***America’s Local Governments:***

***Their Annual Budget Process***

by Roger L. Kemp, ICMA-CM

**The Annual Budget Process** - The best way to understand the budget process is by using the *systems approach* to management.  This approach recognizes the inter-dependence of all activities within the organization, especially public ones.  A public organization is viewed as an open system that includes five (5) basic sub-systems, which are explained below.

* **The Input -** This includes available revenues to finance public services for the coming fiscal year.  A government's revenues typically include non-restricted funds, restricted funds, and other possible funding sources.  The services provided by an agency are based on the available revenues from all sources.
* **The Process -** The budget preparation process includes four typical steps followed by officials, both elected and appointed.  These steps include the administrative preparation of the budget, the legislative approval of the budget, the administrative implementation of the budget, and annual year-end accounting and financial reporting, which is usually performed by an independent outside auditor.
* **The Output -** The output of the budget process is determined based on the available revenues and approved departmental expenditures.  Available funds are allocated to finance the public services provided, as well as the approved capital projects.  The common types of budgets include line-item budgets, program budgets, performance budgets, zero-based budgets, and other evolving budget formats.
* **The Feedback -** The financial feedback on the adopted budget is provided to both the elected officials and their administrators based on an annual audit, which is typically conducted by an outside independent auditor.  This financially objective feedback is provided to the organization’s major stakeholders for both the operating and capital budgets.
* **The Environment -** The annual budget process is influenced by several factors that comprise its operating environment.  These factors include its political environment, its economic environment, its social environment, and its legal environment.  All of these factors are interrelated and greatly influence an organization's annual budget process.

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