

Best Practices in Budgeting


Presented by: Jake Rawski, BGS, CAFM, CGA

On behalf of: Aboriginal Financial Officers Association of Alberta

PURPOSE:

- The purpose of this presentation is to identify best practices in budgeting.
- First, budgeting concepts will be discussed.
- Second, we will work in groups to identify, in terms of best practices, how the budget ties to deliverables reporting and cash flows.

Budget discussion topics:

- 
- First Nations Government
 - What makes up a government and who are the players?
 - What is budgeting and why is it important?
 - What is the basis for funding?
 - What control functions are provided by the budget process?
 - What are the best practice features of a good budget system?
 - Why are committee reviews of budgets important?
 - Does budget information have to be reported?
 - In terms of best practices, how does the budget tie to deliverables reporting and cash flows?



FIRST NATIONS GOVERNMENT

3/5/2009

4

FIRST NATIONS GOVERNMENT

What is the main goal or purpose of government?

- A Government's goal is to provide services and redistribute resources, not to make a profit.

First Nations are government because:

A First Nation is a community of people.

Those governing the community pursue economic activities with a goal of enhancing the well being of the community.

The leadership is selected by the members of the First Nations.

The leadership operates as a government having the well-being of members as the first objective.

The government is accountable.

What is accountability?



Accountability means responsibility.

Responsibility means making sure that people do the things that they should and don't do the things that they should not.

Budget discussion topics:

- First Nations Government
- ● What makes up a government and who are the players?
- What is budgeting and why is it important?
- What is the basis for funding?
- What control functions are provided by the budget process?
- What are the best practice features of a good budget system?
- Why are committee reviews of budgets important?
- Does budget information have to be reported?
- In terms of best practices, how does the budget tie to deliverables reporting and cash flows?



WHAT MAKES UP A GOVERNMENT AND WHO ARE THE PLAYERS?

What makes up the government?

- "Government" refers to the elected and appointed policy-makers and administrators who together perform the executive function and are accountable to stake-holders.
- Governments carry out policies and deliver services through a variety of entities.
- A government reporting entity comprises all organizations *controlled* by that government.

Who are stakeholders?

- Stakeholders are individuals that have an interest in what we do; and, they want to make sure that we did what we intended to do.
- Stakeholders include:
 - Community
 - Elected officials – Chief and council
 - Funders – INAC, CMHC
 - CEO, CFO, department staff and administration staff

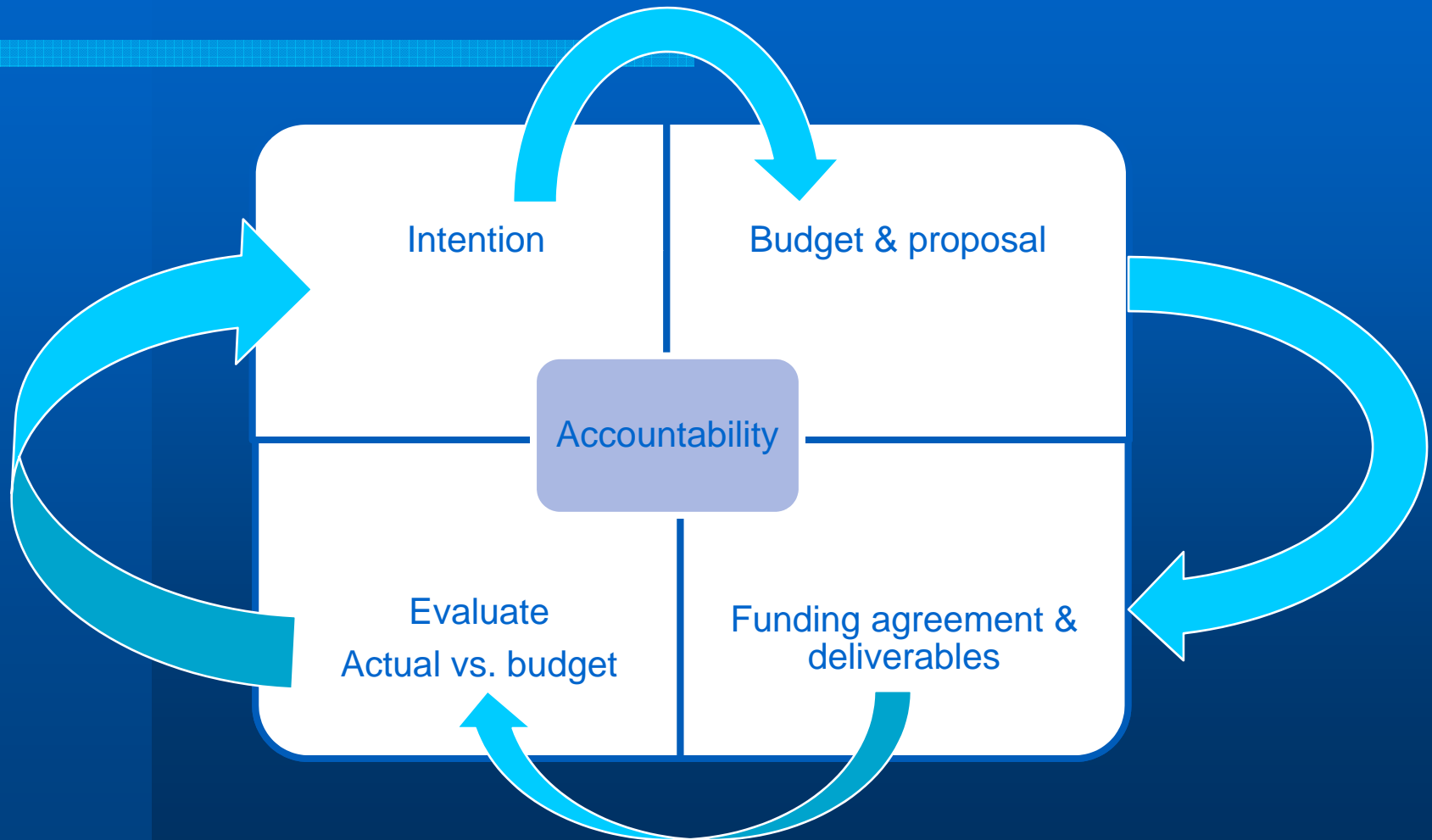
What do stakeholders want?

- Performance reporting.
- Performance is reported to stakeholders by communication of financial and non-financial information. The objective is to explain in a clear and concise manner the extent to which intended goals and objectives were achieved and at what cost.

What is intention?

- Intention is our resolve and determination to act in a certain way.
- Intention is that starting point for many monetary and non-monetary transactions.
- It is important that our intentions are understood otherwise misunderstandings can happen.

How it all fits together:



Budget discussion topics:

- First Nations Government
- What makes up a government and who are the players?
- ● What is budgeting and why is it important?
- What is the basis for funding?
- What control functions are provided by the budget process?
- What are the best practice features of a good budget system?
- Why are committee reviews of budgets important?
- Does budget information have to be reported?
- In terms of best practices, how does the budget tie to deliverables reporting and cash flows?



WHAT IS BUDGETING AND WHY IS IT IMPORTANT?

3/5/2009

16

What is budgeting?

Government budgeting is a continual process whereby a government considers:

- Revenue-raising capacity for the period in looking at what expenses it can budget for.
- Estimating the expenses that should be incurred in the period.
- Estimating the revenues that would need to be raised to cover those costs, as well as any other needs, such as debt retirement.

What is budgeting?

- In summary, a budget forecasts the financial resources required and the government's financing plan.

Why is budgeting important?

- Planning – budgeting is part of the decision making process and is part of strategic and annual planning.
- Risk management – a complete budget can act as an early warning system of future challenges.
- Accountability - the budget is a control function that allows an organization to measure, monitor and assess planned results to actual results. It prompts the stakeholder question: “To what extent, if any, did the organization achieve its intended objectives?”

Budget discussion topics:

- First Nations Government
- What makes up a government and who are the players?
- What is budgeting and why is it important?
- ➔ ● What is the basis for funding?
- What control functions are provided by the budget process?
- What are the best practice features of a good budget system?
- Why are committee reviews of budgets important?
- Does budget information have to be reported?
- In terms of best practices, how does the budget tie to deliverables reporting and cash flows?



WHAT IS THE BASIS FOR FUNDING?

WHAT IS THE BASIS FOR FUNDING?

Government organizations are funded based on expected program delivery. Proposals with budget and planning information are submitted for program funding.

A funding request identifies:

1. Needs
2. Objectives
3. Inputs required
4. Program activities (financial and non-financial)
5. Outputs
6. Outcomes

Budgets help obtain funding:

- Funders look to budget information as a principal means of determining the nature and extent of the public resources entrusted from one level of the government to another level of the government to ensure that they will be administered in accordance with agreements.
- For example, agreements for funding usually specify the purpose of the spending and set some limits either in amount or by way of other conditions.

Budget discussion topics:

- First Nations Government
- What makes up a government and who are the players?
- What is budgeting and why is it important?
- What is the basis for funding?
- ➔ ● What control functions are provided by the budget process?
- What are the best practice features of a good budget system?
- Why are committee reviews of budgets important?
- Does budget information have to be reported?
- In terms of best practices, how does the budget tie to deliverables reporting and cash flows?



WHAT CONTROL FUNCTIONS ARE PROVIDED BY THE BUDGET PROCESS?

Control functions provided by budgeting:

Three control functions provided by budgeting are:

1. Fiscal discipline and control
2. Resource allocation and control
3. Managerial control

What is fiscal discipline and control?

The expenditure control function in budgeting involves restraining expenditures to the limits of available financing and ensuring enacted budgets are executed.

Fiscal discipline questions:

- Is there money for the proposed expenditure?
- Is the proposed expenditure listed in the approved budget?

What is resource allocation and control?

The budget process should work to deliver financing to the programs and projects that are of the greatest current importance to stakeholders.

Resources are not unlimited; therefore, choices need to be made.

Resource allocation question:

- Are resources allocated to the programs that are important to stakeholders?

What is managerial control?

Budgets serve as a tool to increase managerial control of departments and to improve efficiency in operations.

Monitoring budgeted cash flows using deliverables reporting requirements ensures that obligations are met and funding flows for program delivery.

Managerial control question:

- Are we meeting funding requirements?

Budget discussion topics:

- First Nations Government
- What makes up a government and who are the players?
- What is budgeting and why is it important?
- What is the basis for funding?
- What control functions are provided by the budget process?
- ➔ ● What are the best practice features of a good budget system?
- Why are committee reviews of budgets important?
- Does budget information have to be reported?
- In terms of best practices, how does the budget tie to deliverables reporting and cash flows?



WHAT ARE THE BEST PRACTICES FEATURES OF A GOOD BUDGET SYSTEM?

Best practices in budgeting include:

1. Budgeting throughout the year.
2. Integration with the strategic plan.
3. Communication to stakeholders.
4. An annual budget is prepared.
5. The budget committee reviews the budget.
6. Approval is obtained.

1. Budgeting throughout the year:

Budgeting is a series of annually repeated stages and any fiscal year is just one year in a multi-year process because a government has a multi-year vision and strategy.

2. Integration with the strategic plan:

- Governments have a vision, mission and strategy. The budget is part of the strategic plan that helps to answer:
 1. Where are we now?
 2. Where are we going?
 3. How are we going to get there?

3. Communication to stakeholders:

- The budget plan is a medium to long-term planning document and is a summary of overall strategy to achieve the government's goals and objectives.
- It should be communicated to stakeholders.
- The budget plan highlights priorities, new spending initiatives and new funding initiatives for the priority areas.

4. An annual budget is prepared:

The annual budget includes the master budget for the year.

The master-budget for the year is the consolidated budget for each of the governments departments.

Each departmental unit should submit a budget based on its departmental strategic and business plan.

[continued]

4. Annual budget (continued):



A departmental strategic or business plan includes:

1. The purpose of the department
2. The departmental contribution to the government strategic plan
3. Budgeted requirements for the short, medium and long-term

5. The budget committee reviews the budget:

- The purpose of the budget committee is to oversee the allocation of competing uses of the government's limited resources and to ensure that they are used efficiently and that allocations are within the scope of the government's strategic plan.
- The budget committee should review the expected revenues and expenses of the departmental budgets to ensure that the budget is realistic and reflects the most efficient use of resources.

6. Approval is obtained:



Control over finances is essential to responsible government.

While it is the sole prerogative of the government to propose plans for spending and financing of government activities, all costs, spending, revenue raising, investing and borrowing must be sanctioned.

Budget discussion topics:

- First Nations Government
- What makes up a government and who are the players?
- What is budgeting and why is it important?
- What is the basis for our funding?
- What control functions are provided by the budget process?
- What are the best practice features of a good budget system?
- ● Why are committee reviews of budgets important?
- Does budget information have to be reported?
- In terms of best practices, how does the budget tie to deliverables reporting and cash flows?



WHY ARE COMMITTEE REVIEWS OF BUDGETS IMPORTANT?

Importance of committees review:

A committee is responsible for reviewing government expenditures and for holding the government to account for its performance.

Reviewing the budget is good policy

Reviewing the budget provides departments and administrators with valuable feedback that will help them improve economy, efficiency and effectiveness.

Reviewing the budget can improve the quality of information provided to stakeholders. Committees can make a difference.

Budget discussion topics:

- First Nations Government
- What makes up a government and who are the players?
- What is budgeting and why is it important?
- What is the basis for our funding?
- What control functions are provided by the budget process?
- What are the best practice features of a good budget system?
- Why are committee reviews of budgets important?
- ● Does budget information have to be reported?
- In terms of best practices, how does the budget tie to deliverables reporting and cash flows?



DOES BUDGET INFORMATION HAVE TO BE REPORTED?

Does budget information have to be reported?

- A Study Group Report was authorized by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The opinion of that study group was that First Nations are Government . As a result, First Nations must follow the GAAP that all governments must use effective January 1, 2009.
- This means that the Common Government Reporting Model must be followed.
- Budget information should be reported in the financial statements.

What does INAC say?

- INAC is of the opinion that budget information should be reported.

What does the Government of Canada do?

- The Government of Canada reports budget information.

Conclusion:

- First Nations Government should report budget information.

Where is budget information to be reported?

Budget information is to be reported as part of the annual financial statements.

The requirement is that two comparisons of actual and budgeted results are to be reported in:

- 1) The statement of operations
- 2) The statement of change in net debt

Budget reporting in these areas will provide the key accountability information integral to evaluating the government's performance in achieving its operational and spending plans.

How is budget information used?

- Users need information that helps them assess the government's results in the management of its resources and financial affairs.
- Financial information that makes it possible to identify variances, to compute trends and to analyze operations is useful in fulfilling this need.

[continued]

How is budget information used?

- A comparison of the actual results with those originally forecast by the budget plan and with those of prior periods is necessary to identify significant variances.

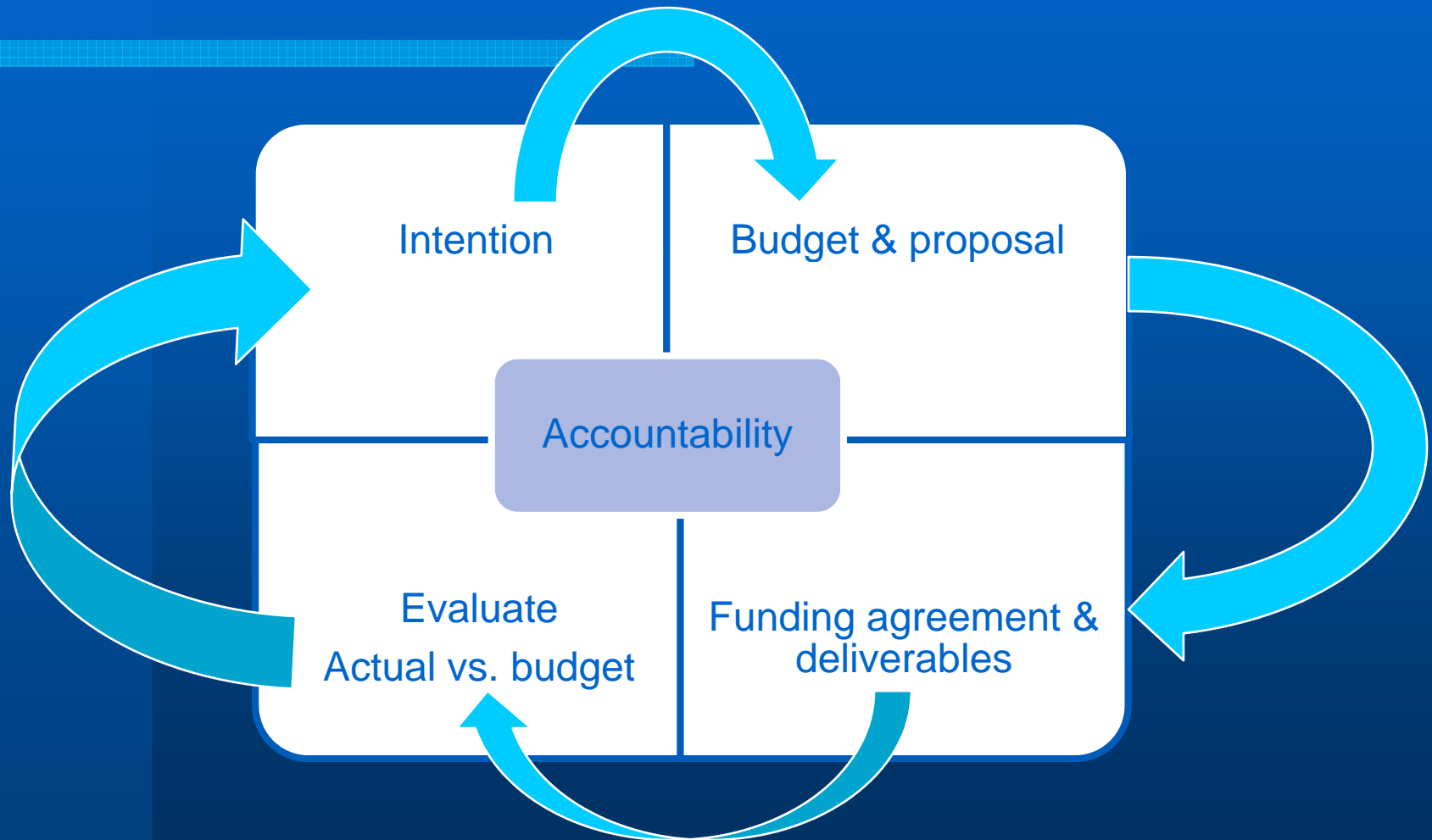
Budget discussion topics:

- First Nations Government
- What makes up a government and who are the players?
- What is budgeting and why is it important?
- What is the basis for our funding?
- What control functions are provided by the budget process?
- What are the best practice features of a good budget system?
- Why are committee reviews of budgets important?
- Does budget information have to be reported?
- ➔ ● In terms of best practices, how does the budget tie to deliverables reporting and cash flows?



**IN TERMS OF BEST PRACTICES,
HOW DOES THE BUDGET TIE TO
DELIVERABLES REPORTING AND
CASH FLOWS?**

How it all fits together:



Budget Committee

- Organize budget committee.

Prepare annual budget

- Prepare departmental budgets
- Work with stakeholders for funding
- Budget committee reviews budget
- Approved by Chief and Council

Obtain funding and agreements

- Place all funding agreements in binder
- Identify and flag deliverables requirements

Time line

- List all deliverables requirements for all departments and programs by date in excel spreadsheet.

Expected cash flows

- Plot expected organizational cash flows based on deliverable funding date in 30-60-90 day format.

Communication

- Print listing of which department has what requirements...when!
- Distribute listings

Managerial control

- Department heads to report to CEO & CFO on progress
- CEO & CFO are to inquire with departments as to progress.
- Status report produced every 30-60-90 days as appropriate.
- Actual vs. budget is analyzed.

Budget Committee

- Budget Committee to obtain status report and review.
- Actual vs. budget is analyzed.

Summary:

- First Nations are Government.
- Performance is reported to stakeholders by communication of financial and non-financial information. The objective is to explain in a clear and concise manner the extent to which intended goals and objectives were achieved and at what cost.
- Budgeting is part of the decision making process and is part of strategic and annual planning.

Summary:

- A complete budget can act as an early warning system of future challenges.
- The budget is a control function that allows an organization to measure, monitor and assess planned results to actual results
- Government organizations are funded based on expected program delivery. Proposals with budget and planning information are submitted for program funding.

Summary:

- Three control functions are provided by budgeting:
 1. Fiscal discipline and control
 2. Resource allocation and control
 3. Managerial control

Summary:

- Best practices in budgeting include:
 1. Budgeting is a year round process.
 2. Integrated with the strategic plan.
 3. Communicated to stakeholders.
 4. Annual budget is prepared.
 5. Budget committee reviews budget.
 6. Approval.

Sources used:

This presentation has been compiled based on:

1. Certified General Accountants - Public Sector Financial Management Professional Applications Materials
-
2. Canadian Institute of Chartered Accountants – Public Sector Accounting Handbook