RESHAPING THE BUDGET PROCESS

Participants read and analyze a case that illustrates an effective budget making process and the central role of the finance officer in shaping the process. (90 minutes)

5.4   EXERCISE: SETTING BUDGET PRIORITIES

Participants engage in a budget priority setting simulation as members of a council appointed finance committee. (180 minutes)

5.5   MINI-CASE STUDY: LOCAL GOVERNMENT AS COMMUNITY EMPOWERER

Participants, working in small groups, develop a plan for the distribution of grant funds based on facts presented in the case. (90 minutes)

5.6   EXERCISE: UNCONVENTIONAL PRACTICES

Participants are asked to evaluate an unconventional practice for ensuring the maximum yield from a particular revenue source. (30 minutes)

5.7   EXERCISE: IDENTIFY COST CONTAINMENT OPPORTUNITIES

Participants use hypothetical examples to identify opportunities for cost containment in their own organizations. (45 minutes)

5.8   CASE STUDY: THE OUTSOURCING DECISION

Participants read and discuss a case that illustrates the factors to be considered by a local government in choosing a service delivery alternative. (90 minutes)

5.9   CLOSING EXERCISE: LEARNING TRANSFER

Participants reflect individually on what they have learned and make commitments to put it to use back home after the workshop. (30-45 minutes)

5.1   WARM-UP EXERCISE: PERSPECTIVES ON BUDGETING

TIME REQUIRED

60 minutes

PURPOSE

This exercise is to broaden the understanding of participants about the multiple roles played by budgeting in the LG finance process.

PROCESS

Divide participants into four groups of approximately equal size. Explain the purpose of budgeting may be defined differently depending on who is asked. Tell participants that each group will become an advocate for one of the purposes commonly prescribed for budgeting. The four perspectives are these:

- The budget is primarily an expression of political aims
- The budget is primarily a way to match annual needs with available resources
- The budget is primarily a way of demonstrating fiscal accountability through public reporting
- The budget is primarily a means for controlling costs and maintaining the solvency of local self-government

Assign one of the four perspectives to each group and tell the groups they are to make a convincing case in support of their assigned positions on the budget's primary importance. Tell them they have 20 minutes to complete the task after which time they will be asked to present their arguments briefly to one another in a plenary session.

At the end of 20 minutes, ask the four groups to reconvene. Ask a spokesperson for each group to make the group's presentation and to hold it to five minutes.

After all groups have made their presentations, ask which of the four purposes of budgeting is believed to be the most important and encourage a discussion of budgeting as an important instrument for achieving all these purposes.

5.2 EXERCISE: TRAINER PRESENTATION

TIME REQUIRED

30 minutes

PURPOSE

This presentation is to provide participants with information and perspectives on the purposes and practices of LG budgeting.

PROCESS

Prepare the presentation based on information covered by the preceding essay on budgeting. Explain the multiple purposes of budgeting (a plan for allocating limited resources, a vehicle for public reporting, a means for the achievement of political aims, assurance of control over the way public funds are used). Describe the most common types of budgets – line item, performance, program, zero-based and target-based. Review the process by which budgets are prepared and the steps leading to their presentation for adoption by a local governing body.

   Outlined information on note cards may help you cover the information systematically and stay on schedule. Ask questions from time to time during the presentation as a check on participant comprehension and to hold their attention. Augment the presentation with visual aids including pre-printed newsprint sheets and overhead transparencies as a further aid to comprehension.

5.3 CASE STUDY: RESHAPING THE BUDGET PROCESS

TIME REQUIRED

90 minutes

PURPOSE

This case study illustrates a workable budget process reflecting a proper distribution of budget making tasks among responsible officials and the central role of the finance officer in shaping the process.

PROCESS

Tell participants they will be reading a case that illustrates a highly professional role for a finance officer in the redesign of a budget making process that more properly distributes tasks among staff and a powerful council finance committee.

Provide each participant with a copy of the case, A New Budget Process for Fontana. Ask them to read the case. When participants have read it, tell them they will be working in small groups to discuss the case and answer the questions immediately after the case.

Tell participants they have 45 minutes to discuss the case and answer the questions. After that, tell them to return to the general session with their group's answers to each question printed on a sheet of chart paper and be ready to discuss their answers with other group participants.

At the end of 45 minutes, reconvene the groups. Ask for reports from a spokesperson for each group, one question at a time. Ask a different group to take the lead in answering each question and, to save time, for other groups to confine their answers only to any differences in thinking that came out of their own discussions.

A New Budget Process for Fontana[4]

BACKGROUND

The LG of Fontana is a community of 9,500 residents located about thirty-five miles north of the capital city. Benefiting from an expanding regional economy, Fontana has experienced growth in its commercial and industrial base, and new apartments are being built at the LG's edge to accommodate the influx of working families. Owing to the increased demand on LG for basic services, the LG council of Fontana recently hired Stefan Masar as its first LG manager who, in turn, has employed Olga Frano to head the LG's department of finance and budgeting.

Lacking professional management until recently, the LG council in Fontana has practiced a "hands on" approach to managing the affairs of LG. This was done historically through rigidly departmentalized standing committees, usually chaired by members of the council. Rarely has the council pursued a course of action contrary to a committee recommendation.

There has been considerable frustration within the LG staff about the administrative/management authority exercised by the LG council. Not certain what to expect from the council to staff-initiated proposals, department heads have been inclined to practice a "wait and see" approach, leaving the initiative for new programs or service changes to the council through its standing committees. Lack of risk taking and limited initiative from the staff has contributed to a "turf" atmosphere, a kind of compartmentalization, with the focus more on competition for the needs of individual departments than on what is best for the community.

THE BUDGET ISSUE

A particularly contentious source of conflict and frustration in the year immediately preceding Masar's appointment was the LG's annual budget process. The annual budget, for many years, was recognized to be the exclusive responsibility of the council finance committee. Reflecting the compartmentalized nature of the departments and the committee system, budget deliberations were highly competitive, focusing on one department at a time independently of the concerns of others.

Traditionally, the committee would meet with one department at a time in an exhaustive series of line item review sessions. Last year's budget review sessions entailed day-long meetings over twelve consecutive weeks before a budget could be presented by the committee for council approval.

Because of this departmentalized approach, budget allocations were achieved through negotiated trade offs among departments, often without input from the finance staff that did little more than assemble and report financial data. Predictably, the departments that enjoyed strong committee representation at the council

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4   Adapted from Tapson, Samuel E. "Redesigning the Budget Process" in *Managing Local Government: Cases in Decision Making*, 2nd ed., James Banovetz, ed. (Washington, D.C.: International LG/County Management Association, 1998), pp. 186-91.

level were favoured in these negotiations. This method of reconciling needs with resources, needless to say, was a source of frustration and resentment to all but the most powerful departments. By the time Masar and Frano had arrived, the annual budgeting process had become so crippled that it had produced a "cut throat," adversarial atmosphere within Fontana's departmental structure. In fact, the situation had deteriorated to the point that the council viewed an overhaul of the annual budget process a top priority for the new LG manager and head of finance.

THE ENVIRONMENT FOR CHANGE

Conscious of the importance of the budget process but beset with other demands for his attention, Masar placed the burden of coming up with a plan of action squarely on the shoulders of Olga Frano. Paramount among the issues facing Frano in reforming the budget process was the dominating position of the finance committee in the budget process. Further complicating the matter was Vladimir Cierna, the committee chair who also was serving as deputy mayor, giving the committee even greater prominence in the affairs of local governance. Cierna had long enjoyed a pivotal position in the budget process. Although a strong supporter of more professional LG management and overhauling the budget process, Cierna and the committee would have to be supportive of the specific changes that such an overhaul would inevitably entail. Otherwise, there was little chance of the changes being approval by the LG council.

THE STAFF PROPOSAL

It was Frano's view that a change in the budget process should emphasize the administrator's role and the use of policy justification to rationalize the budget allocation process. She was counting on Cierna and finance committee members being sufficiently frustrated with the current system to welcome a proposal even if it meant sharing power over the budget process with the staff. Given the "political" nature of the process, an approach to change would have to preserve a considerable degree of committee involvement while transferring authority for much of the budget preparation to the staff.

With these considerations in mind, and with the LG manager's knowledge and consent, Frano decided to propose one substantive change and several procedural/presentational ones in a memo report to Cierna and the finance committee. The changes included the following:

Department heads would submit their budget requests to the finance staff for review and adjustment. Each request would include a description of and justification for changes being proposed in the level of service, if any, for each key service area.

The finance staff would consolidate the information for all LG departments and present it to the finance committee. The committee would review the budget proposals in the aggregate instead of following the traditional line-item approach. The committee would set priorities for funding based on the relative merits of the several change proposals and the funds available for allocation. Department heads could be present during the committee's deliberations to answer questions and offer clarification when needed.

Following committee review, the finance staff would prepare a recommended annual budget for the LG manager's approval and presentation to the full council.

The proposed changes would shift the finance committee's involvement in budget development from "number crunching" to priority setting, transferring the detailed work to the finance staff. The change in format was designed to refocus the council's attention from a micro to a macro view of the LG's financial operations and health. Unexpectedly, the finance committee endorsed all of Frano's changes. In view of the committee's stature in relation to budgetary matters, committee endorsement was considered the same thing as outright council approval.

Questions

1. What do you suppose the finance director hoped to achieve by asking each department to include a description and justification for changes in the level of services that would necessitate budget adjustments?

2. What would you foresee as the impact on the budget process of having the finance committee focus its intention on aggregate departmental budget review and priority setting instead of line-item review?

3. Nothing is more politically sensitive for a LG council than the annual budget. With this is mind, and despite the apparent success of the new LG manager and finance director in budget redesign, do you feel this was too hasty an action to take so soon after their appointment? Discuss your reasoning. What would you have done under similar circumstances?

4. What do you see as the next step for the LG manager and finance director to take in order to encourage greater initiative from department heads in proposing ideas with budget consequences for the improvement of LG services?

5.4 EXERCISE: SETTING BUDGET PRIORITIES

TIME REQUIRED

180 minutes

PURPOSE

This exercise gives participants an opportunity for skill practice in using a systematic method to decide which new programs or program enhancements to recommend for funding in the next budget.

PROCESS

Tell participants the exercise is to learn about a useful budget priority setting process by taking part in a simulation. The situation to be simulated is a LG council appointed finance committee that is meeting to decide how best to use the money available next year to pay for new programs or program enhancements. As often happens, the cost of the programs exceeds the funds available. The committee, therefore, is faced with the task of deciding which programs to fund and which to handle differently or finance some other way. The process to be used for the simulation is called Interpretive Structural Modelling (ISM). It was developed about 25 years ago by a prestigious research institution in the United States as an aid for work groups in budget planning and setting work priorities.[5]

> *Trainer's note. Unlike many of the other exercises in this series, ISM is a trainer-facilitated activity. Since you very likely will be serving in the facilitator role, we suggest that you take a few minutes to read the instructions on the next page for facilitating the ISM before continuing with this exercise.*

After reading the instructions and having selected a member of the participant group to be the second facilitator, seat participants around a large table in conference style (it may be necessary to join several small tables together). Give all participants a copy of an information sheet on the simulation exercise (HANDOUT NO. 1). Give 10 of the participants, selected at random, sheets containing instructions for playing advocacy roles relative to the 10 budget proposals (HANDOUTS 3 – 12).

While participants are reading these materials, place a table for use of the facilitators at the front of the room. On the table place the ten 3x5 inch cards and the ten 30x6 inch poster boards containing budget item descriptions (HANDOUT NO. 2). Place an easel and chart pad near the table and in easy view of all the participants.

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5   Adapted from Kunde, James E. *The Facilitator's Process Guide for Working with Public Officials* (Indianapolis, In.: The Coalition to Improve Management in State and Local Government, undated), pp. 10-15.

Trainer's note. We have found it useful to type the ten budget items from the handout using a bold, sans serif typeface (e.g., IMPACT), and choosing the largest possible font size for printing the ten items on individual sheets of paper. A printing company or company with professional photo copying equipment can do the necessary "blow ups" and print the results out the on sheets of poster board which you can then cut into 30x6 inch strips for display.

When everything is in readiness, begin the exercise with the first comparison. Continue as described in the instructions until the ten budget items are arranged in priority sequence and the committee has concluded its negotiations about funding.

At the close of the exercise, initiate a discussion of the simulation and its usefulness as a tool for setting budget priorities. Ask questions such as the following to generate a discussion of priority setting, the budget process, and the role of the finance committee.

- How are budget priorities set in your LGs?
- What are some of principal difficulties you have experienced or observed in setting budget priorities?
- How would you appraise the process used in the simulation as an aid for setting budget priorities in your LG?
- What changes or adjustments do you believe would have to be made for the process to work effectively for you?

We are assuming that, if you are reading this section, you are the trainer for a workshop on the operating budget and that you will be facilitating a simulation exercise using the ISM method. As already mentioned, ISM is a process that can be used by a finance committee to make difficult and often painful funding choices under circumstances where the number of projects to be funded exceeds the funds available.

PREPARATION

ISM is a variation on a well-known method for making choices called "paired comparison." ISM involves asking the participant group to choose which is the more important of two budget items which have been printed in advance of strips of poster board and are displayed for comparison, side by side, on a display easel. All budget items, ten for this exercise, are compared with each other in this way, resulting at the end of the process in list of budget priorities.

Each of the ten budget items should be printed ahead of time in large, bold letters on a strip of poster board approximately 30 inches long and 6 inches wide. Each of the budget items should be numbered and the approximate cost shown. The same information should be printed on 3x5 inch cards for use by the facilitator in conducting the exercise.

Other materials and equipment needed for the exercise are a flip chart pad and easel, markers, and masking tape. A table and chair will be needed by the facilitator at the front of the room.

The process can be facilitated by one person, but it moves much more efficiently with two facilitators, particularly with participant groups of fifteen or more. Therefore, we recommend the recruitment of a member of the participant group to serve as the second facilitator for this exercise. This should be done soon enough so that the second facilitator has time to read these instructions and, perhaps, take part in a rehearsal of the exercise if this is believed necessary and time permits.

PROCEDURE

There are two facilitator roles in this exercise: (1) Controller; and, (2) Presenter.

CONTROLLER

The controller arranges the numbered index cards in front of him/her and selects two to begin the comparison. It is wise to consider the first two to be compared ahead of time so that the comparison seems logical. Later on, the group will have no trouble making comparisons, but beginning the process with highly contrasted items will only provide an opportunity for the "process- avoidance" types to complain. Consider the following ten items:

1	4	7	
2	5	8	10
3	6	9	
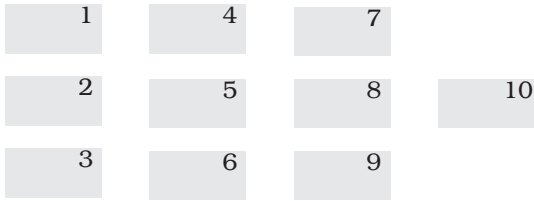
The controller tells the presenter to compare one with 2 and puts the cards in front of him/her as follows:

| 1 |
| 2 |

If the group decides 1 is preferred over 2, the controller displays the cards as follows:

| 1 | 2 |
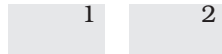
The controller then takes card 3 and suggests it be compared with 2:

| 1 | 2 |
| | 3 |

If 3 is preferred to 2, the controller then suggests it be compared to 1:

| 1 | 2 |
| 3 | |
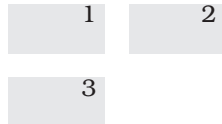
If 1 is preferred to 3, the controller displays the cards as follows:

| 1 | 2 | 3 |
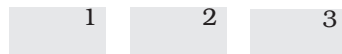
In each of the following sequences, the controller begins the comparison process at the middle, then moves left or right (or up or down), depending on the result of the group decision. Some items may be determined to be equal. When that happens, the display is shown as below, and the comparisons stop. So, for example, if 4 is compared to 3 and found equal, the display shows:

	3	
1		2
	4	
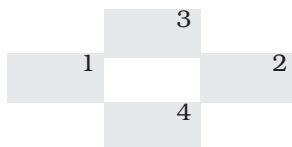
In future comparisons, either 3 or 4 can be used for that slot. It is not necessary to check both. At the end of the comparisons, the display might look like this:

```
                    3                              8

      7      1             5      2      6              10

                    4                          9
```
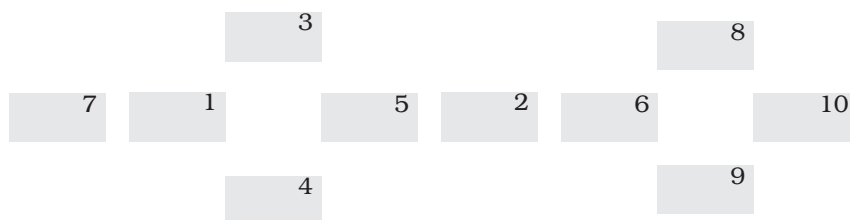
The controller then shows this to the presenter, and the two of them arrange the 30 by 6 inch display boards in the same sequence on a wall, creating a "picture" of the group's priorities.

PRESENTER

The presenter arranges the 30 by 6 inch display boards in front of him/her so they can be handled quickly and sorted to find the numbers requested for comparison.

The presenter has a flip chart with two shelves (shelves can be taped on the easel using pieces of wood or markers). Between the shelves, the presenter places the comparison question on the flip chart. In general, it is better not to use "importance" as the evaluating question. Rather, use something that combines opportunity and importance so that the priority emerges without discussions of value.

When the controller tells the presenter to compare 1 against 2, the presenter picks out 1 and 2 from the 30 by 6 inch display boards and places them on the shelves.

The presenter can proceed with a choice in several ways, depending on the size of the group. As presenter, you might ask the group to examine the question, and then ask if any explanation is needed. The final step is to vote. If the vote is a clear majority, you can accept it as a firm decision and move on. If the vote is close, stop and ask for discussion. When in need of discussion, ask if anyone wants to make a case for "yes," and then, if anyone wants to make a case for "no." After a reasonable period of discussion – up to four or five minutes – vote again. Consider this vote as final.

If the group is larger than ten, it is desirable to divide into voting teams. Teams of up to seven people, each having one vote per team, can increase participation numbers. The ideal size for a voting group is less than seven (about three to four). The group selects a spokesperson that presents the group's vote. At the end of the comparisons of the ten items, the wall might look like the example shown below.

In a budget process, add the numbers starting with top priority (left of page) and move right (or down) until available funds run out (e.g., vertical line A on the exhibit). Participants can then decide if items to the left of this line can be:

- Financed with less money (e.g., a mid-year start up instead of full year);
- Financed in some other way (e.g., foundation grants or corporate gifts);

- Provided by some other organization in the community through privatization or outsourcing; or,
- Financed through reallocation of budget funds available from successful efforts to contain administrative or operational costs.

If additional funding or other delivery methods are found, the line then may be moved to the right (e.g., vertical line B below.)

A   B

Handout No. 1: The Situation

The Fontana Council Finance Committee is meeting to set priorities for the LG's next annual operating budget. Ten targets for funding have been identified by the committee through its meetings with the mayor and finance staff and after a comprehensive review of departmental requests. These ten priorities all represent desirable program improvements or enhancements, and the committee has been told by the mayor to do everything possible to fund all 10 of them.

Funding all of the programs would cost $507,000. According to the most recent revenue forecast, however, funds will not be available to pay for all of them. After all mandatory costs and other expenses to retain the current level of operations have been met, the finance department estimates that $300,000 can be set aside for allocation to new programs or program enhancements.

The committee's first task is to establish its funding priorities and then to look for creative ways to find financing for the lower priority programs. Creative ways might include privatization, deferment of program start-ups, private sector/non-profit sector cost sharing or the exercise of realistic cost containment strategies to free-up money from the proposed operating budget. Use your imagination!

Handout No. 2: Proposed New Programs or Program Enhancements

ESTABLISH A TOURISM PROGRAM — $30,000
EXPAND COMMUNITY CENTRE FOR YOUTH PROGRAMS — $75,000
REPLACE FIVE MAINTENANCE VEHICLES — $65,000
PURCHASE ADDITIONAL LIBRARY BOOKS — $9,500
EXPAND ROAD REHABILITATION PROGRAM — $95,000
TRAIN SUPERVISORS IN TQM — $7,500
RAISE EMPLOYEE SALARIES — $110,000
REMODEL FIVE LG-OWNED HOUSING UNITS — $52,500
PURCHASE 10 NEW COMPUTER WORKSTATIONS — $40,000
EXPAND HEALTH CARE PROGRAM FOR AGED CITIZENS — $22,500

Handout No. 3: Instructions for Committee Member #1

You are a local businessperson or woman with an interest in a stronger role for LG in promoting economic development. You are proud of Fontana's cultural heritage and its many points of historic interest. You feel that something must to be done by some group to promote tourism in the community. This program, you believe, is an important first step in the right direction and $30,000 a small price to pay to get the ball rolling.

Handout No. 4: Instructions for Committee Member #2

The youth of Fontana are its greatest resource and hope for the future. As a mother/father of several teenage children, you have been concerned for some time about the lack of wholesome places for young people to go after school. You strongly support the use of LG funds to create an attractive place for use by community groups that provide health recreational and social activities for youth.

Handout No. 5: Instructions for Committee Member #3

The purchase of new motor vehicles is an absolute must as far as you are concerned. All of the vehicles to be replaced are high mileage, well beyond the normal trade in time. Three of them have been in the garage for repair several times this year and two of these will require engine overhauls within the next 12 months. Another had steering damaged in an accident last month, and the driver feels it cannot be driven safely in this condition.

Handout No. 6: Instructions for Committee Member #4

Your wife/husband chairs the library committee. She/he has asked you to support additional funding for the library. This will prevent cancellation of several periodical subscriptions and enable the library to purchase a set of historical documents on the history of Fontana. It is felt that purchasing library materials is a small item in relation to the other priorities.

Handout No. 7: Instructions for Committee Member #5

Few things can get greater public scorn or more praise than the condition of the roads. In your view, a public promise to complete the current program of road rehabilitation 12 months ahead of schedule would give the LG council the political capital it so badly needs. You can't imagine how the committee could possibly consider any proposal more important than this one.

Handout No. 8: Instructions for Committee Member #6

In the budget review last year, a proposal for supervisory training was deferred in preference for more pressing needs. This is the second year in a row that training has taken a back set to other needs. You are a firm believer in efficiency in LG and feel that training in quality management for supervisors is long overdue. You intend to point out that every year when new program money is available, most of it goes for salaries and rarely is serious consideration given to using a small amount for skill development. This has to change.

Handout No. 9: Instructions for Committee Member #7

Salary increases for LG employees has always been the top priority of this committee. You see no reason for it to be otherwise this year. Fontana is in a competitive market for good people. Besides, the cost of living goes up every year, and salary scales must be adjusted accordingly. Otherwise, our employees will get a net reduction in salary. That is simply unthinkable.

Handout No. 10: Instructions for Committee Member #8

LG-owned housing units are in a poor state of repair. The market for rentals is tight and several of the units are not occupied at present. You have been told that previous tenants left because they could move into cleaner, more attractive units owned by a

private property owner for the same rent. Not spending money to remodel these units could cost the LG substantially in lost rental income.

Handout No. 11: Instructions for Committee Member #9

Employees hired to occupy technical and administrative positions created over the last few years have been sharing computer workstations with other employees. The time sharing arrangements are quite inefficient and no longer tolerable with the advent of e-mail and personal password accessible files. Besides, expecting employees to be productive while denying them the proper tools is the worst kind of management practice.

Handout No. 12: Instructions for Committee Member #10

Several years ago, Fontana's decision to open a public health clinic for older citizens was received with great enthusiasm. Since many older citizens are not mobile enough to leave home, the addition of a home/health care visitation program would fill a huge gap in health care services to this age group. Being the exclusive care provider for an aged parent yourself, you are particularly sensitive to the need for funding this new service.

5.5 MINI-CASE STUDY: LOCAL GOVERNMENT AS COMMUNITY EMPOWERER

TIME REQUIRED

120 minutes

PURPOSE

This case is to improve participant understanding of how direct grants of public money to community- based organizations can be used to achieve important community and economic development goals.

PROCESS

Distribute copies of the mini-case study on the next page. Tell participants that the case is about a local government that has an opportunity to receive a sizable sum of money from the central government for use in promoting economic health in economically depressed areas of the community.

When participants have read the case, divide them into small groups of five to ten. Ask each group to complete two tasks and to be ready to report on their results in one hour.

- Develop a set of criteria related to the four indicators stated in the ministry's notification that are to be used as a standard for measuring the performance of community based groups applying for mini grants.
- Prepare a set of qualifications for the selection committee to use in choosing a grant recipient from the many competing applicants for a mini-grant in each of the target neighbourhoods.

Before participants get started on the task, remind them that the ministry has stressed building neighbourhood capacity and self-reliance as the most important goal of the grant program. Also, ask each small group to print the essentials of its report on a chart pad.

At the end of an hour, have participants reassemble and report on the results of their planning.

The Community Empowerment Grant Program

You are director of finance for a local government in a community of 75,000 population. You have been notified by the National Ministry on Commerce and the Economy that your local government is eligible to receive a "lump sum" grant for the promotion of economic health in economically depressed neighbourhoods. According to the ministry notice, activation of a funds transfer is conditional upon the submission and approval of a plan by a local government for producing measurable improvements in economic health within three to five years from the date of a grant award. Specific indicators of economic health mentioned by the ministry's notification are: 1) families below the poverty level; 2) percentage of employment-age persons not employed; 3) housing that does not meet minimum occupancy standards; and 4) a change in the rate of business closings. Improvements must be shown to have taken place in those neighbourhoods, which consistently score lowest on the ministry's measures of economic health.

In a subsequent conversation with a personal contact at the ministry, you get inside information that proves to be essential to the development of a successful application. You learn that ministry officials will give preference to applications that concentrate on the empowerment of community-based groups to build capacity and self reliance in their neighbourhoods to plan, implement and administer economic health projects. In other words, local governments who wish to receive grants will be successful if they are able to demonstrate to the ministry that they have an effective plan for attracting "fair-share," mini-grants from eligible community-based groups in the target neighbourhoods.

The application containing a community empowerment plan must be in the mail to the ministry before the end of this week. It is Monday morning and you will be meeting with the selection committee this afternoon.

5.6 EXERCISE: UNCONVENTIONAL PRACTICES

TIME REQUIRED:

45 minutes

PURPOSE

Promote possibility thinking about unconventional practices to increase the yield from an existing source of revenue.

PROCESS

Read to participants the following description of a practice used by a local government in Brazil to verify the actual amount of revenue due from a particular source.

One Brazilian municipality draws a substantial part of its revenue from a service sales tax on the local hotel trade. It has given some tax rebates to the local laundry in exchange for regular information on the number of pairs of sheets laundered for each hotel—a thorough check on the daily occupancy rates reported by the hotel owners![1]

In small groups of five or six, ask participants to discuss the situation and to answer the following questions about it. Give the small groups about 20 minutes for the discussion. After 20 minutes, ask for a report from each group with their answers to the questions.

Questions

1. What was the first reaction of members of your group to the situation?
2. What problem often related to the collection of amounts due from a particular revenue source is the information gathering arrangement designed to solve?
3. What drawback or drawbacks, if any, do you see with a practice of this kind?
4. What similar practices <u>are</u> or <u>might be</u> used by the local governments with which you are associated?

———————————————

From United Nations Centre for Human Settlements, Training Manual on Urban Local Government Finance for English-Speaking East and Southern African Countries (Nairobi: UNCHS—Habitat, 1992), p. 65.

5.7 EXERCISE: IDENTIFY COST CONTAINMENT OPPORTUNITIES

TIME REQUIRED:

45 minutes

PURPOSE

This exercise is to help participants identify opportunities in their own organizations to practice cost containment.

PROCESS

Introduce the exercise by telling participants that opportunities exist in every organization for containing costs without jeopardizing the quality of services. Divide participants into small groups of about five participants. Handout the worksheet on the next page and tell participants that it contains examples of common opportunities for cost containment. Tell participants that they are to read the examples and then to identify at least three service areas within their own organizations where improvements could be made that could result in lower costs. Mention that space is provided on the worksheet for writing their results.

Give the small groups about 30 minutes to complete the task. Then reconvene the small groups and ask each for a report. Compare the results and ask participants what their organizations are already doing to contain costs.

Opportunities for Cost Containment and Service Improvement

A starting place is needed for establishing a local government cost containment program. There are a number of ways to look for these starting places. They include:

- Operations and departments where visible problems already have been documented by citizen and employee complaints.
- Operations and departments where employees perform a series of repetitive tasks or where their tasks are duplicated by another department later (e.g., data entry).
- Operations and departments where there is an availability of new technologies, especially technology that has been proven successful already in other local governments.
- Operations and departments that seem always to have backlogs of work or that always miss assigned deadlines.
- Operations and departments that use the greatest share of available government resources because the return can be greatest.
- Ideas and approaches that have been used successfully by other organizations, especially other local governments.

Examples (enter below) of places within our organizations where we might look for cost containment opportunities include the following:

1. _____

_____

_____

_____

_____

_____

2. _____

_____

_____

_____

_____

3. _____

_____

_____

_____

_____

_____

5.8 CASE STUDY: THE OUTSOURCING DECISION

90 minutes

PURPOSE

This exercise uses a case study to illustrate some of the factors to be considered by a local government in choosing a service delivery alternative.

PROCESS

Divide participants into small groups. Tell participants they are to read a case about a city manager that is considering the merits of outsourcing a function to a private contractor that is currently being performed by the local government.

Provide each participant with a copy of the case "Outsourcing Vehicle Maintenance" (see next page). Ask participants to read the case and, in their small groups, to discuss the case and answer the questions about it.

Tell participants that, after 45 minutes, they are to return to the general session with their group's answers to each question printed on chart pad sheets and be ready to discuss their results with other participants.

Outsourcing Vehicle Maintenance

Peter Braun is the newly appointed city manager of Nicosa, a small community that is growing rapidly owing to an influx of homeowners who commute to and from jobs in the nearby central city. Since the fall elections, Nicosa's city council is dominated by business owners who want their local government, as they describe it, to be run more like a business. Accordingly, the council has directed its new manager to improve the efficiency of municipal operations in every way possible. While in agreement with the council publicly, the mayor, now in her third term as mayor, has cautioned Braun in private that she would oppose any proposal for improving efficiency that might jeopardize service quality or that would require hiring freezes or employee layoffs.

Taking to heart the council's interest in a more businesslike local government, Braun was committed to find every way possible to reduce operating costs without the unpleasant side effects the mayor had warned him to avoid. But, where to start! A few weeks later, at a meeting of the city management association, Braun heard a fellow city manager speak of a cost containment concept called "outsourcing." The manager described how his city had improved the efficiency of fleet maintenance by more than 40% by contracting out this service to a private garage. This, thought Braun, is just what I've been looking for as a starting place for a cost containment program in Nicosa.

Nicosa municipality has a small fleet services operation organized as a division of the department of public works. The cost for maintenance and repair of public works vehicles is paid for from the public works budget. Other departments that bring in their vehicles for maintenance or repair are billed for the parts and labour required. There are two full-time mechanics on duty, and limited supervision is provided by a public works supervisor.

With little knowledge of the fleet service operation in Nicosa, Braun decided to conduct a preliminary operation's analysis. Short on staff support, Braun was able to obtain an intern from a nearby university to do the analysis under his supervision. As part of the analysis, the intern was to compare the division's cost for brake jobs over a 12 month period with a cost estimate for the same service furnished at the city manager's request by a private garage that already was doing routine oil changes for city vehicles. On his desk two weeks later, the intern's report provided Braun with some useful information about the fleet service operation.

The cost for parts and labour to perform brake repairs on city vehicles would have been approximately 30% more had the work been outsourced to the private garage used for the comparison.

There is an added cost for the private garage to pick up and deliver inoperative municipal vehicles. This cost could vary substantially depending upon the distance and whether or not a truck trailer is needed for hauling. The private garage also included a charge for each work order and other shop charges that were not included in the repair cost calculated by the division.

The private garage's cost estimate contained an overhead calculation that was not included in division's cost figures (i.e., the division's proportional share of utility usage, secretarial cost, accounting, leave time, sick time, health benefits and cost of replacing and maintaining shop equipment).

The average time for returning a vehicle to service after delivery for a brake repair was one-third less, on average, for the private garage than for the division shop. Several inefficiencies in the city division's shop practices that might account for the longer out of service time were noted in the intern's report. One is lack of an on-site parts inventory that results in delay when one of the mechanics must drive across town to purchase parts. Another is frequent interruption of repair work in progress when mechanics are called away to accept new jobs, discuss the work to be done and take time to fill out work orders.

An added complication in completing work on schedule is the division's practice of giving priority to emergency vehicles in need of repair, increasing the out of service time for other, low priority vehicles.

The wage scale for mechanics in the private sector is better than in the public sector. A decision to outsource the vehicle maintenance and repair function to a private garage would not cause layoffs, but it would result in a shift in work site and employer for city mechanics.

Questions

From the facts presented, what appear to be the principal advantages of outsourcing Nicosa's fleet maintenance function? Disadvantages?

1. What seem to be the chief reasons for retaining the in-house fleet maintenance function? If it were to be retained, what might be done to improve operating efficiency?
2. What other information would be helpful to Braun in preparing a recommendation to the city council? How might this information be obtained? Who else might be asked by the city manager to help in obtaining it?
3. If a decision is made by the city council to outsource the fleet maintenance function, what is likely to be Braun's next move?

5.9 CLOSING EXERCISE: LEARNING TRANSFER

TIME REQUIRED

30-45 minutes

PURPOSE

This exercise is to help participants transfer the learning experiences of the workshop into their real-world activities as finance directors. The focus of this exercise is on raising expectations, engaging in realistic planning and making personal commitments. Most of the work is done on a personal basis with some interpersonal sharing.

PROCESS

Spend at least half an hour at the end of the workshop to focus the attention of participants on important learnings and encourage them to continue experimenting with these learnings in their management activities. Begin by giving participants about fifteen minutes to work independently on a simple learning transfer questionnaire. When participants have completed the questionnaire, ask them to share quickly with the group two or three things they intend to do differently in their roles with respect to the operating budget to close the workshop.

> *Trainer's note. It is generally agreed that the purpose of training is to improve the way people do things by showing them a better way. In fact, the success of a training experience can be measured by the amount of personal growth and change that takes place both during training and after the training is over.*

Commitments to learning and change made at the close of a workshop can help participants overcome learning resistance in themselves and in the work environment. A trainer can help learners make a successful transition from the world of learning to the world of doing through a few simple planning exercises.

A Learning Transfer Questionnaire

Take a few minutes to reflect on the operating budget, the new ideas you encountered in this workshop, and how you feel about them. Then, in the space below, write a sentence or two to describe something interesting you have learned about yourself during this workshop.

_____

_____

_____

_____

Based on what you have learned about yourself and the many possibilities for change presented by this workshop, what two or three things do you intend to do differently in efforts to make more effective use of the budget as a planning and management tool?

1. _____

_____

_____

2. _____

_____

_____

3. _____

_____

_____

Finally, what obstacles in yourself or in your work environment do you expect to experience during your efforts to implement these changes? What will you do to remove or minimize these obstacles?

Expected Obstacle	Action to Remove It
1.	1.
2.	2.
3.	3.

Financing the Operating Budget

PART ONE: CONCEPTS, PRINCIPLES, AND STRATEGIES

SUMMARY

The concept of "financing the operating budget" combines many functions across the local government (LG) organization. It involves estimating revenues (covered in the Financial Planning chapter), cash budgeting, revenue billing and collections, investing idle or excess cash, setting prices and user fees and the day-to-day monitoring of all of these functions to ensure that sufficient monies are available in the bank to actually pay for the day-to-day operations of the LG—the operating budget. It is important that all of these separate but very interrelated functions are considered when developing policies, procedures and making decisions about the LG programs and services.

This chapter examines how you can use the revenue structure, cash management, internal controls, the accounting system, revenue billing, and collections, investing idle cash, and cash budgeting to assure that the revenues needed to fund the operating budget are available when needed.

TWO VERY INTERRELATED CHAPTERS IN THE SERIES

There are two chapters in the series that probably should have been one chapter but it would have been too large! Those two chapters are the "Financing" chapters: Financing the Operating Budget and Financing the Capital Investment Plan. The basic difference between them is that the Financing the Operating Budget is based on the premise that LG revenues are used to finance the operating budget; while Financing the Capital Investment Plan is based on the premise that debt or borrowed monies—which are not revenues—are used to finance the capital investment plan. Therefore, one chapter focuses primarily on revenues, the other focuses primarily on borrowing money.

We duplicated some short-term financing information in both books. All basic cash management, investing, and cash budgeting information is in the Financing the

Operating Budget chapter. This is fundamental information that should be under-stood before tackling the Financing the Capital Investment Plan chapter.

RELATIONSHIPS BETWEEN CHAPTERS OF THE SERIES

The following matrix shows the interrelationships between Financing the Oper-ating Budget and other chapters in the series.

	Financing the Operating Budget
Introduction	The Introduction provides the framework for using the entire series.
Trainer's Guide	Provides guidelines for using the chapters to provide training.
Financial Policy Making	Policies establish the financial decision-making framework for a LG. Operating budget policies are an integral part of this framework.
Financial Planning	Financial planning is the long-term projection of both revenues and expenditures. The revenue and financing data used in the operating budget should be consistent with that projected in the long-term planning process.
Citizen Participation	Citizens should participate in setting a LG's priorities for spend-ing in the operating budget. Citizens should also monitor the actual use of budgeted funds to ensure that they accomplished the priorities and service goals of the operating budget.
Evaluating Financial Condition	Financial condition indicators should identify the following types of conditions that may affect the operating budget: (1) ex-cessive growth in overall expenditures as compared to revenue growth or growth in community wealth (business and personal income), (2) an undesirable increase in fixed costs, (3) ineffective budgetary controls, (4) a decline in personnel productivity, or (5) excessive growth in programs that create future expenditure liabilities.
Operating Budget	The Operating Budget chapter focuses on preparing the pro-posed expenditures where Financing the Operating Budget focuses on preparing or forecasting the revenues for the operat-ing budget. The two should be studied together. If your coun-try does not have separate operating and capital budgets then the four chapters (Operating Budget, Financing the Operating Budget, Capital Investment Plan, and Financing the Capital Investment Plan) should be studied together.
Capital Investment Plan (CIP)	The CIP is the long-term budget for the acquisition of capital investments like buildings, water systems, etc. The operating budget focuses on one year only and may not include the ac-quisition of capital investments. If your country does not have separate operating and capital budgets then the four chapters (Operating Budget, Financing the Operating Budget, Capital Investment Plan, and Financing the Capital Investment Plan) should be studied together.
Financing the Capital Investment Plan	Financing the Capital Investment Plan focuses on long-term revenue generation and borrowing for acquiring capital invest-ments. If your country does not have separate operating and capital budgets then the four chapters (Operating Budget, Financing the Operating Budget, Capital investment plan, and Financing the Capital investment plan) should be studied to-gether.

Accounting	The operating budget is a plan. Accounting shows how the monies were actually spent. The accounting and reporting system underpins the budgeting system and makes it possible to compare actual receipt of monies to what the governing body budgeted. It is one of the primary ways to hold LG officials accountable.
Performance Measures	Performance measures should be an integral part of a LG's operating budget. Performance measures specifically identify what or how much will be accomplished with the operating budget revenues. Performance measures are very important tool in providing LG accountability.
Asset Management	The operating budget and the capital budget are used to acquire and maintain the assets of a LG. For example, the maintenance of a roof on a clinic (a LG asset) is usually budgeted in the operating budget.
Procurement	The procurement process is normally used to acquire all goods, services, materials, etc. that are budgeted in the operating budget. In many countries this can be 35-65% of the total operating budget.

INTRODUCTION

We recognize that basic or introductory concepts are relative—depending upon your background and frame of reference for budgets, revenues and local government. Users of this material will range from those who have no knowledge of revenues or budget concepts to those who have a very sophisticated understanding. The following are our ideas of what represents the most fundamental principles and concepts needed to understand revenues and budgeting at a beginning level.

We also recognize that the concepts in this chapter focus on LGs who have control over a significant percentage of the revenues that fund the operating budget. We call these "own source" revenues. These are revenues over which the LG has budgetary authority to set the rates and collect the revenues, although there may be central government or provincial regulations identifying ceilings and which specific revenues the LG may administer as its own. For LGs in a decentralizing country, revenues may not have devolved to the LG yet. For those LGs we encourage you to look at these concepts as possibilities for the future.

BASIC CONCEPTS AND DEFINITIONS

 In this chapter, we pull together several different functions and blend them into a comprehensive concept of financing the operating budget. By "financing the operating budget," we mean all of the functions that go into estimating, collecting, administering and investing revenues to ensure that there are sufficient monies available on an on-going basis to finance the operating budget—the yearly plan for accomplishing goals and objectives of the LG through day-to-day operations.

DEFINITIONS

Since this chapter covers such varied functions, we have defined terms in the text as they are introduced.

PRINCIPLES

There are two principles that are essential to understanding the concepts in this chapter, these are:

- The "fiscal equivalence" principle is that "citizens-voters-consumers should pay for what they get and get what they pay for"—meaning they should benefit from the LG expenditures financed by the revenues the citizens-voters-consumers pay. In developing countries, this principle may not be considered if most revenues are collected at the central government level and then transferred or shared with other lower levels of government. Throughout this chapter, a fundamental assumption is that "LGs should be able to finance the services they provide."
- The "segregation of duties" principle says that "no one person should ever be placed in a situation to carry out or conceal an error or irregularity without timely detection by others in the normal course of carrying out their duties and responsibilities." No single employee should be able to authorize a transaction, record the transaction to the book of accounts, and maintain custody of the asset resulting from the transaction. So, the person who receives the cash from a customer should not be the same person who prepares the deposit, posts the payment to the customer's account, then reconciles the bank statement where the payment is deposited. In this case, it would be too easy for the employee to hold onto the cash payment, and keep this hidden from others. In smaller LGs, where there are not enough staff for complete segregation of duties, managers should try to rotate staff to different duties periodically, or themselves substitute for the employee for one or two weeks at a time, then check to see if collection patterns change during that time. If more cash is collected when a certain employee is not working at handling cash, this is a sign for further investigation.

CITIZEN PARTICIPATION AND FINANCING THE OPERATING BUDGET

Citizen participation is important in the annual budgeting process. The operating plan, represented by the operating budget, is what the LG will accomplish over the fiscal year. Just as citizens should participate in setting priorities for the expenditures and what will be accomplished in the community, they should be equally interested about the revenues that will provide the funding for the plan. In countries where the revenues primarily come from the central government it will be more difficult to get citizens interested in the mechanics of financing the operating budget—because

there is no direct relationship between the services they receive and any taxes they pay.

FINANCIAL PLANNING AND FORECASTING AND FINANCING THE OPERATING BUDGET

The chapter, Financial Planning[1], contains all of the methodology for forecasting revenues for the operating budget. Those forecasts provide the basic financing plan for the operating budget. We did not attempt to duplicate the same information here. Instead we have focused on the other tasks that follow forecasting the revenues—the actual revenue management that begins once the operating budget is adopted.

PERFORMANCE MEASURES AND FINANCING THE OPERATING BUDGET

After governing body adoption of the various policies that constitute the framework for financing the operating budget, it is important that the LG establish annual performance objectives so that performance can be evaluated. To be useful, objectives must be realistic, measurable, and understandable by those in the program and those who oversee the program.[2]

INTERNATIONAL MONETARY FUND'S GFS REVENUE CLASSIFICATIONS

The International Monetary Fund has published the Government Finance Statistics (GFS) Manual as a basis for standards for compilation and presentation of fiscal statistics and part of a worldwide trend toward greater accountability and transparency in government finances, operations and oversight. It is broad enough to be used for national or central government accounts and provides definitions, classifications, and guidelines for presenting government finance statistics. Many countries use this classification system or one similar to it for their central government revenue structure and for the various lower levels of government, including LGs. You may download a copy of the GFS manual from http://www.imf.org/external/pubs/ft/gfs/manual/

The GFS system uses the following definitions for the revenue chart of accounts:

Revenue—is an increase in net worth resulting from a transaction. There are four main sources for general governments:

- Taxes and other compulsory transfers imposed by government units,
- Property income derived from ownership of assets,
- Sales of goods and services, and
- Voluntary transfers received from other units.

Tax revenue—which forms the dominant share of revenue for many government units, is composed of compulsory transfers to the general government sector.

Social contributions—are actual or imputed receipts from either employers on behalf of their employees or from employees, self-employed or non-employed person on their own behalf that secure entitlement to social benefits for the contributors, their dependents, or their survivors. Contributions may be compulsory or voluntary.

Grants are non-compulsory transfers received by government units from other government units or international organizations. Grants may be classified as current or capital and can be received in cash or in kind.

Property income is received when general government units place financial assets and/or non-produced assets at the disposal of other units. Interest, dividends, and rent are the major components of this category.

Sales of goods and services include sale by market establishments, administrative fees, incidental sales by non-market establishments, and imputed sales of goods and services.

GFS Revenue Classification System

1	Revenues	
11	Taxes	
111	Taxes on income, profits, and capital gains	
1111	Payable by individuals	
1112	Payable by corporations and other enterprises	
1113	Unallocable	
112	Taxes on payroll and workforce	
113	Taxes on property	
1131	Recurrent taxes on immovable property	
1132	Recurrent taxes on net wealth	
1133	Estate, inheritance and gift taxes	
1134	Taxes on financial and capital transactions	
1135	Other nonrecurrent taxes on property	
1136	Other recurrent taxes on property	
114	Taxes on goods and services	
1141	General taxes on goods and services	
11411	Value-added taxes	
11412	Sales taxes	
11413	Turnover and other general taxes on goods and services	
1142	Excises	
1143	Profits of fiscal monopolies	
1144	Taxes on specific services	
1145	Taxes on use of goods and on permission to use goods or perform activities	
11451	Motor vehicle taxes	
11452	Other taxes on use of goods and on permission to use goods or perform activities	
1146	Other taxes on goods and services	
115	Taxes on international trade and transactions	
1151	Customs and other import duties	
1152	Taxes on exports	
1153	Profits of export or import monopolies	
1154	Exchange profits	
1155	Exchange taxes	
1156	Other taxes on international trade and transactions	
116	Other taxes	
1161	Payable solely by business	
1162	Payable by other than business or unidentifiable	

12		Social contributions	
121			Social security contributions
1211			Employee contributions
1212			Employer contributions
1213			Self-employed or nonemployed contributions
1214			Unallocable contributions
122			Other social contributions
1221			Employee contributions
1222			Employer contributions
1223			Imputed contributions
13		Grants	
131			From foreign governments
1311			Current
1312			Capital
132			From international organizations
1321			Current
1322			Capital
133			From other general government units
1331			Current
1332			Capital
14		Other revenue	
141			Property income
1411			Interest
1412			Dividends
1413			Withdrawals from income of quasi-corporations
1414			Property income attributed to insurance policyholders
1415			Rent
142			Sales of goods and services
1421			Sales by market establishments
1422			Administrative fees
1423			Incidental sales by nonmarket establishments
1424			Imputed sales of goods and services
143			Fines, penalties, and forfeits
144			Voluntary transfers other than grants
1441			Current
1442			Capital
145			Miscellaneous and unidentified revenue

REVENUE STRUCTURE GOALS

Around the world similar types of revenues are used to finance local governments (LGs). These types include various forms of taxes, user charges, etc. The revenues may be administered and collected locally (own source revenues) or they may be collected at the central government or province level and then shared (shared revenues) or transferred (transferred revenues) to LGs. Whatever your country's revenue structure, there are basic goals that the revenue structure should attempt to achieve. These goals are: acceptability, stability, self-sufficiency, efficiency, administrative feasibility, equity, and economic neutrality. Each of these is discussed below from the perspective that they are goals of a revenue structure, based primarily on own source revenues and mostly under LG control.

- **Acceptability**—means that the taxes and charges used by the LG have some political acceptance by the citizens, who must in turn believe that the revenues have some fairness, that they are receiving adequate public services for the money they are paying, that the officials who establish

the taxes and user charges are accountable to local demands, and that tax and user charge payers are themselves treated in a fair and impartial manner. Complexity in the revenue system should be kept to a minimum, and the assumptions underlying the revenue structure should be made explicit.

- **Adequacy and stability**—means that the revenue structure should provide the government with sufficient revenues to finance desired services, on a regular, continuing basis. Ideally, the revenue structure would respond to changes in the local economy by yielding revenues in proportion to such changes. Stability is important for the LG's relationships with its business community, with its employees, with the investment community, and with other levels of government.

- **Self-sufficiency**—means that a LG should minimize its dependence on revenue from other levels of government where possible. Too high a dependency makes the LG too vulnerable to shifts in the priorities of other levels of government. (We recognize that some countries do not allow LGs any own source revenues.)

- **Cost efficiency**—means that all LG officials should examine all options legally feasible to reduce the cost of assessing, collecting and accounting for revenues. The complexity and cost of revenue collection must be considered when adopting a particular revenue type. Compliance should be made simple, certain and inexpensive for citizens, and administration easy and economical for the LG

- **Revenue diversity**—An ideal revenue structure would include the use of several broad based taxes for most of the revenues, and wherever appropriate a reliance on user charges.

- **Equity**—The burden of paying the taxes and charges should be distributed so that they are levied in an equitable fashion. This means that those who are in similar circumstances should pay similar amounts in taxes and user charges (horizontal equity) and those in different circumstances should pay different amounts (vertical equity). While this cannot always be achieved perfectly, LGs need to strive for revenue sources and administration that have equity as a goal.

- **Economic neutrality**— means that the revenue sources should not interfere with private economic decisions or distort the efficient use of resources in the community.

- **Administrative feasibility**—The revenues should be such that the LG will not face undue expense or effort to collect them, and the citizens should find the tax or charge simple to understand and inexpensive to comply with.

Following is a matrix worksheet that you can use as a tool for evaluating your current revenues and future revenues as to how they rate against your goals for revenue sources. One sample revenue source has already been entered onto the matrix and evaluated. You are encouraged to adjust this worksheet to meet local priorities and goals, and then complete an evaluation of each of the major revenue sources currently in use. Once you have your evaluation complete, you can use this informa-

tion to be ready to discuss your revenues needs with your elected officials and with members of your national or provincial government, when appropriate, in efforts to obtain access to revenue sources that are closer to the ideal.

Evaluation of Revenue Sources Matrix

Revenue source	Motor vehicle tax
Rate	$50/ vehicle
Political acceptability	Fairly acceptable; easy to understand and calculate for taxpayers
Yield adequacy	$2,500,000 annually
Stability	Fairly consistent
Administrative feasibility	High cost per billing unit; especially to collect delinquent accounts
Revenue diversity	Adds diversity; will be paid by renters and business owners as well as property owners
Economic neutrality	Little affect on car ownership
Summary	Important revenue source; need to insure that there are exemptions for the disabled

It will not be easy or maybe even possible to achieve all these goals in your LG's revenue structure, but they should still be sought to the extent possible. As your LG continues to develop and strengthen, look for opportunities to add or shift to revenues sources that give the LG a revenue structure that more closely achieves these revenue goals.

TYPICAL LG REVENUES

The following is a brief description of major revenue types which support local government programs in developing, transitional, and developed countries according to World Bank papers. Some of these may not be politically or legally feasible in your country at this time. However, we believe that it may be helpful for you to be aware of these revenue types, and be able to evaluate their applicability to your situation.

USER CHARGES AND FEES

LGs can be viewed as a business delivering packages of local public services to residents. As with all businesses, people should want what they receive enough to be willing to pay for it. Although some policy makers view user charges as just a potential additional source of revenue, their main economic value is to promote economic efficiency by providing demand information to public sector suppliers and to ensure that what the public sector supplies is valued at least at current cost by citizens. So wherever possible, local public services should be charged for—of course at prices that are properly set—rather than given away.

There are three types of user charges that exist almost everywhere:

- Service fees—include such items as license fees (marriage, business, dog, vehicle, building permits) and various small charges levied by LGs for per-

forming specific services—registering this or providing a copy of that—for identifiable individuals or businesses. These are like cost reimbursement from the private to the public sector. Charging a person for something they are required by law to do may not always seem sensible—but usually there is little revenue involved in recovering the cost of providing the service in question.

- Public prices—refer to revenues received by LGs from the sale of private goods and services (not cost-reimbursement). All sales of locally provided services to identifiable private individuals—from public utility charges to admission charges to recreation facilities—fall under this heading. In theory, these prices should be set at the competitive private level with no tax or subsidy element involved, unless, doing so is the most efficient way to achieve public policy goals. Even under these circumstances, it is best if the tax-subsidy element is accounted for separately.

- Specific benefit taxes/charges—are distinct from service fees and public prices because they are not generated by the sale or provision of a specific good or service to a private person. These are different because they are not voluntarily paid like the other user charges—they are compulsory. Even though they are compulsory, they are related and included as user charges because there is a specific benefit received by the taxpayer as opposed to a general benefit. Examples are: special assessments, land value increment taxes, improvement taxes, front footage levies, supplementary property taxes related to provision of sewers or street lighting, development fees and charges, delineation levies, etc.

User charges are a good idea in principle, but one that can be surprisingly difficult—for a variety of reasons—to implement effectively. These reasons range from the community's perspective that they are not equitable, to the perception that they are nuisance levies impeding normal transactions, to inadequate pricing strategies, to laws restricting their use. These charges are unlikely to provide anything close to adequate finance for LG activities in any country.

TAXES

PROPERTY TAXES

For decades, LGs around the world have been told that the only appropriate general tax source for them is the real property tax (in effect as a sort of generalized user charge.) Traditionally, the property tax has been used by LGs to finance "hard" (property-related) services. In most countries, it does not generate enough monies to adequately finance "soft" services such as education, health, and social services. If LGs are financing these types of services then they will need access to more elastic types of taxes such as income, sales or value added taxes in addition to the property tax.

If your LG uses this revenue, you can strengthen cash flow through improved use of information from property registries, local building licenses, public utilities, etc. Many finance experts would argue that LGs should spend more time and atten-

tion to improving the collection and enforcement functions rather than the technical and more costly mapping and surveying functions associated with property assessments. Mapping and surveying will not generate more revenues immediately where collections and enforcement can.

Contrary to popular opinion, the property tax can be difficult and costly to administer well for the following reasons:

- Valuation is an art, not a science and there is much room for discretion and argument with respect to the determination of the base of the tax.
- It is difficult to administer this tax equitably in a rapidly changing environment due to inflation, rising property values, etc.
- It is always difficult to increase revenues from this source very much or very quickly.

EXCISE TAXES

These are taxes levied on the sale of certain items, such as alcoholic beverages, tobacco products, and public utilities. They are also known as selective sales taxes. Excise taxes are of three types: benefits-based, sumptuary, and privilege. Benefits-based taxes include room taxes on motel and hotel occupancy, intended to compensate LGs for the cost of providing services to temporary residents in the town or city, and motor fuel taxes, intended to compensate the government for the cost of providing and maintaining the road ways.

Sumptuary, or "sin" taxes, are levied on certain classes of goods, such as liquor and cigarettes in part to discourage consumption of these goods, and in part to recover the costs of providing services, such as health related, to individuals who suffer from the effects of use of these substances.

Finally, excise taxes are sometimes levied for the privilege of conducting certain types of businesses or transactions within the jurisdiction. Occupational privilege taxes are an example of this kind of excise tax.

These kinds of excise taxes have a fair amount of acceptance, usually because of the perceived link between the tax and the services provided, and because they are small amounts at the time of the payment. The amount of revenue to be derived from them depends on the exact nature of the tax, but it does tend to be small and stabile. If the local government itself administers and collects the tax, these kinds of taxes tend to be less cost efficient and make less sense as a local government revenue choice. On the other hand, if the excise is administered by a higher level of jurisdiction, while still adopted locally, it can have some small but real positive contributions toward local self-sufficiency that outweigh its costs and drawbacks.

INCOME TAXES

Income taxes are not used very often by LGs, but rather by higher levels of government. These governments apply taxes to the income of individuals and/or corporations. Many regard the income tax as a fair source of revenue because of the nature of the base and the method of its administration. It is a very productive tax.

Many OECD countries have "piggybacked" a supplementary local income tax on the national income tax. The Nordic countries have some of the best examples of local income taxes. These are basically levied at a flat, locally established rate on the same tax base as the national income tax collected by the central government. In Japan's LG income taxation, corporations are subjected to a municipal tax assessed largely based on national corporate taxes paid in the previous year, with the tax base belong allocated to the different jurisdictions in proportion to the number of employees. In addition, corporations are subject to a progressive municipal "enterprise" tax based directly on income.

In many developing countries, LGs have been assigned shares of income tax revenues or shared revenues from the central government. But, if the LGs are not politically responsible for the revenues they receive, they really should not be considered local or own source taxes.

CONSUMPTION TAXES

In many countries, the search for a revenue source that is economically possible, administratively viable, and reasonably elastic, comes down to the general sales tax. The other sources mentioned already: user charges, property taxes, excise taxes just do not generate large amounts of monies. The general sales tax now found in most countries is a value-added tax (VAT). Most countries have a central VAT. It is a key to central government financing in most developing countries. Central governments are reluctant to lose any control over this tax. Some countries have "piggybacked" a VAT at the province and local levels for individual consumption. However, they have had to work out the overlapping taxation administration problems. Some countries are now introducing a "value-added income tax" for businesses that is levied based on income rather than consumption.

FRANCHISE AGREEMENTS

This source is based on charging franchise fees to private companies for the privilege of using the LG's rights-of-way in order to sell goods or services to the public. An example of right-of-way is the strips of land along side streets that are owned by the LG. Examples of private companies are electric, cable TV, telephone, fibre optics, and personal communication services (PCS).

BETTERMENTS AND SPECIAL ASSESSMENTS

A betterment or special assessment is a compulsory charge levied against specific properties in an effort to defray all or part of the cost of a public improvement that primarily benefits certain properties. Betterments generally refer to the construction of streets, public parks, and other public improvements where the taking of land and the payment of damages are required. Special assessments usually apply to the construction and maintenance of sewers, drains, sidewalks, and water extensions. The purpose of betterments and special assessments is to charge those property owners who receive benefits from a public improvement beyond the general benefits received by a community as a whole. Betterments and special assessments are not considered a tax, but they are similar to the property tax in that once levied they are due

and payable and result in a lien against the property if left unpaid. They are similar to a user charge in that they are assessed due to the provision of a specific service that benefits just the specific neighbourhood and/or property owner.

Generally, in betterment financing, the LG borrows the moies for the services, provides the improvement, then charges the property owner in the improved district a proportionate share of the total amount borrowed plus interest. Property owners usually can elect to spread the betterment payments over a multi-year period, such as 10 to 20 years, or whatever matches the life of the government's borrowing. Like user charge supported services, LG policy makers can decide if the betterment or special assessment should recover all or only part of the total cost of the improvement. If the decision is made not to seek full cost recovery, the LG must subsidize the difference from other revenues.

A somewhat similar concept is tax increment financing (TIF). In a TIF arrangement, the LG borrows funds to makes the needed improvements, then uses the added taxes collected (beyond those collected on existing value) that occur after development to repay the debt.

PUBLIC-PRIVATE PARTNERSHIPS (PPPS)

Public-private partnerships are another potential type of revenue for LGs, especially for the revenue needed to fund capital investments. Three common public-private partnership models include:

Build-Operate-Transfer (BOT): A private sector firm acquires a franchise to build and operate a facility for a period until the facility is paid for; then it reverts to the public sector. The government collects charges and pays the private operator.

Concession: A private firm is granted the right to provide and charge for a service. The vendor acquires the existing facility or builds a new one. The arrangement runs for a long period, after which the facility may be returned to the government.

Operating/Management Contract: The government retains ownership of the facility, but contracts with private firm to operate and maintain the facility.

These three arrangements are not true privatization, where the actual facility is sold to a private vendor. In these arrangements, the government retains an interest in the service and ultimately retains ownership of the facility. The benefit of these public-private strategies is to privatize the up-front financing to build or make major improvements to public facilities, as well as tap into the private sector's construction and management expertise.

GRANTS

A grant is a financial award made by a granting agency to a grantee to support a project or other work that has usually been sought by the grantee in a proposal or application. LGs seek grants in order to obtain additional funding for priority projects.

Grants are obtained by an applicant submitting a proposal to a granting agency. A proposal is a written document that provides a detailed description of a project's objectives, activities, methods, operating plans, and budget. A proposal is sometimes referred to as an application, particularly in cases where the granting agency requests that the proposal be submitted on its own application forms. An applicant,

or proposer, is an organization that has the staff that wrote the proposal and will manage the project. This may be a small, stand-alone agency, such as a non-profit organization, or it may be a unit within a larger organization such as a department or program within a LG. A host agency is a larger organization that provides the organizational and administrative home and support to a smaller program that is applying for grants. A granting agency, or grantor, is a governmental or private sector organization that has grant funds to distribute.

BENEFITS OF GETTING GRANTS

Without a doubt, the most important benefit of successful grant seeking is additional money that can be available to use in addressing priority problems and concerns facing a LG. Grants can help solve a problem faced by a community, or meet an objective. Further, it can leverage funds that may already be dedicated to a priority need. Many grants require some kind of matching funds from the recipient organization. Using these dedicated funds, together with a grant, increases the overall resources available.

There are secondary benefits as well. Developing a grant proposal is a substantial undertaking that requires careful thought and weighing of alternatives. The process can help build consensus on difficult issues. It can also focus additional attention on the issues of the organization by involving other members of the community and the business sector in the development of the grant project.

There are also organizational benefits of simply going through the grant seeking process. The process can develop staff skills and expertise that can be applied to other grant seeking opportunities. In addition, successful management of the grant project, with meaningful results, can be satisfying and rewarding to the individuals involved in the process. They, as well as the organization, rise in stature among their peers.

GRANT POLICIES

As stated in the Financial Policy Making[3] chapter in this series, policies are important because they put a LG on record regarding the most important issues facing the community. This is true in the area of seeking grants. LG officials should make clear under what circumstances LG staff will seek grants, and the overall process that will govern such efforts. Below are some suggested policies in this area.

- Grants will be applied for based on the LG's needs and priorities rather than funds available.
- Grant applications will be approved by the governing body.
- Grant applications will be reviewed and approved by the financial officials of the LG as to the budget requested in the grant application.
- Grant applications will be reviewed and approved by the personnel officials of the LG as to the staffing/benefits requested in the grant application.
- All written and personal contacts with grant organizations will be approved in advance by the CEO.

Before we begin examining how to obtain grant money for a LG, let us look at what kind of organizations make grant money available and for what reasons. These are broad generalizations and may not be available in your specific country. Primarily, there are three kinds of organizations that make grants.

Governments (Public)—These can include different levels of government, such as a central government of a country, a LG such as yours, and regional and other intermediate levels of government. Grants from governments are usually awarded on a competitive basis. The organization seeking a grant submits a proposal on application forms provided by the grantor government. It is then customary for evaluation of the proposal and determination of approval for funding to be guided by a predetermined rating system. The overall purpose of government grants is usually set by law, and grantor governments tend to award grants for projects that address needs, as the grantor perceives them. The proposals required are usually fairly lengthy and must conform with established due dates for submission. Often the grantor provides staff to assist applicants.

Foundations (Private)—these organizations are in the business of making grants. Foundations are more likely to focus on emerging issues and needs. They usually do not require, or even want to see, lengthy proposals, and they often do not have much staff to provide assistance or even feedback on grant applications and inquiries from applicants. Finally, it is more difficult to find information on foundations and the projects they are prepared to support. There are five types of foundations:

- National or international general-purpose foundations—These foundations that have a prescribed scope and pattern of grant giving. They generally have a large amount of money to grant. They tend to have multiple interests but particularly projects that have high potential for broad impact. They also tend to fund projects they view as innovative.
- National or international special purpose foundations—These are foundations that have historically given funds to projects in a specific service area, such as infrastructure, the environment, health, aging, etc.
- Family foundations—These are foundations that are directed by a board consisting of members of a philanthropic family, and their giving patterns usually follow the personal interests of the family. These priorities can change periodically, and a connection with a family member or friend can be particularly advantageous in seeking a grant from foundations of this type.
- Corporate—While corporations can and do make grants, some corporations structure their giving through a foundation to coordinate and stabilize their philanthropic activities. This practice makes corporations less vulnerable to yearly profits or losses. Corporate foundations tend to award grants in communities or regions where the have a facility or a special interest. Accordingly, they tend to target projects that can have a positive impact on the corporation's employees or on the local economy of the town or region in which they are located.

- Community foundations—Most community foundations have been initiated by public-spirited citizens who make a financial gift upon their death to a foundation for designated purposes. Community foundations exist to deal with local needs. They are most likely to fund projects that address pressing local needs in an innovative way. LGs in communities without community foundations can be instrumental in their formation by inviting community leaders, wealthy citizens, and business leaders to agree to discuss the concept.
- Corporations (Private)— tend to give money to projects that they perceive as an investment in their own present or future interests. For example, corporations may give grants to projects that enhance the quality of life in the area, such as supporting the arts, medical institutions, schools, and universities. In so doing, they enhance the appeal of the community environment as an interesting place to live, a plus when recruiting new employees and in retaining existing ones. Private corporations will also give money to projects that cause the corporation to be perceived by the community as a contributor to a better quality of life. For this reason, projects with high publicity value as public image builders for the corporation will be appealing investments for corporate funds.

LEARNING APPLICATION

In the first Learning Application in each of the chapters in this series we will be reminding the reader about how to get the most from each of these exercises. First, there is a box identifying the four key LG roles that most readers represent. These are Policy Makers (elected officials), CEOs (Chief Executive Officers such as mayors, city managers, etc.), Finance Managers (the chief finance official in the LG), and Department Heads (those individuals who are responsible for the management of specific LG departments such as public works, planning, and human resources). Second, we will indicate in the box those readers we believe will benefit most from completing the learning application task. Finally, when more than one official is listed, we see this as an opportunity for these individuals to get together and compare their responses. These Learning Application opportunities can also be modified to become training exercises for group learning. So, our advice is to make the most of these reflective interludes in the text.

| POLICY MAKER _X_ | CEO _X_ | FINANCE MANAGER _X_ | DEPARTMENT HEAD _X_ |

Now is the time to look at grant development in your LG from your unique perspective. Has your LG received grants?

_____

List the experience your LG has had in grant development and administration.

_____

_____

_____

_____

_____

If you have no experience in this area, write down at least three concerns you have about seeking grants at this time.

_____

_____

_____

_____

_____

_____

REVENUE STRUCTURES FOR DEVELOPING COUNTRIES

In this chapter, we have assumed that the revenues your LG depends on are already established and cannot be changed. Otherwise, it would have been too easy to simply suggest that if you need more revenue, you should raise taxes, or establish a new fee, or develop some other strategy for tapping into new revenues. And that assumption has been used up to now because most LGs simply do not have the flexibility or autonomy to determine what revenues are available to them, at what level. Generally, it is some higher level of government that is making these decisions.

However, over the long-term you probably will have the opportunity to influence decisions that can change LG revenue options. You may be able to identify new sources of revenue on your own, or persuade others to open up new revenue options for your LG to use. We are repeating the evaluation matrix presented earlier. Use it as a process for evaluating your current revenues sources, to see if they are providing for your government's needs. This process can then also be used to evaluate revenue sources you do not currently have access to, but may in the future. This evaluation can help shape the policies that your government advocates as it looks to the financial future.

Evaluation of Revenue Sources Matrix

Revenue source
Rate
Political acceptability

Yield adequacy
Stability
Administrative feasibility
Revenue diversity
Economic neutrality
Summary

LEARNING APPLICATION

What are your LG's three most important revenue sources?

_____

_____

_____

_____

<u>Pick one of these revenue sources and complete the following matrix for it.</u>

Evaluation of Revenue Sources Matrix

Revenue source	
Rate	
Political acceptability	
Yield adequacy	
Stability	
Administrative feasibility	
Revenue diversity	
Economic neutrality	
Summary	

What conclusions did you draw about the revenue source?

_____

_____

_____

COST FINDING FOR SETTING USER CHARGES AND FEES

One of the most important tools for LG to have is a process to identify the actual, complete cost of services being provided. This is especially critical when evaluating fees, charges for service, etc. to determine how much of the costs of providing the service are being covered by the current charge for the service. Costing differs from traditional LG budgeting and accounting in three ways:

- Costing looks at the cost of all resources used to provide services rather than expenditures made to operating budgets;
- Costing includes all costs of providing a service, not just those found in the budget or financial reports of the department responsible for the service;
- Costing focuses on the cost of the resources used to provide a service during a given period of time, regardless of when cash disbursement are made to purchase these resources.

FRAMEWORK FOR SETTING CHARGES OR FEES

When setting fees or user charges the following items should be considered:

- **Statutory restrictions**—there may be specific laws or ordinances prohibiting fees for certain services, or placing a ceiling on the amount of the fee.
- **Ability to pay**—careful consideration should be given when charging a fee, or when raising one, to the impact on lower income residents. If the service is considered a particularly important one for reasons of public health or safety (such as immunizations for children, or trash pickup) alternative prices should be considered, such as sliding scale fees based on ability to pay, or the age of the service recipient.
- **Administrative costs of billing**—theoretically, the amount of the cost a person pays for a service should be related to the amount of the service the person uses. For example, a person who uses 500 cubic feet of water should pay the cost of producing and delivering that amount of water. However, to make this pricing approach work, meters would have to be installed in each building, and the meters would have to be read periodically by government personnel. This has a high cost. Instead, proxies are often used instead of meters, such as the number of residents or the area of a property, to estimate the cost of the service to the user. This does not recognize the difference between those who conserve water and those high volume users. However, it does recognize the high administrative costs of the meter alternative.
- **Collection costs**—if a decision is made to begin charging a fee for a service previously paid for through other revenues, the added costs of collect-

ing the fee, and enforcement action for non-payment, need to be considered and included in the pricing of the service. If the fee is a small one, added collection costs might use up most of the revenue.

- **Negative effects of charging for service**—once a fee is implemented, or raised beyond current levels, there will be those who will seek to avoid paying the fee. A classic example involves introducing fees for use of the landfill, then observing an increase in illegal trash dumping.
- **The costs of capital**—these costs should already be factored into your calculations of total costs, but they are mentioned here once again to emphasize that there needs to be a plan for paying for maintenance of the capital facilities used in providing the service, and for replacing it at the end of its useful life.

In summary, whether full or partial cost recovery is the goal of the service's budget and rates or fees, the actual cost recovery goal should be set by policymakers, with input from the operating department and the finance department as to the impact of the issues raised above. The following table contains some examples of service that are supported by fees, the cost recovery goal of the LG for this service, and the actual cost recovery rate as determined by performing a costing service of the various services. In the cases where the actual cost recovery rate is less than the goal, the policymakers have several options: they will need to increase the price of the service, change their cost recovery goal to reflect the reality of the actual ability of the current fee to cover costs, ask the operating departments to recommend changes that will reduce the costs of the service, or some combination of the three options.

BENEFITS OF COST FINDING ANALYSIS

The benefits of cost finding are not simply the collection of data. Cost finding can provide LG managers with information to make better management decisions. Examples of such areas where cost information are useful include:

- **Setting fees for services.** If a new service is being implemented, cost finding can identify all the costs that should be considered in setting the price (the fee) for the service.
- **Maintaining the appropriate cost recovery level.** If policy makers determine a fee should cover a certain percentage (e.g. 75%) of the costs of a related service, cost finding reveals if those policies are being followed;
- **Choosing among alternative methods** of providing services, such as contracting with the private sector or regionalizing;
- **Demonstrating** to rate payers the cost of providing the specific services;
- **Identifying the causes** of problems you may be experiencing in different components of a service, such as employee theft, waste or mismanagement
- **Identifying components** of cost of a service, such as benefits associated with personnel providing the service, or capital, that may be overlooked or underestimated.

- **Creating cost consciousness** in a political environment. Costing data can help reinforce the concept that the costs associated with a service should be paid for by the user of a service
- **Assessing the potential service delivery** impacts from decisions to reduce a department's budget or level of service.

STEPS IN COST FINDING

STEP 1. DETERMINE RESPONSIBILITIES

While a cost finding analysis will require a team effort from many individuals, the overall responsibility for the costing process should be the responsibility of the finance department. The finance department should determine the overall objectives of the costing analysis, design all worksheets, determine all indirect and other related costs, and calculate the final cost figures. They should also develop many of the procedures and materials that will be discussed below. Operating staff must be involved in the process as well. For example, if the service area being analyzed is trash pickup, then the department responsible for providing this service will need to provide much of the data that is critical to the costing study. The following table summarizes these roles and responsibilities in a cost finding analysis.

Responsibilities for Costing Study

Elected officials	• Set cost recovery policies. • Review cost analysis studies and recommendations. • Decide which services to analyze for costs and fees.
CEO	• Assign responsibility for cost analysis study. • Determine overall goal of cost analysis study.
Operating departments	• Maintain appropriate records to substantiate costs of providing service, such as personnel services, supplies, contracts, etc. • Work with finance department staff to estimate revenues for each chosen service.
Finance department	• Develop indirect cost numbers for finance support. • Compile debt service and/or other capital cost numbers applicable for each service • Use cost and revenue estimates to calculate a cost recovery rate of each chosen service.
Human resources	• Develop indirect cost numbers for personnel support.

STEP 2. MAKE COST STUDY DECISIONS

Following are the types of decisions that will need to be made at the start of the cost finding study:

Choose a service area. You cannot analyze all departments or all services at once. Choose your first service area for analysis carefully, as this will be where you will learn lessons, refine your methodology, and establish your credibility with other local officials.

Choose a costing purpose. Costing studies will be service specific; that is, each cost finding study will vary depending on the service studied and the objectives of the analysis. Following are some kinds of costs:

- **Full costs**—tries to identify the full costs from all resources to deliver a service. This kind of cost study is important when trying to determine the costs of delivering services where some costs might not be easily apparent.
- **Average unit costs**—tries to identify a cost number that can be used as the basis for setting a fee or charge.
- **Job costs**—tries to identify the costs of performing a job just once, such as filling a pothole in a street, or repairing one broken water main, etc.
- **Incremental costs**— tries to identify the cost to expand a service, such as opening the library on Sundays or providing custodial services at one more building.
- **Avoidable costs**—tries to identify the costs that would be avoided if some or all of a service were dropped, or if a different service delivery method (e.g., contracting out) were used.

Choose a measure of output. Before collecting data, project staff will also need to determine how the service will be measured. The concept of output will need to be defined for the purposes of the study. We use the term output to describe the amount of a service provided by a LG. Measures of output vary with the nature of the service being provided. Some are easier to measure than others are. The table "Examples of Output Measures," contains some examples of outputs that can be measured. Once you have an idea of the output you will measure, you then can identify one unit of the output (e.g. one customer served, one report written, one bill issued), and therefore a unit cost established. This assumes that the output is reasonably standard from case to case.

Examples of Output Measures

Service	Output measure
Road paving	Lane metres paved
Street repair	Square metres of street repaired
Water	Litres of water treated
Fire protection	Hours of protection
Police protection	Hours of police patrol
Payroll processing	Checks issued
Tax billing	Bills issued

Choose a time period. The appropriate time period will depend on the purpose of the study, and the nature of the service. For example, if the purpose of the study is to find out the cost of a service for an entire year, and the service is fairly uniform over the entire fiscal year, then costs for just a two-week period may be collected, and then the annual costs estimated from the two-week period. However, this will not work if the service is provided differently at different times of the year.

Distinguish between expenses and expenditures. Costing requires that the expenses incurred to provide a service be calculated for the time period in which the service is provided, regardless of when the expenditures necessary to purchase the resources took place. Be sure to look out for the following situations:

- Expenses incurred before the expenditures are made (i.e. the service or work was performed in one fiscal year, but paid for in the following fiscal year), and
- Expenses incurred after expenditures are made (i.e. a purchase is made in one fiscal year of an asset, such as a public works truck, that will provide service to the LG for five years. In this case, one fifth of the cost is the expense for each year of service).

Long-term assets should be shown as an expenses distributed over the asset's reasonable useful life. If the asset is financed through long-term debt for a term similar to reasonable life of the asset, then the annual debt service payments can be used for this purpose.

A particularly difficult expense to establish is the pension costs of employees. Future pension costs for current employees are called the annual normal pension costs, and are expressed as a percentage of the current payroll costs. This may be difficult to estimate without the assistance of expert help in the area of pension administration. If a useful percentage cannot be reasonably be determined, at the minimum you should be aware they are a cost of the service, and your costing figures will be somewhat underestimated due to the un-included pension costs.

Identify the sources of cost data. The primary source of cost data is expenditure records; general and subsidiary ledgers, warrants for payments, debt service records and expenditure reports. Information is also contained in budgets and non-financial records such as equipment purchase and maintenance records, building records, mileage reports, and payroll and personnel records.

Examples of Direct and Indirect Costs Service: Ambulance

Category	Direct	Indirect
Personnel	Salaries & Wages Holiday Pay Overtime Pay Supervision by Fire Chief	Pensions Fringe Benefits
Equipment & Supplies	Ambulance Maintenance Vehicle Supplies Ambulance Insurance Communication Equipment Service-related Supplies	
Facilities		Capital Plant & Outlays Utilities Building Insurance Maintenance

Other	Training	Finance Indirect Cost Pool Billing Collections Accounting
		Administration Indirect Cost Pool Payroll Insurance City Manager's Office

STEP 3. COLLECT COST INFORMATION

After the cost study has been defined and organized, the third step is to collect the costs of the resources used to provide the service. There are two categories of costs to be collected: direct costs and indirect costs.

- Direct costs are those costs clearly identifiable and attributable to a specific serve or department. Information on direct costs are found in the department's operating budget as salaries and wages, purchase of service, purchase of materials, etc.
- Indirect costs are those costs that are not readily attributable to a specific service or budget. For example, if the recreation department is located in a building shared with five other departments, then the costs of lighting, heating and cleaning the building are usually not assigned to the recreation department but to another department. In a similar fashion, the service of the finance department, payroll department, and LG manager's office serve the recreation department needs, but the portion that is attributable to the recreation department are not found in the their budget.

There are no hard and fast rules for categorizing a cost as direct or indirect, and in many ways it is not as important as being consistent in how a cost is categorized, and insuring that all costs are included in one category or the other. Following is an example of a listing of all the costs that have identified by one LG in the provision of ambulance service, and shows how which costs have been determined to be direct or indirect costs.

Direct costs—it is important to remember that though direct costs are easily identifiable and attributable to the service, you must check to see that you are including expenses rather than expenditures. Also, any direct cost item that is shared with another service should be prorated. For example,

- If collecting the costs for water service and the clerks in the water department also handle work related to trash collection, you should estimate the percentage time spent on each function, and only include that percentage relevant to the water service.
- Also, the direct supervisor(s) of the clerks in the water department may oversee several functions. This time should be prorated if appropriate.
- Fringe benefits can be handled in one of two ways. If data is easily available, actual costs for each employee can be calculated and included in the study. If the data is not easily available, then approximations can be

substituted. For example, you may be able to develop a fringe benefit percentage that is fairly accurate for each class of employee (e.g. benefits are approximately 27% of salaries and wages for public works employees).

This part of the costing process can best be handled by the department responsible for the service being studied. They should know the staff involved in a service, and the amount of time spent over the course of the time period you have chosen. They will also know what other equipment, materials and supplies are used over the time period.

Estimating direct capital costs is important, and the annual expense should be calculated for all fixed assets. As stated earlier, if the debt service is for a term similar to the expected useful life, the annual debt service can be used for the costing study. Otherwise, straight-line depreciation is the simplest and most commonly accepted technique, as it assumes a constant rate of asset devaluation. This rate is calculated using the following equation:

Devaluation rate = original value of asset - salvage value if any/economic life of asset

This calculation is similar to the calculation of depreciation. There is a more extensive example of the calculations in the Accounting chapter.

One common mistake in cost finding is the understatement of the capital costs of providing a service. Particularly where the purpose of the cost finding is to aid in establishing user fees for a service that is intended to be completely self-supporting, the expense of using up capital assets should be carefully included in the cost study.

Indirect Costs—are more difficult to identify and attribute to individual services. Indirect costs are those incurred when one department, division, or section of the LG provides benefits to the department, division, or section providing the service you are analyzing (e.g. the vehicle maintenance division provides a service to the street department).

Typically, indirect costs are estimated by developing reasonable "factors" that approximate the indirect costs. A factor for administrative overhead can be developed by first creating an indirect cost pool comprised of all similar costs, then considering the proportion of support services relevant to the service being analyzed. Then if the department being analyzed represents 30% of the total LG budget, you could allocate 30% of this indirect cost pool to the service. Other indirect cost pools might include utilities (e.g. electric, heat, water, etc.), or capital (if a building is shared with other departments, for example). Thus, indirect costs are usually allocated to a particular department or service as approximate rather than exact costs. Do not let this bother you. It is better, and ultimately results in more accurate costing figures, to include good estimates rather than omit them because they are not precise.

STEP 4. USE THE RESULTS

Once the cost data has been collected, you now have valuable information to help you in many ways. These include: pricing a service and setting user fees and charges,

improving the efficiency of your operations, making decisions about expanding or reducing the level of a service, and choosing to privatize the delivery of a service, or alternatively, stop using private contractors and begin using LG staff to provide a service.

PRICING A SERVICE/SETTING USER FEES

Once the full costs of the service are established, policy makers can decide on a price (amount of the fee) for the service, and if the user charge should be set to achieve full cost recovery or partial cost recovery. In full cost recovery, fees are set to enable the service to self-sufficient. In partial cost recovery, fees are intentionally set at a lower rate, and may only cover the cost of operations and maintenance, and other LG revenue sources are expected to subsidize other costs.

Pricing a LG service can range from a simple to a complex process. In its simplest form, the price is just the total cost of the service divided by the number of units of the service—or the price per unit. For example, if it costs EU 50,000 per month to provide an after school program for children, and the government expects 500 children to enrol in the program, the price would be EU 100 per child per month to break even on the service.

On the other hand, if some children (e.g. five year olds) require more services than ten-year old children do, the prices for each group could be estimated, as long as all the prices produced estimated revenues equal to the total cost of the service.

Knowledge of the service is key to successful price setting.

Cost Recovery Ratio Samples

Fee	Recovery ratio	Current recovery ratio	Under recovery costs
Ambulance	100%	100%	0
Fire prevention system	88%	75%	25,000
Swimming pools	25%	20%	50,000
Golf courses	100%	85%	225,000
Trash collection	100%	85%	360,000
Business licenses	Set by law	75%	15,000

IMPROVE THE EFFICIENCY OF A SERVICE.

Costing analysis can help identify where costs are rising too quickly, or where improvements can be made by changing procedures, materials, personnel, or other aspects of the service delivery.

IMPROVE CONTRACTING OUT DECISIONS.

In many situations, LG officials are considering the issue of either privatizing a service, regionalizing a service, or in some cases, ending privatization of a service, and

having LG employees perform the service. The cost of the various alternatives should be a prime consideration in these decisions. Costing can not only help you identify which approach can produce the service at the lowest cost, it can help you isolate which among the in-house costs will remain after privatization. For example, many of the indirect support costs will remain, because they are shared with other services.

IMPEDIMENTS TO COST FINDING ANALYSIS

Costing is not a precise science, nor is it a simple or easy process. It will require detailed data gathering, and many calculations, and depends on the accuracy of recordkeeping in the finance department and the operating departments. Further, the success of a costing effort will require the cooperation of many different staff members. These operating staff members may be resistant if they fear the analysis shows they are inefficient or have other management problems. Finally, those in charge of the costing analysis must be clear on their objectives at the outset, because this will influence the kind of data and analysis used in the cost finding. The cost finding process in this chapter has six major steps, detailed below.

SHORT-TERM FINANCING

Short-term financing lenders usually include commercial banks, central government or other government agencies, and underwriters.

A direct bank loan is frequently the simplest and easiest way to meet short-term debt needs. Typically, negotiations are conducted between LG and bank officials with no need for public disclosure statements, external credit ratings, or advertisements. Bank loans provide flexibility in terms of the time at which money is to be taken down and repaid, as well as adjustments in amounts. Commitments can be secured to advance monies on a schedule beforehand and if circumstances change in the course of the year, the term can ordinarily be re-negotiated. Bank loans usually do not involve a cost of issuance, as do transactions such as bonds or notes sold in a general credit market. On the other hand, there may be a commitment fee.

Banks are in the business to make a profit; and while banks may view a loan to the LG as a form of civic obligation, they are obligated to charge a market rate of interest with appropriate terms for bank loans. Therefore, the LG should conduct the negotiations with the bank on a business-like basis to assure that reasonable rates and terms are obtained. LG has an obligation to consider the terms offered by all banks, it also has an obligation to get the best rate available.

In countries with established LG debt markets, the most common short-term instruments are tax anticipation notes, revenue anticipation notes, bond anticipation notes and commercial paper.

- Tax and revenue anticipation notes are used for cash management purposes to even out cash flows. For example, if property tax revenues are needed earlier than the scheduled instalments provide to meet expenses, a LG issues tax anticipation notes in the general credit market to provide

the cash needed and avoid a monthly cash flow deficit. These notes are repaid upon receipt of the property taxes.

- Bond anticipation notes are securities issued as a bridge between the start of a project and its eventual long-term financing. For example, a LG plans to sell ten-year LG bonds in six months, but needs cash now to start construction of a capital investment. The LG issues bond anticipation notes to provide the cash now rather than wait for receipt of the long-term financing. Upon receipt of the ten-year bond proceeds, the LG repays the bond anticipation notes.
- Commercial paper is issued similar to tax, revenue, and bond anticipation notes, except the average maturity of the paper is very short—between 30-45 days. In some countries, LG commercial paper has become a favoured instrument for purchase because of its short maturity and excellent liquidity. High demand for this instrument also contributes to the paper's interest rate being one of the lowest.

ADVANTAGES/DISADVANTAGES

The major advantages of short-term borrowing are its ability to provide liquidity to meet obligations and lower interest costs than long-term debt. The disadvantages are its temporary nature and that it must be managed prudently to avoid possible misuse. Following are some additional advantages and disadvantages for each type of short-term debt:

- Bank loans are the simplest and easiest to use and have considerable flexibility in establishing terms, few disclosure requirements, and low issuance costs. On the other hand, bank loans usually have higher rates of interest than other short-term instruments.
- Issuing notes (tax, revenue and bond anticipation) demonstrates that a LG has access to credit markets other than banks; usually produces lower rates than bank loans; and provides a benchmark for comparison of rates between the issuer and other governments to help future planning. The primary disadvantages are the increased disclosure requirements, higher cost of issuance and need for a credit rating for acceptance in the credit market. Bond anticipation notes have an additional disadvantage in that they represent a gamble that the LG will be able to access the long-term market at lower interest rates when the bond anticipation notes mature.
- Commercial paper has all the advantages and disadvantages of notes. Additionally, commercial paper has even higher initial set-up costs and as a result requires borrowing a large amount of short-term money to be feasible—minimum of EU 50 million.) Start-up costs include: a bank letter of credit, dealer fees for re-marketing the paper, bond counsel and financial advisory fees, plus staff and on-line computer equipment and software to manage the program.

STEPS FOR SHORT-TERM FINANCING—WHEN AND HOW MUCH?

If borrowing short-term, consider two questions: when and how much? These decisions rest on an assessment of current circumstances, projected needs, and the opportunity for arbitrage. Arbitrage is the profit derived from the more or less simultaneous purchase of a security in one credit market and sale in a different market. In this case, it is borrowing money from the bank at one rate and investing the proceeds temporarily at a higher rate.

STEP 1: ASSESS THE CURRENT CIRCUMSTANCES

- Develop a cash flow budget determines the cash needs for the budget year. It shows all anticipated revenues and disbursements for a period of time—usually one year. Carefully examine each major revenue source and disbursement category on a monthly or weekly basis using at least three years of actual historical experience to construct the cash budget. It identifies when a deficit cash flow occurs and the estimated amounts of cash necessary to correct the situation.
- Analyze the cash budget and modify it. The original projection produces a one year forecast of revenues and disbursements, but it's based on historical averages that smooth out year to year variations. However, significant variations can be expected in any one year. Anticipate yearly variations and build in some flexibility, by using conservative revenue estimates and liberal disbursement patterns. Also provide a reserve element to avoid returning to the bank or credit market for additional funds. Going back is likely to produce an adverse impact on your LG's credibility.

STEP 2: DEVELOP A PLAN

Take the modified cash budget and develop a plan to create flexibility in disbursements. The crudest form of flexibility is to simply delay payment to vendors. However, this is usually short sighted and very costly. It costs the LG its reputation to pay suppliers/contractors late, reduces the number willing to do business with the LG, and those that do, raise prices to take delays into account. Look at each type of disbursement and identify any that can be delayed without incurring penalties.

STEP 3: DETERMINE HOW MUCH TO BORROW

Consider two approaches. In the first, you borrow money based on the cash flow budget schedule. The bank advances loans and is repaid as promptly as cash flow permits. This minimizes the amount of short-term debt outstanding and pays the smallest amount of interest. In the second approach, you borrow the total amount of money needed to cover the projected deficits and reserve for the entire year. A portion of the money can be invested for longer periods and therefore is able to earn interest. The earned interest can be used to reduce the total cost of the transaction and if the re-investment interest rate is higher than the loan rate, actually earn a profit.

With a loan outstanding, the bank loan agreement will require the LG to provide the bank with annual reports on the financial condition of the LG and certify adherence to the loan provisions. After reviewing these reports, the bank may require more frequent reporting. At a minimum, local officials should provide the lending bank with an annual budget, debt repayment plans, audited financial reports and long-term financial plans. It also would be a good idea for the finance manager to periodically visit the bank lending officer to discuss the status of the LG's finances and to personally keep the bank abreast of other prospective financial developments.

CASH BUDGETING FOR THE OPERATING BUDGET

TYPES OF CASH BUDGETS

All cash budgets project revenue or cash receipts and disbursements for a period of time. They differ on the time period covered. There are three types of cash budgets:

- Annual—an annual cash budget projects cash flow and cash position on a monthly basis. The annual operating and capital investment budgets are used to determine the amount of cash needed for the month's operations (payroll, supplies, materials, contract payments, capital outlay, etc.) and the excess cash available to purchase investment securities and to estimate interest earnings for the year.
- Monthly—A monthly cash budget provides estimates of cash inflows, disbursements, and resulting cash position on a weekly basis. These projections are used to monitor the annual cash budget and to make investment decisions with investments securities maturing in seven to ninety days.
- Weekly—A weekly cash budget estimates cash flows and cash position on a daily basis. Use these estimates for closely monitoring monthly cash flows and making investment decisions on securities maturing from overnight up to seven days. Daily monitoring of cash position can improve investment opportunities and lead to greater investment earnings.

The finance manager typically prepares an annual cash budget with monthly cash position. Whether you prepare more detailed projections (monthly or weekly) depends on a number of factors, such as:

- The need for accurate cash position information for shorter periods of time,
- The amount of resources available (time, staffing, knowledge of cash flows),
- The amount of funds under management and the characteristics of the LG's cash flows, and

- Interest in improving the return of LG's idle funds and overall cash management program.

Understandably, there are different costs and benefits for each type of cash budget. The more detailed cash budgets (weekly or monthly) are more costly in terms of staff time to prepare. Weigh the benefits derived from the additional detail to determine whether the benefits outweigh the costs. Generally, the less detailed the forecast, the easier to prepare and less costly. The reverse is also true. The more detailed the forecast, the more difficult to prepare and the more costly. Choose the type of cash budget that best meets the needs of your LG.

PREPARING A CASH BUDGET

If you have never done this before, it is probably best to gather data and prepare the cash budget on a monthly basis for the current year. If information that is more detailed is needed, it can be prepared later.

Since cash availability is a primary concern, be conservative in approaching the cash budget. The general principle is to conservatively estimate cash receipts and liberally estimate disbursements. For example, in projecting a month-by-month cash flow, project a receipt that arrives at the end of the month for the following month. It is best to err on the conservative side in projecting cash position and have additional cash to invest rather than be forced to liquidate securities to avoid a cash shortfall. However, it is also important to be accurate in the projections.

STEP 1: SELECTING AN APPROACH

A cash budget is prepared based on historical information. The finance manager has two basic approaches from which to choose.

- One is to use bank statements to gather prior year's receipts and disbursement history. Depending upon the detail (daily, weekly or monthly), construct a cash budget for prior years. The simplest approach is to use monthly total receipts and disbursements to construct the prior year's cash budget. Starting with the monthly figures, subtract the total monthly disbursements from the total monthly receipts to determine the net change in cash flows and then add the beginning cash balance to determine available excess cash. The "Sample Cash Budget" on the following page shows a sample cash budget using monthly bank statement information.

With two to three years of prior year information, you can identify one time receipts or disbursements that will have to be considered in projecting for future years. It is very important to adjust the cash budget for changes that are known to be occurring in forthcoming years. While this approach to preparing a cash budget is simple, its lack of detailed receipts and disbursements makes it impossible to analyze why cash flows may vary month-to-month and year-to-year.

*   Another approach to preparing a cash budget is more complex but more accurate and therefore more useful. It requires that you develop a three to five year historical database of cash receipts by source of revenue and disbursements by category of expenditure. At a minimum, collect this data for each month; calculate a monthly average, and the month's percentage of annual total. The following shows an example of historical cash flow data as the basis for projecting receipts. Three years of data are shown for five revenue sources. The number of sources of revenue or categories of expenditures will vary among LGs.   The table "Three Year Historical Analysis of Cash Receipts by Source" is on a following page.

STEP 2: PROJECTING REVENUES

Project the revenue flow in three steps:

- Prepare a three-year history of receipts showing the percent of each source of revenue collected per month.
- Project monthly amounts by multiplying the monthly percentage by the amount budgeted for each source of revenue in the new fiscal year.
- Adjust the cash budget revenue projections by known events that will occur in the new fiscal year (e.g., changing the pattern of transfers from the central government-shared taxes, discontinuing a local fee, etc.)

STEP 3: PROJECTING EXPENDITURES

Expenditures are more difficult to project because they are less predictable. Forecast expenditures on the same basis as revenues (daily, weekly, or monthly) depending upon the availability of the information from prior years and need for detailed projections. There are usually at least four major categories of expenditures:

- Payroll costs—normally distributed evenly throughout the year based on the number of pay periods. Given that assumption, determine monthly

Sample Cash Budget
Bank Statement Information 20xx
(000's)

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Receipts	10000	12000	18900	15000	39000	30000	18000	10000	18600	15000	17000	11000	214500
Disbursements	17368	17368	17368	17368	17368	17368	17368	17368	17368	17368	17368	17368	208416
Net (Receipts - Disbursements)	-7368	-5368	1532	-2368	21632	12632	632	-7368	1232	-2368	-368	-6368	6084
Beginning Cash Balance	21500	14132	8764	10296	7928	29560	42192	42824	35456	36688	34320	33952	21500
Ending Cash Balance	14132	8764	10296	7928	29560	42192	42824	35456	36688	34320	33952	27584	27584

Three Year Historical Analysis of Cash Receipts by Source
20x4-20x6 (millions)

Source	Yr.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Property	94	1000	5000	21000	1000	3010	8500	750	1500	7500	5500	7660	40	62460
Taxes	95	2000	4000	23000	1500	3000	9075	875	2000	8000	5000	9050	40	67540
	96	0	5000	25100	2000	3000	10050	1000	4000	10050	7000	8000	50	75250
	Avg.	1000	4667	23033	1500	3003	9208	875	2500	8517	5833	8237	43	68417
	% of Total	1.5	6.8	33.7	2.2	4.4	13.5	1.3	3.7	12.3	8.5	12.0	.1	100
Licenses,	94	1100	1200	1200	1300	1200	1300	1250	1100	1400	1100	1400	1100	14650
Permits &	95	1250	1260	1300	1400	1200	1300	1200	1200	1500	1200	1500	1200	15510
Fees	96	1433	1433	1433	1433	1433	1433	1433	1433	1433	1433	1433	1437	17200
	Avg.	1261	1298	1311	1378	1278	1344	1294	1244	1444	1244	1444	1246	15787
	% of Total	8.0	8.2	8.3	8.7	8.1	8.5	8.2	7.9	9.1	7.9	9.1	7.9	99.9
Income	94	1200	1100	1050	1500	1300	1500	1500	1600	1600	1650	1675	1685	17360
from	95	1700	1500	1450	1300	1400	1600	1600	1600	1575	1800	1775	1400	18700
Municipal	96	1791	1791	1791	1791	1791	1791	1791	1791	1791	1791	1791	1799	21500
Property	Avg.	1564	1464	1430	1530	1497	1630	1630	1664	1655	1747	1747	1628	19187
	% of Total	8.2	7.6	7.5	8.0	7.8	8.5	8.5	8.7	8.6	9.1	9.1	8.5	100.1

Other Revenues 94	100	140	230	500	350	250	500	300	150	500	300	350	3670
95	100	170	300	230	300	260	500	300	350	400	325	380	3615
96	358	358	358	358	358	358	358	358	358	358	358	362	4300
Avg.	186	223	296	363	336	289	453	319	286	419	328	364	3862
% of Total	4.8	5.8`	7.7	9.4	8.7	7.5	11.7	8.3	7.4	10.8	8.5	9.4	100
Shared 94	7000	7000	7000	7000	7000	7000	7000	7000	7000	7000	7000	7000	84000
Taxes 95	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500	90000
from 96	8062	8062	8062	8062	8062	8062	8062	8062	8062	8062	8062	8068	96750
Central Gov Avg.	7521	7521	7521	7521	7521	7521	7521	7521	7521	7521	7521	7521	90252
Budget % of Total	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.34	8.34	8.34	8.34	100

payroll costs by dividing the annual payroll budget by the number of pay periods and then adjust for seasonal payroll variations such as summer part-time employees. In a monthly pay cycle (12 pay periods), there is one pay period per month. In a twice-a-month pay cycle (24 pay periods), there are two pay periods per month. However, in a biweekly pay cycle (26 pay periods), two months have three pay periods.

- Service and supply costs—nearly impossible to project because it represents many small purchases that occur throughout the year on an as-needed basis. Identify any recurring expenditures, such as utility costs and contractual services that are more predictable and project them separately. This will reduce this category's uncertainty. For the remaining expenditures, analyze the three to five year expenditure pattern and project the same way as revenues.
- Debt service costs—the timing for payment of debt service can be determined from existing loan amortization or bond maturity schedules.
- Capital investment outlay costs—using the capital investment budget; identify the specific projects that will be undertaken. Request that the department responsible for the project prepare a monthly cash disbursement schedule for each project. Consolidate that schedule with others into an overall capital investment disbursement schedule for the cash budget. Remind project managers to advise you of any changes to the planned disbursement schedule.

CREATING THE CASH BUDGET

After projecting receipts and disbursements, add the information to a format shown below. Subtract the total projected disbursements from total receipts to arrive at the net cash flow for each month. This figure is then added to the beginning cash balance to produce the cash forecast for the month. The beginning cash balance is important because it represents the starting point for the cash forecast. The process is followed for each subsequent month until the table is completed.

To get a sense of liquidity and cash availability, any existing security maturities should be added to the forecast. This provides a total basis for estimating the amount of cash available to cover disbursements and for purchase of future securities.

Cash Available to Purchase Securities
20xx (millions)

Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Receipts													
Property Tax	1242	5629	27895	1821	3642	11174	1076	3063	10181	7036	9933	83	82775
License Fees	1486	1523	1542	1616	1505	1579	1523	1468	1690	1468	1690	1468	18558
Property Rent	1963	1819	1795	1915	1867	2035	2035	2083	2059	2179	2179	2035	23964
Other Revenue	206	249	331	404	374	323	503	357	318	465	366	404	4300
Shared Taxes	8059	8059	8059	8059	8059	8059	8060	8060	8069	8069	8069	8069	96750
Total	12956	17279	39622	13815	15447	23170	13197	15031	22317	19217	22237	12059	226347
Disbursements													
Payroll	4715	4715	4716	4716	4716	4716	4716	4716	4716	4716	4716	4716	56590
Supplies.	1885	1885	1885	1885	1885	1885	1885	1885	1885	1885	1885	1885	22620
Services	6600	6600	6600	6600	6600	6600	6600	6600	6600	6600	6600	6600	79200
Debt Service	0	0	5657	0	0	5657	0	0	5658	0	0	5658	22630
Capital Outlay	0	0	0	7543	7543	7543	7543	7544	7544	0	0	0	45260
Total	13200	13200	18858	20744	20744	26401	20744	20745	26403	13201	13201	18859	226300
Net (Receipts-Disbursements)	-244	4079	20764	-6929	-5297	-3231	-7547	-5714	-4086	6016	9036	-6800	47
Beginning Cash Balance	22630	22386	26465	47229	40300	35003	31772	24225	18511	14425	20441	29477	22630
Ending Cash Balance	22386	26465	47229	40300	35003	31772	24225	18511	14425	20441	29477	22677	22677

APPLYING THE CASH BUDGET

Take the ending cash balances contained in the Sample Cash Budget from above to construct a simple graph like the one below. This exhibit was prepared from the information developed in the Sample Cash Budget. A simple glance at the graph shows you: how much can be invested in particular months of the year, how long each amount can remain invested, and when the security should mature or be sold to obtain cash for operations. It also illustrates how a cash forecast can help you plan the year's purchase of securities so those funds are invested for the longest maturity possible.

Cash Available to Purchase Securities
20xx (billions)

Yield
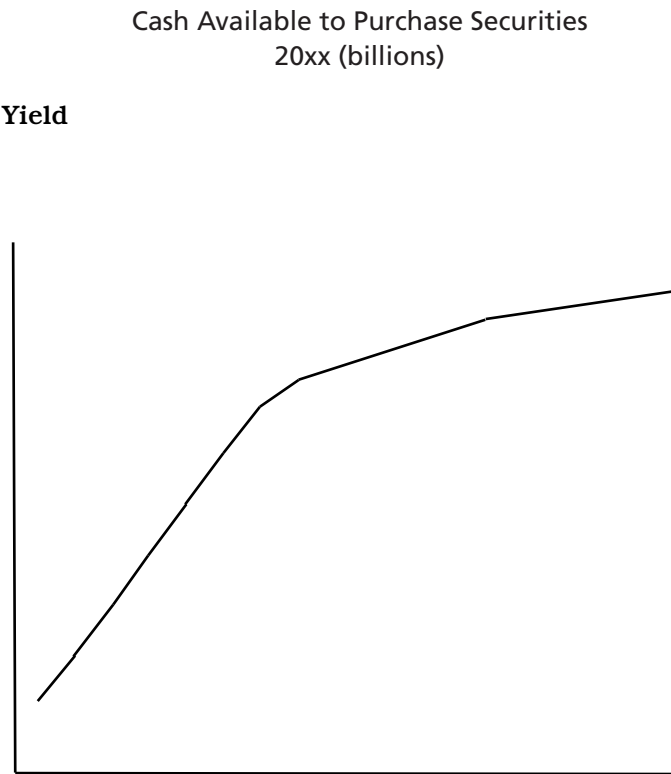
As the chart illustrates, approximately 12 billion in cash is available to purchase securities for an entire year. For other security investments, the cash budget provides a guide for selecting maturities. A graph such as this is not a precise tool; it only approximates available cash amounts and dates.

Cash budget projections can also provide an early warning of a cash shortfall. If the ending cash balance drops into negative territory in any month, that is a signal to plan for short-term borrowing. Borrow money as it is needed, but in a manner that minimizes the amount borrowed and the costs of borrowing.

UPDATING THE CASH BUDGET

After the cash budget has been completed, update it with actual results monthly. By updating, you can improve the accuracy of the projection to year-end and establish a database of actual results for subsequent years' projections. Updating cash budgets monthly by adding a new month as one is finished is known as a "rolling" forecast.

Updating the cash budget with actual results is very important to the effectiveness of the cash management program. Any significant differences between the projections and actual receipts or disbursements should sound an alarm and indicate the need to review the cash budget projections. These variances may be signalling the need to revise short-term borrowing or investment plans. It may also be signalling inadequate projection methodologies and future financial problems.

Variances between actual and projected may result from unanticipated events. These include changes in: the economy, central government-shared tax distribution formulas and schedules, administrative procedures, one time sale of an asset, or emergency situations which increase the demand for services. Such events can affect the timing and amounts of receipts and disbursements. In either case, modify the cash projections to consider these events.

After the year ends, review the cash budget, compare actual results to projections, and document the reasons for significant variances. This information can be used to improve next year's cash budget projection methodologies and processes.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Cash budgeting can be an important tool. It can be used to monitor actual revenue collections versus budget and to safely extend security maturities to enhance yield. Is your LG using this tool? If you are not currently using it, list the reasons for not using it and for each reason, identify the major obstacle that keeps you from using it and how that obstacle can be overcome.

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DISBURSEMENT TECHNIQUES

The disbursement goal is to hold the payment to the very last moment, pay the amount due on time, and maximize the return on the cash available for investing. Holding disbursements to the last, possible moment increases the amount of cash available for security purchases thus increasing interest earnings. You must employ a number of techniques to effectively achieve this goal.

For most LGs, disbursements are made either in cash or by bank transfer. The effect is to immediately reduce the bank account balance and eliminate any float on the disbursement. Disbursement float is the amount of time that it takes a LG check, once issued, to clear the LG's bank account. For LGs whose country uses a checking system, this means an extra day or two that the money sits in the LG's bank earning interest. Since LGs in many countries do not use checks and benefit from disbursement float, what other techniques are available? To achieve the disbursement goal, you must understand LG's patterns of disbursements and other available disbursement methods and accounts.

DISBURSEMENT PATTERN

To fully understand disbursement patterns, analyze the components of the expenditure projection described in a preceding section. This methodology simply lists a LG's major payments (payroll, debt service, etc.) and the approximate due dates for such payments. This is your LG's past disbursement pattern. From past experience you have the best foundation for determining what your future disbursement pattern will be.

DISBURSEMENT METHODS

Generally, there are four ways to disburse payments: cash payments, wire transfers, internal bank transfers, and commercial bank checks. Since a commercial bank checking system is not widely developed in many countries, the discussion will be limited to the first three ways. Each has some common characteristics: allowing the LG to hold cash until the last moment, reducing the LG bank account balance

immediately, and eliminating any beneficial float that a check disbursement system might give the LG.

- **Cash payments**—provide funds to pay employees or suppliers without bank accounts. A LG prepares an "Order to Pay" to the bank authorizing the bank to make a cash payment to the named payee. The payee must present the Order to the bank to receive cash. The bank usually has final control to honour the request based on cash available in the LG account at the time. The "Order to Pay" may not be as immediate because the holder must present it in person to the bank. This can occur on the same or a later day.
- **Bank transfers**—Move funds between banks electronically over dedicated telephone lines. Because the funds move almost immediately, payments can be made at the last minute. LGs use bank transfers to transfer a debt service payment between the LG bank and lending banks on the due dates. Moving money at the last moment allows cash to remain in the account longer and increase cash balances.
- **Internal bank transfers**—Move funds between the LG bank accounts or to other bank accounts based on an "Order to Pay." A LG uses bank transfers to move funds between bank accounts to pay employees, vendors, suppliers, or other government agencies.

DISBURSEMENT ACCOUNTS

Effectively managing the disbursement accounts is critical to the success of the cash management program. You should be familiar with three techniques: concentration accounts, direct deposit of payroll and controlled disbursement accounts.

- **Concentration account**—One of the keys to increasing interest earnings is to centralize all LG monies in a single bank account. In most cases, a LG requires the bank to establish a concentration account (also called zero balance account) system. Under this system, the bank sets up a concentration account to hold the LG's available funds and a number of other accounts, containing zero balances, to handle disbursements. As transactions are presented to the bank for payment, these disbursement accounts are drawn upon. At the end of the business day, the bank internally transfers funds from the central concentration account to the disbursement account to restore the balance to zero. With this method, the LG might also retain excess funds in the concentration account to pay bank service charges. This is known as a compensating balance; it will be discussed in a later section.
- **Direct deposit**—A second technique is the direct deposit of payroll and payments to contractors. For payroll, a data file is generated by the LG and given to the bank before the disbursement date. The data file contains all the necessary information regarding the employee's pay such as employee name and amount of pay and information the bank needs to transfer the funds to the employee's bank account. The bank then

transfers the funds from the LG account to the employee's accounts on the designated business day. This technique can also be used to pay contractors and suppliers and enables you to consolidate payments on the due date rather than processing individual transactions. You will know exactly how much the disbursement will be on the due date.

- **Controlled disbursement account**—This technique assumes that a commercial banking system is in place in the country and that LGs can issue checks and establish a bank account outside of the local community. A controlled disbursement system gives added control over the daily clearing of checks from the bank account and adds processing time (known as float) between the issuance and the clearing of checks in the LG's bank account. This delay allows a LG to invest the float balance and earn interest during that period.

It works this way. Establish a disbursement account in a remote banking location in either the same area or another portion of the country. The LG checks are all cleared through this account. It may add one or two days to clear the checks. The remote bank presents checks for payment only once a day, and the LG primary bank account (concentration account) funds the account daily to create a zero balance. Controlled disbursement gives a couple of advantages. It adds time to clear checks allowing you to invest the float and earn interest on the money in the primary account. Moreover, it cuts off checks from clearing the primary account at a certain time each day so you can invest the remaining available balance without fear of overdrawing the account by late clearing checks.

> *This technique has come under increased scrutiny of late, and the benefits of using it have been reduced. Consult your legal advisor as to the possibilities of using a controlled disbursement technique.*

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Now that we have discussed various collection and disbursement techniques you might employ to accelerate cash inflows and slow the release of disbursements, it is time to see if you can apply these to your LG. Which technique is your LG currently using?

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Which ones are not being used and why?

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What obstacles are there to using the techniques that are not being used?

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What actions need to be taken to remove the obstacles and to implement these additional techniques?

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REVENUE SURVEY

LG officials are always concerned with how their peers in other communities are facing the same challenges. This is as true in revenue generation as in any other area of local government. An external revenue survey can provide a great deal of useful information and ideas for consideration and evaluation. In many ways, the process of surveying other LGs is very similar to surveying your own departments when creating a revenue manual. It also has many of the same benefits, such as:

- It can help identify areas for improvement of your revenue structures, helping you detect revenue sources that are not performing as they are in other jurisdictions, fees that could be raised, or new revenues that are not currently used by your LG.
- It can help identify areas for improvement in your organizational procedures for collecting revenue, including reducing administrative costs, and considering new or different penalties.

- It can provide information to help understand what factors affect the amount of money that different taxes, charges and fees generate, such as changes in the economy or population, or changes in laws.

STEPS IN CONDUCTING A REVENUE SURVEY

STEP 1. DETERMINE RESPONSIBILITY

There are several options for determining responsibility for conducting a revenue survey. You could use existing staff, a consultant, a citizens' committee, or some combination of the three.

In the first option, a staff person in the finance department could be given responsibility for coordinating this project. This person should report to the financial officer, and be assisted as needed by others within the finance department as needed. An administrative intern hired by the finance department could also provide this staff work, as long as the intern is carefully supervised.

In the second option if funds are available, a consultant could be engaged to perform this assignment. While more expensive, a consultant has the advantages of time to get the work done on your schedule. The consultant should bring objectivity, and expertise to the project, if they have experience performing revenue surveys elsewhere. Drawbacks to hiring a consultant include the lack of continuing presence to help understand and institutionalize the survey process used, and possible resistance of staff to any changes suggested by the consultant.

A citizens' committee could coordinate or assist in this project, and they might be able to contribute valuable insight and creativity. They can also help build political support for new revenue sources that are recommended for implementation. However, they may also need lots of staff support to educate them and provide information, and they will probably not be as amenable to sticking to your agenda and timetable.

If you can afford the time, staff and resources, it makes sense to use the same approach to creating the external revenue survey as you used to create the internal revenue manual, as the increased knowledge from one project will carry over to the other.

STEP 2. DESIGN A QUESTIONNAIRE

Take care in designing your questionnaire. You should carefully define each data item, and if there is some question as to how a revenue is administered, ask respondents to be specific. Do not make your survey too long, and do not make respondents search for information that is not reasonably available. They will put the survey aside and never get back to it. As an inducement for their cooperation, you can offer other LGs the results of your survey, plus a copy of your completed revenue manual. Building on the work already completed for the revenue manual will be useful in many ways. You will already have determined the legality and enabling statutes of all the revenues you are asking about. You will have a sense of how difficult it is to collect a particular revenue from your own experience and can ask specific questions on how well other LGs are collection the same revenue.

It may be useful to test the questionnaire after it is drafted by asking one nearby LG to complete the questionnaire for you, then asking their staff for feedback on how easily the questionnaire was completed, which questions were confusing, and other problems with the questionnaire they encountered.

STEP 3. DISTRIBUTE THE QUESTIONNAIRE

To limit the costs and the demands on the people administering the survey, you should limit the number of governments who will receive the survey. There are two groups of potential recipients - those from whom you absolutely need the data, and those it will be nice to receive. The first group should be those that meet some criteria that you pre-establish. For example:

Geographic proximity. These are the communities surrounding your LG.

Peer group. These are the communities that are most like your community in terms of socioeconomic characteristics, such as percentage of college graduates, median years of schooling, median family income, or percentage of families earning more than a certain amount per year. Or they may be similar to your government in terms of population size, form of government, economic base, etc. Generally, most LGs already have a pre-selected peer group that they are already using for comparative purposes, such as for wage and salary studies.

Innovators. There may be LGs outside one of the already mentioned groups who have a reputation for being innovative and forward thinking. Even if they are significantly different from your LG in terms of size or demographic/economic profile, it may be worthwhile to try to get them to respond to your survey.

You should have your top managers and/or policy makers call their counterparts in the communities that you want to insure respond, explain the need for the information, and promise your cooperation if they ever have a similar need.

If you have the resources to send to a wide audience, there is much to be gained. One way of getting information from a larger group is to send an abbreviated version of the questionnaire, where you can ask the responders to simply check off from a list those revenues they are using, list any not mentioned, and describe anything they are doing that is notable or unique. You can then review these to see if any require follow-up to learn more, and to confirm that there is nothing you are missing.

STEP 4. ANALYZE THE DATA.

When the questionnaires are returned, they should be examined for completeness and follow-up calls should be made for any answers that seem obviously in error. Then the resulting data should be transferred over to data summary sheets for each question asked.

Once all the data summary sheets are completed, analysis should be conducted to interpret the results. Particular situations you should examine include:

- LGs that have annual revenues significantly higher or lower than yours for specific revenue sources (adjusted for the size of the community)
- LGs that are making use of a revenue source not included in your revenue structure

- Your LG is using a revenue sources that no one else is. You will want to investigate why are they not using the revenue, and try to determine if there some problem they are aware of that you are not.
- Strategies for collection of delinquent taxes and charges that others are using that you are not.

Tables and charts should be constructed to help display and interpret the data. For example, stacked columns can be developed to show the relative reliance on major revenue sources between you and your reference group LGs.

STEP 5. PREPARE A REPORT

A report should be developed containing your data, analysis, findings and any recommendations and conclusions that you have made. Your report should have the following parts:

Executive summary. In two to three pages, summarize your major findings for your top management and policy makers. Findings that reveal important problems in your revenue structure and administration, or important opportunities for improvement should be highlighted in this section, with reference to the section of the report with the details.

Summary of recommendations. A list of all the specific recommendations should be included next, with a cross reference to the page of the report with the detailed information. Could you be doing more to maximize use of your current revenues? Are you doing a good job of minimizing collection costs? Do rates need to be increased? Do you need to adopt new fees or taxes? These kinds of comments as well as specific recommended actions steps (e.g. we should raise penalties for late payment to 10%) should be listed in this section.

Methodology. In one or two pages, describe how you developed the questionnaire, how you selected the recipients, the response rates, and why you selected the revenues that you did for analysis.

Specific revenue findings. One or more pages should be devoted to each revenue source. A brief description of the revenue should be offered (which could be taken from the revenue manual), then a statement of any finding, such as "our LG uses this revenue sources to a high degree than 75% of the cities in our survey." Next, some form of the data that has been collected should be shown. The raw data may be included in an appendix, but the body of the report should include only data summaries, with one or two charts.

LEARNING APPLICATION

| POLICY MAKER _X_ | CEO _X_ | FINANCE MANAGER _X_ | DEPARTMENT HEAD _X_ |

Conducting revenue surveys is both important as an educational as well as management tool. It helps everyone involved in management understand better the nature of the revenue sources that support the expenditures, and thus the goals, of the government. With respect to what you have read about conducting a revenue survey, write

down at least three concerns you have about your government's interest in and/or ability to perform these tasks.

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POLICIES

Throughout the chapter, we have mentioned the need for policies. Some areas, like the section on investments, we discussed the various policies that need to be in place in detail. Those are reiterated at a summary level here, along with several other areas where policies should be adopted by the governing body.

Sample Policies to Establish the Framework for Financing the Operating Budget

Revenue collection policy
- The LG will establish the methods and acceleration techniques (e.g., discount for early payment, etc.) for collecting revenues and delinquent accounts. (Policy should also cover the use of multiple cash collection points, instalment payments, grace periods, and other similar techniques that improve public perception but slow cash availability.)
- The LG will schedule the collection, deposit, and disbursement of all funds to ensure maximum cash availability.

Delinquency program
- The LG will establish a professional and aggressive program for recovery of delinquent accounts, with annual reports on efforts and results prepared for policy makers.

Revenue structure
- The LG will periodically collect and analyze information on the revenues it uses, including how much each revenue source is raising.
- The LG will periodically collect and analyze information of the revenues being used by other LGs.
- The LG will review all fees and charges at least once each four years.
- The LG will conduct an annual review of selected fees and charges to determine the extent to which the full cost of associated service is being recovered by revenues.
- The LG will place increased emphasis on user charges to finance the cost of LG services.
- The LG will conduct a cost finding analysis before committing to programs of privatizing services.

Grants
- Grants will be applied for based on the LG's needs and priorities rather than grant funds available.
- Grant applications will be approved by the governing body.
- Grant applications will be reviewed and approved by the financial officials of the government as to the budget requested in the grant application.
- Grant applications will be reviewed and approved by the human resources officials of the government as to the staffing/benefits requested in the grant application.

Security investment policies
There should be a comprehensive policy that includes the following:
- The scope of the security investment program (what LG funds are included or excluded),
- The objectives of the program,
- The delegation of authority to one official for security purchase decisions,
- A list of authorized securities,
- Limits on the maximum maturity for securities and guidelines for diversification,
- Provisions for internal control,
- Safekeeping and collateral requirements,
- A system for monitoring and reporting performance,
- Standards for selecting and monitoring dealers and brokers, and
- Requirements for periodic review and amendment where necessary.
Examples of specific statements are:
- The LG will maintain at least xx % of its portfolio in liquid securities, which are available on a daily basis without loss of principal.
- The LG will maximize its investment of idle cash on a continuous basis. (Or as an alternative, the LG will invest at least xx % of its idle cash on a continuous basis).
- The LG will obtain the best possible return on all securities purchased.
- The LG will emphasize safety and liquidity in the investment of its funds.

Expenditures policy
The LG will establish regular payroll and expenditure payment dates. Within these two areas, specific attention should be paid to the following:
- Define the cost and inconvenience that the LG is willing to undergo to more carefully match payment dates to due dates.
- Define exception policies for responding to common requests such as payments to capital project contractors.
- Provide for assignment of responsibilities, progress reporting, and regular evaluation.

Reporting system • The accounting system and cash forecasting system will provide regular information concerning cash position to ensure that the operating budget is properly financed. • The accounting system and cash forecasting system will provide regular information concerning cash position for the security portfolio.
Bank relations • The LG will arrange with banks on a contractual basis for a specified time and with specified fees for each service rendered.
Administrative policies The person responsible for the day-to-day cash management program should establish detailed written administrative policies and procedures under the guidance of the finance director or mayor as appropriate. A procedures manual should include: • A description of the types of bank accounts maintained, • Specifications for bank selection, including procedures and evaluation criteria, • The content and frequency of internal and external cash management related reports, and • A description of the information recorded for each type of daily transaction.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD ___

From your unique perspective, use the space provided below to make notes in answering the following questions:

Has your LG adopted policies that establish the framework for adequately financing the operating budget?

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Has the governing body adopted cash management policies to guide the operation of the program?

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What are your primary cash management policies and what objectives have you established to monitor them?

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Are program objectives compared to actual performance on a regular basis?

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BENEFITS

An effective cash management program can help ensure that the operating budget is properly financed. It can produce additional revenues through investments that can be used for funding the operating budget. Specifically, a cash/revenue management program in a LG:

- Provides additional revenues through investment of idle or excess cash,
- Forestalls need to raise taxes and fees,
- Reduces and may eliminate the need for short-term borrowing,
- Saves interest costs on borrowed money,
- Minimizes the cost to the LG of banking services,
- Improves the creditworthiness of the LG,
- Reduces transaction costs by having sufficient cash on hand,
- Improves the relationship with suppliers and contractors by paying bills in a timely manner, and
- Avoids penalty (late charges) costs that arise from being short of immediately available cash and not paying bills on time.

Many local finance managers—especially in developing countries—must rely on short-term borrowing or using reserves to compensate for variations in revenues from the central government and cash flow of other revenues, so, the need for a comprehensive cash management program is apparent.

Adopting an overall program that strives for maximizing revenues has many benefits for a LG:

- Reduces the need to cut programs and service unnecessarily,
- Improves the potential for offering new or improved services,

- Increases visibility and accountability for the staff who are responsible for revenue generation and collection,
- Develops opportunities to make the overall revenue structure more equitable and efficient, and less dependent on a just a few revenue sources,
- Exposes user charges and fees that may not be covering the cost of service to the extent required by the LG's financial policies,
- Exposes weaknesses in the LG's financial management procedures or organization, and
- Reveals areas of future concern to assist in planning, budgeting and forecasting.

OBSTACLES, LIMITATIONS, RISKS, AND OTHER CONSIDERATIONS

You will find that making changes to the way LG conducts its financial business is not an easy task. There will be obstacles and barriers, such as political and staff resistance, time required, lack of performance information, lack of knowledge of the practices and standards, and the existing financial accounting system that impede your progress.

Resistance to change—In today's complex and ever changing society, most managers would agree with the statement "change is the only certainty." But that doesn't mean that everyone accepts change equally well. You can expect that in developing new analytical techniques and revenue reports for management there may be some resistance from politicians and staff. Elected officials who are wedded to past techniques, reports and formats may not initially see the value of producing new information and reports.

Staff members may resist developing or using new cash management, cash budgeting, or investing techniques and revenue reporting systems because of the additional work that may be required. They may also resist initiatives because it attempts to improve accountability for results. In some cases, staff members may enjoy not being held accountable for results and your efforts change that situation.

Time required— If you are considering implementing the tools and techniques described in this essay, you should not try to implement all of them at one time. Be selective. Spread out the implementation over a period of time. Using an incremental approach has important benefits. It:
* Allows you to focus on the highest priority first and to get some immediate benefit from it,
* Eliminates the need for a comprehensive system design—different functions such as cash budgeting, investing and cost finding can be implemented independent of each other,
* Also gives the LG more flexibility to respond to changes that could not be anticipated earlier, and
* Changes are more easily implemented because it allows for introducing new procedures over time so that they are not so overwhelming.

Lack of "own source" revenues—Another barrier or obstacle to improving the financing of the operating budget is that LG's may lack the necessary legal ability to

implement additional own source revenues and transferred revenues. This is usually due to central government restrictions and will require changes in central government laws and regulations. Work within LG associations to make these changes where possible.

Lack of control of revenues—For many LGs, revenues are primarily transfers or shared revenues from the central government over which the LG has no control. The techniques described earlier in the essay, i.e. investing, cash flow budgeting, and revenue billing, collection and disbursement and reporting techniques can still be used even with transferred revenues. If the data is not available, you will need to establish systems to collect and compile the needed data annually. Compiling the data over 5-10 years will provide an historical database from which to analyze historical trends and predict future years for forecasts. It may be more difficult to forecast because the central government may be inconsistent in its distribution of shared revenues or transfers. But, you must start somewhere.

Lack of knowledge of concepts and practices—Another obstacle exists when elected officials are not familiar with the terminology, techniques, processes, and practices of investing, cash budgeting, cost finding, etc. Education of elected officials on revenues, investments, and cost finding using workshops and briefings is a staff responsibility. Information provided to elected officials should be presented in simple, non-technical terminology that can be easily understood. Elected officials must be well informed about the LG current management practices and efforts to improve the process and products. Their support is essential to achieving that goal.

Few standards and benchmarks—Improving the financing of the operating budget may be hampered by the lack of standards and benchmarks. This will be a particular problem for LGs who are new to self-government. Simply, there has been little time to develop the standards because the nature of self-government has been ever changing. Nevertheless, you should establish standards and benchmarks for the operation of LG services such as investing and cash management and overall revenue collection and disbursement operations of the LG. One easy way to start that process is to gather data from other LGs who you believe have established a strong financial condition and established superior management and public services. Use that as a starting point to develop a benchmark to measure the performance of your LG. Also, gather sufficient comparative LG data and individual service data to accumulate historical data to project trends.

Inadequate accounting system—Another barrier to developing revenue management reports for the LG is an inadequate accounting system. Accounting systems traditionally meet the need to control and report to the central government on the sources and uses of the LG monies. Systems were never designed to support the detailed revenue and cash management needs described in the above essay. You will need to establish separate data gathering and management reporting systems to overcome this barrier until you have an opportunity to replace the traditional accounting system with one that has an integrated database and can capture most of the revenue information automatically to support varied management reporting requirements.

Defining performance measures—Creating effective management reports with suitable measures of performance is difficult, and can be a considerable barrier to overcome. For example, if service managers are evaluated based on whether or not

they meet budget levels of cost, they might be tempted to ignore the quality of the product or service provided and postpone preventative maintenance or take other actions that could harm the LG in the long run, but meet budget in the short term. Training personnel in how to prepare and use performance measures is necessary and is an important first step to developing revenue and cash management information systems.

Legal restrictions—All LGs operate within legal restrictions. Laws apply to different aspects of LG operations including cash/revenue management activities.

- Laws may determine the collection dates and procedures for various taxes and fees. For example, law may specify the dates on which property taxes are due in full (i.e., May 31) and for paying in quarterly instalments. Specific procedures may be identified for collecting delinquent property taxes.
- Laws may restrict the type of securities that can be purchased by a LG.
- Laws may define the type of financial institutions in which LGs may establish accounts or even establish criteria for the selection of a financial institution as a depository bank. Because of this variability, assemble in one place all the central government and local laws that affect cash management and be familiar with their provisions and limitations.

LEARNING APPLICATION

POLICY MAKER ___   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

We have identified some but not all obstacles and limitations to improving financing of the operating budget. What other barriers can you think of or have you experienced?

_____

_____

_____

How would you go about overcoming these obstacles and limitations?

_____

_____

_____

ADVANCED FINANCING INFORMATION

This section presents materials that we considered beyond the basics needed by most LG officials. Each of the following topics is a summary of information that may

be helpful as you advance in your understanding of financial management topics. Trainers using these materials for workshops should pick and chose the topics most appropriate for their audience.

CASH MANAGEMENT

Cash management includes all the activities that a LG undertakes to ensure maximum cash availability for financing the operating and capital budgets and optimum yield on the investment of its excess cash consistent with laws and governing body policies. Most LGs charge at least some fees or taxes for services and functions and this is where cash management begins. It ends when money is disbursed to satisfy its creditors and the bank releases cash from the bank account. Everything in between is a part of cash management. In its simplest form, cash management has three phases.

1. Mobilizing cash—In this phase, work to convert financial claims (e.g. invoices, bills, and accounts receivable) into cash as soon as possible and deposit the cash into bank account(s) so that it is available to pay bills when necessary.
2. Controlling the release of cash (disbursements)—Here, hold onto the cash used for paying bills or accounts payable until the very last moment, without incurring late penalties. You might call this "just in time" disbursements.
3. Investing idle cash—While the cash is kept in the bank account(s), invest it in short-term interest-bearing securities. Interest earned is revenue to the LG and can be budgeted to provide services to citizens.

One of the most productive ways to finance the operating budget is to implement a cash management program that has three objectives:

- Bringing in revenues to the government as quickly as possible,
- Holding on to them as long as possible, and
- Using the time when the cash in within the control of the LG to earn investment income.

Cash management includes all the activities that a LG undertakes to ensure maximum cash availability to finance the operating and capital budgets and optimum yield on the investment of its excess cash consistent with laws and governing body policies.

> Note: For those LGs in a decentralizing country, we recognize that you have little if any control over the timing of the receipt of cash from the central or provincial governments. It is very difficult to plan for providing services to citizens when you do not know when or how much revenues will be received from higher levels of government.

INVESTING EXCESS CASH

An effective cash management program generally produces a positive cash balance that is invested in securities, which in turn produce interest income. This represents an additional revenue source. Since LGs are dependent upon citizens involuntarily paying to fund public services, LG officials have a tremendous responsibility to ensure that they properly handle this entrusted money. This includes maximizing its use while held by the LG. A well-developed security investment program is necessary to effectively use these funds. One of the first steps to take is to define the LG's objectives and to adopt a security investment policy.

In developing objectives and policies, consider the local political environment and past security investment experience. Issues such as whether or not to keep funds in one bank or multiple banks or with local, regional or central government financial institutions should be addressed. Also, the LG's ability to manage the security investment function and staffing limitations should be taken into account. To that end, many LGs will often adopt objectives and security investment policies that are more conservative than required by law.

Your country may have very strict guidelines for investing LG funds—if it allows for investments at all. It is important that you understand your country's laws to determine which, if any, of the following information is applicable to your LG. The following section is based on the premise that investing is permissible in your country and that the LG has some control over investment decisions.

INVESTMENT OBJECTIVES

Consider developing security investment objectives that address the following five areas: legality, safety of principal, liquidity, yield, and suitability.

- Legality—Any security investment program must conform to laws, local ordinances and internal policies and procedures. Internal accounting and management controls should be in place to ensure that these activities comply.
- Safety of principal—provides an assurance that 100% of the principal will be returned at maturity. The most important objective should be safety of principal. The LG and the finance manager have a fiduciary responsibility to retain and manage these funds for their intended purpose. Therefore, LG officials must ensure that the securities purchased do not result in the loss of principal of public funds.
- Liquidity—is a measure of the quickness with which a security can be converted to cash. It is important to maintain sufficient liquidity to meet cash flow requirements. Investing cash needed for the operating and capital budgets in long-term maturities or non-liquid securities should be considered only if it can be clearly demonstrated that they will not be required before the investment securities mature.
- Yield—is the percentage return on a security investment. LG security investments produce interest income that supplements other revenues that finance the operating and capital budgets. The security investment

portfolio should earn a market rate of return. Funds that may not be required for short-term liquidity should be invested to safely enhance yield.

- o Strive to maximize the yield on securities consistent with safety of principal and liquidity requirements. However, also be cautious about giving in to the temptation to "beat the market" by seeking high yields in risky, long-term, and potentially non-liquid securities. It is unrealistic to expect to earn above market rates of return on safe, liquid (usually short-term) securities.

- • Suitability—is a measure of matching the type of security to the needs of the investment program given its objectives. Suitability is an important consideration in choosing securities. Securities should be appropriate for the particular purpose that funds have been received. Often certain securities may be legally allowable—but not suitable for LG purchase. For example, while LGs can invest in a local private stock company, they should not risk the potential loss of their principal when they can invest in a local bank time deposit that guarantees the return of their principal at maturity. Further, you should not place available short-term cash in medium- or long-term securities offered by the central government treasury. It may be acceptable to invest in one-year Treasury bills if liquidity needs are covered.

The key to a well-managed security investment program is to adopt a balance among these objectives. Strive to earn a market rate of return while investing in safe and suitable securities with sufficient liquidity to meet operating and capital budget cash requirements.

ORGANIZATION AND RESPONSIBILITY

Effective cash and security investment management requires extensive coordination of financial activities. Receipt and disbursement schedules need to be established. Projections of future cash availability based on budgetary needs and past cash flows must be determined. Extraordinary cash needs must be identified and accommodated. Alternative security investments must be evaluated and bank services assessed. Finally, someone must monitor the status of cash and security balances on a daily basis to make sure that cash is available when needed.

To coordinate all these activities and to ensure close monitoring, the LG should designate a single official with the principal responsibility for this function. In most LGs, the finance director or manager is given this responsibility. In large governments, the finance director may delegate this responsibility to a member of the finance staff who reports to the director. The designated official should be the one most familiar with local cash needs.

To guide the process, an administrative framework describing the policy, as well the legal and procedural requirements for conducting an effective security investment program should be developed. This framework includes a compendium of laws, regulations and local laws that affect the operation of the program; a policy statement incorporating the policies of the LG regarding security investments, and

a procedures manual documenting the activities and procedures under which the program is operated.

Assuming that investing is legal in your country, then any LG, regardless of size, can invest some of its excess or idle cash. Cash can be pooled easily in a few bank accounts. Major blocks of cash can then simply be put into a bank savings account until needed for expenditures. While interest rates may be lower in a savings account, they will be greater than if left in the demand account uninvested and liquidity will be high. Funds can be easily withdrawn to meet unanticipated needs. Cash flow forecasting then needs not be so precise. The cost of administering the program would be very small and most importantly, money earned would reduce the cost of LG to the taxpaying citizens.

POLICIES AND PROCEDURES

SECURITY INVESTMENT POLICY

In response to the question, "Does your LG have a written policy for the purchase of securities?" Finance managers tend to say, "No," and cite laws that govern securities as their policy. Unfortunately, that is a common occurrence and it can lead to problems later. LGs, especially smaller ones, assume that local officials will conduct the security investment function responsibly. Only when a problem arises and a loss occurs do officials wish they had spent more time developing a policy.

WHAT IS A SECURITY INVESTMENT POLICY AND WHY IS IT IMPORTANT?

A written security investment policy is a statement adopted by the governing body that establishes objectives, responsibilities, procedures, and limitations for the staff. It is designed to protect the assets as well as elected officials and finance and management staff. A comprehensive policy will address situations unique to the security industry before they become problems and show up as security losses.

LEGAL AND POLITICAL CONSIDERATIONS

Security investments operate within a number of legal requirements that must be understood and addressed in a policy statement. National securities laws provide the primary legal constraint, but there may be other laws related to central government or province grants, shared taxes or special use monies that also affect securities. Receipt of these monies may include requirements to limit investment purchases to certain types of securities or provide for transfer of interest earnings to the central government. Donations and gifts may also come with restrictions.

Experience will influence policy development. For example, cities that have experienced a loss may adopt conservative policies to avoid a recurrence. Others prefer an active strategy, monitoring the financial markets and trying to earn above average returns. Still others are content to earn a return with less risk and more assurance that the principal will be safely returned. Another political consideration is elected officials' preference for using local versus regional or national banks.

There are several important steps to developing a security investment policy:

1. Obtain support from management. The finance manager normally initiates the process and meets with the Mayor to develop a strategy. Meetings might include other officials that have an interest such as the Chairman of the Economic Commission or CEO.

2. Involve local elected officials making the policy development an educational process. It is important to incorporate the views of the governing body since ultimately they will be asked to adopt the policy. Some LGs may opt to use a standing commission to develop the policy. Local finance experts can be asked to help educate the commission on financial issues. Also, you want to involve legal counsel as well as budget and accounting staff.

3. Gather all local ordinances and resolutions, policies and procedural documentation needed. You may want to contact associations in your country such as the Finance Officers Association, Association of City Managers, and Association of LGs. Do not forget to ask for the policies and procedures of other LGs.

4. Based on the policy guidance and information obtained in previous steps, prepare the first policy and begin the approval process. Once written and coordinated, it should be adopted by the governing body.

5. Review and update the adopted policy. Once put into practice, it does not remain a static document. Annually, review and update as needed to reflect changes in legal requirements, local policies, and practices. All formal changes should be reviewed and approved by the governing body. Copies of the adopted policy should be provided to the commercial banks with which you do business as well as auditors, financial advisers, investment banks and other financial institutions. You may also want to provide copies to the local media and appropriate civil society organizations.

COMPONENTS OF A SECURITY INVESTMENT POLICY

The following outline is a starting place to develop a local policy. We recognize that some LGs may not be able to implement all of these guidelines. For example, smaller LGs may not have three sources from which to get bids for security investments. But we believe that this is the policy framework that all LGs should strive to establish. Brief descriptions of the components follow:

- Scope—Describe the scope of the policy, identifying what specific monies are included or excluded. Differentiate between short-term monies used for operating purposes and long-term monies for capital investments. Identify any monies that are excluded from the policy such as pension monies that are administered by another governmental body.
- Objectives—A statement of objectives establishes the direction and limitations of the policy. In this section, include the principles of safety of

principal, liquidity and yield as well as comments on legality, suitability, and diversification.

- Delegation of authority—Generally, local ordinances specify who is responsible for making security investment decisions. Identify which ordinances are being followed. Clearly indicate who is responsible for overall management and for making the day-to-day operational decisions. Cite the authorized personnel by title, and then list the names of the appropriate persons in an appendix. By following this practice, you avoid updating the policy every time there is a personnel change. Also, include a statement of indemnification and a discussion which points out that finance officials are personally liable for security purchase decisions.

- Prudence—Include in the policy a reference to the prudent person rule which states: "The purchase or sale of securities shall be made with judgment and care, under circumstances then prevailing, in which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."
  - o The prudent investor standard holds the investor to a higher standard of care than the average prudent person. This standard is often applied to trustees of pension monies who are obligated to protect the beneficiaries' interests by exercising due diligence in the selection of investments and by governing the monies through documented policies and procedures. This section should also include language regarding ethics and conflicts of interest. These provisions will preclude officials from engaging in personal or business activities that profit from or can be affected by their duties and responsibilities as investors of public funds.

- Security investment instruments—Specify which securities are authorized for purchase. Although central government law generally specifies which instruments are permissible, these may be overly broad and represent no limitations whatsoever. LGs should more clearly define the instruments or place further limitations upon these alternatives to protect assets. Legality is only one issue when it comes to determining which instruments to include. Also, consider staff expertise and time available to devote to this function.

- Selection of Securities—Describe how securities are selected. Generally, require that securities be selected after receiving three quotes or bids. This ensures the best price or interest rate for the security purchased. It also avoids excessive mark-up by brokerage firms and below market interest rate quotes by banks. In this process, a list of qualified banks or financial institutions should be maintained for use when excess funds are available to invest. Competitive quotes are obtained from those on the list.

- Qualified institutions—Conduct an investigation of each financial institution with which the LG plans to do business. The investigative process, known as "due diligence," includes assessing the creditworthiness of the institution, investigating any disciplinary actions by regulatory agencies

against representatives of the firm, and checking references. If an institution is deemed sound, add it to the qualified bank/institution list. Only qualified institutions will be permitted to bid. This process eliminates financial institutions with questionable qualifications and a potentially weak financial condition. Review the list of qualified institutions periodically (at least once annually) to ensure that a financial institution's status has not deteriorated.

- Diversification—Diversification reduces risk by avoiding concentration of a security PORTFOLIO in a specific instrument or financial institution. The policy should address three types of diversification: by maturity, type of security and financial institution.

  1. When diversifying by maturity, select maturity dates to provide liquid assets to meet operating expenditures on a continuing basis. This helps avoid concentrating instruments in a particular maturity, whether short- or long-term. For example, do not invest short-term operating cash in long-term securities.
  2. Diversification by type of security minimizes exposure to risk by not placing all idle or excess cash in the same type of security. There is value to diversifying by type of security; however, do not establish artificial percentages of the portfolio that should be placed in any particular security.
  3. Diversification by institution limits asset risk by preventing over-investing in one institution. To achieve it, limit the purchase of a single institution's securities to one of the following: a percentage of the portfolio, a percent of assets of the institution, or by capital adequacy guidelines.

- Safekeeping and collateralization—One of the most effective ways to safeguard public funds is to have securities held by a third party (i.e., another bank or financial institution.) In a third-party arrangement, the finance manager arranges for someone other than the seller of the securities to provide for the transfer and safekeeping of the securities. This practice ensures that no assets are at risk in a purchase transaction since funds are not released until securities are delivered. This practice is known as delivery versus payment.

  o The safekeeping agreement also must guarantee that the security is held in the LG's name so that it can have immediate access to securities in case of default at the safekeeping financial institution. Brokers or banks may offer to safe keep securities to reduce expenditures; however, this practice should be avoided as it increases the LG's risk. A better alternative is to have the safekeeping function included in the banking service contract.
  o With deposit type instruments (i.e., bank certificates of deposit,) collateralization is essential. You must know when the law requires collateralization. If required, the policy should indicate what portion

of the investment bank deposit insurance will cover and how the amount above the insured level will be collateralized. Specify what type of collateral is acceptable and what limits (such as credit quality or maturity) are required. Typical collateral for LG funds is treasury securities that are liquid and guaranteed by the central government. If collateralization is not required, clear account balances and invest funds in overnight instruments if legally permissible.

- Internal controls—address management issues such as: separation of duties, delegation of authority, control of collusion, safekeeping, and the process for buying or selling a security (including written confirmation of telephone transactions), and documentation of transactions and strategies. Written internal controls should be developed and maintained in a separate procedures manual. Once established, an independent financial auditor should review internal controls for effectiveness.
- Monitoring and adjusting the portfolio—While most LGs do not have a sizable portfolio of securities, what they do have should be monitored and adjusted as needed. Periodically look at the cost/benefit of a more proactive security investment approach to determine if the added staff expense is offset by additional income.
- Accounting requirements—the policy should include a statement of the accounting method used.
- Reporting requirements—Indicate what reports will be prepared, how often, and who will review them. Reports are important to track activity and evaluate how it conforms to adopted guidelines and policies. Less technical reports should be prepared for governing body members and management on the status of and other facts related to performance of the portfolio.
- Securities investment committee—Some large LGs establish a security investment committee to monitor and ensure sound purchase/sale practices. If a committee is used, provide for it in the policy. Specify the number and type of members, authority of the committee, and frequency of meetings. The composition of such a committee usually includes elected officials, finance staff, and financial experts from the community. Quarterly meetings are typical.
- Performance evaluation—include a section that establishes a minimum yield standard or a benchmark against which the performance of the portfolio's rate of return can be measured. A benchmark might include the Treasury bill rate (3 or 6 month) or other index that matches the maturity and composition of the portfolio.
- Appendix items—occasionally, it is helpful to attach exhibits that help keep the policy current while avoiding the need for the governing body to approve routine changes. The following might be included in appendixes:

  1. Security laws and local ordinances,
  2. Bank service agreements,
  3. Depository agreements for safekeeping securities (third party),

4. Authorized broker/dealer and financial institutions list,
5. Sample security investment reports, and the
6. Methodology for calculating rate of return.

POLICY IMPLEMENTATION

Once the policy is developed, it should be coordinated with the respective bodies of the LG that deal with financial policies (appropriate commissions or committees), then taken to the governing body, and officially adopted. This ensures that the elected officials understand and agree with the concepts on which the policy is based and how they are stated. Once adopted, implement the policy immediately and develop procedures with the policy providing the framework.

NEED FOR A PROCEDURES MANUAL

Written procedures are an important part of internal controls that specify the day-to-day process for buying and selling security investments and recording the transaction in the accounting records. These procedures should include who is authorized to: approve security transactions, make security transfers, make bookkeeping and accounting entries, execute bank transfers, and safe keep securities. The manual should contain the list of authorized institutions to bid on security investments, forms used to report securities activities, and reports generated, including the frequency, recipients, and location of reports.

An effective manual will include sample forms and documents and be reviewed and updated at least annually. Persons involved with the security investment function should have a copy. The manual can also be used to train staff and answer routine questions.

FINANCIAL INSTITUTIONS AND/OR BROKERAGE FIRMS

RELATIONSHIPS WITH FINANCIAL INSTITUTIONS AND/OR BROKERAGE FIRMS

As guardians of public monies, LG officials are entrusted with the responsibility to ensure that public monies are safe and wisely invested. This requires effective internal procedures and processes to identify qualified financial institutions and brokerage firms and to weed out less desirable ones. Our advice to all LG officials who must have responsibility for public funds is to know the financial institution representative or broker with whom you are dealing. The following sections will help you do that.

SELECTION OF FINANCIAL INSTITUTIONS AND BROKERAGE FIRMS

Many countries may have a limited number of brokerage firms, so LGs use local financial institutions or banks to safe keep and invest their cash assets. In developing countries, LGs may not have much excess cash so the safekeeping and security investment needs are relatively simple; nevertheless, they still need qualified financial institutions.

The methods of selection range from informal, based on personal relationships, to a more formal, based on competitive proposals. Review your country's procurement laws to ensure that you comply with them. But, regardless of the procurement method, there are basic issues to address in selecting a financial institution. We offer one suggested approach to making this selection.

- Start by identifying the most important issues of the security investment program and the pertinent qualifications that the financial institution or brokerage firm should have. To gather this information, use a request for information to screen prospective institutions or firms. Typically, once the list of candidates is reduced to the best-qualified three or four firms, interview representatives to discuss each firm's policies, procedures, and financial position. The purpose of these interviews is to get to know the representative and the firm and to thoroughly review the qualifications of the person and firm who will perform the services.
- In the case of financial institutions, the process for selecting security investment services should be kept separate from the process for selecting banking services. However, in small LGs with a limited number of banks or financial institutions, these services may be included in the overall banking services arrangement.
- LG officials have a duty to thoroughly investigate the financial condition and reputation of prospective financial institutions and brokerage firms before agreeing to conduct business with them. This investigation should cover financial data, auditor reports, and annual financial reports. In addition, review staff qualifications, contact financial institution references, and ensure that internal controls are present to meet security investment guidelines.
- Request and evaluate the firm's profitability and capital positions over time. It is also important to check on the financial history of the parent company to ensure that its capital is behind the subsidiary. In addition, auditors' opinions and footnotes in audit reports should be reviewed with attention paid to any contingency footnotes that may reveal any adverse events that might be harmful to the firm. Officials should review copies of financial reports that are submitted to regulatory agencies and associations.
- Request references and background information on the firms' representatives and company officials. It is important to know with whom your government is doing business. When interviewing prospective firms, ask about the size of the professional staff, including the number of research and credit analysts on staff (if applicable). Also, determine whether the representative and/or the firm handle other LG accounts.
- Evaluate the representative's reputation by obtaining references from regulatory officials and other LG officials. Some of the references should be LGs.
- Ensure that the securities being offered by the financial institution or brokerage firm meet all legal requirements, security investment policies, and are suitable for LGs—by both type and maturity. Provide the financial in-

stitution with a copy of your investment policy. As added insurance, have the financial institution or brokerage firm sign a certificate acknowledging that the firm has received a written copy of the security investment policy.

Financial institutions and brokerage firms typically maintain contact with sources that issue and/or sell securities to investors. They are able to pass on this information to investors (such as LGs) that should help find the highest yield available on short-term securities.

For most LGs, a bank provides basic security information and services. Because most local banks depend upon deposits to conduct their business, the bank is interested in increasing its deposits and will probably offer a variety of bank deposit instruments to keep the monies in the bank. These bank instruments include: overnight accounts, interest bearing demand accounts, savings accounts, time deposits, and certificates of deposit. These instruments generally meet the needs of most LGs. The bank makes its money on the difference in the rates paid on deposits and rates charged for loans.

Large financial institutions and brokerage firms also offer other services to the LG investor including:

- **Access to markets**—This is a major function of brokerage firms as most investors lack the resources to search the markets for opportunities. In addition, the size of a purchase may preclude the purchaser from acquiring an instrument directly from the issuer. Brokerages and larger financial institutions are usually significant players in the government treasury securities market and can assist in buying and selling these securities. Brokerage firms and financial institutions in this business make money on the spread (difference) between the purchase and sales price of each transaction.
- **Market analysis-**—Brokerage firms and some financial institutions have research departments that follow economic activity, analyze current market data, and forecast interest rate trends.
- **Portfolio analysis**—Most brokerage firms and large financial institutions provide advice on how to structure portfolios to meet investment objectives.
- **Credit research/securities analysis**—Brokerage firms and large financial institutions have research staffs that perform credit research on security obligations.

SECURITY INVESTMENTS

Knowledge of the available alternative instruments in your country and their characteristics is fundamental to developing a viable investment strategy. Generally, the instruments most often used by LGs are bank time deposits, bank certificates of deposit, and central government treasury obligations. You will need to determine the most used instruments for LGs in your country. Whatever the instruments are, the

key characteristics of each instrument, including safety, yield, liquidity, denominations and how each works, should be understood so that good investment decisions can be made.

PRIMARY AND SECONDARY MARKETS

Developed countries usually have two types of financial or money markets. Primary money markets involve the first sale (or purchase) of an investment instrument, where the investor buys directly from the issuer. For example, if you buy a bank certificate of deposit directly from a bank or a Treasury bill from your country's central bank or Ministry of Finance, then you are buying from a primary market. Secondary markets occur when security instruments are purchased and sold among investors without affecting the obligation of the issuer. For example, if you purchase a central government bank Treasury bill from a local bank after the date of issuance, this is a transaction made on a secondary market.

Primary markets allow investors to bid directly to the issuer for the purchase of a security and tend to provide prices that are more favourable. Secondary markets allow an investor to purchase a security on a date other than the date of issuance or to sell a security before its maturity date.

You may be able to deal with both markets in your country, but will generally work through an intermediary such as a bank or brokerage firm. Banks often assist the LG in its decision to purchase securities in the secondary market, as well as to provide a primary market for LG purchase of bank instruments.

General economic conditions affect interest rates that in turn determine the market behaviour of securities in both primary and secondary markets. Confidence in a particular security can also affect its behaviour. Confidence is determined by an investor's perception of the financial health of the institution or collateral behind the security. It tends to be most important in the secondary market. Understanding how markets behave under a variety of conditions and gaining a "feel" for how various securities will be affected is a skill acquired through day-to-day experience and the study of the characteristics of securities.

CHARACTERISTICS OF SECURITY INVESTMENTS

- Safety or risk involves the possibility of losing some or the entire initially invested principal. In many countries, LG risk is limited by legislation restricting investment to only the safest securities. If laws adopted by the central government do not do this, the governing body should. However, even if securities are restricted to the safest investments there still is risk associated with fluctuations in securities' market value before maturity. If a security has to be sold before maturity, there still might be a loss of principal and/or interest.
- Liquidity or marketability of a security is the ease with which a security can be converted to cash. This is important because it dictates the terms and conditions of a sale before maturity. The stronger the demand and activity in secondary markets, the more marketable or liquid the security and the less the potential loss to the investor from selling before maturity.

- Maturity date of a security is the date on which the issuer will redeem the security at its full face or par value. The maturity date determines the length of time the security is held by the purchaser. Securities are often classified according to their term of the maturity such as overnight, 30 day, 90 day, one year, or five years. Sale of a security before maturity may result in the loss of expected earnings and possibly even of principal. Ideally, you should buy a mix of securities maturity dates scheduled so as not to suffer losses from premature sale.
- Call provisions allow an issuer to repay a security's obligations before its maturity date. This feature is generally disadvantageous to the investor because it makes the maturity date unpredictable. If a call occurs during periods of declining interest rates, you will most likely be forced to put the cash into another security with a lower yield.
- Available denominations are the blocks of your country's currency in which particular securities are sold. For example, in Indonesia the minimum block may be Rupiah (Rp) 10,000,000,000. In the U.S., the minimum block may be $100,000. If a LG does not have sufficient cash to meet the minimum denomination requirement, it must buy an alternative security, thereby forgoing some possible earnings. For example, assume that a LG in Slovakia had Sk 1,520,000 to purchase securities over a year, and that three types of securities were available with the following denominations

Security A:	Sk 1,000,000 at 15%
Security B:	Sk 100,000 at 12%, and
Security C:	Sk 10,000 at 10%

You will have to buy one of "A", five of "B" and 2 of "C, " thereby losing Sk 16,000 over the year from what could have been earned if the 15% security was available in a 1,520,000 denomination.
- Yield, the last and probably most important security characteristic is yield or rate of return. Yield is the rate of return that a security produces over the period expressed as a percentage. A simple formula for calculating the yield of a security follows:

$$Yield = \frac{Adjustment\ for\ discount\ or\ premium}{Initial\ security\ investment} + \frac{Interest\ earned}{} \times \frac{365}{Number\ of\ days\ during\ period}$$

Where: adjustment for discount or premium = sale price - initial security investment.

Consider the impact on yield of three alternative purchases for a 6-month period:

Yield Comparison of Alternative Security Purchases

	A Par Value Security	B Premium Security	C Discount Security
Par value at maturity	10000	10000	10000
Interest rate on par value	10%	10%	10%
Initial security investment	10000	10000	10000
Interest earnings for 6 months	500	500	500
Adjustment for discount or premium	0	-100	100
Net currency earned	1000	900	1100
Annualized yield	10%	8%	12%

In general, the following relationships exist between yield and the characteristics described above. Yield is generally higher when:

- Maturity is longer,
- Marketability (liquidity) is limited,
- Risk is greater,
- Call provisions exist, and
- Denominations are larger.

Each type of security has a defined method of calculating yield. One security may be on a 360-day basis while another may be on a 365-day basis. Some slight differences in actual annual earnings will occur between two instruments of the same face value but different time basis. Note the interest difference between a 360- and 365-day basis on the following securities:

Security A:	9%, 100,000 at 365-day basis, for 90 days =	2219.18
Security B:	9%, 100,000 at 360-day basis, for 90 days =	2250.00
Difference:		30.82

The computation also depends upon the way in which earnings are paid. Some securities pay interest on a periodic basis (e.g., quarterly) so that the calculation of yield requires adding the earnings that were paid out before the maturity date. Other securities are sold at a discount and require merely subtracting the initial purchase price from the redemption figure at the end of the maturity period.

SAMPLE TYPES OF SECURITIES

If LGs in your country are not governed by central government law that limits the kind of securities they can purchase, prudence and concern for the safety of public money usually limit the type of security investments the finance manager will make. Generally, public monies are placed in the following:

- Bank deposits (overnight accounts, savings accounts, negotiable and non-negotiable certificates of deposit and time deposits), and

- Treasury securities issued by the central government bank or Ministry of Finance,

It is important that you investigate the financial markets expand in your country, and identify the type and number of security investment alternatives available for LGs.

BANK DEPOSITORY INSTRUMENTS

Banks offer a variety of instruments under varying names. However, they generally fall into three categories: demand deposit, savings, and time accounts.

DEMAND DEPOSITS

A demand deposit account is the primary bank account in which deposits are made and transactions cleared. Normally, banks do not pay interest on demand accounts but require the finance manager to manually transfer the money to other interest bearing accounts. However, some banks, to attract new depositors, have begun to pay interest on account balances over a certain minimum level. Rates are usually low and vary among banks. It is advisable to contact your local financial institution to determine their policy.

Another variation of paying interest on demand accounts is the sweep account. In a sweep account, before the close of business each day, the bank automatically transfers (sweeps) the available cash balance from the demand deposit account to an interest-earning instrument such as an overnight account. This system eliminates the possibility of lost earnings because of inaction. This automatic sweep feature can be beneficial to the LG should the finance manager be on holiday, have an unexpected absence, or be required to attend an emergency meeting. Before instituting a sweep feature, determine the bank's timing schedule. Some institutions require lags on one or two days before sweeping the funds. This lag could prove costly in terms of lost earnings.

SAVINGS AND TIME ACCOUNTS

Savings and time accounts are simply deposits of funds in a commercial bank for a specified period of time and at a specified rate of interest. Both instruments pay interest at set rates determined by the period of time the investor is willing to tie up the funds. However, you should be aware of differences.

Savings accounts—Using a savings account is one of the simplest ways to earn interest on its idle funds. A savings account is simply a deposit of funds in a separate interest bearing account. While each financial institution sets it own requirements and rates for savings accounts, we will generalize about savings accounts so that you can understand them and their difference from other time deposits. A savings account is easily set up and very flexible for the investor. The bank requires the investor complete a signature card, provide identification and an initial deposit. A savings account has very low, if any, minimum deposit requirements, and no minimum maturity. The investor has immediate access to the funds as are few restrictions regarding withdrawals. To discourage frequent withdrawals on the account and us-

ing it as a demand account, some banks may limit the number of withdrawals per month or quarter. Otherwise, savings accounts are considered highly liquid. They pay interest on the deposit at regular intervals, monthly, quarterly, or semi-annually depending on the institution. The primary shortcoming of savings accounts is the relatively low interest rate paid on balances.

Bank certificates of deposit—A certificate of deposit is the deposit of cash at a commercial bank for a specified period of time and at a specified rate of interest. They may also be called time deposits. In countries where available, these short-term instruments are very popular with LGs and commonly used primarily because they are available through local banks. Deposits may be insured by the central government up to a maximum amount per bank.

To protect deposits above the central government-insured level, consider the following options to see if they are feasible in your country:

1. First, set up accounts in other banks so that the total of LG money at any one bank does not exceed the maximum central government-insured amount per bank.
2. Second, request that each bank collateralize the deposit with other highly liquid government securities. While there may be no legal requirement for banks to collateralize public deposits, the prudent finance manager will attempt to provide some protection for public monies above the insured level in case of bank default. If a bank agrees to collateralize the deposit, specify the type and maturity of the collateral, that it consist of highly liquid government securities, and that it be held in safekeeping by an independent third party bank in the LG's name.

Although certificates of deposit requirements vary from country to country and even from bank to bank within countries, we will generalize about them. Certificates of deposit have varying maturities, some possibly as short as 7-14 days and as long as 3 years with differing maturities in between. LGs usually purchase non-negotiable local bank certificates of deposit and elect maturities that coincide with payroll, debt service payments or other regular supplier/vendor/contractor payments. Although banks post specific interest rates on certificates, the rates may be negotiable and a LG may be able to improve the posted rates by getting competitive bids from at least three banks. Banks usually pay interest using a 360-day year or a 365-day year. When comparing investment yields from competitive bank bids, make sure that you know the basis on the interest calculation and the compounding schedule. Daily compounding is more advantageous than less frequent times, such as monthly, quarterly or semi-annual.

CENTRAL GOVERNMENT INSTRUMENTS

The Ministry of Finance or the central bank of a country usually issues at least two kinds of securities: treasury bills and treasury bonds.

A **Treasury bill** is an obligation of the central government to pay the bearer a fixed sum on a specific date. The bills are sold at a discount through a competitive auction with maturities of a year or less to fund the deficit budget and meet the cash flow needs of the central government. You will need to determine if your central government issues treasury bills. Treasury auctions may or may not be open to LGs. In many countries, treasury auctions are open only to domestic banks, insurance companies, and securities dealers.

Usually, direct purchases of treasury bills at the initial auction are accomplished through tenders. A tender is simply a special form to be completed when submitting a bid. If LGs are not permitted to participate in the auction or primary market, they may be able to participate through a brokerage firm or a commercial bank. These institutions hold the bills for their own accounts or they may sell them to other investors in the secondary market. Trading in the secondary market can take place anytime during normal business hours. Prices and yields are determined through competitive market forces. This method is the easiest way to purchase treasury bills and avoid the auction procedure altogether. You should contact your local commercial bank or brokerage firm for details.

Treasury bills are usually traded and quoted on a discount basis in the secondary market. When quotations are made on a discount basis, they must be converted to a coupon equivalent yield for comparison. Finance managers interested in the Treasury bill market must become familiar with this discount basis. To calculate the discount and its discount basis, a formula is needed, but a brief explanation will suffice now

The discount basis is the annualized (360-day year) discount rate from face value, using 100 as par. Thus, a 360-day Treasury bill discounted at 10 percent would trade at a price of 90 with an effective yield of 10/90 or 11.1 percent. A 180-day bill discounted at 8 percent would trade at a price of 96 [100 minus (180/360 times 8)] with an effective yield of 4/96 times 360/180 or 8.3 percent.

Treasury bonds are longer-term obligations (one year and longer) of a central government and are issued as coupon securities. The Ministry of Finance or central bank usually floats these bonds in the primary market at auction. The auction is usually open to commercial banks, insurance companies, and brokerage firms. Interest is payable every six months at a rate of one half the annual coupon. For example, a Treasury bond bearing a 10 percent coupon would pay interest of 50 per 1000 face amount every six months.

Treasury bond coupon securities trading should be conducted by the same commercial banks and security dealers who trade treasury bills. In the secondary market, the prices are usually quoted in thirty-seconds of one percent. Quotation sheets list these prices as decimals to simplify the price table, but these are not decimal fractions. For example a price quote of 98.14 means that a 10,000 Treasury bond security recently sold at a price of 9843.75, which represents a price of 98

14/32. LGs wishing to purchase treasury bonds should contact their local commercial bank or brokerage firm.

THE YIELD CURVE

A major concept to understand is the yield curve—the relationship between interest rates and the time to maturity on securities. A yield curve is simply a graph plotting the yield on a specific security (bank certificate of deposit or Treasury bill) on the vertical axis, with the maturity of each instrument on the horizontal axis.

Typically, the yield curve rises from the left (shorter maturities) to right (longer maturities), as interest rates are higher on longer maturities. An ascending or rising yield curve is called a normal yield curve as shown below.

Normal Yield Curve

Yield

Maturity (time)
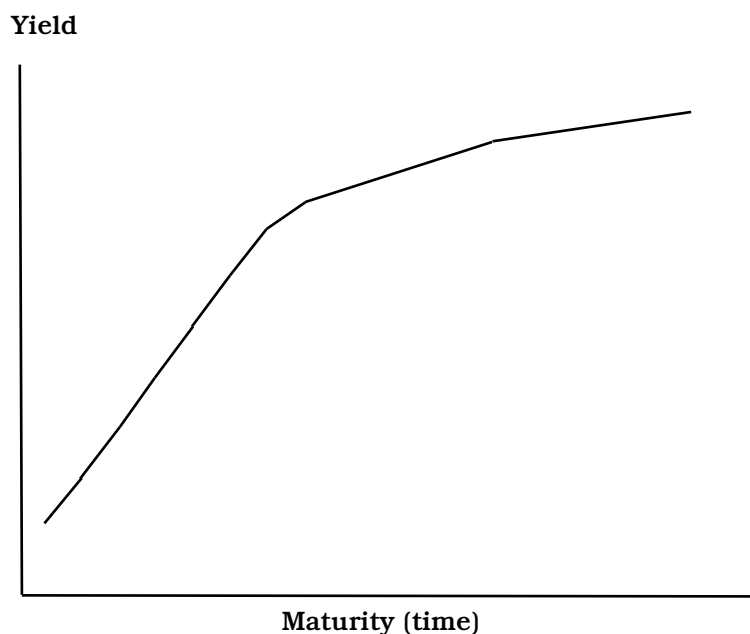
In times of high interest usually associated with the peak of a business cycle, the yield curve may invert as shown below. When this happens, short-term interest rates rise faster and soon exceed long-term rates. Usually, this reflects investors' expectation that high interest rates will not last forever, and a recession will probably drive interest rates lower.

Yield

Maturity (time)
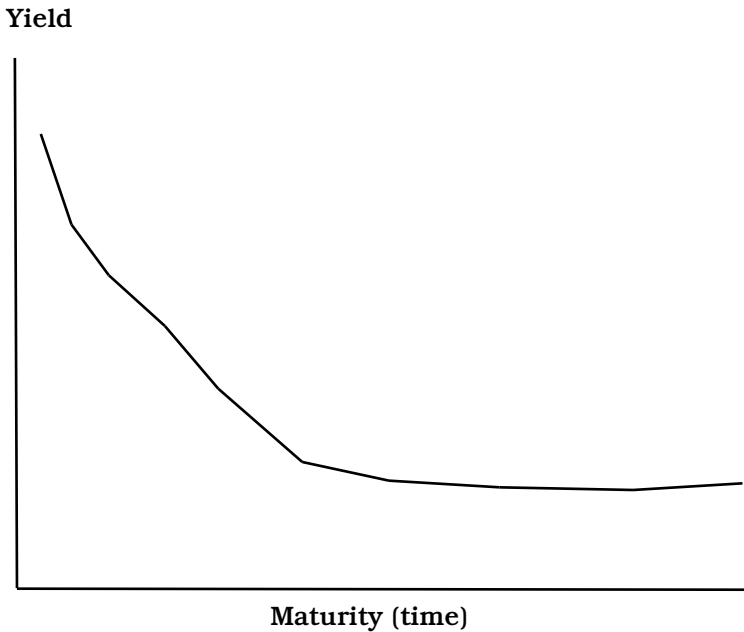
The yield curve should be a smooth continuous line that flattens out as maturities lengthen. Whenever a security lies above the rest of the curve, it represents a buying opportunity or an aberration.

Experienced finance managers learn to study the yield curve and find maturities that offer the best relative value. With flat yield curves (or segments) the general rule is to select shorter maturities; with steep curves, longer maturities may offer better investment values.

CONSIDERATIONS IN SELECTING SECURITIES

Safety (risk) is a major factor for LGs where there are few legal restrictions placed upon LG purchase of securities. In some countries, this lack of restrictions allows LGs to invest in joint stock companies and/or own companies outright. Return on investment is potentially greater when investing in private companies; however, there is considerable risk of losing the entire investment or principal. LGs in the U.S. eliminate this type of risk as a significant factor in the selection of securities by establishing legal restrictions that prohibit them from investing in private companies' stocks and bonds. Again, examine your laws to identify a list of authorized investments—but remember, just because the law allows it does not mean it is a good security in which to invest public monies.

Yield is another consideration in selecting securities. Generally, yield is higher when liquidity is lower and maturity is longer. For example, central government bonds that mature in 20 years command a higher rate of interest than central gov-

ernment Treasury bills or notes, which are short-term obligations (usually less than 6 months). Additionally, the yield on a local bank's one-year non-negotiable certificate of deposit will be higher than the yield on a local bank's savings account because it is less liquid and has a longer maturity. Each security available to LGs can be arranged according to these relationships.

Given these relationships, there are two kinds of information which aid in making a final decision: (1) the amount of money available to invest, when and for how long; and (2) general information about the current condition of the financial markets. This information provides the confidence to be able to select the longer maturity and less liquid securities in order to obtain higher yield without the risk of having to sell them prematurely.

Investing is a skill that is acquired primarily through experience supported by a thorough knowledge of the characteristics of individual securities in your country. One thing that can help an inexperienced financial manager learn more quickly is to examine the history of various securities in various markets. Banks, financial institutions, and brokerage firms may have information and analyses of the historical performance of various securities.

MECHANICS OF PURCHASING SECURITIES

The process of purchasing securities means following procedural requirements for acquiring securities and adopting and adhering to a security investment strategy. Different securities, purchased from different kinds of financial institutions, may require different procedures. Be aware of these procedural requirements so as not to jeopardize a security investment or create excessive administrative costs for correcting previous errors. The specifics of each security purchased will vary from country to country and from financial institution to financial institution within a country—even possibly from LG to LG within a country, therefore generalization is difficult. However, since most procedural problems centre on the purchase or the sale of a security, there are some basic questions that you should ask and answer about each transaction. These are:

- Have the terms of the transaction been confirmed and recorded (i.e., the price, the principal, the interest rate, discount/premium (if any), accrued interest amounts, and the yield to maturity?)
- Is the description of the security being purchased or sold clear?
- Has the method by which monies are to be delivered been specified?
- Has the location where the security(s) will be held for safekeeping been specified?
- Has the place where settlement will take place been specified?
- What bank accounts will be credited or debited because of the transaction?

Answering these questions will help ensure the accurate completion of a transaction without excessive administration complications and without the risk of failure to complete the transaction.

In purchasing securities, be cognizant of the security investment strategy and select maturities accordingly. This is one of the most important decisions facing the finance manager who has responsibility for the purchase of securities. Because the finance manager has many other responsibilities and few can devote full time to the security investment function, the most appropriate strategy to adopt is a passive management strategy. This strategy generally requires the purchase of securities with the intention of holding them to maturity. It is designed to minimize administrative expenditures while obtaining average market rates of return and incurring minimal risks. There are four techniques that can be employed by LGs.

FOUR TECHNIQUES FOR PURCHASING SECURITIES

- Create a liquidity pool—After safety, liquidity is the second most important security investment objective. The risk of not having sufficient cash to pay employees and bills is unacceptable. Therefore, most finance managers begin their cash management programs by establishing a liquidity pool. This can be created in various ways, including the use of overnight accounts, savings accounts, and Treasury bills. The major disadvantage is that the trade-off for liquidity is reduced yield. Thus, a liquidity pool should comprise only a portion of the overall portfolio.
- Match maturities to next disbursement—One of the easiest ways to invest incoming cash is to purchase security maturities and amounts to match the next cash disbursement. Thus, tax revenues can be used to cover the next payroll cycle due at the end of the month or the next debt service payment at the end of the quarter. By moving monies out into slightly longer maturities, you may realize better rates of return.
- Maximize maturities under the cash budget—This goes beyond matching the next cash disbursement by selecting security maturities based on when the cash budget shows that incoming cash receipts can be used to cover upcoming disbursements. For example, rather than select maturities to cover expenditures that will occur when the next central government transfer is due, extend the maturities further because the transfer will provide the liquidity to meet payroll and other disbursements. This technique places considerable importance upon accurate cash budget forecasts and a consistency on receiving expected transfers from the central government in a timely manner.
- Maintain a constant maturity—Some prefer to maintain a portion of the portfolio in liquid instruments to meet cash claims and with the remaining available monies purchase securities with a constant maturity such as a one-year central government Treasury bill. Periodically the bills are sold and proceeds invested in a new one-year Treasury bill to maintain a constant maturity. For example, a new one-year bill may be purchased each month. This technique assumes that Treasury bills are offered each month and that a secondary market exists so that the bills can be sold before maturity. The disadvantages of this technique are that it: is not a buy and hold strategy, is hard to explain to management and the governing body, and could be adverse should interest rates rise quickly. Nor-

mally, this rolling constant maturity portfolio outperforms a short-term portfolio.

Devote some time to understanding the mechanics of purchasing securities and developing a strategy. Analyze each technique and decide which works best. A combination of two or three will probably provide the best solution—average returns with low risk and minimal administrative expenditure.

RISK MANAGEMENT

Be aware of the risks inherent in any security investment program and take the necessary precautions to protect the LG assets. Recognizing and minimizing exposure to five risks is one of the first steps.

- Default risk—applies mainly to security investments but could also apply to simple bank accounts. It is the risk that some or the entire principal amount of a security investment will not be available due to default by the issuer, the bank, the brokerage firm or other financial institution.

   You can avoid default risk by:

   1. Carefully screening banks, financial institutions and brokerage firms for potential default problems,
   2. Limiting security investments to those instruments least likely to result in default, and
   3. Requiring collateralized bank instruments above any government insured levels—assuming that there are government insured levels—with high quality securities.

   While these measures help protect against a loss in default, the LG still has to recover its funds through insurance or sale of collateral and securities to recover the public's money. These activities take time and may make it difficult for a LG to meet its obligations. Hopefully, despite the difficulty of the process, these protections, if implemented, will ensure that all the public money is recovered and the reputation of the LG and its officials has not been damaged.

- Market risk—is the risk that changes in financial markets will reduce the value of a security while the LG holds it. In cases of a rapidly rising interest rates, the market value of securities will fall below the principal amount invested. If the security is sold during this time before maturity, the investor will incur a partial loss of principal. If the security is held to maturity, the principal loss is avoided.

   Minimize market risk by:
   1. Avoiding securities that are traditionally subject to rapid market swings, (long maturities and zero coupon bonds), and
   2. Investing with the intent of holding all security investments to maturity.

3. Attempt to balance the need to avoid market risk with the desire to maximize yield by placing the highest priority on reducing market risk.

- Reputation risk—is a variation of the other forms of risk and is simply the risk that the LG will lose stature by making a cash management mistake. Few events are more damaging to a LG's reputation than a well-publicized securities loss. Overzealous collection processes or late payment of bills can also damage reputations. Reputation risk may cause long-term harm as citizens question the management capability of both elected officials and professional staff. It can also discourage potential new businesses from locating in the LG.

    Minimize this risk by:
    1. Establishing an effective cash management program,
    2. Closely monitoring the cash management program,
    3. Hiring qualified and knowledgeable personnel, and
    4. Providing the training to ensure their proficiency.

- Safekeeping risk—occurs any time that cash or securities are being held or transferred. There is a risk that cash can be lost when it is collected at the finance office, held pending deposit, or being transported to the bank for deposit. The more points of cash collection and disbursement the greater the risk of loss.

    Minimize this risk by:
    1. Reducing the number of cash collection and disbursement points,
    2. Developing a practical system of internal controls,
    3. Taking physical possession of securities and collateral,
    4. Using a third party to hold securities as collateral, and
    5. Using "delivery versus payment" procedures in all security transactions.

- Collection risk—occurs when there is a significant difference between revenue earned (billed) and revenue collected. Non-payment of taxes and fees poses a risk that resources budgeted and booked in the accounting system as if received never actually appear. This is also a public perception issue. If the public believes that the LG allows some citizens to get away without paying taxes and fees, it may encourage others to not pay their bills either, and the problem will get worse.

    Protect the LG from this risk by:
    1. Adopting and implementing aggressive collection policies, and
    2. Informing the public of the effectiveness of the past due collection efforts.

CASH FLOW FORECASTING FOR INVESTMENT PURPOSES

The purpose of cash flow forecasting is to provide a projection of monies available for purchase of securities for a specific time horizon, such as three months, six months, or one year. Cash budgeting and forecasting is discussed extensively in a follow-ing section and should be referred to for basic information. In this section, we will discuss how the cash forecast is applied. The cash forecast provides a "road map" so that short-term securities can be purchased based on a reliable projection rather than guesswork. Frequently, interest rates paid on long-term maturities are higher than those with shorter maturities are. In the long run, an investor who foregoes the liquidity of shorter-term maturities expects to be compensated through higher yields. Thus, in theory at least, a cash forecast should help produce superior returns. The following table illustrates how a cash forecast can help plan the year so that securi-ties are purchased with the longest maturity possible.

Cash Forecast and Security Purchase Plan
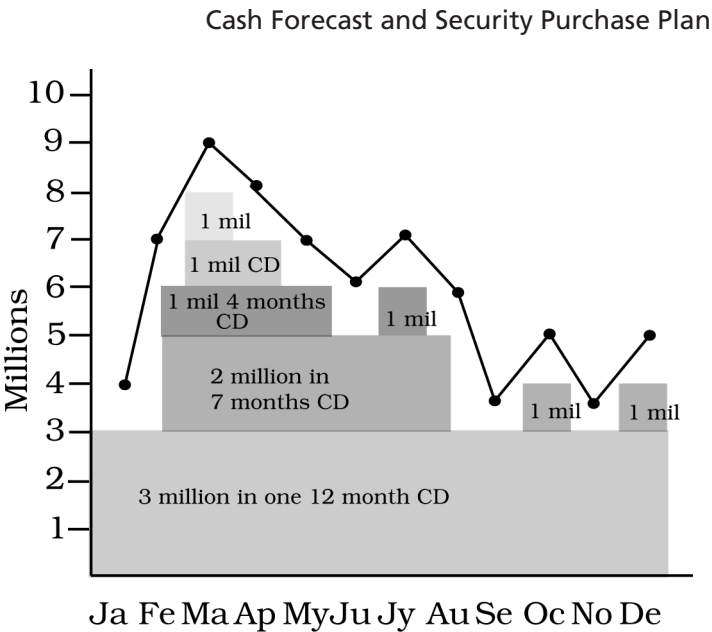
Note: The "" represents the monthly cash forecast and the blocks the planned security purchases.*

In the table, 3 million in cash is available to purchase securities throughout the entire year. For other security purchases, however, the cash forecast provides a guide for maturities. Notice how incoming cash may be invested for longer periods than would otherwise be possible using a "first in, first out" or a "matching future disbursements" strategy.

COUNTRIES WITH FEW OR NO RESTRICTIONS ON LG INVESTMENTS IN PRIVATE FIRMS

Since some countries have few or no restrictions upon LGs in their selection of security alternatives, LGs and finance managers can and have invested public money in private companies. We believe that this represents a very high risk for elected officials and the finance manager. The loss of public money in an ill-advised investment could jeopardize the LG's ability to pay for basic services, erode confidence in the LG's ability to manage its own financial affairs and ruin the reputation and credit of the LG. For these reasons, we believe that operating monies should only be invested in instruments that are the safest, where the principal is reasonably secure, and there is minimal risk. A very senior finance manager provided some very wise advice to a young finance manager when investing public money, "It is more important to be concerned about the return OF your principal than the return ON your principal."

INVESTMENT SECURITY REPORTING

LG security investment policy should require the finance manager to submit periodic reports to the governing body or to a governing body appointed commission or committee that oversees finance matters. Investment security portfolio reports vary by size and sophistication of the investor. Nevertheless, a security portfolio report should contain certain basic information, such as:

- A description of recent financial market trends and conditions, such as trends in the direction of interest rates, risk factors, etc.
- A description of the current portfolio and strategies that have been implemented during the reporting period. The narrative should also describe the portfolio's performance and indicate any extraordinary gains or losses.
- Information regarding banks, financial institutions, and brokerage firms that the LG has conducted security business with during the reporting period.
- A summary table listing the type of securities, amounts, and maturities (see below). The table can also be converted to a chart to enhance understanding.

Security Portfolio Composition Report
As of Mar 31, 20xx (in 000)

Security	Under 14 Days	14-90 Days	91-180 Days	181 Days to 1 Year	Total by Security	% of Total Portfolio
Overnight Account	50				50	3.2%
Savings Acct.		200	200	200	600	38.7%
Certificates of Deposit			500	200	700	45.2%

Treasury Bills			100	100	200	12.9%
Total	50	200	800	500	1550	100%
Distribution % by Maturity	3.2%	12.9%	51.6%	32.3%	100%	

Occasionally, prepare a detailed listing of all securities held and transactions executed for a specific period, as backup information should detailed questions arise from the report. These security and transaction listings are usually too detailed to include with the summary report above.

A common problem in reporting yields is how to go about calculating appropriate interest rates. For example, if the interest rate obtained at the time of the initial investment purchase is used, this rate does not reflect current market levels. Thus if interest rates have declined, the portfolio will show a yield level that exceeds present market levels, and the portfolio will not show unrealized capital gains. On the other hand, if interest rates have increased since the purchase of various securities, capital losses will be "buried."

For treasury securities, current market prices are generally available from commercial banks or brokerage firms. However, for bank time deposits, certificate of deposits, and other non-marketable securities, current prices may not be available. Thus, the finance manager is left with one of two alternative reporting formats. Those who attempt to report the value of the securities at the market price must impute prices for non-marketable securities. Alternatively, those who report only on a yield at initial purchase basis must provide to the elected officials an estimate of unrealized capital gains or losses. The reporting methodology should be discussed with the governing body or commission that oversees the security investment activity.

EVALUATING PERFORMANCE

Evaluation of performance is the final step in the investment process. It tells how successful the program was and helps to establish a basis for establishing future objectives and program modifications.

To evaluate performance, there must be a standard or basis for comparison. One of the best comparisons is to set objectives for the program itself. Establish objectives in at least three areas: percent of cash invested, percent of return expected and total amount of money earned.

Percent of cash invested—this is an essential indicator of performance. It is a better indicator than the amount of return or percentage return on security investment that can significantly vary with market conditions. Most LGs should be able to invest 90% or better of their funds. In addition, with the use of overnight sweep accounts, nearly 100 % of the cash should be invested. This indicator should be evaluated monthly to identify problems and make corrections to achieve the overall efficiency on an annual basis.

The formula for calculating the actual percent of cash invested for a specific period is:

				Percent of cash
Average monthly invested balance	x	100	=	invested
Average monthly cash balance + Average monthly invested balance				

Percent of return (**yield**)—Establish a target yield figure as a goal for the security investment program. This can be a single number or a moving average. A yield objective has the advantage of being comparable to market indicators, permitting evaluation, and comparison to other investors in the market. It is also useful as a continuous barometer of performance (i.e., you can always quickly measure the yield on the current portfolio and compare it to the target)

Exactly what yield you can expect, however, will depend on the kinds of instruments in which you can invest and the economic and market conditions you face. For these reasons, your own experience and that of other LGs will serve as the best guide for establishing your yield objectives.

The actual yield for a period of time can be calculated by the following formula:

Net currency earned from securities during period	X	365	=	Percent return
Average daily balance invested during period		Number of days during period		

Yield can be evaluated at any time. However, it is probably most useful at three points: 1) when the security is purchased; 2) when a security matures or is sold; and 3) at a quarterly or semi-annual review. Yield performance should be compared to yield targets as well as market indicators of yield. If the market has shifted significantly, the latter may be more useful than the former.

Amount of return—Closely related to the yield is the total amount of currency earned on the security investments or "return." This measure combines an estimate of the cash available for purchasing securities and yield. Therefore, based on the targets for yield and cash availability figures that are determined to be realistic for your LG, you can use the following formula to calculate your total estimated return in your currency.

Estimated amount available during month	x	Target percent of average monthly cash balances invested	x	Percent return / month	=	Estimated return in your currency

For example, using some assumed ending balances, the estimated return for a month can be calculated as follows:

Month A ending
+ Month B ending

2	x	95%	x	7%/12	=	?
$\dfrac{790 + 1277}{2}$	x	95%	x	7%/12	=	5.72

This estimated return could then be used as a benchmark against which to judge the actual yield for a single month and be added together with the other 11 months to show the total annual return in your currency.

The return should be evaluated less frequently than availability and yield. A quarterly calculation of return realized relative to program objectives is probably adequate. The reason for less frequent evaluation is that return should be calculated primarily on the basis on completed transactions, that is, the LG should have already realized its return in cash rather than on paper. Nevertheless, paper gains at the end of a quarter or a year can be combined with realized gains to calculate return without greatly distorting the evaluation of performance.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Because of the important role that cash management plays in effectively managing LG finances, we suggest that you develop a strategy for reviewing your current use of cash management in your LG. Does your assessment of your LG cash management practices indicate a need to create a cash management program or refine an existing one?

_____

_____

_____

_____

What areas need the most attention: policies, collection and disbursement techniques, cash budgeting, internal controls, bank relations, or security investments?

_____

_____

_____

_____

Prepare a list of cash management objectives that you would like to achieve in your LG.

INTERNAL CONTROLS

Internal controls are a system of checks and balances designed to reduce the risks inherit in handling cash and securities. They are contained in the organization's structure, policies, and procedures to safeguard assets and ensure accurate and timely reporting. Assets need to be protected from fraud, theft, and embezzlement, as well as improper or ill-advised decision-making.

The primary objectives of internal control are to:
- Provide management with reliable and timely data,
- Safeguard assets and records,
- Establish accountability for assets with timely verification and appropriate follow-up,
- Promote operational efficiency, reduce duplication of effort and deter inefficient use of resources, and
- Assure that transactions are recorded to permit preparation of accurate financial statements at year-end in compliance with generally accepted accounting principles.

Although these objectives appear ideal, LGs should apply them within a sound financial management framework. In developing policies and procedures to implement these objectives, LG officials should consider the following:

- First, internal controls are intended to provide reasonable assurance that these objectives be obtained, not absolute certainty. It is probably not possible to guarantee achievement of all these objectives. The cost of doing that would be prohibitive.
- Second, internal control costs should not exceed the benefits derived from the control. This requires a balance between the cost of the control and the benefit to be derived. It is important that controls do not become an end in themselves.
- Third, internal controls should permeate the organization, not just the finance department. Two of the most important elements of internal control that apply across the organization are the personnel system and the segregation of duties principle.

In the area of revenue management, internal controls are designed to tell managers the status of revenue collections, and insure that opportunities for theft or misuse of tax or ratepayer's money are avoided. Loss of taxpayers' or account holders' money to theft or negligence is unacceptable. Thus, establishing good internal controls are a very important part of the LG revenue program. Many of the controls are described elsewhere in this chapter because they are important for reasons in addition to the controls they help establish. Nonetheless, they are repeated here to emphasize.

SEGREGATION OF DUTIES

This principle says "no one person should ever be placed in a situation to carry out or conceal an error or irregularity without timely detection by others in the normal course of carrying out their duties and responsibilities."

In general, certain functions should be fixed and separated for three different type of activities:

- Authorizing transactions,
- Recording transactions in the financial records, and
- Maintaining custody of assets.

In each of these areas, no single person should be responsible for the entire transaction. For example, if the purchase and recording of a security investment are not separated, the control does not prevent the recording of unauthorized security investment purchases. Similarly, if recording of cash receipts is not separated from maintaining custody of cash, the possibility of concealment of theft is enhanced.

Segregating duties is an essential part of internal control. In some cases, this means breaking a task into smaller functions and involving two persons where in the past one person could do both quite easily. However, with the inherent risks associated with cash, it is better to be less efficient, and separate cash receipts processing from record keeping which then requires collusion between employees to hide theft or embezzlement activities.

Periodically, officials should review the organization cash handling internal controls with the use of the two checklists below: Internal Control Checklist for Cash Receipts, and Internal Control Checklist for Cash Disbursements. An answer of "yes" to a question is an indication of good internal control.

You might want to take a few minutes now to review the checklists and mark those items that your LG is currently doing with a "yes" and those that it is not, leave blank.

Internal Control Checklist for Cash Receipt

___ Does a LG official properly authorize bank accounts?
___ Does a person who does not prepare the cash deposit open the mail?
___ Does a person who does not have access to the accounts receivable ledger open the mail?
___ Does the employee who opens the mail list the receipts in detail?

___ Does an independent person compare the listed mail receipts with the cashiers' records?

___ Are cash receipts deposited intact daily?

___ Are cash receipts journalized and posted to the accounting system when received?

___ Are miscellaneous cash receipts independently controlled?

___ Does someone physically deposit the cash other than the person who prepares the bank deposit?

___ Does the person who physically deposits the cash not have access to the accounts receivable ledger?

___ Is the duplicate deposit ticket, stamped by the bank, returned to a person other than the one who prepares the deposit?

___ Are bank-stamped duplicated deposit tickets compared with the cash receipts book?

___ Are persons who handle cash bonded?

___ Are post-dated checks* reported when received?

___ Are post-dated checks* held in safekeeping?

___ Are returned customer checks* delivered to a person other than the one who prepared the bank deposit?

___ Are returned customer checks* ever redeemed by an employee?

___ If the answer to Question 17 is "yes," does the employee making the redemption not have access to cash receipts, the accounts receivable ledger, or customer statements?

___ Is the physical control of negotiable securities held for safekeeping with an independent third party?

___ Do the duties of the people in the cashier's department exclude collection duties?

___ Do the duties of the people in the cashier's department exclude preparation, signing or mailing of checks* or orders to pay?

___ Are vacations mandatory?

___ Is a surety bond required for employees handling cash?

* These items may not be applicable in countries that do not commonly use checks for payment of goods and services.

Internal Control Checklist for Cash Disbursements

___ Are all checks* pre-numbered by the printer and accounted for?

___ Are spoiled or voided checks* mutilated, retained, and properly filed to prevent reuse?

___ Is there a policy against making checks* payable to "Cash," "Bearer," or "Currency"?

___ Is a check* protector used?

___ Are unused checks* properly controlled?

Are persons who sign checks* or orders to pay other than those who:

___ Handle petty cash?

___ Approve disbursements?

___ Record cash receipts?

___ Post to the ledger accounts?

___ Are persons indicated in Question 6 forbidden to mail checks* or orders to pay?

___ Are persons who sign checks* or orders to pay designated by the governing body?

___ If signature facsimiles are used, is the signature stamp or machine property controlled?

___ Have banks been instructed to cash no check* or order to pay that is payable to the order of the "local government"?

___ Is the signing of blank checks* or orders to pay in advance forbidden?

___ Are checks* or orders to pay countersigned?

___ When checks* or orders to pay are presented for signature, are invoices and supporting documentation also presented?

___ Are invoices and supporting documentation mutilated or stamped "Paid" at the time of payment?

___ Are the preparation of checks* or orders to pay and approval of invoices separated?

___ Are bank accounts reconciled monthly?

___ Is the treasurer's report prepared monthly?

___ Is the security portfolio report prepared monthly for presentation to the governing body?

___ Are bank statements and paid checks* or orders to pay delivered directly to the person preparing the reconciliation?

Do the duties of the person preparing the bank reconciliation exclude:

___ Signing the checks* or orders to pay

___ Recording cash transactions?

___ Handling cash?

Does the person who reconciles the bank account:

___ Account for all check* or order to pay numbers?

___ Examine signatures?

___ Examine endorsements?

___ Examine payee's name?

___ Examine dates?

___ Are transfers of funds from one bank account to another promptly recorded?

___ Is authority for bank transfers limited to the bank treasurer?

___ Are checks* bearing improper endorsement returned to the bank for correction?

___ Are long-outstanding checks * or orders to pay properly followed and controlled?

After assessing the existing internal controls, you may want to improve or establish additional internal controls. You should do this by preparing flowcharts that describe how money moves through the LG system. The flowcharts should start at the beginning of the process and include: billing, collection, and depositing of cash, documenting accounting controls over cash, disbursing of funds and concluding with the purchase of securities for excess cash. Each step in the process should have a formal control.

Internal control for the security investment function is similar to those for handling cash receipts and disbursements. There should be written procedures detailing the security investment process, the level of authorization for each step in the process, and what types of securities are authorized. There should also be adequate segregation of duties. One person should not perform all aspects of the security investment transaction because it increases the potential for fraud and inaccurate reporting. It is crucial to separate the buying and selling function from the accounting and safekeeping functions. Lastly, internal controls are enhanced with written contracts and agreements for all security investment services. These should include banking, safekeeping, advisory, and broker/dealer services. These agreements formalize the relationship and detail what services are provided.

To assess your LG's internal control in purchasing/selling investment securities, use the following checklist. Use it to determine where internal controls are adequate and where they may be lacking and need correcting. An answer of "yes" to any question is an indication of good internal control.

Internal Control Checklist for Purchasing/Selling Securities

___ Is there a written policy for purchasing investment securities approved by the governing body?

___ If the answer to #1 is yes, is the policy reviewed and revised periodically and approved by the governing body?

___ Does the policy specify authorized securities by type, along with guidelines for each type including diversification and credit quality requirements?

___ Does the governing body approve a list of financial institutions and broker/dealers through which LG conducts its security purchases?

___ Is the selection of financial institutions, broker/dealers, and custodians made in compliance with the governing body policy and written contracts and agreements?

___ Are the LG's security purchase transactions (initiating, reviewing and approving processes) and strategies documented and retained for audit purposes?

___ Is there a review of selected securities for type, authorized trading partner, custodial arrangement, written authorizations, accounting, and disposition of interest earnings?

___ If the LG uses bank transfers, is a transfer agreement in place with the bank outlining various control and security provisions for making and receiving wires?

___ For bank transfers, is there written confirmation of telephone transactions for securities and bank fund transfers?

___ Are security investment function duties segregated so that no one person has responsibility for security purchases or sales transactions from beginning to end?

___ Is a written confirmation of the security transaction obtained directly from the custodial bank?

___ Does the custodial bank provide monthly verification of both principal and market values of all securities purchased and collateral to compare against internal accounting records?

___ Is periodic reporting accomplished to include security description and amount, transaction date, interest rate, maturity date, credit rating (if applicable), market value, and other related information?

___ Are periodic internal control audits conducted to verify that controls are functioning properly and comply with the security investment policy?

We cannot emphasize enough that internal controls are a very important part of the cash management process. They provide the safeguards in the form of structures, processes, and procedures to minimize the loss of LG assets cash and securities. LG assets need to be protected not only from theft, fraud, and embezzlement, but also from inappropriate and poor decision-making.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Now that we have reviewed internal controls, take a few minutes to return to the checklists and answer the questions as they apply to your LG's cash management program. What areas did the checklist reveal as having the greatest need for improvement: cash receipts, cash disbursements, or security investments?

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What actions will you take, or recommend be taken, by your LG regarding these findings?

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DESIGN AND MAINTAIN RECORDS AND DOCUMENTS FOR CONTROL

Transactions should be recorded in a manner that reflects who authorized the transaction, who approved it, who made the transaction and who recorded it. To the ex-

tent possible, all transactions should be recorded on serially numbered documents (e.g. numbered receipts), which should be checked from time to time to insure none are unaccounted for.

DEVELOP WRITTEN PROCEDURES

Written procedures and documentation for preparation of billing lists, issuance of bills, collection of payments, posting payments to accounts, abatement of accounts, writing off of accounts, and production of management reports on collections should be prepared and should clearly identify which individuals have the authority to authorize each different type of transaction.

DEVELOP SOUND PERSONNEL POLICIES AND PRACTICES

There should be written job descriptions and appropriate job qualifications that relate to the responsibilities and duties of employee who are involved in revenue collection and reporting. Similarly, there should be only qualified personnel in the collections office, and background checks should be conducted to try to prevent hiring of individuals with criminal problems in their background. Finally, there should be annual evaluation of personnel in the collections office, and employees who do not perform satisfactorily should be given assistance and retraining, or they should be removed.

PERSONNEL SYSTEM

LG provides services through its people. Therefore, the control mechanism is the personnel policies and procedures that the organization uses every day. To ensure a good internal control system, officials must hire competent personnel with integrity and then train them so that they understand their duties and responsibilities.

ORGANIZATIONAL STRUCTURE AND LINES OF AUTHORITY

Develop a clear, rational, and well-defined organizational structure in the finance department. The finance department in general and the collectors office in particular require an organization that emphasizes centralized collections and clear lines of authority and responsibility.

ESTABLISH A GOOD ACCOUNTING SYSTEM

This chapter has addressed only one aspect of the accounting system, the revenue reporting system, and the issue of the entire accounting function is beyond the scope of this book. However, the accounting system is critical for internal controls and should be evaluated for its ability to account for and report on the assets and liabilities of the government. See the chapter, Accounting[4], in this series for more information.

If all these controls are put in place, when an audit is conducted, the auditors should be able to confirm that all financial transactions are handled properly and that the LGs assets are being handled in a way that protects them from the potential of theft or misuse, and will uncover any irregularities that may be occurring.

POLICY MAKER _X_	CEO _X_	FINANCE MANAGER _X_	DEPARTMENT HEAD _X_

We have emphasized the importance of having good, written procedures for the billing, collection, and reporting on the revenues relied on by your LG. Assume that your LG does not currently have such written procedures. Outline below at least five steps you would need to take to begin developing such written procedures to make them complete, up-to-date, and available, including getting the support of other personnel in your government to this effort.

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REVENUE MANUAL

A revenue manual is simply a comprehensive listing and description of all the individual revenues employed by the LG, along with other pertinent information as desired by the government. A revenue manual is important to create and maintain for many reasons including:

- It gives policy makers, staff, citizens and members of the business and financial community a single, consistent, and approved source of information regarding the taxes, charges, and fees currently assessed by the LG.
- It gives visibility to your revenues, and to the important role all departments play in helping to achieve revenue generation.
- It gives your LG staff members a quick place to look to answer questions from citizens as to why and how a tax, charge, or fee is set and administered.

- It provides the starting place for analysis of your revenue structure, helping you detect erratic revenues, inconsistencies in fees between departments, revenues that might be having high levels of evasion, fees that have not been raised in long periods of time, or revenues that are not consistent with your LG's policies.
- It provides the starting place for analysis of weaknesses in your organizational procedures for collecting revenues, including excessive administrative costs, lack of adequate penalties, the extent of evasion and delinquencies, and inadequacies in revenue records and accounting.
- It provides information to help understand what factors affect the amount of money that different taxes, charges, and fees generate, such as changes in the economy or population, or changes in laws.
- It can help assess the full tax, charge, and fee burden as it falls on different groups. For example, it can help identify the various different charges made on a new business that is opening in the community.
- It can lead to the establishment of a procedure for instituting new revenues. Your revenue manual can set forth the policies and procedures for considering and adopting new taxes, charges, and fees.

Creating a revenue manual is a straightforward process that will require the following steps.

- Determine responsibility—A staff person in the finance department should be given responsibility for coordinating this project. This person should report to the chief financial officer, and be assisted as needed by the accountant, the treasurer, the collector, and the LG's legal counsel. If monies are available, a consultant could be engaged to perform this assignment, but since so much of the data is from internal sources, the consultant will require a high level of assistance from government staff anyway.
- Develop a data request form—This form is what you will distribute to the department heads and other staff in departments that assess or collect taxes, charges, and fees, permits—any own source revenues—and it is what will later become a page in the finalized revenue manual. Following is a sample of such a data request form that has already been completed by the operating department. While you can adapt and change this form, as you need in your local government, you should consider the data items required here as minimum requirements for your form. On this form, staff people will record the information about the revenue source they are administering. Some of this information may not be available from the department head, and may need to be obtained from the accounting or legal department.

Sample Revenue Manual Data Form

1	Revenue item:	Ambulance service
2	Source:	User of service
3	Account name:	Ambulance fees
4	Revenue account number:	100-1450-51000
5	Description:	The ambulance responds to all calls to provide emergency medical carte for the injured and to transport these people to the nearest hospital.
6	Legal authorization:	General Law Chapter 40. Section 15
7	Restrictions:	None
8	Renewal process:	Per use
9	Fee schedule:	$160 per transport, plus $50 for oxygen
10	Last revision (date and nature)	January, 2005
11	Fee amendment process	Approval of governing body
12	Annual collected revenue:	2006 95,000 2005 90,000 2004 92,000 2003 89,000 2002 88,000

- Determine comprehensiveness and format of manual—A LG revenue manual can either include all revenues that come into the local government, including all own source, shared and transferred revenues, or it can be limited to just the own source revenues. Many LG finance officials choose the latter option, focusing their efforts on those revenues that are fees, charges, and permits that run the risk of being overlooked. With staff limitations, they reason that they have a better chance of maintaining a smaller data base. We recommend that when first developing a revenue manual, you make yours as comprehensive as possible.

Determine your organizational format for the final revenue manual. Most revenue manuals are organized by department. An excerpt from a table of contents from such a revenue manual is shown below.

Sample Table of Contents
Revenue Manual

However, you could also organize the manual by type of revenue (e.g. group all taxes together, all fees, all intergovernmental revenue, etc.), or you could organize by amount of money brought in by revenue source (e.g. from largest to smallest). Your choice should be based on your primary objectives for creating the revenue manual, and which format would best meet those objectives.

- Plan data collection method—Before you distribute the form to the different departments, give some thought to how you can expedite the process of collection, analysis and publication of the data. Automation of this process will save many staff hours, and will produce a data base that is conducive to updating in future years. It will also facilitate different analytic approaches you may want to conduct. For example, if you choose to analyze all fees under a certain monetary amount, or all fees administered by a certain department, computerized data bases can perform this type of sort for you.

One option for automation is to have a revenue manual added as a component to your financial systems. Linkages to the system can be created, linked to the revenues codes and names. Forms can be printed on your computer printer, distributed to the department heads, then their manually written information put into the financial system to produce individual report pages for the revenue manual. This approach would require your staff to perform the data input, run the reports, and check all the linking information.

Another option is to put all the data into a personal computer, using a data base program. If your departments also have such computers, you could ask them to enter their information onto computer disks, or if you have a network of computers, they can be asked to enter their data into a

network file. Either way would save some data input work for the project staff. This data base can then be used to generate the data collection forms for department heads each year, and generate the finished pages of the report.

If the resources to automate the manual are lacking, the process can still be done with typewriters and copy machines, and the results put together into a three ring binder.

- Analyze the data, make recommendations, and publish the manual—
  Once all the data forms have been collected, and checked for errors and completeness, they are ready for the finance department to perform some analysis and make some recommendations. Suggested areas of analysis are:

  * Are all fees regulated by law set at the maximum level permitted? If not, why not?
  * Has the revenue generated by the revenue source met the budget projections?
  * Has the revenue generated been consistent, or does it fluctuate with the economy?
  * To what extent does each revenue recover the full cost of providing a related service? Not every revenue is linked to a particular service, and it is not appropriate for every service to be self-sufficient. However, for those that are determined by policy to cover some or all of the service costs, to what extent are they meeting the policy goals?
  * What impact would an increase or decrease in a fee have on the demand for a service?
  * What are the comparable revenues in other jurisdictions? How do they differ from yours? (See the section on conducting an external revenue survey to assist in this analysis).

  Based on this analysis, formulate recommendations for any revenues that seem to need adjusting. The recommendations could be contained in an introduction to the revenue manual, explaining the objectives in developing the manual, a brief summary of methods, and listing the recommendations. Or, you could first develop a draft revenue manual, with the recommendations on the bottom of each page. These recommendations could state comments such as:

  * Recommend fee stay at current level,
  * Recommend that fee be increased by governing body ordinance,
  * Recommend that legislative action be sought to change this revenue, or
  * Other phrases as appropriate.
    Your final revenue manual should be distributed within the LG.

  Give final copies to each member of your governing body, as well as to all department heads.

- Update the revenue manual annually or biennially—Subsequent updating and revising of the manual should be a fairly quick and easy process. Timing of the updates is important, since any recommendations can have an impact on the following year's annual budget. To update, you need only print out the current page for each department head, and ask them to identify any changes and give their requests for changes. You could also ask them to suggest any new revenues that are not now part of your revenue structure.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Creating a revenue manual is an important educational as well as management tool, in that it helps everyone involved in the management of a LG understand better the nature of the revenue sources relied on to support the expenditures, and thus the goals, of the government. With respect to what you have read about preparing a revenue manual write down at least three concerns you have about your government's interest in and/or ability to perform these tasks.

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BILLING AND COLLECTIONS

ORGANIZATIONAL STRUCTURE/STAFFING FOR BILLINGS AND COLLECTIONS

This section looks at a key area in revenue administration: the organizational structure and staffing which oversees the billing and collection activities. Revenue collection operations should be organized with clear lines of responsibility for all personnel. Each employee should have a distinct set of duties and a single supervisor. You should definitely avoid situations in which collection responsibilities are divided between offices or supervisors and/or where individual employees must report to more than one person. This consolidation allows for economies of scales in person-

nel, training, and office equipment, and avoids many communication and expectation problems.

- **Reporting**—the collections officer should report to the financial officer of the LG. Collections may be done on an in-house or a contracted out basis, or some combination of the two. The advantages of using in-house collections staff are primarily control and accountability issues. The collections officer directly supervises the staff and the procedures, and can institute control and audit procedures to insure the honesty, efficiency, and accuracy of the collections office. Also, the collections officer can oversee the customer contact with the taxpayer or rate payer, in order to insure that customers are treated politely and fairly. The primary drawback of in-house staff is the costs. Unless the LG is billing and collecting continuously, it can be expensive to have staff dedicated to just collections.
- **Privatization**—may be less expensive if the contractor handles multiple clients, and prorates its collections costs to each LG. Control issues may be more difficult to establish, maintain, and audit with a contract, however. Often the routine sending out of bills and collection of payments is done by the LG's staff, and delinquent bills are given to a private collection agency for follow-up efforts.
- **Divisions of responsibilities**—within the billing and collections office, there should be clear division of responsibilities among employees performing billing, collecting, and depositing functions, with adequate checks and balances. One staff person should add up the money (checks and cash) received, and prepare the deposit, while another should add up all the bills that have been paid and prepare them for posting to the customers accounts. The two totals should then be compared. This makes it much less likely that any one staff person can mislay or misappropriate any funds received. Entering all payments into a cash register or a computer linked to a cash drawer at the time of payment can help reduce the chance of error, and improve the time it takes to balance out the day's collections.
- **Receipt deposits**—should be made into the LG's bank accounts each day. Prompt depositing of cash and checks is important for safeguarding of the funds and to make the money available for investment purposes. If staffing allows, the staff person making the actual deposit to the bank should be someone other than the person who prepared it. LG officials should be especially stringent in requiring qualified and honest collections staff. Whenever large sums of money are handled, it is critical that adequate and credible safeguards be established.

Following is a checklist of organizational issues that can be used to help you assess how well your current organizational structure is contributing to revenue enhancement in your LG.

Evaluation Checklist for Organization and Staffing

___ Is overall responsibility for financial stewardship concentrated in one official, who serves as finance director or chief financial officer?

___ Are specific finance units, such as budgeting, assessment, collections, purchasing, accounting and treasury headed by officials who report to the chief financial officer?

___ Is the responsibility for the form, filing, and retrieval of all finance records concentrated in the chief financial officer?

___ Is the chief financial officer responsible for all finance-related reports within and without government, including all reports required by other levels of governments?

___ Are finance operations viewed as a whole for data management purposes, i.e. are data recorded, filed, retrieved, transferred, and reused according to a system-wide plan designated to minimize re-recording?

___ Are all top finance officials (e.g. collections office, accountant, treasurer) professional staff with degrees and/or certification in government finance?

BILLING PROCEDURES

There should be written documented procedures for billing and for collections. Written procedures contribute to greater efficiency and accuracy, as well as improve communications. Other benefits from written procedures include:

- Provide a basis for training and cross-training of staff. Procedures will help staff as reference materials and establish standards for handling money and accounting responsibilities.
- Written procedures can be a key part of your staff evaluation process. It is easier to determine performance levels if you have clearly articulated your performance expectations, such as all checks will be deposited by the end of the business.
- Help staff refuse requests for exceptions and special favours. You can show customers that requests to lower their bill, waive interest or penalties, hold post dated checks for later deposits and other special handling are clearly against the written policies and procedures. This also demonstrates LG commitment to a professionally run office.
- Written procedures can be given to the auditors, who are generally looking to determine that the procedures of the office provide sufficient internal controls and safeguards to protect the LG's assets.
- Document the need for more staff, hardware, software, training, or other resources to accomplish the goals of the office.
- Save time and avoid mistakes by staff for tasks that are not performed frequently and therefore are not as familiar.
- Basis for preparing reports for management and the public.

LG billing practices should be the same as a private or commercial business—which demands prompt payment for services rendered. To encourage prompt pay-

ment on services provided on an on-going basis, such as housing management, establish policies and procedures for:

- Mailing bills (invoices) promptly,
- Mailing at scheduled intervals (i.e., monthly),
- Mailing late payment notices,
- Pursuing delinquencies aggressively,
- Requiring the payment of late payment penalties, and
- Eventually discontinuing the service for late or non-payment of bills.

Generally, there is a separate division within the collections office that prepares the billing list, and a revenue collector who is given the list for bill preparation and collection. Procedures for the billing office include:

PREPARING THE BILLING LIST

The list should include the name of the person responsible for paying the charge, the service address for the charge, the total amount of new charges, total amount of old charges carried forward, all interest and penalties added to the bill, the account number and the basis for the charge. For example, if the charge is for water consumption, the bill should state the old meter reading or consumption rate, the new reading, and the difference that is the basis for the current bill. Other relevant billing information, such as source of the reading, (actual by LG staff, provided by customer, estimated, etc.) and any miscellaneous charges added to the bill, should also be on the list. The subtotal of all charges should be at the end of the billing list, and a grant total calculated. The LG official in charge of preparing the billing list should sign and date the list on the last sheet, indicating his or her approval to send the billing list to the collections officer. Additionally, the billing list should be separately sent to the accounting officer, who will set up the total amount to be billed as a receivable on the general ledger.

PREPARING THE ACTUAL BILL

The bill itself should have two parts (a top and bottom or multiple layers) that enable one part to be presented to the collection office for payment and one portion to be retained by the customer. Each individual bill should contain all the information described above, as well as a mailing or delivery address for the bill if different from the service address, the preparation (or issue) date of the bill, the due date for payment without penalty, and the total minimum payment that will be accepted. The bill should also clearly contain payment instructions (e.g. do not mail cash, if credit cards will be accepted, please use pre-addressed return envelopes, and remittance coupon enclosed), the business hours of the collection office, and a phone number to call for questions the customers may have. Also consider printing a second set of bills to keep in the office for those customers who have lost the first one sent to them, unless you have the capacity to generate a new bill quickly on demand.

Computerization of the billing process assists greatly in producing bills accurately and in a timely manner (assuming employees and management are well trained

in the use of computers, and that the hardware/software are appropriate for the task). The most efficient process for preparing the actual bills is to use the same computer based list of account information used to prepare the billing list. A good billing software package should be able to keep records of on-going billing and collections activities, prepare a printed billing list, store all charges to the customers account, and generate a new bill, without retyping or re-entering the same information.

- **Handling of requests** for abatement of billed amounts. It is very important to have clear, written standard operating procedures for handling requests for abatements (reductions in billed amounts). It is important to ensure that the collections staff, who are accepting payment for bills do not also have the authority or ability to decrease (or increase) the amount of anyone's bill. It would be too easy for unscrupulous staff members to accept payments, then lower the amount of the bills, and keep the difference, without anyone else being aware of the action.
- **Authority to grant abatements** should be reserved for the LG officials who oversee the provision of the service that is being billed (e.g. water, solid waste), and should be authorized on a signed form that indicates the reason for the abatement (e.g. erroneous meter reading, miscalculation of square footage, etc.). This form should be printed in triplicate, with the original sent to the person billed, and copies going to the collections officer and the accounting officer. Both the collections officer and the accounting officer should use the abatement form to reduce the total amount to be collected, and the collections officer should also post the abatement to the customer's account to reduce the total due from the customer. If the customer has already paid the total amount originally billed, the collections officer should issue the customer a refund of the amount now overpaid.
- **A schedule of key dates and activities.** It is very important to establish a calendar indicating the dates for preparation of the billing lists, issuing the bills, and the due dates. One area of improvement that can be aimed for is to reduce the amount of time it takes to produce the billing list and the actual bills and deliver them to the customers. Prompt billing on a regular basis increases the amount of cash available for paying the LG's obligations and for investment. It can help reduce delinquencies by establishing regular billing and due dates in the minds of the customers, who then can set aside finds to have available for payment of the bill. Setting these billing dates and then monitoring adherence to them can also be an indicator of emerging problems in the billing and collections operations.

ADDITIONAL BILLING TECHNIQUES

Once basic billing practices are established, continually strive to improve these processes. Consider implementing billing techniques such as coupon books, cycle billing, or hiring a private contractor to improve the efficiency and effectiveness of the billing function.

One way to improve the billing for repetitive fees or charges is to provide coupon payment books. For example, in housing management, give each customer a coupon payment book for one year (twelve months). It contains twelve coupons or tickets pre-printed with the customer's name, account number, payment due date and amount due. Each month the customer tears out the payment coupon from the book for that month and sends or takes it to the LG to pay the amount due. These are especially effective for leases or payment plans. The coupon book can be customized for the LG, stays in front of the customer, and becomes a priority for payment. Costs are significantly reduced since coupon books are sent out only once rather than printing and mailing monthly bills. In addition, you can include envelope address stickers with the coupon book to encourage payment or provide other governmental information of interest to citizens. If you choose to establish a coupon book payment program, you will need a separate process for repeat billings to delinquent accounts.

CYCLE BILLING

Another way to more efficiently and effectively use staff in the billing process is to use cycle billing. Rather than sending all customer bills out at the same time each month, send bills for a service to about one-half of the customers on the first week of the month and other one-half of the customers on the third week of the month. This division gives collection personnel control by creating an even payment processing flow. Peaks and valleys of collections can be minimized, overtime reduced and staff better utilized. A similar method involves the staggering of due dates for various types of receivables. Both methods can accelerate the receipt of cash available to be invested to earn interest at the bank.

In summary, if you cannot collect the cash when the service is provided, then prompt and frequent billing is an important part of the collection process. The methods described above are just some ideas for accelerating the collections. Notify the customer quickly (within seven days) after a service has been provided and request payment by a specific date (i.e., ten- fourteen days after the billing date). Prompt billing ties the service and the charge to the citizen and reduces chances that the citizen has moved. Frequent billing ensures that citizens do not forget the obligation. LG's willingness to discontinue the service if the bill is not paid on time encourages prompt payment, increases collections, and keeps delinquent accounts from increasing.

COLLECTIONS PROCEDURES

LGs receive cash from a variety of sources: taxes and fees from local taxpayers, proceeds from the sale or lease of municipal property, profits from contributory organizations, and transfers of shared taxes and subsidies from the state. If your LG has established a short-term borrowing program, you may receive cash from the local bank for cash flow purposes. Regardless of the source of funds, the primary objective in collections is to get the cash in the bank as quickly as possible. The following techniques can be used to help expedite this objective.

Once the bills have been prepared and sent out, the actual collection of payments begins. The staff of the revenue office receives the payments, records the payments to the customer's account, and deposit the funds in the bank. The collections officer must set up simple and clear procedures, adequate controls, and useful reporting methods for this collection.

PROCEDURES FOR ACCEPTING PAYMENT AT THE COUNTER.

Many customers will want to pay the bill in person at the collections work site. Procedures here should include stamping the customer's portion of the bill to indicate payment was made, and indicating on both bill portions if payment was made in cash, by check, by charge card, or if a combination of methods was used. If payment is made by check, the account number should be written somewhere on the face or the back of the check. If the customer does not have his or her portion of the bill, a pre-numbered, duplicate receipt should be written out, and the original of the receipt given to the customer, the other retained in the office. The guiding rule should be for every payment received, there should be a bill or receipt retained in the office that exactly matches the amount paid, and that reflects the account number and name of the customer. At the end of each business day, there should be a stack of bills and/or receipts that add up to the day's total business, and exactly equals the amount of money to be deposited in the bank.

PROCEDURES FOR ACCEPTING PAYMENT THROUGH THE MAIL.

Some customers will want to pay their bill by check and send it through the mail service, especially if you included return envelopes pre-addressed to the LG collections office. You generally have two choices for handling these payments. One is to use LG staff to open and process the mail payments, or you can contract with a bank to help with receipt of payments. In the first option, you should develop written procedures for processing the mail by LG staff. The staff person should carefully open each envelope, being sure to remove all contents of the envelope, so as not to miss some small note or other enclosure. Most envelopes will contain a copy of the bill being paid and a check for the payment.

As the staff removes these bills and checks, they need to examine each carefully to see that the check is properly dated and signed, that the amount of the check equals the amount of the bill, and that the bill is not overdue. Any payments that do not meet these requirements should be set aside for special handling. A calculator tape should be produced for the total of all the checks and all the bills. Once these equal each other, the checks are prepared for deposit by endorsing them with the deposit stamp for the LG. All checks and cash that were received over the counter should be added to the deposit. The deposit should be made every business day. Checks and cash should not be held for more than one day in the collections office, both because the funds cannot begin working for you until they are in the bank, and to reduce the opportunity for theft.

Collections officers can also enter into agreements with banks to process the LG's payments. Customers place their payments in pre-addressed envelopes that send their payment directly to a bank, whose staff will open the envelopes, deposit

the checks into the LG's bank account, and prepare a list of all accounts paid for the collector to post to customer's accounts. This is known as a lock-box arrangement. Further, if the printed bills have a scan line containing the customer's bill number and the amount due printed at the bottom of the bill, the bank can use scan reading devices to quickly prepare the posting list for the collector, and process hundreds of payments in a very short time. Finally, if the LG uses computer equipment to post payments to customer accounts, the bank can prepare a computer file containing the posting information and the government can accept the file via a computer disc or tape, or electronically via a modem.

PROCEDURES FOR POSTING PAYMENTS TO ACCOUNTS.

Each day staff should record all payments received to the customer's accounts. If files are computerized, then payments can be entered as a batch, and the computer software can add up the total amounts paid to be sure they equal the total amount of bills paid and payments received. If payments are recorded onto hand prepared ledgers, calculator tapes should be prepared after all posting to be sure the totals agree.

PROCEDURES FOR CHECKING DAILY AND MONTHLY COLLECTIONS.

Reports should be prepared by the collection's staff at the end of each business day showing the amount of payments received, abatements granted and new amounts billed. Following is a sample of a revenue report showing all collections made on a certain date by the collections office. Note that:

- Revenue codes for the different categories of revenues are from the LG's chart of accounts.
- A batch is created for all bills that are of a similar type of payment, e.g. motor vehicle excise payments, that were deposited together at the same bank. The LG in this case deposits cashier payments in a neighbourhood bank, uses a different bank for handling lock-box payments, and a third bank for funds that are electronically transferred to the LG by escrow companies, which are companies that have mortgages on properties and pay the taxes on the properties. Unique batch numbers are given to each batch.
- At the bottom of the revenue report are the total amounts of the collections, with subtotals by bank. This facilitates reconciling the posted revenue to the bank deposits.

Collection Officer's Revenue Report

Account #	Batch #	Bank #	Collection Type	Total
100-1050-41297	1001	01	Lockbox	12,501.95
100-1050-41297	2002	02	Window cashier	2,807.00
100-1050-41297	3001	03	Escrow payments	8,734.00
100-1050-41297	TOTAL		Tax revenues	24,042.95
100-1050-41597	2001	O1	Lockbox	2,333.11

100-1050-41597	2002	02	Window cashier	800.63
100-1050-41597	TOTAL		Motor vehicle excise	3133.74
100-1050-41712	1001	01	Lockbox	75.65
100-1050-41712	2002	02	Window cashier	5,933.00
100-1050-41712	3001	03	Escrow payments	1,077.00
100-1050-41712	TOTAL		Penalties and interest on taxes	7,085.65
100-1050-41597	2001	01	Lockbox	35.86
100-1050-41597	2002	02	Window cashier	152.46
100-1050-41597	TOTAL		Penalties and interest on excise	188.32
			Total Collections for May 28, 2007	
Bank 01			Lockbox collections	14,946.57
Bank 02			Window cashier collections	9,693.09
Bank 03			Escrow collections	9,811.00
			Grand Total	34,450.66

Generate this report on a monthly basis, and compare it to bank statements for the month.

COLLECTION AND DEPOSIT TECHNIQUES

As cash is collected, the finance manager has two important responsibilities. First, account for the cash so that it is available and auditable. Second, quickly deposit it into the LG's bank account so that it is available for security investment. The goal is to increase the amount of cash available for investing by speeding the deposit into the LG bank account.

Identify and analyze your collection and deposit procedures to accelerate the deposit of cash receipts. Some large LGs, which have significant billing and collection activities paid by check, may be able to use specialized services, such as lock box services, to accelerate collection processing and deposit funds into the LG bank account. Other smaller LGs that do not have significant collection activity can still benefit by using other collection and deposit techniques.

LOCK BOX SERVICES

A lock box service is a banking collection service that uses a unique post office box and extended operating hours to reduce check float. The LG sends bills to its customers using a standardized and MICR-encoded statement and encloses a pre-addressed return envelope for payment.

Customers send payments to a unique post office box, where contents are cleared and delivered to the bank lock box payment processing section several times a day. Bank personnel sort the mail, scan the checks and statements by machine, which records the information on magnetic tape, and deposit the checks to the LG's bank account. The magnetic tape of the day's transactions and original statements are sent to the LG to update the payment records.

OTHER COLLECTION TECHNIQUES

Following are techniques used by a variety of LGs to accelerate collections:

- Reduce multiple payment locations,
- Assign responsibility for balancing the amount of cash on hand to the person who uses the cash drawer,
- Request the transfer of cash advances from outside revenue collection agencies on the date they become due,
- Revise tax and fee collection payment schedules to be paid earlier in the budget year.
- Modify billing terms and procedures to collect revenues quicker and more frequently, and
- Give priority to large receipts to accelerate the deposit.

DEPOSIT TECHNIQUES

Once you have reviewed and accelerated the billing and collections, you should also increase the speed of making deposits to the bank. Cash must be deposited in the bank before it can be invested and earn interest.

Use the following deposit techniques to accelerate the available cash:

- Deposit each day's receipts intact daily,
- Deposit all cash in as few bank accounts as possible,
- Modify deposit cut-off times to deposit cash so that it is available for security purchases daily,
- Take large cash receipts to the bank immediately,
- Transfer funds electronically between accounts to expedite deposits, and
- Arrange for deposits in branch accounts (if applicable) to be credited on the day of the deposit.

By applying these collection techniques, the finance manager can achieve one of the primary collection objectives—to get the cash in the bank account as quickly as possible.

Evaluation checklist for revenue collection procedures

___ Are there written policies and procedures for preparing billing lists?
___ Are bills prepared promptly?
___ Does the billing system effectively process the current workload?
___ Is there a minimal number of days between preparing the billing list and mailing the bills?
___ Does this compare favourably with prior years?
___ Will this billing system be able to effectively process the workload projected for the next three years?
___ Has staff capacity been considered in projecting growth in billings?
___ Are there adequate safeguards to assure all customers are being invoiced?
___ Are there written policies and procedures for accepting payment from customers over the counter?

REVENUE REPORTING SYSTEM

Data is the lifeblood of any financial system. Without reliable and appropriate data, it is impossible to determine if improvements or changes are needed, or how satisfactory the current revenue system is providing for the needs of the LG. It is important that you have a system in place that can quickly, meaningfully, and accurately record, summarize, and report on revenue transactions.

- **Account structure**—In your LG's chart of accounts, the revenue numbers should be coded to indicate information about each revenue, such as type, source, purpose, limitations, period of time, etc. This may be similar to the GFS chart of accounts shown in an earlier section. For example, a tax payment that was due in this fiscal year would be coded differently from a tax payment that was due in the prior year. Similarly, a user charge payment would be coded differently than the late fee that was also collected at the same time. This revenue code system should be developed with your data and management needs in mind. A system that consolidates all types of a specific source of revenue such as licenses and permits makes it difficult to gather information on specific licenses and permits. Data collection is greatly simplified if the revenue classification and accounting systems accumulate yield data for each specific source of revenue rather than broad classes of revenues. You do not want to have too little details in the data, nor do you want too much.

- **Automation of collection and reporting**—Electronic data processing enables recording, summarizing, and reporting on large amounts of data efficiently, and on a timely basis. It also enables developing integrated financial systems, where important financial information is entered once, and then electronically transferred to other department or users of the same information. For example, once a payment is received by the collections department, it can be posted to the customer's account. At the end of the day, all these payments can automatically be transferred to the billing department, so they can keep all accounts up to date before the next billing. The total amount of payments received can be transferred to the accounting officer so that he/she can reduce the total amount still outstanding, and the total payments can be added to other payments received that day to produce a total days revenue or cash report.

Revenue reporting usually begins at one of two places in a LG: either an office or department in the LG collects payments for services, such as charges for photocopies or library fines, or payment of bills issued by the LG are made at the revenue collector's office. Departments that receive money should fill out a reporting form for all cash collected each day, and then turn this money over to the treasurer's office for deposit in the LG bank daily.

* Generation of revenue management reports—From all the transactions that are recorded in revenue collection, there are some management reports that are essential from the revenue reporting system. One is a report used by the collections officer to help schedule office tasks and keep informed on collection trends and activity. The other is a monthly summary report comparing overall revenues collected to budgeted revenues. This report is useful for the financial officer, CEO, and policy makers.

Most countries have accounting, revenue collection, and reporting software packages for LGs. And, most software can be edited for the specific needs of each LG. Obtaining the hardware to run such software, then training staff on its use is a substantial commitment for a LG, but one that will be worth the investment in terms of the improved information available.

Flow charting the collection process

A very useful exercise to undertake is to create a flow chart to show the various steps that staff take in handling the turning over of funds to the Treasurer's office, in reporting the revenue to the accounting department, and in the accounting department reporting the total revenue collected to policy makers. At each step of the flow chart list what data is being used, how it is being used, who is working with the data, and how long it takes to enter it into the records that are being kept. Look for unnecessary delays in processing the data, where data is being entered more than once, where there is a high chance of error occurring in recording or in calculations, where someone might have the opportunity to change data without creating a record that the data has been changed, and where automation might improve the efficiency and accuracy of the record keeping.

DELINQUENT ACCOUNT COLLECTION PROGRAM

Delinquent account handling is a very important part of the collector's responsibilities, and how it is handled sends a message to all customers that prompt payment is vital to the LG's financial health and insures equity among customers. Collectors should have a sense of how many bills are likely to remain unpaid after the first billing notice has been sent out and the due date has passed, and have plans for follow-up that are legal and efficient. A number of strategies for following up on delinquent accounts are discussed below. Use of these procedures should not be capricious or arbitrary, however. Collection officers should have time schedules for all enforcement measures, and should implement them at the same time for all customers who are in arrears. For example, the collector could proceed with termination of service for all

customers whose accounts are more than 60 days overdue, unless they fall into some protected status. The collections officer must avoid the appearance of using his/her enforcement authority selectively or punitively.

DELINQUENT ACCOUNT ENFORCEMENT STRATEGIES

All of these strategies should be pursued only after reviewing the LG's policies and ensuring that a policy has been adopted by the governing body that supports these actions. Some of these strategies involve the legal system and you should make sure that the LG's legal advisor has been involved and reviewed procedures for carrying out these strategies.

- Send second notices—a second notice is useful for those customers who have forgotten or otherwise overlooked payment of the bill, or who may be having temporary cash problems, but who fully intend to pay the bill. These second notices should be politely but firmly worded, and clearly state that payment is overdue and must be made immediately. A return envelope should also be included with these notices. Clearly, state on the bill the next phase of collection enforcement that will occur if payment is still not made, and when.
- Add penalties for late payment—this can include a percentage of the original amount due (e.g. 15% interest) calculated from the due date until the date that payment is received. Flat penalties for sending the second notice can be assessed as well, such as $10.00 for each second notice.
- Advertise the delinquency in the newspaper—very effective is the publication of a list of delinquent customers in local newspapers. Though this advertisement approach can be costly for the LG, the cost of the advertisement can be added to the customer's outstanding balance in the account.
- Terminate the services of the government—obviously, the government can refuse to continue providing the service that is not being paid for. If the service is a utility such as water, sewer, or trash disposal, the service can be withheld, but there are important policy considerations for such a step. You must consider if harsh or unpleasant consequences will occur from withholding vital services, especially to tenants in a rental building or children.

  Another approach that is more drastic is to deny other services provided by the LG in addition to the service that has an outstanding balance. For example, if the delinquent water charges are not paid, the LG may also be able to withhold trash pickup, or the issuance of licenses or building permits requested by the delinquent account holder.
- Turn the account over to a collection agency—often, a personal visit from someone asking for the payment or additional follow-up notices can be effective in obtaining compliance. LG's do not usually have the staff for this approach, so contracts are awarded to private collections vendors. To pay for this service, additional penalties specifically for the collection services can be added to the original bill or outstanding balance.

- Use the court system—in many situations, the collector has the option of pursuing court action against the delinquent account holder. This option should be reserved for very large and/or commercial accounts, because it is usually more costly than other collection actions, and takes considerably more time for the courts to hear the case, and make a ruling. Legal fees can usually be added to the judgment to reimburse the LG for its out of pockets costs.
- Impose tax liens—tax liens prevent the sale of a property by the owner unless the lien has been satisfied (paid) and the lien removed from the legal records regarding property ownership. It also allows the LG to foreclose on the lien, and then take possession of the property. The LG can then sell the property, and recover the delinquent amounts, plus collections costs, from the proceeds of the sale.
- Offset any refunds due—if there are any refunds due the account holder from other accounts due the LG, those refunds should be turned over to the collections officer and applied to the outstanding account.
- Withhold vendor payments—if the account holder is a private company or an individual who performs work for the LG, payment for the services they have provided to the LG should be turned over to the collections officer and applied to the outstanding account.

Different delinquent account strategies should be used based on the age of the outstanding bill (account receivable), depending on legal strategies available, and their success. In the case of real estate tax receivable, the tax lien is usually a very strong tool, but it may not be available for other types of bills issued.

ACCOUNTS RECEIVABLE AGING REPORTS

It is very important to track the age of the outstanding or past due bills (accounts receivable). Usual practice is to classify the accounts into four categories: 30 days past due, 60 days past due, 90 days past due, or over 120 days past due. This sets up specific dates and collection procedures for each category of age as time goes by. This is an important management tool and report for several reasons.

- It clearly sets forth how overdue an account has to be before the next step in collections begins. This protects the collector from charges of harassment or favouritism, as it is clear that the account is receiving the next step of collection due to its age, not the personal preference of the collector.
- It provides management with information on how much revenue is NOT being collected according to plan and budget. A slowdown in collections can be a sign that changes in expenditures may need to be made, or that investment income will be less than anticipated. It can also signal problems are developing in the economy, or that there are operational problems in the billing and or collection operation.
- The overall plan for delinquent collection activities is useful in budgeting and staffing the collections operation. Many of the delinquent account

collection methods suggested here, such as printing and mailing second notices and initiating court action are expensive, and the costs should be anticipated

- It helps in evaluating the efficiency of different collection actions. Some approaches may have more success than others may in encouraging compliance with payment requests.
- It helps the LG have a better ability to anticipate cash flow. If patterns of collection rates are established, the collector can advise other finance officials of how much revenue should be collected by certain dates.

Following is an example of a worksheet for aging water accounts. This worksheet shows only one six month period, but once the aging of receivables has begun, it should be kept on an ongoing basis, and those billings issued over six months ago can be summarized in one line labelled prior billings. At this point in time, six to nine months after a bill has been issued, nearly all bills issued should either be collected, at the most serious stage of collection, or written off as uncollectible.

Aging of Water Receivables Account
Status as of January 31, 2008

Date bills issued	Amount issued	Outstanding at 30 days	% of billing	Outstanding at 60 days	% of billing	Outstanding at 90 days	% of billing	Outstanding over 120 days	% of billing
16-Aug-07	750,000	150,000	20%	73,000	10%	30,000	4%	22,000	3%
16-Sep-07	795,000	175,000	22%	78,000	10%	34,500	4%	22,750	3%
16-Oct-07	650,000	150,000	23%	68,000	10%	28,900	NA	NA	NA
16-Nov-07	975,000	200,000	21%	92,000	NA	NA	NA	NA	NA
16-Dec-07	900,000	185,000	21%	NA	NA	NA	NA	NA	NA
16-Jan-07	875,000	NA	NA	NA	NA	NA	NA	NA	NA
Total	4,945,000	860,000		311,000		93,400		44,750	

Once the analysis as shown above is completed, it can be used to plan which of the collection strategies described above should be used at different times. For example, the collection procedures for overdue water accounts might state:

1. All bills still outstanding after 30 days shall be subject to interest penalties and shall receive a second notice demanding payment of the bill.
2. All bills still outstanding after 60 days shall be turned over to a private collections agency for personal calls at the billing address of the account holder. Also, no refunds or vendor payments shall be issued to the account holder until the bill is satisfied.
3. All bills still outstanding after 90 days shall be advertised in the local newspaper.
4. All bills still outstanding after 120 days shall be subject to termination of service, followed by initiation of court action by the LG to recover all amounts due, including interest and the costs of collection, such as advertising, and court costs.

OTHER COLLECTIONS CONSIDERATIONS

There are extenuating circumstances that LGs frequently work with. One of these is when citizens either cannot or will not pay for the services received from your LG.

LOW INCOME ACCOUNT HOLDERS

LG policy makers have one particularly important issue to address in delinquent account handling: the case of low-income residents. In every community, there are account holders who do not have the money to pay their LG bills. This can happen for a number of reasons: short-term (loss of a job, illness) or long-term (the retired elderly and the disabled).

For short-term situations, collectors need to be prepared to offer a payment plan that allows the account holder to pay a small instalment at regular times until he/she re-establishes a regular income and can pay off the accumulated charges and penalties. In this case, the collector is strongly encouraged to implement payment plan polices that: a) require at least monthly small payments to keep the payment plan in place and b) establish a maximum that the account is allowed to reach in total delinquent charges before the payment plan is terminated and more aggressive collection efforts are implemented.

Long-term low-income situations require that the LG policy makers adopt a broader policy and the collector develop special procedures to implement the policy. One approach is to establish a class of reduced charges for services to those "certified" as low-income households. "Certification" is based on meeting a set of guidelines including requirements for maximum annual family income, old age or a disability, and lack of other assets such as property. Another approach is to allow the elderly and disabled to defer the payment of their outstanding balances until they pass away, and then the payment is made from the sale of assets of the account holder. Finally, the LG could set aside or earmark monies for a special account or fund. Then low-income residents can apply for assistance from the fund in paying their LG outstanding accounts.

WRITING OFF DELINQUENT ACCOUNTS

At some point, there will be outstanding accounts that are simply not collectable due to the inability of account holder to ever pay the bill, or the inability of the collector to locate the account holder. There will also be cases where the amount still due after a partial payment is so small, it is not cost efficient to pursue collection of the remaining balance.

Adopt policies and develop procedures to allow the collector to write off these amounts and not carry them in the "total outstanding" amount in reports. Include a pre-printed form in the procedures that requires the collector to provide full information on the account holder, including name, address and amount outstanding, reason for the request to write off the amount due, and a line for the collector to state under oath that the information provided is true and accurate to the best knowledge of the collector. This form is then submitted to the financial officer and head of the department overseeing the service (e.g. the water superintendent, the solid waste

superintendent) for approval. If approval is granted, the write off is recorded as an abatement on the account in question, and a copy of the abatement is sent to the accounting officer to also reduce the total amount of the account receivable.

Following is a checklist of issues to consider in evaluating how well your LG delinquent account collection procedures are working.

Evaluation Checklist for Delinquent Account Collection Program

___ Are delinquent accounts aged (sorted into categories based on the amount of time overdue)?

___ Are reports prepared on how many accounts are overdue for how long?

___ Does the collector know approximate collection rates over time?

___ Has a management plan for aging overdue accounts been developed?

___ Are 90-95% of the charges and taxes collected within six months of billing?

___ Is appropriate action taken to collect from past due accounts?

___ Are there written policies and procedures on how delinquent charges are pursued?

___ Have procedures been developed, approved, and written to handle how uncollectable charges will be written off?

___ Are there safeguards within this process?

___ Have plans been developed for handling low-income account holders?

___ Have the strategies for collecting delinquent accounts been reviewed and approved by the top administrative and policy personnel of the government?

___ Will the top administrative and policy personnel support all the strategies?

___ Has the collector been given sufficient budgetary resources to pursue collection of all delinquent accounts?

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Now is the time to look at the delinquent account collection efforts in your LG. On a scale of 1 (low) to 10 (high) how important do you think delinquent account collection is right now in your LG? Make notes below on at least two things you think are not currently addressed well in your LG, and note why you think this is so.

_____

_____

_____

_____

_____

BANK RELATIONS

Banks are important to LGs for three reasons: first, they provide loans; second, they provide access to short-term and long-term capital markets; and thirdly, they provide essential financial services, which if not provided by a bank have to be provided by the LG. But these services are not free. Banks remain profitable by earning interest on money they loan. The amount of money a bank is able to loan depends upon the amount of deposits it has received.

A LG can improve its relationship with banks if it:

- Takes advantage of the full range of services banks offer,
- Encourages competition among banks for the LG's bank account by periodically bidding for services,
- Knows its costs and the bank's cost of providing each individual service, and
- Encourages competition among financial institutions on a continuing basis to get the best value when making security purchase/sale decisions.

This section on banking relationships covers the processes for selecting a bank, the type of banking services offered, and ways of paying for bank services.

SELECTION OF A BANK

A LG can select a bank to provide depository and other banking services in one of two ways: competitive bid or negotiation. The approach selected often reflects legal requirements, the government's size, the size of its accounts, and the number of banks in the area and the political interests of the governing body.

COMPETITIVE BIDS

LGs generally take competitive bids, using detailed specifications to solicit proposals from a number of banks. After evaluation of the proposals based on the lowest cost of providing the service, one bank is selected to provide banking services. The com-

petitive nature of the process tends to heighten the interest in the account and lower the cost of the services.

If possible, for both political and financial reasons, do not award a banking service contract to a financial institution without some form of open and fair competition. Acquire banking services just like any other goods or services. Competitive bidding ensures that your LG receives the most service for its compensating balances as well as obtains the best price for each service.

The bid process for banking services involves at least five steps:

1. Determine the type and quantity of services to obtain from banks and estimate what you are willing to pay for them,
2. Prepare a request for proposal and send it to competing banks,
3. Review the proposal in an open manner, making criteria for selection public,
4. Select and enter into a contractual agreement with the bank that best meets the established criteria, and
5. Keep the governing body abreast of each step in the process.

Repeat the competitive bid process every two or three years to ensure that: 1) your LG continues to get the best value for the cost, 2) the bank does not become complacent in providing services, and 3) other institutions have the opportunity to re-enter the competition.

NEGOTIATION APPROACH

In this case, negotiation means that the bank or banks are pre-selected based on governing body policy or traditional practice. Prices for bank services are negotiated without the benefit of competitive proposals. Two methods are used: 1) share the business, and 2) rotate the business.

Share the business—In the "share the business" method, the LG gives a portion of the LG's banking business to major banks in the LG. This often results in using more bank accounts than are required so that the business can be distributed. Two examples of this are: dividing the operating fund into two or more accounts which are maintained in separate banks, or dividing the account based on source of funds or services provided (i.e., depository services at one, safekeeping at another and credit services at a third).

Spreading the banking business around makes it less likely that the elected officials will be accused of favouritism—an obvious political benefit. However, a disadvantage is that the LG may have to maintain a minimum balance with each bank, thus losing the ability to pool cash and reducing the amount of interest that can be earned. The loss of income may be significant. Additionally, the banking services may not be the lowest cost; thereby increasing the cost of banking or reducing the beneficial effect of compensating balances on earnings credit.

In the second method, the LG selects a single bank for its banking services and rotates the business to other local banks on a negotiated basis, usually annually. This arrangement permits the pooling of cash balances in a single bank. Interest earnings are greater than if the business was spread around and record keeping is less. The disadvantage is that it can be less politically suitable. For example, larger banks may attempt to pressure the elected officials for business for longer periods than smaller banks.

Although there are merits to both competitive and negotiated methods, we believe that the LG should bid its banking services competitively to derive the lowest and broadest range of bank services.

BANKING SERVICES

Banking services available to LGs vary significantly from country to country and region to region. Because of this, any listing of potential banking services will be either too comprehensive or too simple and possibly incomplete. This is especially true in countries with relatively new commercial banking systems. Nevertheless, we have decided to err on the side of identifying too many services.

The Listing of Banking Services chart provides a complete listing of banking services generally available to LGs in countries with a comprehensive commercial banking system. You might want to refer to this listing and select the bank services needed by your LG. It might also be helpful to discuss with the local bank officer what services are currently available and what might be available in the near future.

Listing of Bank Services

Disbursement services	Security investment services
• Electronic fund transfers	• Overnight and short-term instruments
• Concentration/zero balance accounts	• Custodial arrangements
• Controlled disbursements	• Security investment advice
• Account reconciliation services	Credit services
• Check truncation	• Lines of credit
• Disbursement float summary	• Short-term notes
• Microfilm checks or orders to pay	• Bond purchaser
• Computer services	• Bond underwriter
• Balance reporting	• Bond transfer and registration service
	• Lending activities related to community and economic development projects
	• Leasing

One of the first steps in selecting a bank is to determine the mix of available bank services offered. Bank services are often categorized into four general types:

- Collection and deposit services,
- Disbursement services,
- Investment services and
- Credit services

Collection services accelerate the availability of funds while deposit services process the collected funds to provide credited balances. Improved internal processing of cash receipts and multiple daily deposits enhance acceleration of cash receipts. By effectively using collection and deposit services, you can increase the funds available for security purchases. The most popular collection services used by LGs are electronic fund or bank transfers and lockbox services.

Disbursement services facilitate the processing and payment of obligations incurred by the LG. The goal of disbursement services is to hold onto the cash until the very last moment, thereby lengthening the time that the funds can stay invested and earn interest. LGs using these techniques can anticipate having larger balances to invest and increased earnings.

Security investment services provide an internal loop in the banking system for using temporary excess funds. Funds not needed for immediate disbursement are invested through the bank into various securities: overnight, 1-7 days or longer periods, 30, 60 or 90 days based on the need for the cash to meet obligations.

Credit services supply temporarily needed funds via line of credit or short-term borrowing. Generally, these services include overdraft protection and access to a line of credit at market rates. In some countries, banks participate in LG economic development projects as an equity partner or underwriter.

ASSESSING THE COST OF BANK SERVICES

Regardless of the approach taken to select a bank to provide services, closely evaluate the cost of banking services to arrive at an appropriate level of compensation.

Determining the appropriate level is a difficult task particularly when "packages" of banking services are requested. These packages are sometimes difficult to "unbundle" and price on an individual basis, and the result is that nominal price quotations for bank services can span a wide range. In fact, the price dispersion can be misleading because banks are offering quite different packages of services. Therefore, you must provide a very precise outline of the types of services desired, to ensure that quoted costs cover essentially similar products.

Another complication in determining appropriate compensation stems from the fact that most LGs are simultaneously lenders of funds, consumers of bank services and sometimes, borrowers as well. The costs of transaction services, such as deposits or item processing can be measured and quoted on a unit basis; and accordingly fixed price bids for these services can be evaluated just like bids for other types of goods or services. The costs of banking services such as time deposits and short-term loans will vary, however, because of variable loan and deposit balances and the fluctuation in interest rates. Because of this volatility in the borrowing and lending rates, it is practically impossible to achieve a fixed cost contract for all future banking services. Instead, "benchmarks" are used, whereby quoted time deposit rates will be stated in terms of market rates such as a market 90-day rate for certificates of deposit.

To facilitate the comparison and evaluation of bids and to serve the primary objective of achieving the lowest cost of banking services, divide the request for proposals into two categories: item/transaction processing activities and security investments/borrowing functions. Each is evaluated using somewhat different criteria to

arrive at an overall lowest cost bid. Item/transaction processing includes processing of deposits, pay orders to the bank (warrants/transfers), and account management activities. Security investments/borrowing includes purchasing securities or borrowing money from the bank and managing the security or loan portfolio. Most banks have developed cost accounting techniques so they can price each service they provide. If banks claim that they do not know the actual costs of specific services, estimates should be required.

PAYING FOR BANK SERVICES

LGs typically pay banks for services in one of two ways. The first way, and the simplest, is to pay banks for services directly on a monthly basis for services incurred during the month. The second way is to pay for bank services on a minimum compensating balance, meaning the LG leaves a minimum balance in the account with the bank, which the bank invests and earns interest sufficient to offset service costs.

Under the second approach, LGs do not pay banks directly for services. Rather the minimum compensating balance that is needed to defray a given level of service costs can be computed in two simple steps as described below:

Step 1. Establish the annual cost of bank services to be paid and divide that cost by the annual rate of return, which the bank can be expected to earn on deposits. This calculation gives the raw amount of deposit needed to defray bank costs. Using the following chart, based on a 12 percent assumed rate of return; an average balance of EU 125,000 for the year is needed to defray EU 15,000 in bank costs. Please note that this calculation is highly sensitive to the expected rate of return on deposits. A high rate means less deposit is required; a lower rate means more is needed. As noted earlier, rates such as this one may vary over the year.

Calculation of Minimum Compensating Balance Requirements

Step 1.	Cost to bank of services provided	EU 15,000
	Divided by earnings rate allowed on deposits	.12
	Equals funds available to the bank to invest	EU 125,000

In general, a LG should assume that this rate would be close to interest rates being paid on 90-day market securities or certificates of deposits over the deposit period.

Step 2. The deposit balance calculated in Step 1 is lower than what banks will need to defray their costs. This is so because banks are usually required by regulatory agencies to hold a certain portion of their deposits as reserves in non-interest earning assets such as vault cash or reserve deposits. Therefore, the amount determined in Step 1 must be increased by a factor related to this reserve requirement using the following formula:

$$\frac{\text{Balance calculated in step 1}}{\text{1 minus reserve requirement}} = \text{Balance needed}$$

Reserve requirements such as this are established by bank regulatory agencies. As with interest rates, however, these reserve requirements may vary from time to time so an average may have to be estimated for the deposit period.

Using the following chart, the calculation for a EU 125,000 deposit using a 25% reserve requirement is shown. The effect of this step in determining compensating deposit balances is to reduce the level of cash available to purchase securities for the LG.

Calculation of Minimum Compensating Balance Requirements

Step 2.	Investable funds	EU 125,000
	Divided by (1.00 minus 0.25 reserve requirement)	.75
	Equals deposit balance required as compensation	EU 166,666.67

Note: Since checks are not used in most developing country banking systems, average check float has not been included as a factor in this formula. If it were considered, the deposit balance in Step 2 would be increased by the average float percentage to arrive at a new deposit balance required as compensation.

FINAL THOUGHTS ON BANKING SERVICES

If your LG selects a bank for cash deposits and services, it should not limit the competition for security investment business. Once your LG decides to invest a portion of its idle or excess funds, contact a number of potential sources to get the best rate. When "shopping" try not only to get the best yield but also the lowest cost for the transaction. Financial institutions are accustomed to competing for the business of legal or private persons. It should be no different for LGs.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

After reading the section on banking relations, we hope that you have a better appreciation for the important role that the bank or financial institution plays in finance management. Think about your current bank relations in light of this discussion. What areas of your bank relations could be improved?

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What obstacles are there to making these improvements?

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How can these obstacles be overcome?

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Develop a brief action plan to implement the most important of these improvements.

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THE THREE STAGES OF SEEKING GRANTS

A systematic approach can simplify and streamline the process for obtaining a grant. There are three distinct stages in pursuing and receiving a grant. They are: (1) the pre-proposal stage, (2) the proposal development stage, and (3) the submission and follow-up stage.

STAGE ONE: PRE-PROPOSAL

The approach we have in mind for the pre-proposal stage consists of six steps. Each of the steps is described in more detail in the pages that follow.

STEP 1: EXAMINE THE GOVERNMENT GOALS/ESTABLISH PROJECT NEEDS

If a LG has goals for the short- or long-term, or developed a strategic plan, this is the best place to identify the highest priorities for seeking grant assistance. Top administrators and/or policy makers can use these goals as a starting place for generating ideas for potential projects that could be supported by grants. Department heads

and other staff also can be asked to submit ideas for grant supported projects that are consistent with their department's priorities and mission.

There is the temptation to find out where grant money is and to develop grant proposals to get some of it. This supply-oriented approach to getting grants is a serious mistake. Proposals should be demand driven. That is, they should reflect important LG or community needs uncovered by an assessment of local needs. After all, grant-supported projects have costs associated with them. Among these are costs for the staff that develop and write grant proposals, the administrative and policy demands on the rest of the government to administer the project, and any matching funds that might be required as a condition for receiving the grant. In addition, there are opportunity costs. Staff working on this proposal is not available for other projects of equal or higher priority. And other granting agencies might decide not to award a LG grants or contracts in other project areas because funding has been received from another source. In short, the primary consideration for deciding whether to proceed any further on grant development efforts should be whether a proposed project will contribute to the solution of an important LG or community problem and how dependent the project is on outside funding.

STEP 2: GET ORGANIZED/ASSESS CAPABILITY

After confirming that your LG has potential project needs that are consistent with identified goals, the first decision will be: should you establish a centralized or decentralized approach to seeking grants? Each has different benefits and costs, and each will have implications for who will handle the responsibilities that are presented in the rest of this section.

CENTRALIZED APPROACH

In a centralized approach, a grants office is established in the LG and a grants coordinator appointed. This may be a person who has other responsibilities within the government (such as a budget analyst, or a planner.) The benefits of this approach are that the LG can hire or develop specific grant getting skills and thus have a staff person familiar with developing and writing proposals and who can develop valuable contacts among granting agencies. Some of the responsibilities of this position could include:

- Developing a catalogue of possible granting agencies;
- Keeping an up-to-date list of requests-for-proposals (RFPs) from granting agencies;
- Establishing uniform procedures for the development and submission of grant applications, including standardized or "boilerplate" information about the government;
- Preparing standardized budget data for grant applications, especially in the areas of employee benefits and indirect costs;
- Serving as an adviser and assistant on grant applicants prepared by other staff;

- Maintaining copies of all grant applications and grant agreement contracts for the LG.

The success of many organizations in obtaining grants increases with their familiarity with the "grant getting" process and participating organizations. A centralized grants coordinator can concentrate on developing this knowledge and expertise. However, a centralized grants coordinator may be too expensive for many LGs. In any event, management should be convinced that a coordinator position could pay for itself within two to three years before the position is created and funded.

SEMI-CENTRALIZED

An alternative to the grants coordinator for a LG considering initiating a grant development function that can't afford or doesn't want a centralized approach is to form a grant coordinating committee. This committee can be organized using staff from a single functional area that is viewed as a high priority for outside funding support. Or it can be made up of staff from several program areas where grant funding is being considered.

In a committee approach, the first step is to define who will be responsible for various steps in the process. Participants and their roles will vary depending on many factors including the project area under consideration. For example, a grant application for a transportation project from a government grantor will require a different committee composition than a youth services project to be funded by a private foundation grant. Regardless of how the committee is composed, developing a grant proposal should involve the following assignments of responsibility.

1. **Project developer**—This staff member has the background, qualifications, and interest in the policy/project area. This person should have sufficient experience and reputation among his or her peers in the subject area to be able to conduct the research and development of the proposal concept. This person also should be competent to pursue funding contacts, and communicate and work with outside parties such as people from the political community, corporations, other levels of governments, media, etc. The project developer does not necessarily have to administer the project if the grant seeking process is successful. A project director could be hired at that stage. This person does not necessarily have to be the one who actually writes the proposal or presents it to granting agencies. However, the project developer would be part of a team that performs all the tasks and is the person responsible for coordinating the whole process.

2. **Proposal writer**—Often, a person knowledgeable in a policy or program area does not have the writing skills to put together a well organized, responsive and convincingly written proposal. A staff person with these skills can work, together with the project developer, to produce a quality proposal.

3. **Financial/personnel administrators**—Development of the budget, particularly the indirect cost portion, and the staffing plans, will require the input from the LG's finance and personnel staff.

4. **Top-level policy makers and administrators**—While these participants do not need to be continuously involved in the process, their support and approval is a necessity. Before any resources are devoted to pursuing a grant, the project developer should be certain that the LG is willing to accept the grant, and that the project addresses a need that is a priority for the LG. Even with such approval at the outset of the proposal development, support must be re-established at various points during the process.

5. **Negotiator/sales person**—A top-level administrator may also be the best person to conduct negotiations with officials from the granting agency. When a grant proposal has reached the stage where interviews are sought with granting agencies, a party in a high position of authority in the LG and with good presentation and persuasion skills should be given this responsibility.

6. **External/community participants**—Particularly if the proposed program is designed to address a problem in the community, a representative of any potentially affected group or advocacy group should be included in early planning and in the process of developing and writing the proposal. Support from target groups (those who will benefit from the project's activities) is critical, and is easier to obtain if their input has been incorporated from the beginning of the process. External parties should also be surveyed to see if help could be obtained from members of the community who have skills and/or experience in grant development, especially in the areas of proposal writing or contacting members of grant funding agencies.

DECENTRALIZED APPROACH

If neither of these approaches is feasible, then efforts to obtain grants will have to be made by individual staff members in their own areas of expertise and interest. Grants can and have been obtained with this approach, but usually because of the determination, connections, and hard work of an individual. If the LG approves of these individual efforts, the CEO should insist on being kept fully informed by the staff member through each stage of the process. The staff member should seek approval of the CEO before making any applications or commitments.

Before committing significant time and other resources to grant developing activities, local officials should assess their staff's current capability for these responsibilities, and their financial resources for launching a successful grant getting project. For example:

- Are there staff members who could be project directors or proposal writers?
- Is there someone who could become the grants coordinator?

- Is the finance department prepared to accept, account for and report on grant funds?
- Is there sufficient physical space and equipment to support a grant writing effort?
- Are there staff, volunteers, elected officials, or community leaders who have effective relationships with decision-makers in granting agencies?

The more of these questions that can be answered "yes," the better are the chances of the LG being able to proceed efficiently in an effort to obtain grants.

STEP 3: BEGIN THE PROPOSAL CONCEPT AND DEVELOP A PROSPECTUS

At this point in the process of developing a grant proposal, ideas for the proposal can be refined from the general to more specific. For example, if a priority of a LG is to improve economic development in the central business district, now is the time to better define exactly what the need is and develop some preliminary strategies for addressing the need.

At this stage, one element that will determine how to proceed is whether or not the proposal will be a solicited or an unsolicited one. Solicited proposals are those developed and written in response to a Request for Proposal (RFP), or a Request for Applications (RFA). Granting agencies are likely to have a specific area of need in mind for making grants, and they will announce this interest and encourage interested and qualified organizations to apply for the grants. For example, a foundation might be interested in projects that include new approaches for solving problems of homelessness or drug abuse. The granting agency will issue an RFP. LGs that are asked to respond to the RFP can decide if they wish to respond to the RFP. Responding to an RFP means following the steps described in this section. Going through the steps of the process will lead to a stronger proposal, assure the proposal is responsive to the granting agency's requirements and increase your chances of winning the grant.

Unsolicited proposals are those that are initiated by a LG to obtain funds from a grantor that may have an interest in a proposal but has not specifically requested its submission through the RFP process. Since they are not requested, unsolicited proposals normally must be more creative and closely aligned with the goals of the grantor if they are to receive serious consideration. Normally, success in obtaining funding for unsolicited proposals requires an unusual degree of relationship building with key representatives of the granting agency and the ability to argue convincingly for the merits of a proposal.

The best approach in generating good ideas for either a solicited or an unsolicited proposal is to bring together all those who have been identified as part of the project team to generate and then evaluate as many ideas as possible. Questions that you can use for these brainstorming sessions are below. We suggest that you develop your own form with questions similar to these, as well as others you might have, and give several copies to all parties at your brainstorming meeting. The project developer/coordinator can collect them at the end of the session.

After all the ideas have been generated, they should be evaluated and ranked as to which approaches seem the best. Criteria such as the following could be used to evaluate the ideas.

- Which ideas have the greatest cost benefit return? That is, which seem to be able to bring the most amount of benefit for the lowest resources?
- Which ideas are most in line with the LG policy priorities?
- Which ideas have the most appeal to granting agencies? Granting agencies have different priorities and interests, so this area will probably be left blank until you have done some research in this area.
- Which ideas will require the least commitment of effort and resources by the LG?

These questions can also be developed into a worksheet for evaluation by group members and as such, they should be continually updated as more information is acquired.

The product of this effort should be the identification of a best approach, and then the development of a two or three page prospectus for that approach that is used as a starting point for the rest of the proposal development process. Flexibility is vital at this stage of the project. This is the step where constructive advice is needed to strengthen chances of being funded. The ideas in the prospectus can be further refined, or later rejected, as the approach and potential granting agencies are researched more rigorously.

One experienced grant writer recommends that the prospectus, as well as all of the idea and rating forms, should be captured in a three-ring bound proposal development workbook with a different section for each of the ideas that is generated and different sections as you move through the different stages of proposal development. Tabs should be set up for each section, such as: 1) documenting the need, 2) alterna-

tive approaches, 3) advisory committee, and 4) staff. Later in the process, sections can be added on 5) researching granting agencies; 5) contacts that have been made; 6) arguments for the appropriateness of your organization/staff/project, etc. The notebook also can contain "lessons learned" from successes and failures, thus adding to the LG's knowledge and experience with grant getting in general.

STEP 4: RESEARCH FUNDING SOURCES

Once the prospectus is complete, the grant coordinator/grant committee/project developer can begin a preliminary search to identify the potential grant funding agencies and programs available in this program area. This can be the most difficult task and one where the experience and knowledge of a grants coordinator will be invaluable. If your LG does not have such a staff person, you may want to consider trying to increase the skills of an existing staff person in this area by: sending him or her to training programs in "grantsmanship," by subscribing to journals from grant maker associations, by acquiring grant development books, and by having your grant staff person(s) meet with the grants coordinator from other LGs or organizations that have such a staff person.

The goal of the funding search is to eventually identify contact people at granting agencies who will be able to provide reliable information about your chances for receiving a grant from them. The goal is not to develop a lengthy list of agencies to whom proposals can be submitted and only a slim possibility that one or more of them will result in a grant. The ideal situation is to develop a proposal that formally applies for grant money under conditions where the chances of obtaining grants are reasonably good.

The process of identifying public grant prospects differs somewhat from that of private grant prospects, but the steps are similar:

> *Note: To develop an ever-increasing web of contacts who can lead*
> *to more information and suggestions until those are found that seem*
> *most promising for a specific project.*

Prospective Funding Agencies

Below are some suggestions for places to start searching for information on prospective granting agencies.

- Call the central government ministries or departments that oversee the major program areas that seem logically linked with the LG proposed project. For example, if a project is in the area of transportation, try calling the ministries of transportation, economic development, or commerce.

- Use your local or university library. Often libraries have copies of public and private directories of grant program and organizations that make grants. In particular, look at the International Foundation Directory, published by International Press Publications, Inc., 90 Nolan Court #21, Markham, Ontario, Canada, L3R 4L9, and the Guide to European Foundations, prepared by the Agnelli Foundation, Columbia University Press, 136 South Broadway, Irvington-on-Hudson, New York, NY, USA, 10533. Also, investigate books on how to seek grants. Authors of these books usually include listings of names, addresses, and phone numbers for granting agencies of which they have knowledge. Use these phone numbers and addresses to develop further contacts.

- Use the Internet. Use keywords such as "grants, philanthropy, and founda-tions" as well as searches in relevant subject areas, such as transportation, health, economic development, etc. Search by the names of any major corpora-tions that have local facilities to learn if they have corporate grant programs. If so, note the names, addresses, and telephone numbers, if available.

- Contact the Foundation Center, Inc. in New York, New York, USA. The Foundation Center is an independent service organization established by American foundations to provide information on private philanthropy. The Center publishes directories of foundations, including the Guide to Funding for International & Foreign Programs, which lists US foundation that make grants to organizations and programs outside the United States. The Center also has an International Resources section, which offers annotated links to other informational centres of foundations. The address is 79 Fifth Avenue, New York, NY, 10003.

- Contact the Eastern European Centre for Philanthropy in Brussels, Belgium.

- Contact trade associations and professional associations in the subject area of the project, such as health care associations for health care related projects.

- Meet with top community leaders and ask for their suggestions and ideas. Many top business leaders have professional and social relationships that in-clude people who are on the boards of philanthropic organizations. Other civic leaders, including clergy, teachers, or professionals, may have contacts and ideas to help you.

Remember, all of these suggestions are looking for ideas about granting agencies to be researched further. The intent is to get names so that more can be learned about the granting agencies, the kinds of projects they support, the amount of money for grant awards, and eligibility restrictions established by the granting agency for grant recipients, etc.

Suggested questions you might ask of everyone you talk to about granting agencies are provided in the box, "Suggestions for Researching Funding Sources." It is desir-able to develop a form for recording all the information gathered. We suggest com-pleting an information sheet for each granting agency, and to keep that in the three ring binder mentioned previously. It is also advisable to keep an information sheet on each contact, cross referenced to the granting agency connected to the person, if applicable. Each contact should be asked for the same information and the results recorded. Each contact should lead to more contacts.

Suggested Questions for Researching Funding Sources

- Are you aware of any grant programs within your department? If yes, can I get the names, titles, and mailing addresses of the contact person? If no, can you give me the name of someone else in your department who might know?
- Are you aware of any published lists of grant programs? Contract programs?
- Are you aware of any grants awarded on an unsolicited basis?
- Can you give me the names of anyone else that I might speak with to find out about government grants? Private grants?

After the preliminary round of research, enough names should have been compiled to yield the names of several promising prospects. Now these prospects can be contacted in order to: 1) gain more information about them and their programs and 2) tell them a little about the LG requesting the funds and intrigue them with the project idea. Feedback gained from this round of information gathering will help in revising the project approach and tailoring the proposal more specifically to the interests of the targeted granting agency.

Letter writing is the next step in the information gathering process. A "boilerplate letter" can be mailed out to all prospects still on the list. This letter should have the following contents.

1. Name and address of the contact person, based on research data.
2. A statement that the research has revealed that the granting agency may be interested in a project that your LG would like to see funded.
3. A brief (one to two paragraph) description of the need/problem area to be addressed and why it is important.
4. A brief statement about the LG, its capabilities, its responsibilities, and its unique ability to address this need/problem area.
5. A request for an interview to further discuss your project.

After mailing the letters, follow up phone calls are made to set up either an in-person interview, if the granting agency is within reasonable distance, or a phone interview if the distance is too far to travel. Assume that a positive response will be received from many of the agencies, and be prepared for the interviews. During the interviews, you are attempting to get answers to questions like:

- Is your assumption correct that this is the correct granting agency to fund the project you have in mind?
- How large are typical agency grants, to whom, for what, on what kind of schedule?
- Will the contact send agency criteria and application materials?
- Does the agency respond favourably to your rationale for the foundation's support of the project such as the one you have in mind?
- Will the agency furnish a list of past projects it has funded?
- Will the agency agree to review your prospectus and give you feedback on the likelihood that they would be interested in funding the project?
- Will the agency look at information on your LG if you bring it with you or send it after an interview?
- If the granting agency seems receptive and will provide information on past grantees, their opinions could be very helpful. These grantees, in turn, can be contacted and asked questions such as:

- When did you begin the process?
- When and how did you contact the funding source?
- Did you visit before writing the proposal? Whom did you visit? Who went from your organization?
- Did you use advocates? Who? How?
- Do you have any other advice?

STEP 5: FINE-TUNE PROJECT/NARROW FUNDING TARGETS

After all this research is completed, hopefully one or two granting agencies will emerge as the best prospects for obtaining a grant. At this point, go back to your project and approach ideas and see if they can be refined or revised to match more closely the preferences of the granting agency. Do not forget the original policy guidelines. The objective is not to reinvent your project just to secure funding. On the other hand, it may be possible to shift approaches within a priority area so that it corresponds more closely to the priorities of the granting agency. Flexibility is an essential characteristic of all successful grant getters.

STEP 6: DECIDE TO WRITE A PROPOSAL

At this point, a tremendous amount of time has not yet been invested in any one project. If the project director/ project team feels that the feedback has been positive, and all other signs are good, then the decision to proceed and write a proposal will be an easy one. If not, it may be useful to rethink the approach, or focus on a different but related problem, or attempt to address the problem without grant support.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

Now that we have reviewed the pre-proposal writing activities, it is time to see if they can be used by your LG. Look back at the questions in this section that can help you assess the capability of your LG to develop grant proposals and pursue grant-funding agencies. Think about your LG's strengths and weaknesses in this area, and from your unique perspective list them below.

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STAGE TWO: PROPOSAL DEVELOPMENT AND WRITING

Typically, a grant proposal has standard sections that organize and present the information that the granting agency will need to make an educated decision about the request. These sections may vary slightly, have different titles, or be omitted altogether, depending on the requirements and preferences of the granting agencies to which the proposal will be submitted. Each section is described in more detail below.

PART 1   TITLE PAGE

The title of the proposal is very important. If it is not good, a reviewer may not read further. A good title is short, descriptive, and easy to remember, and it relates to the project's end results or benefits. Ask other people not involved in the proposal for their opinions about the title. Ask them what they think the project is about, based on the title alone. Look at the titles of proposals that have previously been funded by the prospective granting agency. And check to see if there are any specific requirements regarding the title and/or the title page.

PART 2   SUMMARY/ABSTRACT

A summary or abstract of the proposal should be developed if the proposal exceeds six to eight pages. The summary should briefly cover the highlights of the material in each section of the proposal. One way to structure the summary is to allocate a paragraph to each major section of the proposal. Some granting agencies require a summary and may prescribe the number of words or space that can be used, such as "must not exceed 500 words." A well-written summary will include a brief statement explaining how the proposal is responsive to the funder's requirements and interests. The summary should impress the funder with its clarity and make the reader want to read the whole story.

PART 3. STATEMENT OF PURPOSE AND OBJECTIVES

The statement of purpose is perhaps the most important section of a grant proposal both in terms of what it says and how the information is presented. The statement of purpose tells the granting agency what is to be accomplished or will result because the project was funded. It is also the first sign to the granting agency that the project is well conceived and can achieve its objectives.

The purpose statement should be very specific in terms of the project's goals and objectives. These two terms are often confused. Goals are an overall conceptual

orientation to the ultimate purpose of the project that can be reasonably achieved. Most projects have only one, possibly two, goals. Objectives, on the other hand, should be specific and concrete, more likely to be measurable and more likely to address short-term or intermediate accomplishments. A proposal may have several objectives and, depending on the complexity of the project, these may be of several different types. Performance information can be collected and measured to judge whether the objectives are achieved (for more information on this, see another chapter in this series on Performance Measures).

Objectives provide the framework for organizing the problem section of the proposal in which the problem and needs are described and analyzed. If, for example, one objective of a program is "to give local treasurers information to understand the full array of investment tools legally available to them, their risks, costs, and potential payoffs," then the need section should discuss the nature and extent of the lack of such knowledge among municipal treasurers and how that lack of knowledge leads to loss of potential income for their governments and the possibility of investments that have high levels of risk of loss of principal.

In a similar manner, the objectives set the framework for the section of the proposal on the approach chosen to deal with the problems/needs. In the example just cited, program activity should be included that is clearly designed to fill this knowledge gap.

If the proposal being written is in response to an RFP, the goals and objectives may already be stated. For example, the RFP may be seeking proposals to establish a new program to prevent injuries in the workplace. In this case, the goals and objectives do not have to be restated or revised but rather described and elaborated on to demonstrate your understanding of the situation and "showcase" your own approach to the purpose and needs as established by the granting agency.

An Example of the Overall Goal and Specific Objectives of a Training Program for Local Government Financial Officials

Goal:
This program is designed to enable local finance officials to enhance investment earnings for their governments while avoiding unacceptable risks and loss.

Objectives:
The LG treasurers who participate in this training program will be able to: (1) understand the full array of investment tools legally available to them, their risks, costs, and potential payoffs; (2) develop an investment policy statement to guide their investment decisions; (3) use available hardware/software to evaluate investment choices; and (4) develop data and write reports that allow other local officials, such as managers, mayors, and auditors, to evaluate their LG's investment performance.

PART 4   STATEMENT OF NEED/ STATEMENT OF PROBLEM

This section of the proposal may also be called Statement of the Problem. All granting agencies receive more proposals than they can fund. This section of the proposal should convince decision makers at the granting agency that the issues addressed by this project are more compelling and urgent than others. Aspects of this section to be addressed in the proposal include:

Project audience—Who is this project important to and why? Does it have benefits just for those immediate participants or will its benefits be applicable to a larger audience? Can results of the project be generalized to other similar problems and situations? Is the project a stepping-stone to further, important program needs?

Problem understanding—Does the proposal demonstrate a thorough understanding of the issues that the project is attempting to explore or resolve? Particularly important is to establish how this project fills a significant "gap" in the current situation and why other ongoing efforts or projects have not or cannot accomplish the goals of the proposed program. Demonstrating knowledge of the current literature, and other ongoing projects in the problem area, is critical. Also, background information and statistical data should be briefly introduced to substantiate the problem. If a needs assessment has already been conducted, it should be explained here.

Project timeliness—A statement of why the project is important for funding now, and the negative consequences of delaying the project.

Project relevance—A statement of perception about how this project ties in with the granting agency's mission, interests, and ability. Particularly important to reference are past projects that have been funded by the agency that might tie into and be built on by this proposal.

Project focus—The problem statement should be narrow and focused so that the granting agency has a reasonable expectation that the project can resolve the problem, given the requested resources. Do not describe a problem that is so great that it seems intractable or will require vast amounts of time and resources.

In summary, the Statement of Need should explain to the granting agency why the problem should be addressed, how the proposal is related to solving the problem, and why the proposal should be funded.

PART 5   THE APPROACH/ PROCEDURES

This part of the proposal should describe in detail each activity that will be undertaken and how these activities will be carried out. The approach section is typically the longest part of the proposal. First, the proposer should introduce the approach to be used in managing the project and provide a brief explanation to justify why this approach was chosen. Other potential approaches may be brought up, and reasons for their exclusion. It is important to stress any unique aspects of the project design and methods and how they improve on previous approaches. Other elements in this section that should be discussed include:

Participants—If the project calls for the involvement of one or more individuals, a description is needed to explain who these participants are, how they were chosen, if they have already indicated a willingness to be included in the project, what will be expected of them, and how/if they will be compensated.

Work plan—The purpose of this section is to indicate the major accomplishments and products planned for the project with completion dates, and a description of how the activities will be spread throughout the project period. Charts, graphs, or other types of diagrams should be used to present the key activities and the dates associated with them. To develop such a chart, it is necessary to know:

- Specific tasks and how much time each will take.

- The order in which tasks must be accomplished.
- The amount of staff time associated with each task.
- The amount of consultant or outside help that will be associated with each task.
- Work products or "deliverables," interim and final.
- Materials and equipment needed.

There are many techniques to choose from in presenting the work plan. Standard in proposals are summary charts, such as GANTT Charts, PERT (Program Evaluation Review Technique), the Critical Path Method (CPM), or simple time charts. An example of a Gantt chart is provided below.

Example of a Gantt chart

	Ja	Fe	Mr	Ap	My	Ju	Jy	Au	Se	Oc	Nv	De
EVENT												
1. Staff hired		1										
2. Workshop sites chosen			2									
3. Training designed				3								
4. First workshop						4						
5. Second workshop							5					
6. Third workshop								6				
7. First report drafted										7		
8. Final report completed												8

Administrative Plan—This section of the approach establishes who will be responsible for the project, its activities and resources, the personnel that will work with the project and the administrative procedures that will be followed. It is important to document that competent people will be working on the project, and to provide justification for the funding that is requested. Particularly important to be covered are:

- Key project positions, their roles, credentials, and background in this area. Describe how they have been or will be chosen for the project, and what criteria were used in making these choices.
- Other staff who will be involved and how.
- The organizational structure.
- What other units are in your organization, what do they work on and how do they relate to your unit.
- Leadership of organization and where management of the project is in the chain of command.
- An organization chart that diagrams this information.

Other contributors—Describe any other consultants or advisors who are not currently in your organization but you expect to be a part of the project. Describe the arrangements already made with these individuals. If there will be an advisory body, describe who will be on it, how they will be chosen and why, and what their responsibilities will be.

Track record—If your proposal builds on earlier work or on related projects undertaken by your organization, this is a good point to mention it. The discussion should include how this current proposal builds on or links to previous work and establish the organization's experience and capability to carry out the work plan and produce the outcomes described earlier in the proposal. Emphasize if prior experience brings into the project a unique ability to work in the area that other proposers may lack.

Deliverables—This is the section where products described generally in the goals/objectives section earlier are more fully explained. If, for example, the objective of training local officials in an area of financial management is used, then more detailed descriptions of the areas to be covered in the training and in what form the training products will be delivered should be specified. Also important in this area is to suggest the potential use of project results relative to a larger audience or for broader purposes.

PART 6.   THE BUDGET

The budget section of the proposal identifies total project costs and estimates the application of these dollars during various phases of the project. The budget can be developed only after the proposed project has been planned at a detailed level. It also requires that the proposal writer have a good understanding of the rules and regulations of the granting agency to which the proposal will be submitted. How the budget is prepared depends on the complexity of the project and the instructions of the funding source. Granting agencies are concerned not only with the total amount of the dollars requested but also if the request is realistic and well justified. Correct presentation of the budget can help to create respect for the project manager in the minds of granting agency personnel.

The budget must conform to the goals and the narrative of the proposal. For example, if a staff position is discussed in the narrative, the budget should include compensation for the position. Travel should not be discussed in the narrative unless funding for it is included the budget. The budget should be developed by someone who thoroughly understands what the project is intended to accomplish and how. The best way to do this is to go through the proposal section by section and identify the "who, what, when, where and with what resources" for each activity of the project, then organize this information into several categories.

Budgets can be prepared in a standard line-item format, but also may be presented by program or cost centre. This requires devising major functional activities or categories, such as administration, training, writing, and evaluation, then estimating the proportion of each line item that can be appropriately allocated to each functional category. For example, the project director, at US\$ 50,000 per year, might spend one half time on administration, one-quarter time on writing and one-quarter

time on evaluation. In such a case, US$ 25,000 would be allocated to administration, US$ 12,500 to writing, and US$ 12,500 to evaluation.

The budget submission will often be on worksheets required by the granting agency. The agency will have guidelines on how to use the worksheets and on what terms budget requests can be made. The requirements of the granting agency should be carefully followed in preparing the budget. Below are the major items that ordinarily will be included in a granting agency's budget guidelines.

Personnel—There are three items in this category.

- Salaries and wages are payments made to regular employees of the organization. The budget request should indicate project personnel by position (e.g., project director; research assistant), the amount of time each individual will allocate to the project, and whether they are to be supported entirely by the grant or also by a contribution from other sources. These should be regular salary levels, calculated at levels comparable with salaries for similar positions in the project organization and in the local labour market. Anticipated promotional increases should be built into the salaries budget.
- Fringe benefits are additional personnel payments for items such as retirement plans, health and dental insurance, required insurance programs such as social security, disability, unemployment, etc. Fringe benefits are generally shown as a percentage of salaries, with a note explaining what is included.
- Consultants or contractors who will be working on the project should be identified and included in the personnel section of the budget. They are usually hired at a daily rate, which may be set by the granting agency rather than the applicant. The budget should indicate the number of consultants and the number of anticipated days they will be working on the project.
-

Direct Expenses—These are all expenses other than personnel, often referred to as OTPS (other than personnel services). Cost sub-categories included are:

- Travel. Covers costs for travel by project staff, consultants and if, necessary, by the program's board members and participants. The detail and justification for travel costs should be shown in the budget it self or in a budget explanation note. Some granting agencies require showing long distance travel costs separately from local travel; mileage, car rentals, and air travel should be shown as separate line items in the travel budget.
- Subsistence or per diem. Represents reimbursement to persons for hotel, meals, parking, and other such items while they are travelling. The budget should show the number of days to be reimbursed and the amount to be paid per day.
- Office supplies. Stationery, copy paper, pens, etc. to be used during the program.

- Program supplies. Items such as training materials, instructional materials, books, etc., that must be purchased for the project.
- Equipment. Items such as furniture, copying machines, computers, typewriters, etc., needed for the project.
- Communications. Usually represents telephone charges, but could also cover telegrams, satellite-time rental, computer on-line charges, and other anticipated communications costs.
- Rent. Includes the rental charges for office space used by the program. It should be e expressed as a cost per square metre, and the number of square metre included. Some granting agencies pay a flat amount no matter what the individual project needs or space availability, so be sure to check agency policies. Also, if there is to be no charge, either directly or indirectly, for space and facilities, these costs can be estimated and used as a "match" contributed by the organization.
- Other expenditures. Other items that will be charged to the program are to be included here, such as printing costs, memberships in organizations, insurance, data services, research services, etc. Granting agencies differ on what is permitted in these areas, so research should be conducted on allowances and explicit agreements made with the granting agency.

Indirect Expenses—or overhead, expenses refer to the costs incurred by the larger agency within which the project occurs. If the proposed program or project is not part of a larger operation, it should not include any overhead items. If, however, the project will be carried out as part of a larger operation and the larger organization will provide administrative support services such as payroll, office space, computers, and equipment, it is appropriate to include such costs as part of the budget. These expenses are figured as a percentage of salaries. Large organizations usually have a standard rate used for this purpose that may range from 10 to 100 percent. For example, an organization with a 33% indirect cost rate that prepares a program with direct costs of US$ 100,000 would submit an overall budget request for US$ 133,000. The project director would have direct control over the direct expenses, but no control over the US$ 33,000, which goes to the host agency's financial operations.

Policies on paying indirect charges vary by granting agency. Some have a standard amount they will pay as a percentage of the total project budget regardless of the applicant's costs and resources. Proposal writers should become familiar with the policies of both their own organization and the granting agency before submitting an overhead charge figure in their budgets.

In-Kind Contributions—Some grant agencies expect the applying organization to share a part of the cost of the project. This may be done in two ways: 1) through actual cash amounts or 2) through in-kind contributions. It is important for project developers and budget preparers to be well acquainted with the policies of the granting agency as well as their own LG's policies and resources in developing this section of the budget.

When you have completed your first draft budget, you should go back through your proposal again to insure that you have made provisions for all activities, and no funds are being requested for an activity not mentioned in the narrative. The ques-

tions contained in the following checklist can help you prepare and evaluate your budget.

Budget Checklist

___ What are considered allowable direct costs? You must ascertain if there are items for which the granting agency will not directly pay. For items not allowed as direct costs, will they be allowed as indirect costs?

___ Are indirect costs allowed? And, if so, how should these be computed and what do they include? Typically, government funded projects do allow indirect costs, but many private foundations and corporations do not.

___ Can project funds be co-mingled with project funds from other sources, and if so, does this affect the granting agency's rules? For example, some foundations have fixed rules about providing a certain percentage of a project budget and expect other donors to fund the remainder of the project. Other granting agencies, particularly government agencies, expect the project requester to provide matching funds from their own organizational budget.

___ If matching funds are required, must they be provided in cash or can they be "in-kind"? In-kind includes donations of equipment, space, volunteers, etc. from your organization or from others to your organization.

___ Will there be a contract between the granting agency and the project organization? Examples of type of contracts include fixed price, cost-reimbursement, cost plus-fixed-fee, and cost sharing. Each has its own unique set of budgeting requirements and you should determine these early.

___ Will the granting source require that the project budget be displayed by specific phases of time or will a total budget covering the entire period of the project be accepted?

___ What flexibility will the project agency give you to adjust the budget for unforeseen developments?

___ Is the total budget anticipated for the project within the budget range of the granting agency? Look for guidelines or feedback from the granting agency for an acceptable dollar amount during the preliminary steps of proposal development.

___ How much detail does the granting agency require in the budget submission? Some granting agencies do not require a great deal of detail. Nevertheless, you should prepare and have available the detailed cost estimates and assumptions used to arrive at the budget totals. For example, even if a total is requested for office supplies, prepare a backup worksheet showing how the totals were estimated. You may need this level of detail in interviews or other discussions with the granting agency, and it can assist you later in project management.

___ What are plans after the project is completed? Will you continue this work/ project? If so, where will you get the resources? If not, what will happen to the staff, equipment, and publications that have been associated with the project?

The weakest part of almost every project proposal is the plan for evaluation. The organization submitting a proposal and the granting agency will need a plan for assessing whether or not the project is meeting its objectives and has addressed in a meaningful way the problem identified in the Problem Statement.

An evaluation plan begins by looking again at the objectives established for the project. Then consideration should be given to indicators of how much or how well the objectives are being met. Some results will be clear and easily measured, such as an increase in use of a service or removal of some objectionable condition. However, these do not necessarily mean that conditions have improved, only that a change has occurred. Many granting agencies look for projects that have some suitability for being replicated in other, similar situations. Staff from the granting agency want to be assured a method exists for determining if the project is successful or unsuccessful, by identifying measurement techniques and the factors that contribute to either outcome. In the proposal, evaluation methods to be used are described along with a description of how evaluation results will be reported. There are a number of common approaches for evaluating grant projects.

Pre-project and post-project questionnaires—There will be a need for instruments or questionnaires for gathering data needed to measure project outcomes including such things as testing the knowledge or attitudes of participants before and after the project. For example, training and education projects can incorporate a "before and after" training questionnaire to assess increases in knowledge and skills.

On site evaluators—One approach is to convene a group of objective observers to evaluate the situation before and after the project to identify changes and improvements and the difference, these improvements have made.

Comparison groups—Another approach is to identify a comparison group or situation that is not being affected by the project but has similar needs or problems. Observations about changes due to the project can be drawn by comparing the situation that received grant intervention with those who did not. For example, if a grant project is to provide public health services in a neighbourhood, health statistics could be gathered in that neighbourhood after the services have been provided and in a different neighbourhood with similar health conditions but no services, and the results compared.

When the first draft of a proposal is complete, someone outside the proposal preparation process might be asked to read the proposal to insure that all sections are concise, easy to understand and free of bureaucratic terminology. Revisions will probably be needed to improve readability and clarify ideas.

An important final check is to review the proposal with the granting agency's guidelines and instructions to be sure all of the required information has been included. The materials to accompany the proposal, such as a cover letter addressed to the correct party, and if allowed, letters of support from influential members of the community, must be obtained and attached. After a final review of the proposal

document for mechanical errors (spelling, page balance, margins, etc.), the proposal is ready for submission.

LEARNING APPLICATION

POLICY MAKER _X_   CEO _X_   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

In your unique role, you may currently be involved in either the preparation or approval of grant proposals or applications. If your LG does not currently apply for grants, what concerns do you have about doing so in the future?

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What can you suggest to insure that budgets are developed realistically?

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STAGE THREE: PROPOSAL SUBMISSION AND EVALUATION

Once the proposal is completed, it is ready for submission to the granting agency. The method of submission should conform to the requirements of the granting agency. A date, time, and office location may be specified for delivery of the proposal. Multiple copies may be required, or proposals may only be accepted during certain times of the year. The proposal should be submitted to only one funding source at a time.

Once the proposal has been received and "logged in" by the granting agency, it will be reviewed and screened. One of the first review activities performed by the agency is to insure that the project is consistent with the agency's mission and purpose. Agency staff will also check to insure the application is complete and fol-

lows the program grant submission requirements. If the proposal meets all these preliminary tests, then it will be reviewed by program staff and sometimes a panel of reviewers set up by the agency. Each agency will have its own criteria for judging proposals. However, nearly all agencies will consider the following:

- Does the applicant's experience and reputation indicate a record of effectiveness, results, efficient management, sound budgeting, and planning?
- Will grant support solve or address an important problem/area of need?
- Is this project duplicating other efforts already targeting this problem?
- Are the goals and objectives well defined?
- Is this problem area important? To whom?
- Are there elements of innovation and creativity in the project?
- Does the project approach seem logical and realistic? Are the proposed staff credible and competent? Is the budget reasonable?
- Is there a plan for evaluation?

Certainly there are more criteria, but these are common ones used in evaluating a proposal. After the review, the proposal will be assigned a rating such as approved, approved with modification required, disapproved, or deferred. Finally, the granting agency will determine if there are adequate resources to fund all the projects that are approved/ approved with modification required. If the project is either approved or rejected, the applicant will be notified. If it is approved but the granting agency requires some modification in the approach, the budget, or the other parts of the proposal, the applicant will be notified to meet with the granting agency and see if the project can be modified to meet the grant agency's needs and preferences.

GRANT ADMINISTRATION

Once an organization has been awarded a grant, the project director/coordinator must take responsibility for managing the grant. The recipient organization is now accountable for program and financial stewardship of the grant. The awarding agency usually has specific accounting, reporting and program requirements. Failure to follow any of these could result in termination of the grant, or worse, a demand for repayment of the grant. There are six basic functions in grant administration, and the project director and other staff should understand and be prepared to perform them. While they will vary depending on the granting agency, in general these grant administration functions are as follows.

1. UNDERSTAND AND RESPOND TO REQUIREMENTS

Both the granting agency and the host agency (if there is one) will have a variety of requirements that will require compliance. These include personnel procedures, such as hiring, compensation, employee benefits, and other personnel policies and practices; financial management regulations, such as accounting, procurement, travel, etc.; programmatic guidelines, including publication and dissemination of results, copyrights, research instruments and procedures; and reporting requirements, including progress and final reports, financial reports, and evaluations. Failure to

understand and comply with any of these requirements can create problems that can interfere with the project and cause unnecessary tension between the project team and the granting or host agency, or both. For example, failure to follow the procurement procedures of the host agency can delay payment to a vendor who can in turn delay provision of needed supplies.

2. ORGANIZE THE PROJECT

Especially if the project is large or has many staff and or consultants, a good organizational structure will need to be established. It is up to the project director to begin organizing the project staff, activities, and processes to accomplish the project and produce the results. The project director needs to recruit and orient staff, establish the physical space for the project, obtain equipment, set up procedures for reporting and financial management, set up project timetables, delegate tasks to other staff, communicate with advisory boards and other involved committees, and establish expectations. The project director also needs to insure that the host agency is prepared to receive and process the budgetary aspects of the project.

3. DIRECT AND CONTROL THE PROJECT

This means directing the programmatic, administrative, and financial activities and processes of the project so that they are efficiently carried out. Once the project's organizational structure and staff are established, the project director then uses the work plan as outlined in the proposal to proceed with the project. Management of the budget is the major means by which a project director can maintain control over project operations. In addition, management of the budget is a primary tool in insuring accountability to funders and host agencies for the proper use of funds allocated to the project. It becomes even more difficult and important if there are multiple granting sources supporting the project that want reports and fund accountability.

Maintaining cash flow is another responsibility of the project manager. The critical factor is the arrangement with the granting agency regarding how often, in what amounts, and under what conditions the project will receive its grant payments. The granting agency may send all or large percentages of the grant at the outset of the project, or may allow a limited advance against the grant. An understanding with the host agency may be necessary to avoid confusion about making payroll or paying vendors.

4. COMMUNICATIONS AND REPORT WRITING

Communications channels must be established and maintained with the granting agency, and other external groups, including how reports are to be prepared and issued. Project directors should obtain from granting agencies their exact requirements and expectations in this area, especially if continued receipt of grant money is contingent upon receipt of a report. At a minimum, a project is required to submit some type of final report on its activities and performance. Many granting agencies also expect that periodic reports, usually quarterly, will be submitted. In addition, some grants may call for periodic oral briefings to grant agency staff.

Project directors should establish a project reporting system at the beginning of the project in order to avoid having to reassemble reporting data that should have been captured on a timely basis.

A schedule of reports, with due dates, should be established, and staff assignments made for report reparation. Writing of project reports should be taken very seriously. Every report should be considered a "deliverable" of the project. As such, each report makes a statement about the quality of the work performed under the grant project.

There are two basic kinds of reports to granting agencies: 1) a program or content report and 2) a financial report. The program report will concentrate on information such as: activities that took place during the period covered by the report, accomplishments in relation to the project's goals and work plan; an explanation of events affecting project performance or budget and plans for overcoming them; and future activities. In addition, project staff should report any matters that occur between scheduled reports that may have a significant impact on the project budget or program. Program reports should be brief.

Financial reports are a special requirement of most granting agencies. They can vary in how often they want a financial report. Some funders want a report only at the end of the grant. Others may want reports on a quarterly or even a monthly basis.

5. DEVELOP PLANS FOR FUTURE FUNDING OF THE PROJECT, OR FOR ITS TERMINATION

If the project is of short duration, it is necessary to develop plans for terminating the project, which will entail determining the fate of all project staff and materials. In most cases, limited time projects will only require the part time or shared use of staff, or reliance on consultants. The granting agency will expect project termination plans including submission of all final reports and the disseminating of project results.

If, on the other hand, the project is expected to lead into a program of longer duration, plans should be made toward that end. There are two basic approaches to extending the project. First is anticipating refunding of the project or attracting funds from other sources to continue the work. In this case, files and records should be developed in order to have materials on hand for a follow-up proposal. A sign of further commitment from the granting agency should be sought early in the project period so that discussions can begin with other granting agencies if existing grant support is expected to end at the close of the current project.

The second approach for continuing the project is to find a permanent source of non-grant funding. The project may revert to a self-supported program through the charging of fees for the service. For example, if the original project was to open a health centre in a poor section of the LG, the centre may now be able to rely on client fees. Or, budget support may be secured now that the program is established with a successful record of accomplishment. Or it may be possible to develop contracts with the private sector to purchase services from the program. For example, if the project were to develop a new transportation line between neighbourhoods, perhaps companies in those neighbourhoods would contract for services for their employees. The possibilities depend on the project and its potential for attracting support and

commitment. Project directors who believe in continuation of their projects should work toward achieving such support and commitment.

6. PREPARE FOR AUDITS

Not every project is audited, but all should be managed as if expecting an audit. This means keeping written records that will permit reconstruction of all financial transactions related to the project. Audit activities are usually limited to the financial records, and project personnel may have little or no involvement in this process if they are not the personnel maintaining these records. The project director is responsible for ensuring that all records of expenditures and income are well documented and up to date, and that all financial transactions are in accordance with the granting agency financial administrative procedures. An auditor will expect answers to questions such as:

- What was the project's budget?
- What amount was actually spent and for what?
- Where did the money come from?
- Were all expenditures eligible under the rules of this grant?
- Was the amount of all expenditures reasonable?
- What is the evidence that the work was actually done, the materials received, and the expenditures made?

LEARNING APPLICATION

POLICY MAKER ___   CEO ___   FINANCE MANAGER _X_   DEPARTMENT HEAD _X_

As the Finance Manager or Department Head, you may be heavily impacted by winning a grant and there will be significant performance expectations for you in the administration of the grant budget, especially the reporting requirements. What most concerns you at this time about administering a grant?

_____

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    Do you see any of these concerns as major obstacles?

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Can you suggest procedures that should be considered and adopted before grant proposals are submitted?

_____

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_____

INTERNET RESOURCES

Costing Municipal Services. Workbook and Case Study. March 2005 ... User Charges and Service Fees.   www.dls.state.ma.us/publ/misc/costing.pdf

Pricing Municipal Services: The Economics of User Fees. User fees for municipal services may generate revenue for municipalities: Lessons from Nine Case Study ...
www.ctf.ca/pdf/ctjpdf/2002ctj2_dewees.pdf

India Case Studies: Delivery of Municipal Service in Vijaywada India
www1.worldbank.org/publicsector/egov/india.htm

Costing Municipal Services: Workbook and Case Study.   www.wrrb.org/Reports/03-04fees.pdf

UNRISD: Publications | Our Home is a Slum: A story about implementing slum-upgrading while recouping some costs through user fees.
www.unrisd.org/unrisd/website/document.nsf/0/
0F0B606BAA3AC25380256B660046004C?OpenDocument

Determinants of cost recovery in DWM: a case study of Bangkok. What is user charge? "User Charge Implementation: Case Studies of Hat Yai, Pattani, ...
www.sea-uema.ait.ac.th/snp/tp1/ChamawongDeterminant.doc

Concept of user fee finance. Application of benefit principle at local level. www.ceu.hu/sun/SUN_2005/Downloads/Detailed/Intergovernmental_detailed.doc

Three Studies on Municipal Infrastructure: Alternative Financing ... A series of case studies that partnerships result in lower municipal costs where operations have economies of scale ...

www.ginsler.com/documents/socio053.pdf

Property-Tax Exemption for Charities - Introduction

The occasional state and municipal studies of the effects of property-tax ...discusses the differences between taxes and special assessments and user fees. ... www.urban.org/pubs/proptax/intro.htm

Chapter 9 - Municipal Land Management in Asia: A Comparative Study. Property tax revenues as a percentage of total municipal revenues in selected countries and some case-studies. www.unescap.org/huset/m_land/chapter9.htm

Privatizing Infrastructure: Options for Municipal Water-Supply Systems. Remuneration for the private contractor comes from user fees. www.rppi.org/ps151.html

This is one of six case studies exploring regional cooperation among transportation... Raise revenues through taxes, levies, tolls, user fees, and motor fees. www.ite.org/library/Vancouver.pdf

PART TWO: MANAGEMENT TOOL

PURPOSE

Expectations for public services are rising, and the costs for LGs to provide them are rising as well. Each decade, LG budget makers must accommodate new services while budgeting more to maintain other services at existing levels. These demands place heavy strains on fiscal resources, many of which have reached the limit allowed by law. The burden falls on LG staff and policy makers to find ways to extract more income from existing sources without raising rates but, instead, by improving the efficiency of revenue collection and management. Financing the operating budget requires careful thought and a good imagination. These exercises will help develop these thought processes.

> *Don't forget to look back at the Learning Applications! Many of them can be easily adapted for group exercises and may be more appropriate for persons who are just being introduced to the concepts of revenues and budgets.*

CONTENTS

6.1 WARM-UP EXERCISE: UNCONVENTIONAL PRACTICES

Participants are asked to evaluate an unconventional practice for ensuring the maximum yield from a particular revenue source. (30 minutes)

6.2 TRAINER PRESENTATION

Brief concept presentation based on the preceding essay that identifies the different functions involved in financing the operating budget and how a LG can get the most benefit from existing and potential revenue sources. (30 minutes)

6.3 EXERCISE: AN APPROPRIATE POLICY

Participants review a set of policy statements on revenue maximization and analyze the appropriateness of each statement for adoption by their own LGs. (60 minutes)

6.4 CRITICAL INCIDENT: THE LG AS LANDLORD

Participants identify the administrative "loopholes" in an incident involving faulty collection procedures and suggest appropriate steps to correct the situation. (60 minutes)

6.5 EXERCISE: SKILL PRACTICE

Participants develop goal-oriented and policy driven strategies for the elimination or lessening of revenue "shortfall" problems. (90 - 120 minutes)

6.6 EXERCISE: SKILLS TRANSFER

Participants reflect individually on what they have learned and make commitments to put it to use back home after the workshop. (30 minutes)

6.1 WARM-UP EXERCISE: UNCONVENTIOANAL PRACTICES

TIME REQUIRED

45 minutes

PURPOSE

Promote possibility thinking about unconventional practices to increase the yield from an existing source of revenue.

PROCESS

Read to participants the following description of a practice used by a LG in Brazil to verify the actual amount of revenue due from a particular source.

One Brazilian LG draws a substantial part of its revenue from a service sales tax on the local hotel trade. It has given some tax rebates to the local laundry in exchange for regular information on the number of pairs of sheets laundered for each hotel—a thorough check on the daily occupancy rates reported by the hotel owners![1]

In small groups of five or six, ask participants to discuss the situation and to answer the following questions about it. Give the small groups about 20 minutes for the discussion. After 20 minutes, ask for a report from each group with their answers to the questions.

Questions
1. What was the first reaction of members of your group to the situation?
2. What problem often related to the collection of amounts due from a particular revenue source is the information gathering arrangement designed to solve?
3. What drawback or drawbacks, if any, do you see with a practice of this kind?
4. What similar practices are or might be used by your LG?

_____

[1]From United Nations Centre for Human Settlements, Training Manual on Urban Local Government Finance for English-Speaking East and Southern African Countries (Nairobi: UNCHS—Habitat, 1992), p. 65.

6.2 TRAINER PRESENTATION

TIME REQUIRED

30 minutes

PURPOSE

This presentation is to provide participants with ideas and perspectives on financing the operating budget as a conceptual foundation for the exercises included in this workshop.

PROCESS

Prepare the presentation based on information covered by the preceding essay on financing the operating budget. Identify the LG sources of revenue for your country. Emphasize LG practices that help to recover the costs of revenue collection, increase collection rates, and ensure fairness and convenience for revenue payers. Include information on the continuous evaluation of current and future sources of revenue and the adoption of policies that call for greater efficiency in revenue administration.

Outlined information on note cards may help you cover the information systematically and stay on schedule. Ask questions from time to time during the presentation as a check on participant comprehension and to hold their attention. Augment the presentation with visual aids including pre-printed newsprint sheets and overhead transparencies as a further aid to comprehension.

6.3 EXERCISE: AN APPROPRIATE POLICY

TIME REQUIRED

90 minutes

PURPOSE

Assess current LG methods for financing the operating budget in relation to seven policy statements.

PROCESS

Working in small groups of five to six, give participants a handout (following pages) that contains a worksheet for use in answering questions relative to seven policy statements for LGs. Ask participants to complete the worksheets in the handout working alone before discussing the results with other small group members. The individual task should take about 30 minutes to complete.

Tell members of each small group that, when everyone has completed the worksheets, they are to discuss their respective answers to each of the policy statement questions and, after they have done this, to answer these general questions as a group:

- How is revenue maximization for financing the operating budget being practiced by the LGs in your group?
- In what policy areas is interest greatest within your group for maximizing revenues for the operating budget?
- What are the principal obstacles discussed by your group?
- What actions can individual LGs take to realize greater yield from existing revenue sources (i.e., reducing collection costs, lowering delinquency rates, making payment more convenient).

After about 30 minutes, ask a spokesperson from each small group to present the group's answers to the four questions. Engage participants in a general discussion focused primarily on their answers to the final question.

Evaluating Sample Revenue Policies

Each of the following pages contains a policy statement on revenue maximization. Read the first policy statement and answer the questions that follow it. Make your answers as specific as possible. When you have answered all of the questions relative to the first policy statement, move on to the second policy statement and follow the same procedure. Continue until you have answered all of the questions for all seven policy statements included in the handout.

Start with Policy Statement # 1 on the next page.

<u>Policy Statement # 1</u>: The local government will periodically collect and analyze information on the revenues it uses, including how much revenue each source is raising.

Is your local government doing this? (Check one) Yes **O** No **O**

If "yes," how often is the information collected and what use is being made of it?

_____

_____

If "no," should your government be doing it? (Check one) Yes **O** No **O**

If "yes," what will it take to implement such a policy?

_____

_____

_____

If "no," why do you feel your local government cannot or should not engage in this practice?

_____

_____

<u>Policy Statement # 2</u>: The local government will periodically collect and analyze information on the revenues being used by other LGs.

Is your local government doing this? (Check one) Yes **O** No **O**

If "yes," how often is the information collected and what use is being made of it?

_____

_____

If "no," should your government be doing it? (Check one) Yes **O** No **O**

If "yes," what will it take to implement such a policy?

_____

_____

If "no," why do you feel your local government cannot or should not engage in this practice?

_____

_____

Policy Statement # 3: The local government will establish a professional and aggressive program for recovery of delinquent accounts, with annual reports on efforts and results prepared for policy makers.

      Is your local government doing this? (Check one)   Yes **O**   No **O**

      If "yes," how often is the information collected and what use is being made of it?

_____

_____

      If "no," should your government be doing it?   (Check one)   Yes **O**   No **O**

      If "yes," what will it take to implement such a policy?

_____

_____

      If "no," why do you feel your local government cannot or should not engage in this practice?

_____

_____

Policy Statement # 4: The local government will conduct an annual review of selected fees and charges to determine the extent to which the full cost of associated service is being recovered by revenues.

      Is your local government doing this? (Check one)   Yes **O**   No **O**

      If "yes," how often is the information collected and what use is being made of it?

_____

_____

      If "no," should your government be doing it?   (Check one)   Yes **O**   No **O**

      If "yes," what will it take to implement such a policy?

_____

_____

      If "no," why do you feel your local government cannot or should not engage in this practice?

_____

_____

<u>Policy Statement # 5</u>: The local government will review all fees and charges at least once each four years.

      Is your local government doing this? (Check one)   Yes **O**   No **O**

      If "yes," how often is the information collected and what use is being made of it?

_____

_____

      If "no," should your government be doing it?   (Check one)   Yes **O**   No **O**

      If "yes," what will it take to implement such a policy?

_____

_____

      If "no," why do you feel your local government cannot or should not engage in this practice?

_____

_____

      <u>Policy Statement # 6</u>: The local government will place increased emphasis on user charges to finance the cost of LG services.

      Is your local government doing this? (Check one)   Yes **O**   No **O**

      If "yes," how often is the information collected and what use is being made of it?

_____

_____

      If "no," should your government be doing it?   (Check one)   Yes **O**   No **O**

      If "yes," what will it take to implement such a policy?

_____

_____

      If "no," why do you feel your local government cannot or should not engage in this practice?

_____

_____

<u>Policy Statement # 7</u>: The local government will conduct a cost finding analysis before committing to programs of privatizing services.

Is your local government doing this? (Check one)   Yes **O**   No **O**

If "yes," how often is the information collected and what use is being made of it?

_____

_____

If "no," should your government be doing it?   (Check one)   Yes **O**   No **O**

If "yes," what will it take to implement such a policy?

_____

_____

If "no," why do you feel your local government cannot or should not engage in this practice?

_____

_____

6.4 CRITICAL INCIDENT: THE LOCAL GOVERNMENT AS LANDLORD

TIME REQUIRED

60 minutes

PURPOSE

For participants to identify the administrative "loopholes" in an incident involving inefficient collection procedures and to suggest appropriate steps to correct the situation.

PROCESS

Tell participants they will be working for about 30 minutes in small groups of five to six as consultants to a hypothetical LG with a poor history of rent collection from its LG-owned flats. Handout the incident —The Local Government as Landlord. Ask participants to read the incident and to work together to answer the questions at the end of the incident.

   After 30 minutes, bring the participants back together and ask each group to share its answers to the first question. After a general discussion, repeat the process with the second question. Conclude the exercise by asking why being able to solve a problem like the one in this incident is important for the staff and policy makers at LGs.

The Local Government as Landlord

You have been employed as a consultant to help a LG realize a greater yield from monthly rent payments collected from the tenants of 36 flats owned by the LG. These flats are what is left of approximately 100 flats that were transferred to the LG from the central government two years ago. The other flats were sold to generate capital for needed improvements in the LG's aging and badly deteriorated water and sewer systems.

In retaining the thirty-six flats as rental units, the LG was counting on the rent income to provide a reasonably dependable revenue source for the LG for many years. Unfortunately, the yield from collections has never come close to the LG's expectations. Therefore, the LG has employed you to find the problem and suggest a solution.

From your investigations, you have uncovered the following facts.

Occupancy rates are high throughout the LG and there are rarely vacancies among the 36 flats. Due to differences in size, location and the amenities provided, monthly rental rates vary from flat to flat. Further, it has been the LG's practice to reduce the monthly rate for a flat according to how much responsibility family members agree to accept for making repairs and doing minor maintenance or for assuming certain management responsibilities. For example, six of the families pay less than half the customary monthly rate in exchange for acting as an agent for the LG in collecting rents from other flat occupants in their part of the LG.

Receipts vary from month to month. One reason, you discover, is a variation in occupancy rates and occasional lost collections during the process of evicting tenants for non-payment of rents. The turnover rate among renters is high. It is not unusual for a tenant who is arrears (behind) in rent payments to move without notice, often leaving the property in a poor state of repair.

It is also common for a tenant to sub-lease a flat and to move elsewhere in order to save money on housing costs. The prevalence of sub-leasing was discovered by rent collectors who reported that the actual rent payer at any given flat was likely to change from one month to the next.

Rent collections last month averaged just over 60% of the amounts due. And the cost for maintaining or renovating the flats and for rent collection in some months absorbs more than half of the amount collected. From the lease agreement records maintained by the LG, you have not been able to track the rental income history of any particular flat.

The rent collectors you have talked with have no explanation for the low collection rates, although they admit that, at times, they have taken less than the full amount due out of sympathy for the economic hardship of their neighbours. From several of the renters you get a different story. They tell you they have never missed a rent payment although sometimes collectors accept partial payments and return twice or even three times during the month to collect balances due.

Questions

1. From the information provided, what is wrong with the way this source of revenue is being administered by the LG that might account for the low revenue yield? Specify in your answer obvious collection risks or "loop-holes" in the system.

2. What changes would you recommend to tighten administrative controls and reduce the collection risks that seem to be causing the unacceptable revenue drain? Point out any drawbacks or obstacles to the changes you have in mind and what could be done to minimize them.

6.5 EXERCISE: SKILL PRACTICE

90 - 120 minutes

PURPOSE

Encourage more informed and deliberate investigation of goal-oriented and policy driven strategies for the elimination or lessening of revenue "shortfall" problems.

PROCESS

Divide participants into several five to six member groups. Ask participants in their groups to share with each other any revenue "shortfall" problems they are experiencing in their LGs. The problems could include such things as: 1) unacceptably high cost to collect revenue; 2) actual revenue yield substantially less than the potential yield; 3) evidence of chronic payment avoidance; 4) payer resentment about the inconvenience of collection arrangements.

      After participants have discussed their respective revenue "shortfall" problems with one another, ask them to select one of these and to write 1) a goal statement, 2) a policy implementation statement and 3) several strategies to achieve the goal (and solve the problem). Suggest that each group appoint a leader and someone to record the group's results on a flip chart for later reporting. A worksheet —Implementing Policy — for recording the results of these discussions is shown on the next page.

      After about one hour, ask a spokesperson from each group to report on what the group would recommend for resolving the revenue "shortfall" selected.

Implementing Policy

The revenue "shortfall" problem we hope to solve is:

_____

_____

_____

_____

The revenue maximization goal (a condition we expect to exist when the revenue "shortfall" problem is solved) is:

_____

_____

_____

_____

An appropriate statement of policy that would commit the local government to the search for and implementation of strategies aimed at solving the revenue "shortfall" problem and achieving the goal would read as follows:

_____

_____

_____

_____

Some strategies for implementing the policy and achieving the goal are:

_____

_____

_____

_____

_____

6.6 CLOSING EXERCISE: LEARNING TRANSFER

TIME REQUIRED

30-45 minutes

PURPOSE

This exercise is to help participants transfer the learning experiences of the workshop into their real-world activities. The focus of this exercise is on raising expectations, engaging in realistic planning and making personal commitments. Most of the work is done on a personal basis with some interpersonal sharing.

PROCESS

Spend at least half an hour at the end of the workshop to focus the attention of participants on important learnings and encourage them to continue experimenting with these learnings in their management activities. Begin by giving participants about fifteen minutes to work independently on a simple learning transfer questionnaire.

When participants have completed the questionnaire, ask them to share quickly with the group two or three things they intend to do differently in their roles with respect to financing the operating budget and maximizing revenues to close the workshop.

> *Trainers note. It is generally agreed that the purpose of training is to improve the way people do things by showing them a better way. In fact, the success of a training experience can be measured by the amount of personal growth and change that takes place both during training and after the training is over.*

Commitments to learning and change made at the close of a workshop can help participants overcome learning resistance in themselves and in the work environment. A trainer can help learners make a successful transition from the world of learning to the world of doing through a few simple planning exercises.

A Learning Transfer Questionnaire

Take a few minutes to reflect on how the operating budget is financed, the new ideas you encountered in this workshop, and how you feel about them. Then, in the space below, write a sentence or two to describe something interesting you have learned about yourself during this workshop.

_____

_____

_____

_____

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_____

Based on what you have learned about yourself and the many possibilities for change presented by this workshop, what two or three things do you intend to do differently that involves how the operating budget is financed?

1._____

_____

_____

_____

_____

2._____

_____

_____

_____

3._____

_____

_____

_____

_____

Finally, what obstacles in yourself or in your work environment do you expect to experience during your efforts to implement these changes? What will you do to remove or minimize these obstacles?

Expected Obstacle	Action to Remove It
1._____	1._____
_____	_____
_____	_____
_____	_____
_____	_____
2._____	2._____
_____	_____
_____	_____
_____	_____
_____	_____
3._____	3._____