



NOTES ON ANALYZING AN AGENCY BUDGET

Suggested Outline of Methods and Procedures for the Assistance of Budget Committees.

The Board of Directors of the Chest should supply copies of the standard budget form * which they have decided upon, so that information submitted by the agencies will be uniform. This form will include columns for the previous year's figures, allocations for current year and agency's estimates for next year.

Assuming that the agency has previously received this Budget and Finance Form and has filled it in carefully and presented it to the Board of Directors of the Community Chest, the following steps are usual:

(1) Budget should be carefully reviewed by the Executive Director of the Chest, or assisting member of the Chest staff who serves as secretary to the Budget Committee. In consultation with the Chest accountant, the monthly financial statements of the agency should be reviewed and general familiarity with the financial operations of the agency developed. Careful study of any unique features in the agency's accounting should be made. Service reports should also be studied and a general memorandum prepared for use of the Budget Committee.

(2) From the Chest executive or budget secretary, as above outlined, agency budgets should go to the Budget Committee, each of whom should be familiar with the Agency Agreement. The principal points of this Agreement are:

- (a) Acceptance of apportionment of funds made to it by Budget Committee;

* Forms come in two set-ups, one in booklet form, and the other a long-sheet form. Some Chests and agencies prefer the former as being more compact and easily handled. Others prefer the long, less detailed sheet, because of the convenience with which it may be used in a typewriter. Both forms are available from the CANADIAN WELFARE COUNCIL, 245 Cooper Street, Ottawa.

- (b) To carry on no fund-raising activity without approval of Chest Board of Directors, and then only by methods approved;
- (c) To maintain responsible Board of Directors which meets at regular intervals and has actual direction of work of agency;
- (d) To maintain active membership in Council of Social Agencies;
- (e) To co-operate with other agencies to prevent duplication of effort and promote efficiency and economy;
- (f) To use the Social Service Index;
- (g) To keep regular books of account, have its books audited annually by chartered accountant, submit monthly financial and service reports;
- (h) Abide by regulations concerning budget adjustments, reserves, surpluses, and deficits.

(3) When the Chest Budget Committee decides the day and hour when a particular agency's budget is to be studied, a formal letter is sent by the Chest office to the agency, inviting them to send two or three representatives to join in discussion of their budget. Each agency should be heard separately.

It is important that ample time be allowed for these conferences, so that there may be opportunity for thorough, unhurried discussion, not only of the agency's needs, but the community's needs and the relation one to the other. A dignified but friendly atmosphere should pervade these budget reviews, and it may be necessary to have more than one conference with a particular agency. The main issues of the budget should be settled around the conference table, though final decision is made by the Budget Committee in private.

(4) When the Budget Committee has completed its review of all budgets, a letter should be forwarded to each agency informing them regarding the decision of the Budget Committee, and asking them to accept the allotment suggested. If they make strenuous objections to the allotment, a further hearing should be granted. If by a certain date, no complaints have been received, the Chairman of the Budget Committee should then report to the Board of Directors of the Chest. It is fundamental that the Budget Committee should enjoy the complete confidence of the Chest Board and that the latter body should uphold the reports and recommendations of the Budget Committee.

The Campaign objective is the total of the budgets as recommended by the Budget Committee, plus the budget for the Chest itself and the Campaign, plus an allowance for emergencies that may arise during the year, and an allowance for uncollectable pledges. In some cities, the year-round administration costs of the Community Chests and of the Campaign are also scrutinized by the Budget Committee, but, as a rule, the Board of Directors of the Chest and the Campaign Committee set the budget for these two services.

REQUEST FOR FUNDS

The budget of an agency is a request for funds. But it is more than that. Together with the explanatory comments upon it and the accompanying reports of service rendered, the Budget Committee has before it, not only a statement of the financial condition of the agency, but a general picture of its service to the community. For instance, the quality of social work being done by an agency may be reflected by too great volume in its work. Then again, practically no change in its service figures (attendance, day's care, etc.) may indicate that service is being restricted to too few clients, or that there is stagnation and lack of response to need.

Visits to Agencies A splendid way of developing better understanding of agency programmes is by visits of budget groups to agency premises, upon invitation. This is particularly true where repairs to building or furniture are under question.

Details Needed For every dollar requested, there should be a clear-cut, written statement forthcoming from the agency, proving what that dollar is going to buy in terms of service. For instance, it will not be satisfactory at the budget meeting in answer to the question, "Why do you need \$350 for postage?" for the agency representatives to say, "Well, we do have a lot of mail". Exact details are needed to support every item. Service to be rendered should be matched up with dollars to be spent. For instance, a child caring agency should be able to state how many children it plans to care for, and the cost per child per day or per year, and many other details. The unit cost for all of the character-building agencies should be simple.

Blank spaces are left in the budget form for the insertion of items not otherwise provided for.

Hospitals, which probably present the most intricate budgetting problems of all the groups in a Chest, and, occasionally, other highly complicated agencies, may submit an additional detailed budget of some functional department where it is desirable such details should be submitted. This would be in addition to the standard form required of all agencies.

Studying Budgets by Types of Service If there are a sufficient number of budgets to be studied, as in the larger cities, the Budget Committee may be divided into groups by types of service, for instance, one group would study all health agencies, another group review all of the family welfare and child care agencies; another group study all of the recreation and character-building agencies, etc.

Sometimes a group of agencies assigned to a particular budget group may be made up in a slightly different manner.

For instance, agencies presenting common institutional or building problems, although not necessarily all in the field of child welfare, health, etc., may be grouped together for budget study. Again, a logical arrangement may be to place case-working agencies in one group, even though that may include different fields, such as family welfare, child care and hospital social service.

If this group plan is adopted, it is usual practice to arrange the assignment of agencies to the different budget groups, so that no member of the Budget Committee is a Board member of the agencies whose budgets are to be studied in detail by that group.

While there might be exceptions to this rule in particular circumstances, ² it should be remembered that the budget groups hold most of their meetings in conference with agency representatives who are usually fully competent to represent the agency's point of view.

The study of agency budgets by the group plan has a great deal in its favour from the educational point of view, in that members of the Budget Committee connected with various boards gain a broad knowledge of the needs of the community, as represented by other agencies than those with which they personally are connected.

However, the Budget Committee is chosen, there is tremendous value in having agency board members actively participating in its work, which is, primarily, an impartial, intensive review of the community's social services.

The Chairmen of all budget sub-committees report to the whole Budget Committee upon completion of their work.

² An instance might be where one person is a member of more than one Board and where it is found to be difficult to arrange the assignment of agencies to meet this rule.

Social Planning Whether the whole Budget Committee studies all of the budgets, or special groups study selected budgets, knowledge of the total community social work programme should be available. Thoughtful review and conference with the agency representatives should reveal undeveloped, under-developed, or over-developed aspects of the total community programme. Further consultation and reference from the Chest Budget Committee to the Council of Social Agencies can frequently bring about balance or emphasis where most needed.

It is very important that throughout service figures be studied alongside the corresponding items on the budget to make sure that service, commensurate with the funds expended, is resulting. Analysis, insight necessary to intelligent social planning, and administrative control can and should result from these co-operative service and budget studies.

Year-Round Work Year-round work by the Budget Committee is valuable and advisable. Especially in times of crises is it well that there be this continuing work.

OPERATION ONLY

- To continue the definition -

The budget of an agency is a request for funds for maintenance only usually for a twelve-month period. It is wise to have all agencies end their fiscal year at the same time, even if in the first year of the campaign this means a budget for fifteen months.

The amount requested from the Chest is the amount needed to balance the agency budget.

After final approval, it is the administrative device through which contact is maintained with the agency's financial operations during the ensuing year.

It is of the greatest importance that the agency should estimate each item of the year's need with utmost care. It is well to

call to its assistance a good auditor so that the final result shall anticipate every necessary expense, bearing in mind that an increase of income will result either in a decreased appropriation from the Chest or a bank balance. More serious would be a net increase in expenditure which would result in a deficit.

The general policy of Chests is not to take responsibility at the end of the fiscal year for unpaid bills or other obligations on which it has not been consulted. If conditions are changing rapidly, as under the strain of depression or war, it is most advisable that the Budget Committee of the Chest, in collaboration with the agency, try to foresee and plan for any unavoidable deficits, balancing them if possible by surpluses in the budgets of other agencies.

If an agency borrows funds without authority from the Budget Committee, interest on such unauthorized loans is not allowed. One reason for this seeming rigidity is that all funds have been appropriated by the Chest and anything but a very conservative policy on their part would be extremely dangerous.

If the monthly needs of the agency have been carefully estimated, there is little probability of there being any large cash balance at the end of the year, but, if so, it is generally accepted that this automatically reverts back to the general fund of the Chest for redistribution in connection with the following year's budgets.

TRANSFER OF FUNDS

Most Community Chests have a policy whereby funds, allocated to one department, cannot be transferred to another department. For instance, if there were a surplus in Item 49 (Printing and Stationery) it could not be transferred to Item 45 (Wages), except upon consultation with the Chest.

EMERGENCIES

During the year, it may be necessary, due to emergencies, for the Chest and the agency to confer upon the method of meeting some emergency. This is always possible, and when reserves are available, additional appropriations may be authorized by the Chest.

Every Community Chest should try to build up a Contingency Fund to meet the emergencies which almost inevitably arise even during the course of a normal year. Over-subscription to the campaign or savings in the agency budgets during the year are the sources from which such a reserve is built up.

After an agency has had one or two occasions to appeal to the Budget Committee for a supplementary grant, and has received it, they can usually see the good reasons for turning into the Emergency Fund any savings it has been able to make at the end of the year.

THE BUDGET

While most items appearing on the Budget and Finance Form are self-explanatory, a short explanation on others may be useful.

Have a good auditor prepare a balance sheet showing all accounts receivable and accounts payable.

Individual items making up each account are distributed under the appropriate headings of the Budget Form. Agencies should furnish Budget Committee with a clear statement regarding any increases requested and explanations of decreased needs where these are pronounced.

Balance or Deficit shown in budget recapitulations must, of course, correspond to balance or deficit of the balance sheet of resources and liabilities.

IF THE CHEST CAMPAIGN FAILS

If the Chest Campaign does not reach its objective and is unable to confirm its proposed allocation to the agencies, the budgets of all agencies should be re-examined. Estimates should be revised in the light of the funds available. Straight percentage cuts, based either on the initial Chest allocation or on the total budget, have been found by established Chests over many years to be unsound.

Revision in budgets should be discussed with the agency before final budget committee decision is made. Proposed revision should be formally reported to the agency after the budget committee decision has been taken. While agencies, as in the original procedure, have the right of appeal to the Chest Board of Directors, only in the rarest instance, would this be necessary. Usually, if any real issue arises, the Budget Committee would bring it at once to the attention of the Board.

R E C E I P T S

<u>Income from Investments</u>	Interest on any bank account or interest, dividends or other income from capital funds as well as real estate, should be applied to current operation. There are variations of this policy but they are too detailed to be dealt with here.
Items 1 - 5	
<u>Public Grants</u>	Various member agencies of a Chest enjoy public grants. These come from the Dominion the province, county, municipality, etc.
Items 6 - 10	

It is the responsibility of the Budget Committee, in collaboration with the agency representatives, to examine the figures, to consider the adequacy of the grants in comparison with costs, their basis (lump sum or per diem) and any other aspects peculiar to the local situation.

<u>Public Grants</u> Items 6 - 10 (Continued)	The result of the conference on this part of the budget should be a clear understanding of the division of responsibility, both administrative and financial, between public and private agencies.
<u>Donations</u> Items 11 - 18	<p>The presumption and general practice is that any gift of substantial proportions made directly to an agency should be put into the Capital Account. These gifts are most often designated. Occasionally, there are gifts toward specific operating expenses, such as the payment of a nurse's salary, etc. Budget form provides a place for these gifts.</p> <p>Smaller undesigned gifts are usually credited to the operating account.</p>
<u>Income by Localities</u> Item 12	When the agency serves an area larger than the Chest area, say, an agency serving a county with membership in a Chest, serving one city within that county, in making up the budget, care should be taken properly to interpret the local situation and local income and expenditures should be carefully segregated so that there is no question about which are those for the Chest area.
<u>Gifts in Kind</u> Item 15	These are shoes, clothing, food, etc. given directly to the agency. Their value should be carefully estimated at current market prices, and be entered on budget in appropriate places.
<u>Operating Income</u> Items 19 - 37	Self-explanatory. Item No. 26 - See "Income by Localities" above.
<u>Other Income</u> Items 38 - 43	"Loans from Outside Sources" are usually personal loans from friends of the agency to tide over an emergency. Repayments are presumed within the fiscal year and would appear under Item 70.

Transitory Items These are items which pass through the agency's books as both income and expenditure. An example of this would be 50¢ dues paid by members of an organization, the whole amount of which is automatically transmitted to agency's national office. The corresponding amount should appear under the same heading of Disbursements, Item No. 105.

Item 41

D I S B U R S E M E N T S

The ideal toward which to work is the segregation of expenditures chargeable to Administration and those chargeable to Service. The budget and finance form provides classifications under which the different type agencies will find items pertinent to their work.

Salaries and Wages

Items 44 - 47

Some agencies have well-worked-out scales for different positions, with automatic increases which are recognized and accepted by the Chest. Others have no policy whatever, either in regard to basic standard or to increases. It is good practice for the Chest to receive from the agency the detailed salary schedule proposed for all employed personnel, and review or revise request for expansion or readjustment of personnel in the light of the Chest's financial situation and the community need for service. There is a definite relation between satisfactory personnel and efficient service. While the general questions of salary and wage rates should be regarded as a matter of joint agency-Chest concern, the total salary item shown on an agency budget should be approved or disapproved by the Chest, subject to agreements on salary rates approved for different types of positions, leaving it to the agency to make whatever adjustments in staff or individual salaries this may necessitate.

Service and
Supplies

Items 48 - 56

Routine items on any budget. Note, however, that publicity expenditures are provided for under Items 77 to 80. They should not be included here under Item 49.

General Ad-
ministrative

Items 57 - 60

The policy of Chests varies with regard to national dues paid by local agencies to the National Association of which they are members. As the basis of the dues also varies, any brief statement of policy is difficult. The Chest, however, should know exactly what amounts are proposed to be paid to agencies national headquarters.

Fixed Charges

Items 61 - 67

These are standard items applicable to practically all types of agencies.

A careful review should be made of all insurance carried by an agency, together with premiums to be paid.

This is also true of taxes for which agency is liable.

Loan Repay-
ments

Items 68 - 72

The most common rules adopted by Chests regarding loans are as follows:

Interest on loans made subsequent to the agency's participation in the Chest, cannot be included in the operating budget, regardless of whether they were made for capital or operating purposes, unless such loans have been arranged in exceptional circumstances with the full approval of the Chest Budget Committee.

Loans made to cover an operating deficit should not be included in the estimated expenditure for the ensuing year. Operating deficits should be foreseen by the agency and by the Budget Committee and be dealt with either by a supplementary grant to balance the budget or by special economies to reduce expenditures.

Loan Repayments

Items 68 - 72

(Continued)

The retirement of loans, even though made before the organization of the Chest, with the interest allowed in the Chest budget, cannot be made from operating balances but must be subject to policies worked out in each individual case.

The important point in this whole matter is that the Budget Committee should go into the circumstances fully with the agency, and, together they should decide what is best to do. There have been instances where Budget Committees have felt that, for instance, if certain building renovations were made, income would gradually build up to make the expenditure worthwhile, and have authorized a loan to finance these income-producing renovations.

Repairs and Replacements

Items 73 - 76

A "Reserve for Depreciation" fund out of operating funds is not admissible in social agency bookkeeping. Instead, specific expenditures for repair should be included as necessary, and most Chests reserve the right to set up general policies governing the type of expenditures that may appropriately be included as repairs or new equipment and those which might be met from capital funds. The general practice is to provide for the financing of replacement of buildings and other expansion items by a capital fund campaign.

Publicity and Educational

Items 77 - 80

Segregation of publicity cost is highly desirable from an administrative point of view. Only in this way can the accurate cost of this part of an agency programme be known.

Institutional Supplies and Expense

Items 81 - 87

In Children's Institutes, homes for aged, etc., the items are valuable for cost studies, providing the bases for determining cost per day or per year per individual.

<u>Material Relief</u>	Applicable primarily to case-working agencies and agencies giving relief to homeless and transient persons.
Items 88 - 98	
<u>Medical Supplies and Relief</u>	Items are applicable chiefly to health agencies, and are self-explanatory. Professional fees cover payments to doctors, dentists, nurses, etc., on other than a salary basis.
Items 99 - 104	
<u>Other Supplies and Expenses</u>	Plainly intended for use of character-building agencies. When Item 109 is compared with Item 33, for instance, a basis corresponding, for establishing profit or loss is established.
Items 105 - 114	

C A P I T A L A C C O U N T S

While the practice in regard to capital transactions is widely various, general policy is about as follows:

Authorization must be obtained from the Chest before any financial campaign is undertaken for capital purposes, such as the purchase or construction of a new building. Time and method of the campaign must be approved.

If the result of the campaign will be an expanded operating programme with attendant increased operating cost, approval is, of course, necessary from the Chest.

MONTHLY FINANCIAL AND SERVICE REPORTS

Community Chest agencies agree to furnish monthly statements showing all income and expenditures, and also monthly reports of service rendered, and its estimate of needs for the coming month.

After the fiscal year begins, the Chest makes monthly payments to its agencies. This monthly allocation is not the automatic payment of one-twelfth of the total Chest allocation to the

agency. It is determined from the monthly financial statement submitted by the agency to the Chest.

The practice of giving the agencies only enough to balance their expenditures monthly conserves the maximum funds in the Community Chest bank accounts on which interest accrues during the year. If the whole allocation were appropriated to the agencies, it would probably go into their current account and that income would be lost. This accruing interest is another method by which a Chest builds up an Emergency Fund.

ISSUED BY THE CANADIAN WELFARE COUNCIL,
245 COOPER STREET, OTTAWA

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