

LINKING BUDGET DEVELOPMENT TO PLANNING

2-D



Job Performance
Situation 2:
Program Systems and
Supporting Fiscal
Management

Head Start
MOVING AHEAD
Competency-Based Training Program



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REFERENCE

This activity develops knowledge and skill competencies in identifying and implementing critical planning tasks for Head Start program budget development, utilizing standard program planning information to establish cost objectives, and engaging staff in budget development and monitoring.

Related skill activities include 2-C, Understanding and Applying Basic Cost Principles.

Sources: Financial Planning for Non-Profit Organizations. Jody Blazek. Wiley Non-Profit Series; John Wiley & Sons, Inc.; New York, NY; 1996.
The Basics of Budgeting. Terry Dickey; Crisp Publications; Menlo Park, California; 1992.

Linking Budget Development to Program Planning

Outcomes. Participants who complete this activity will be able to:

- Establish a team approach to budget planning and development
- Identify and implement critical planning tasks for budget development
- Use standard program planning information to establish cost objectives
- Select the appropriate budget type to meet program needs
- Engage staff in budget monitoring and cost containment

Materials. Newsprint and markers. The following materials are used as guidance references:

- 45 CFR Part 1301, Head Start Grants Administration
- 45 CFR Part 92, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments
- 45 CFR Part 74, Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial; and Certain Grants and Agreements with States, Local Governments and Indian Tribal Governments.
- OMB Circular A-21, Cost Principles for Educational Institutions
- OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments
- OMB Circular A-122, Cost Principles for Nonprofit Organizations
- OMB Circular 133, Audits of States, Local Governments, and Nonprofit Organizations
- ACF Discretionary Grants Administration Manual

Components.

This activity can be done by one person, an informal group, or as part of a formal workshop. Suggested time limits are provided below, but participants and facilitators may wish to adjust these to their own timetables.

Step 1. Worksheet: Reflecting on Budget Practices	30 minutes
Step 2. Background Reading: Budget Planning and Development	15 minutes
Step 3. Worksheet/Discussion: More Reflections on Budget Practices	20 minutes
Step 4. Background Reading: Budget Development Steps	30 minutes
Step 5. Exercise: Linking Identified Needs with Budget Development	30 minutes
Step 6. Background Reading: Budget Implementation and Reporting	20 minutes
Step 7. Exercise: Budget Management and Reporting	30 minutes
Step 8. Guidance Session: Collaborative Budget Planning	60 minutes
Step 9. Summary	10 minutes
Suggested Total Time	4 hours, 5 minutes

This activity contains 45 pages.



STEP 1. WORKSHEET: REFLECTING ON BUDGET PRACTICES

Suggested time: 30 min.

Purpose: To allow participants to reflect on their practices and experiences in developing the Head Start budget.

Part I (15 min.) Individually complete this worksheet.

Getting Started (Federal staff substitute words in parentheses)

Think about the process you use to develop (**or approve**) a Head Start budget. Do you approach the task alone or with a group of staff? Think about when you begin the budgeting (**review**) process in relation to the due date. How is the space arranged so that necessary information, supplies, and materials are handy? Approximately how many days/weeks are you engaged in developing (**reviewing/approving**) an annual budget?

Information Needed

Make a list of the information you (**Head Start Program**) need to have available for the budget. What do you consider the most important information for the foundation of your (**the program's**) annual budget?

Understanding Activity-Based and Zero-Based Budgeting

What is your (**your assigned program's**) experience with activity-based or zero-based budgeting? What are the obstacles to using this method of budgeting? What are the advantages?

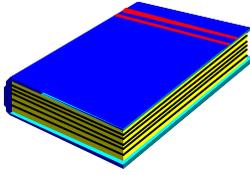
The Evolution of Your Budgeting Process

How did you learn the budgeting process? Who taught you to develop (**review or approve**) your first Head Start budget? What method did he or she use to develop (**check/approve**) the budget? What new techniques have you adopted? What original techniques do you still find useful?

Linking Program Planning and Budgeting

What is the relationship between the community assessment, program goals, and the annual Head Start budget? How do you determine that the budget you develop (**approve**) is a reflection of, and adequate to meet, identified program priorities?

Part II (15 min.) If you are working in a group, discuss your answers, why you gave them, and any points of difference.



STEP 2. BACKGROUND READING: BUDGET PLANNING AND DEVELOPMENT

Suggested time: 30 min.

Study the following reading. Feel free to highlight sections or write comments in the margin throughout these activities.

Introduction

Effective financial management entails building a strong foundation for the present and future operation of Head Start programs. A well-developed and thought-out program plan and supporting budget provide such a foundation. Good financial planning and budget development make management of program resources less fractured and more focused. Building a solid financial foundation ensures that program activities and services are appropriately funded for successful implementation.

Each year Head Start directors and financial officers are challenged by the task of budget development and submission. Many factors must be considered in putting together a budget that reflects the vision, goals, and objectives of each Head Start program and provides sufficient resources to support short- and long-term operation of program systems. Therefore, the major challenge is determining how dollars will be allocated to specific program activities, based on the level of funding commitment. Such a challenge can be met only through careful budget planning and development.

Definition of a Budget

*“A budget is the numerical expression of an organization’s dreams that serves as a guide or measure of acceptable financial performance.”
(Financial Planning for Non-Profit Organizations)*

For Head Start programs, the budget is the financial framework within which the vision and mission of the program are defined. The success of the budget development process determines whether the vision will become reality and the mission will be achieved. Whether for a new grant application or a continuation grant, the budget will define what the program will actually be able to achieve. The lack of a connection between financial resources and desired results is a major reason that budgets often fail to reflect and support a program’s vision for service

delivery. The budget should be a dollars-and-cents expression of a detailed, strategic plan for how (and to what degree) Head Start programs will serve the needs of the children in their communities. The budget is not the plan itself, but a financial blueprint for carrying out the plan.

The Budget Development Process

Every year, each Head Start program goes about the task of determining the resources that will be needed to provide program services in a manner equal to, or better than, the year before. This process always entails examining the amount of resources expended in the preceding year and weighing that against the quantity and quality of services the program was able to provide. The major concern is usually whether or not the funds supported what the program sought to accomplish, and if not, why not? The answer to this question is a reflection of how well the program defined its needs during budget development.

Developing a budget is just one aspect of a broad-based strategic planning process that is designed to allocate resources on the basis of identified program goals. The strategic plan outlines the program's vision of the future in terms of community needs, internal strengths and weaknesses, priority goals and activities, and desired quantity and quality of services. The budget is then developed to support the plan. An effectively developed budget will:

- Incorporate a long-term view of the program beyond the 1-year funding period, in anticipation of changing community dynamics
- Support program goals and activities, reflecting the direction of adequate resources toward priority program areas
- Ensure that the program can realistically accomplish its goals and maintain financial stability
- Incorporate the input of those critical to the process (e.g., staff, stakeholders, and customers)

Long-term strategic planning allows for budget development to become more than a mechanism for balancing revenues and expenditures on a yearly basis. A plan-supported budget is based on realistic data of changes within the community. This budget becomes a living document that facilitates the maximum use of resources, is continually updated, and provides a positive framework for working toward the program's long-range vision.

Budget development for Head Start programs must take into account a number of factors:

- **Proper weighing and balancing of program priorities to ensure that resources are allocated in a manner that supports maximum program impact.** Budgets should be developed to support those program activities that are most critical to service delivery, and avoid deficits in areas that could have the most impact on the program's operations and effectiveness. For example, if the community assessment and self-assessment show gaps in services (e.g., medical or dental health for a group of enrolled children that are new immigrants), it could be necessary to adjust customary budgeted costs to secure the needed services for this population.
- **Allowance of sufficient time for budget planning prior to annual grant application and refunding periods.** Target dates and activities must be properly timed to collect information and data on expenditures, determine future program goals, develop program plans, and conduct cost analysis of critical program activities. Accurate budget planning requires time for giving thought and consideration to all aspects of Head Start program operations, as well as the cost of implementation to produce the quantity and quality of service desired.
- **Consideration of the program's evolution over time and the need to reconsider cost objectives and modify the budget.** As changes occur within the community, the depth and scope of Head Start services will need to keep pace. Unanticipated and unplanned-for changes may occur after the budget has been developed and operationalized. Therefore, it is beneficial to the program and the community to establish timelines and procedures for reviewing and making necessary changes to budgets at predetermined intervals, or as changes dictate.
- **Selection of the budget system that most effectively meets the needs of the program.** Although most Head Start programs use an incremental budgeting process, consideration should be given to zero-based or activity-based budgeting systems as well. Whereas incremental budgeting automatically increases or decreases funding to existing program activities, zero-based and activity-based budgeting require evaluation of all activities to determine their worth to the program in terms of cost and the program's future direction. The evolution of the program and the community may warrant a closer examination of program activities to determine their suitability in meeting the program's objectives. (Note: Budget types are discussed in more detail in next background reading.)

- **Use of appropriate information to determine future resource needs, as opposed to making “good guesses.”** Community assessments, previous budget expenditures, and staff input provide an informational base for decisions on program resource requirements. Simple incremental budget changes that are not supported by current and accurate information may lead to the creation of insufficient budgets.
- **Assignment, early on, of accountability and responsibility for the planning, development, monitoring, and review of program budgets is critical to the development process.** The fiscal manager and program director are not solely responsible for planning and developing budgets. Community stakeholders, parents, and program staff must also have some level of accountability for providing valuable input regarding program objectives and associated costs.

Each of the above considerations must be taken into account before, during, and after the budget development process for Head Start programs. Detailed attention must be paid to every aspect of preparing the Standard Form 424A.



STEP 3. WORKSHEET/DISCUSSION: MORE REFLECTION ON BUDGET CHANGES

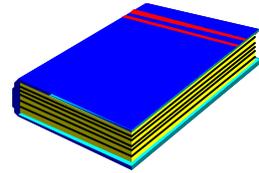
Suggested time: 20 min.

Purpose: Participants will continue reflecting on their current budget practices based on the previous background reading. The worksheet is to be completed individually or used as a discussion guide with a colleague or small learning group.

Please answer and discuss the following questions:

1. After it has been developed and approved, how often is your budget referred to for program implementation?
2. How much future planning takes place in the development of the budget (e.g., forecasting of future needs)? What is the process used for future budget planning?
3. Does your program establish cost objectives for program activities (e.g., determining spending requirements for successful implementation of program activities)? If so, how?
4. What is the level of involvement of your governing body and Policy Council in the development of the budget?

STEP 4. BACKGROUND READING: BUDGET DEVELOPMENT STEPS



Suggested time: 30 min.

Study the following reading. Feel free to highlight sections or write comments in the margin throughout these activities.

The following is a list of action steps for budget planning with suggestions for formulating decisions, collecting information, soliciting input, identifying costs, and assigning responsibilities. These steps follow the Budget Planning Worksheet in Step 8A.

BUDGET DEVELOPMENT STEPS

Action Step One: Establish Budget Planning and Development Team

The planning and preparation of the budget will require the input of staff and others directly related to, and outside of, the program who have a vested interest in, or who benefit from, the services provided. Therefore, the first step in the planning process is to establish a team to set the parameters for how the budget will be developed and provide input into the information base that will support proposed costs. Although individual programs should determine the composition of the team, it is suggested that, at a minimum, it be composed of the following:

- Program director
- Fiscal officer
- Program managers
- Selected staff members
- Representatives of the Policy Council
- Representatives of the governing body, school board, or Tribal Council
- A parent representative

The collective and individual roles and responsibilities of the team should be clearly determined. It must be specified whether team members will be responsible for providing input, collecting data, or conducting cost analyses. Responsibility for final approval of the budget (e.g., the program director or the team through consensus) must also be specified.

The role of the program's governing body and Policy Council is critical to effective budgeting. Responsibilities of these groups include ensuring that

the program's budget development and spending practices are within Federal and organizational policies and procedures. The governing body (also sometimes known as the Board of Directors, Tribal Council, School Board, or Board of Commissioners) and the Policy Council have the "big picture" of the program, including its strengths, areas needing improvement, and other special needs. Both groups offer perspectives of the program that are invaluable and essential to determining how funds will be allocated and spent. It is critical that representatives of both groups be a part of a budget development team.

The team approach to budget planning and development generates dialogue between fiscal and program staff and enhances the knowledge of the program's governing body, thus facilitating a deeper level of commitment to the financial objectives of the program. Each team member brings to the process a particular perspective that can help produce a budget that reflects the realities the program must address. For example, the program director and managers will have a broader view of program operations, while staff will be more familiar with the day-to-day realities of program operations. In addition, Policy Council and parent representatives will be able to provide valuable insight into how program services are received within the community and where increases or decreases in delivery of specific services may be needed.

Although a team approach to budget planning and development has its advantages, there are cautions as well. It is important that team members be given a thorough orientation as to what will be involved in the budget process. This orientation should also include a discussion of expectations of how decisions will be made on program activities, cost objectives, and final budget approval. Team members should be adequately prepared in advance and told exactly what they will be expected to contribute to the process. Orientation could also include an overview of the previous year's budget against actual expenditures, as well as a review of deficits, over-runs and under-runs by activity or line item. Such a review will provide a basis for determining needed changes to next year's budget.

Action Step Two: Define Budget Development Process

Once the team has been established, it is critical that attention be given to the sequence of tasks and activities that will make up the budget planning and development process. Everyone needs to understand and agree with how the budget will be developed, and what specifically will need to be done. Lack of clarity regarding specific tasks, roles, and responsibilities will slow the process and possibly cause team members to work at cross-purposes.

Effective budget planning entails examining past performance and determining the future direction of the program, in both programmatic and cost terms. Defining the budget development process allows those responsible to identify and structure the questions that will need to be answered. The following are examples of the types of questions that will shape the dialogue about, and development of, the Head Start budget:

- How will the program's *vision, goals, and objectives* be defined?
- How will *information concerning the previous years' performance*, both programmatic and cost, be reviewed and incorporated into the process?
- What *factors of the external environment* (e.g., community, funding sources, changes in the early childhood development field, etc.) will need to be considered in the development of future cost objectives?
- What *factors of the program's internal resources and capabilities* (e.g., current staff qualifications, use of physical space, condition of vehicles and equipment, etc.) will need to also be considered?
- How will the *program's priority areas* (e.g., expansion issues; staff development; priorities emerging from local, state, or federal mandates; etc.) be identified and factored in?

The budget development team will have the task of generating responses to these and other questions as they go about planning how the budget will take shape. It is at this point that the development of the budget is linked to the program's overall planning process. Critical aspects of the program's past and present performance and resources must be considered in the planning of the program's future. What the program wants to accomplish and the projected costs of succeeding in these goals are inescapably linked. Program planning cannot take place without consideration of costs; neither can budgets be developed without a clear picture of program vision, goals, needs, and priorities.

A major resource in producing a clear program picture is the Policy Council. The Council's insight into how the program has evolved over time and the external factors within the community that will impact future program directors is extremely beneficial to budget development. Policy Council members must be included in any dialogue about the program's future financial direction.

In this step the team will also need to identify roles and responsibilities for specific tasks within the process. Who will take leadership of the team? Which members will be assigned specific tasks regarding the collection of

information/data from the community, program staff, parents, etc.? What assistance, if any, will be needed from the Head Start Regional Office? How often will the team meet and what timelines will be put in place for the development of the budget?

Action Step Three: Establish A Budget Development Schedule

Planning and developing the program's budget for the next year should not be a last minute endeavor. Sufficient time must be allocated to the process of identifying weaknesses in the current budget and revisiting program priorities and objectives. Essentially, planning and developing the budget should be an ongoing process throughout the year as the program monitors its costs and expenditures. Once the budget development process has been defined, the next step is to establish clear and firm timelines for each step in the process.

Unfortunately, budget development is often considered to be an annual, necessary evil that must be tolerated in order to access needed program funding. Program staff often bemoan the task of providing information and input because it is usually requested in an "I need it yesterday" manner. Therefore, the budget is viewed as the task that must be endured at the end of every year, as opposed to an ongoing element of program operations and management.

Establishing a schedule for budget development can help to integrate the process into the program's routine financial management tasks. Each program must decide what works best for them. As a guide, the following are considerations for establishing a budget planning and development schedule:

- The length of the funding period (1 year vs. 3 years) and how often a full budget must be submitted
- Whether budgets need to be developed for multiple funding sources, and if they are in sync or staggered
- How often critical information is collected and when it is made available before the conclusion of the fiscal year (e.g., community assessment data, self-assessment results, program plans and updates, audit reports, etc.)
- The timing of the budget approval process, taking into consideration internal reviews before submission to the Head Start Regional Office

All of the above will determine when key budget planning and development activities will take place. Creating an actual calendar of events for the budget process ensures the integration of budget development into the Head Start program's ongoing financial management. Budget planning and development activities could be included in the program's financial calendar, which is usually included in the financial procedures manual. The financial calendar typically displays critical financial management activities such as accounting closing dates, payroll submission and paydays, and paid holidays. Specific tasks such as reviews of critical cost and program data, developing or updating program plans and community assessments, conducting cost analyses, and establishing cost objectives for the coming year can be earmarked for completion during strategic times in the fiscal calendar.

Action Step Four: Select the Appropriate Budget Type

Historically, Head Start programs have used the incremental, line-item budget structure. The Standard Form 424A requires that programs submit costs by specified line item categories for each program function or activity. Costs are summarized by category with attached calculation breakdowns. Budgets for continuation of program grants beyond the first year can be incrementally increased or decreased by line item with proper justification attached for those specific increases or decreases.

While this structure continues to be widely used and accepted within Head Start, it may not meet the needs of programs with more complicated costing structures or those seeking more accuracy in developing detailed budgets. Incremental and line-item budget structures are most appropriate for programs that have consistent resource needs over time, with very little fluctuation in expenditures or anticipated increases or decreases in service delivery.

Programs that need to be responsive to changing needs for quantity and quality of services, or that project major changes in the program structure in future years, may require a more detailed type of budget development format. Two options for structuring program costs are the zero-based and activity-based budget. These two formats can be used to determine costs that are reflected in the line item budget form 424A.

Zero-based budgeting incorporates program planning and objective setting as an integral part of the budgeting process. It assumes that no program function or activity is necessary unless it is directly tied to current objectives. Therefore, unlike incremental budgets that assume all current activities are necessary and preapproved, the zero-based budget requires that *each* activity and its associated costs be justified and prioritized. As opposed to

incremental increases in current allocations, zero-based budgets require the program to ask, “if we start at zero, which program activities are necessary, and are there alternatives that are more beneficial programmatically and fiscally?” The zero-based budgeting process requires a deeper level of planning and evaluation of program activities, with emphasis on what is currently necessary to provide a quality program, not just incrementally increase current activities.

Activity-based budgeting offers a somewhat similar approach to budget development, in that the focus is on developing costs based on detailed analysis, rather than unjustified assumptions. The focus is determining what activities are driving costs, as opposed to how costs are guiding activities. In the activity-based budget program, activities are defined as either primary or secondary to the accomplishment of program goals, with emphasis on ensuring that the budget focuses most of the resources on primary activities.

Within Head Start, activity-based budgeting allows programs to identify cost drivers for each functional area (e.g., program design and management, family and community partnerships, early childhood development and health services, etc.) and its associated activities. Costs would be allocated according to what was needed to ensure that primary program activities were adequately funded, and that secondary activities were not over-funded.

Programs that are planning to grow at a fast pace because of program expansion, or the addition of Early Head Start, and other comprehensive projects could benefit from using a zero-based or activity-based budgeting approach to the entire Head Start program. In addition, programs that are restructuring and reorganizing around program areas or other functions would find an activity-based budgeting approach useful. On the other hand, programs may choose to continue with the incremental approach if slow or minimal growth is expected, *and* the budget framework has been working with minimal cost overage or under-budgeted categories.

Handout A outlines the advantages and considerations for using each type of budgeting for Head Start Programs.

Action Step Five: Collect Budget Support Data

The foundation for the development of the budget consists of the data and information that provides a picture of past, present, and projected program performance. Compiling and analyzing this information is one of the most

critical tasks in the budget development process. The link between the budget and the program it supports must be strong and convey the program's philosophy, as well as its future direction.

Head Start programs routinely collect information and data (discussed in detail in Step 6) on their external environment, internal resources, and operations to assist in determining the effectiveness of past cost expenditures in meeting program goals. This information also helps to determine changes that must be made to ensure adequate financial support for future program efforts. The key to using all of this available information and data in the budget development process is to know what the information will yield that will be helpful in identifying program activities and associated costs.

Handout B describes how critical program data and information can be used to support the development of the budget.

In addition, input from the Policy Council should be used to supplement program data. Council representatives can be helpful in providing insights from parents and community members. Such information will be especially beneficial during those periods where a full community assessment is not completed.

Action Step Six: Specify Program Goals

Three key pieces of information are crucial to program planning and budget development: community assessment, internal program self-assessment, and program plans. All will provide guidance and direction regarding program goals and objectives for upcoming budget year(s).

The **community assessment** is completed before the submission of the initial grant. A community assessment should be completed in total every 3 years and updated and revisited during the intervening years. The Community Assessment constitutes a very large research project that explores the make-up of the community served by the Head Start program. The objective is to determine what community factors will impact on the services needed and the expected level of program enrollment. Statistics are collected on location of pockets of poverty; where the young children reside within the community; the educational level of community residents; and other social, economic, and demographic information.

The Federal program review and the annual **internal program self-assessment** are designed to assess the internal needs of the program. Information collected through the formal review and self-assessment includes:

- existing program strengths
- areas in which services to children and families can be improved
- internal systems, staff, or elements in the environment that contribute to the program's strengths and areas for improvement
- untapped resources in the program or its local environment
- compliance and noncompliance with both Federal and other governing regulations and the program's own goals and objectives.

Both the formal program review and the internal self-assessment are designed to assist programs in identifying gaps between their stated philosophy, mission, and goals, and what they actually achieved.

Last, but not least, are the **Head Start Program Plans** which, like the community assessment, are developed every three years and updated and revisited in the intervening years. The overall Program Plan will contain individual plans for each Head Start program system component. The function of the plan is to address identified needs resulting from the community assessment and internal self-assessments. The identified needs are translated into goals for each Head Start program area.

Program plans are similar to annual operating plans that are developed for businesses. They allow the program, at the end of each year (or every third year) to design a blueprint for the coming year. They are a crucial tool in the drafting of annual goals, identifying priorities, and structuring cost objectives.

For example, programs may need to upgrade staff qualifications. While this identified need would require a long-term plan, the steps to accomplishing goals and objectives will be prioritized and set out in annual steps that can be budgeted, such as tuition assistance, substitutes to allow classroom staff to attend classes, etc.

Action Step Seven: Identify Cost Objectives

Each identified program goal should have corresponding program functions or activities that are designed to accomplish the goal. The process of specifying what the program will accomplish (down to the activity level) makes it possible to establish cost objectives for program activities. This, in turn, provides a realistic and verifiable base for cost allocations; budget development; and cost tracking, monitoring, and reporting.

Developing cost objectives for program activities requires an in-depth understanding of the costs inherent in operationalizing program activities and all of their associated tasks. Cost objectives define what will need to be spent to achieve the desired quantity and quality of implementation of a

specific program activity. Therefore, the process of establishing cost objectives allows the program to respond to the question of “how much do we need to spend on this activity to ensure that we successfully implement it and achieve our goal?”

Cost objectives should reflect both historical cost accounting data (if available) and projections for future needs. In other words, cost objectives should capture what is known about the cost of a specific activity and any anticipated future changes in how the activity will need to be implemented.

The development of cost objectives should include cost considerations for:

- required increases or decreases in funding levels to support program goals
- number of staff assigned to a particular activity and the amount of time spent on associated tasks and across tasks and activities
- space, material, and other non-staff resources required for the activity and the associated tasks
- direct costs associated with the activity and tasks (e.g., telephone service, if significant to implementation)
- how costs will need to be adjusted for a specific activity during the funding period to correspond with anticipated and planned changes
- administrative and management support specific to the activity, above and beyond overall program support
- multiple funding source activities that may have specific tasks that are funded from various sources.

Defining cost objectives for program activities supports the process of assignment or allocation of costs to program activities. When programs take the opportunity to set objectives for the resources they will spend on project activities, they set the stage for a cost allocation process that ensures that each activity and associated task is adequately funded to meet program goals.

Action Step Eight: Determine Budget Impacts and Constraints

Once the program has identified and allocated costs, the next step is to review the budgeted costs against any future impact or constraint.

Consideration should be given to changes that are anticipated in Head Start priorities or guidelines that would make changes in program focus necessary during the next budget period. Not giving consideration to such anticipated changes could cause potential budget shortfalls if resources have to be re-allocated to address unplanned-for program changes.

For example, when new mandates are issued, programs usually have a reasonable timeframe to begin to comply. If program planning is not proactive and needs are not anticipated, the deadline for compliance may arrive without adequate financial provisions. For instance: modifications to facilities to comply with the Americans with Disabilities Act (ADA), changed staffing requirements as a result of the revised Performance Standards, and mandates coming from Head Start reauthorization legislation that require higher staff credentials require long-term budget planning.

Summary

The above action steps serve as a general guide to budget planning and development and can be modified to meet specific program needs. In essence these steps are designed to ensure that (1) sufficient involvement of people internal and external to the program, (2) adequate budget development to support the goals of the program, and (3) ongoing budget planning and development is linked to overall program planning.

HANDOUT A. ADVANTAGES/ CONSIDERATIONS OF THE THREE BUDGET TYPES



Object Class (Line Item) Budgeting

What's Budgeted	Advantages	Considerations
Personnel Fringe benefits Travel Equipment Supplies Contractual Construction Other indirect costs	Least time consuming Based on prior expenditures More simplified accounting system Controls line item expenditures	Difficult to relate to performance Cannot relate data to activities Data not conducive to making timely adjustments Difficult to determine reasons for over/under expenditures

Activity-Based Budgeting

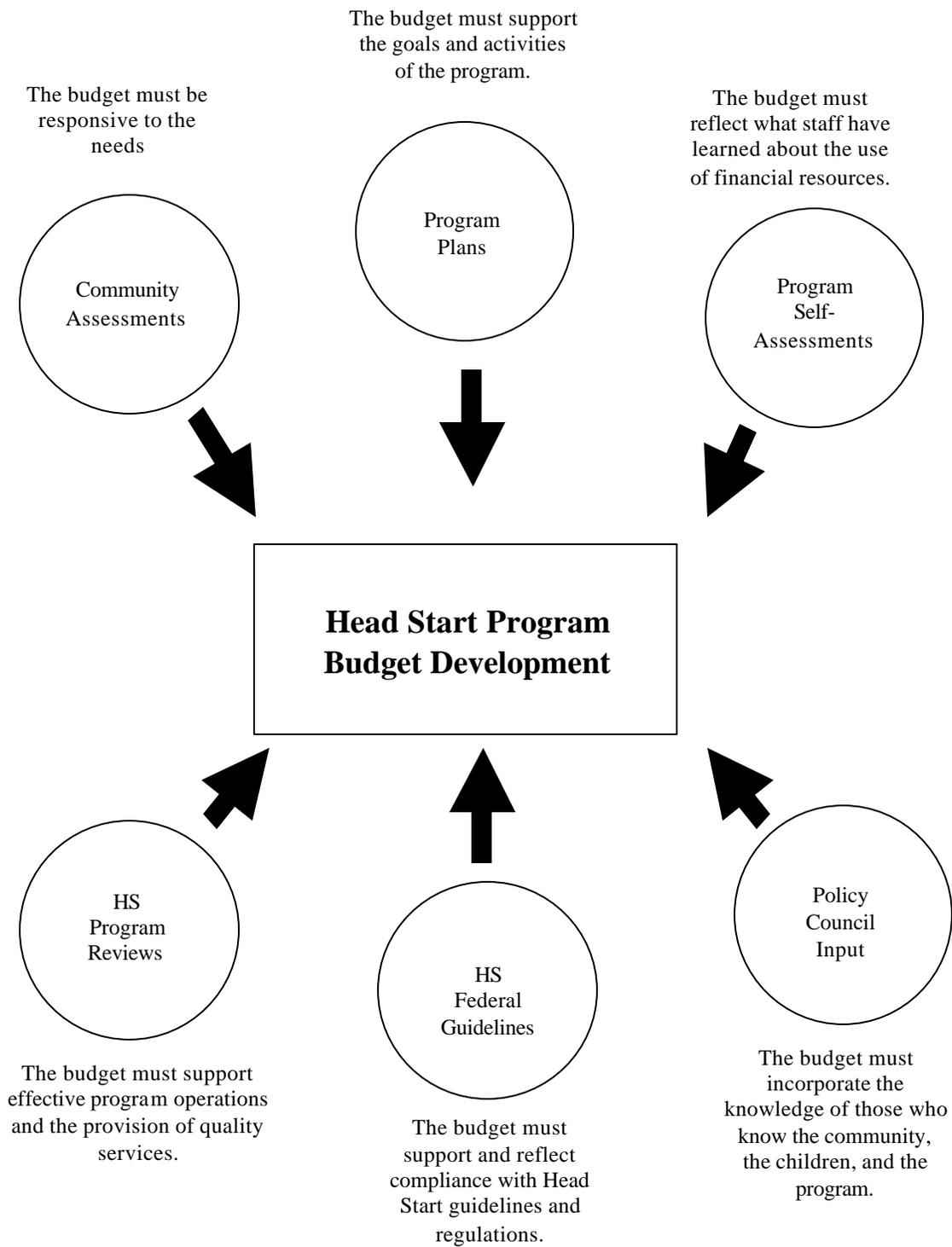
What's Budgeted	Advantages	Considerations
Child health and development Education and early childhood development Child health and safety Child nutrition Child mental health Family partnerships Community partnerships Program governance Management systems Quality improvement	Can identify opportunities for improvement and cost reduction Relates costs to performance data Enables assessment of processes that are effective in serving customers	Requires an accounting system that records at the needed levels Time consuming Requires a detailed project plan

Zero-Based Budgeting

Characteristics	Advantages	Considerations
<p>Begins at zero resources</p> <p>Forces ranking of purposes</p> <p>Requires a clear focus on priorities</p> <p>Emphasizes tangible results</p> <p>Process must consider mandates</p> <p>Modified version called “targeted budgeting” puts only 5 or 10 percent at risk</p>	<p>Requires justification of proposed activities</p> <p>Useful for analyzing priorities</p> <p>Managers must argue the merits of their efforts</p>	<p>Potential generation of competition and conflict among program components</p> <p>Time consuming</p> <p>Requires an accounting systems that records at the needed levels</p>



HANDOUT B





STEP 5. EXERCISE: LINKING IDENTIFIED NEEDS WITH BUDGET DEVELOPMENT

Suggested time: 30 min.

Purpose: To recognize the relationship between identified program needs and budget development.

Read the following scenario and answer the questions individually, with a colleague or in a small learning group.

In the county next to Child and Family Services Head Start is a Head Start grantee with an urban service area. The program is called Unified Head Start, an apt name for a program that serves nine different ethnic groups, each with its own language. There are about 600 children enrolled, of which 50 percent are not English speaking.

Unified's community assessment has consistently shown a variety of health problems that immigrant families often exhibit when they first arrive in the community. Tuberculosis and dental problems are recurring health concerns. Unified's program self-assessment shows how the program struggles with providing enough staff and resources to reflect the many cultures of its families. All cultures are welcome at Unified, and the staff can speak a combined total of 4 languages, but that leaves 5 languages that are not spoken by anyone on Unified's staff.

Unified has always left budget development up to the fiscal department. Over the last few years, the Unified Head Start director, health services manager, and education manager have noticed that there is not enough money in the budget to meet the health services needs. There is also not enough money for outreach activities in the communities to recruit classroom helpers who speak the language of the children. The health services manager actually had an argument with the fiscal director over the cost overruns for health screenings and follow up. They decide to approach the fiscal department about these issues before the budget is set for the next year.

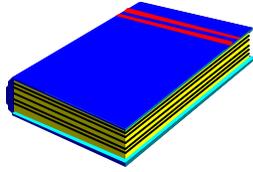
- Within this brief scenario, what program needs do you see?

- For each need you identified list some specific activities in which the program could engage in order to address those needs.

- For the activities identified, what specific cost objectives would you link to those activities?

- What do the community assessment results and the concern regarding cost overruns indicate about the program's current budget? About where changes should occur in the new budget?

- What additional information is necessary to justify budget changes that are responsive to the needs of the children in their community?



STEP 6: BACKGROUND READING: BUDGET IMPLEMENTATION AND REPORTING

Suggested Time: 20 min.

Study the following reading. Feel free to highlight sections or write comments in the margin throughout these activities.

Putting the Budget in Motion

A very important component of effective Head Start program financial management is operationalizing the budget to support the goals and activities outlined in program plans. Many programs are successful in developing a sound budget, but often neglect to put in motion processes and procedures to ensure that the budget is understood and utilized by staff to guide the operation of the program.

Due to lack of communication between fiscal and program staff, budgets sometimes seem shrouded in secrecy. Outside of fiscal staff, the program director, and Regional Office staff, there is little or no knowledge of the program's financial resources. Staff are often asked to be responsible and accountable for planning and conducting program activities without knowledge of the dollars allocated for those activities. Not only does this limit the effectiveness of staff, but can eventually limit the effectiveness of the program in accomplishing its goals.

The connection between the budget and operationalization of program activities is not always a given. Program, fiscal and Regional Office staff must make an intentional effort to work collaboratively to ensure that program activities are carried out within the framework of available resources. The lines of communication must be open enough to allow give and take around the most effective way to operate the program, both in terms of cost and quality of services to the children enrolled.

Successfully putting a budget in motion requires that programs develop and follow processes for (1) informing and educating staff at all levels on resource allocations and costs constraints for program activities, (2) routinely reviewing spending, as well as sharing budget concerns, and (3) engaging staff in budget monitoring and cost containment efforts.

Educating and Informing Staff

Often when the issue of budgets and expenditures arise within a program, the response is to “let the experts handle it;” in other words, let the fiscal staff take all of the responsibility. Fiscal staff are “experts” in regards to costing and accounting procedures. But fiscal staff do not always have an in-depth knowledge of the ins-and-outs of program implementation. In this respect, program staff are the “experts,” and should be equally responsible for ensuring that the program operates within its resources. The combination of fiscal and program knowledge will produce an expert approach to the financial management of the program.

All staff need to understand how the program’s financial resources are allocated and tracked, as well as their role in supporting cost effective program implementation. There will undoubtedly be a need to structure the ways in which staff are informed and educated about the program’s financial processes according to the level of involvement they will have in financial management. For example, program managers may need to have a deeper level of knowledge than teachers, cooks, or bus drivers. At a minimum, all staff should have a basic knowledge of:

- the program’s annual budget and its link to overall program goals
- the financial resources allocated to their areas of responsibility within the program
- increasing or decreasing level of effort within specific program areas due to funding changes.

It is assumed that program managers will play an integral role in developing the budget and, therefore, will have intimate knowledge of how it was developed. Program managers can then share this knowledge with all staff. Increasing staff knowledge and understanding of the process can increase their commitment to successful financial management.

Educating and informing staff of the budget process and resource allocations should be an ongoing, routine task that is built into the program’s management. There are a number of actions that programs can take to ensure that staff and Policy Council members are informed. They include:

1. Conducting an all-staff meeting following the approval of the new budget to review it and discuss any major changes that will impact program activities. This type of meeting helps to establish expectations of how activities will be carried out in the coming year, particularly in respect to increases and/or decreases in effort in specific areas (e.g., increased enrollment). It is also a time to ensure that everyone hears the

same information, as well as for addressing questions and concerns. This allows the program to cut down on rumors and misunderstandings regarding the impact of funding on program activities.

2. Have managers periodically include discussion of costs guidelines and regulations in staff meetings. It is important for staff to understand the constraints and guidelines that define how program resources can be utilized, particularly if they have direct responsibility for the disbursement of funds or materials. Managers can use time during staff meetings to review the basic intent of specific cost principles (e.g., use of non-Federal share resources, allowable and unallowable costs, etc.) to provide staff with an understanding of the guidelines they must work within when expending resources.

3. Seek opportunities for team training in financial management that program and fiscal staff can attend together. Having fiscal and program staff participate in a shared learning environment can increase knowledge and understanding of each other's issues and concerns regarding the program's financial management. This also helps to open the lines of communication. An added benefit would be the inclusion of Policy Council members in the team training environment.

Regardless of what method is used, informing and educating program staff on allocation of program resources and guidelines for their expenditure can only strengthen Head Start's financial management. The key is to develop routine processes for keeping staff informed.

Routine Budget Reviews and Reports

Keeping the lines of communication open between fiscal and program staff can most easily be accomplished through routine budget reviews where both can share concerns of the program's progress in resource allocation and expenditure.

One way of ensuring that budget reviews are made a part of the program's management routine is to make them coincide with the submission of Standard Form 269, Financial Status Report. The SF 269 is completed and submitted to the Head Start Regional Office three times during the grant year. An initial report is due 30 days following the sixth month of the budget period, a second report is submitted within 30 days of the end of the period, and a final report is submitted 90 days following the end of the period. Within this report, Head Start programs provide a detailed accounting of cumulative expenditures.

Completion of the SF 269 provides a perfect opportunity to update staff on the financial status of the program, including budgeted and actual

expenditures for each program area. Reviewing this information with staff allows time to discuss the underlying reasons for specific expenditure concerns (e.g., over- or under-spending in certain activities). Program staff can provide insights into how and why funds were expended in a particular way, and also contribute to identifying strategies for addressing problems.

Regardless of when or how often budget reviews are conducted and reports developed, it is critical that fiscal and program staff take time to reassess prior assumptions about program needs and resources. There needs to be time to reflect on what worked and what didn't regarding allocation and expenditure of the program's financial resources. Reviews need to occur at various times during the budget (grant) year to allow for adjustments and modifications. Waiting until the end of the budget year to review costs leaves the program open to potential budget overruns or under-spending, as well as possible lack of resources for critical program activities.

Engaging Staff in Budget Monitoring and Cost Containment

A major concern in the financial management of Head Start programs is how to monitor and contain costs before problems arise. How can program staff at all levels assist in monitoring expenditures in their areas and also work to contain costs? What can a staff person do to help ensure that the program's financial resources are used effectively?

The answer lies in the manner in which the program informs and educates staff through sharing of critical information. Staff who are actively involved and engaged in the process are more likely to view the program's financial management as everyone's concern, not just that of the fiscal staff. Specifically, program staff have the best insight as to how resources are used on a daily basis. They can identify where more or fewer resources are needed, and help to track how funds are being used to support program activities. Engaging staff in budget monitoring and cost containment can be achieved by:

- Making staff aware of budget constraints and encouraging them to factor those constraints into their implementation of program activities
- Encouraging staff to discuss concerns regarding the availability and use of resources, as well as being open to their suggested ways of reducing costs in their program areas

- Ensuring that directives and guidance for implementing program activities are consistent with available resources (e.g., not asking staff to perform tasks that are outside of budgeted resources)

In essence, the best way to engage staff in monitoring and containing costs is to provide sufficient information about the budget, routinely report on its effectiveness, and support staff in using this information as they go about their jobs.

STEP 7. EXERCISE: BUDGET MANAGEMENT AND REPORTING



Suggested Time: 40 min.

Working individually, in your program teams, or in small groups, brainstorm responses for the following questions. Your responses should reflect the best practices for a budget management team in your Head Start program or in a program you are monitoring. Be as creative as possible with your ideas. You may record your responses on this page, or if you are working with a team or small group, you can record responses on newsprint, using the headings on the graphic below.

Brainstorming questions:

- Who should be part of the budget management team? List specific positions in your program or in a program with which you are familiar.
- How can the fiscal department and Head Start program managers share information related to monthly financial reports? Give ideas for distribution and discussion of the monthly financial report.
- Does the monthly financial report in your agency (or any agency you are familiar with) show “actual against budgeted” costs for each account code or line item? How is the financial report made user-friendly for program staff?
- What are some ideas for ways that the budget team can track the program’s budget and expenses?





STEP 8. WORKSHEET AND EXERCISE: COLLABORATIVE BUDGET PLANNING

Suggested Time: 60 min.

Purpose: To provide program and Federal staff with a tool for collaboratively planning the design and review of program budgets, as well as a process for working collaboratively to ensure a cost-effective approach to financial management. This activity is most effective if done as a team or small group, with a facilitator.

Part I (40 minutes) Program and Federal staff will work independently (individually or in small groups) to respond to the questions and requests for information in the Action Steps contained in Worksheets A (for program staff), and B (for Federal staff).

Part II (20 minutes) After completing the steps, individuals and groups will come together to discuss how they responded to each step, making note of the following:

1. What do you consider the most difficult aspect of budget planning for programs?
2. What were the similarities and differences in your perspectives as to how a particular step in the budget planning process should be approached?
3. Where there are differences? What do you feel is the basis for the difference? For example:
 - We have a different understanding or interpretation of a regulation or guideline
 - We see certain aspects of the program differently
 - We focus on different aspects of the financial management process
 - We have not had a prior opportunity to discuss this issue.
 - Other (please specify)

4. In which areas of the program's budget development process do you feel collaboration between program and federal staff is critical?

5. How specifically can program and federal staff collaborate in the areas identified above?



STEP 8. WORKSHEET A (PROGRAM STAFF): BUDGET PLANNING WORKSHEET

Suggested time: 40 min.

Purpose: Use this worksheet as a guide for planning the critical tasks in budget development. Answer as many of the questions as possible. Feel free to customize the steps to meet your program's specific needs.

Action Step 1: Establishing Budget Planning and Development Team

Check all that apply regarding your program's needs for a budget development team:

- A. We need to seek more involvement in developing the program's budget.

- B. We need to seek input and involvement from:
_____ program staff
_____ Policy Council
_____ parents
_____ managers
_____ program director
_____ others (specify) _____
- C. We need to establish an ongoing budget planning and development team.

- D. We need to provide an orientation to the team on budget process, responsibilities, and expectations.

Action Step 2: Defining Budget Development Process

A. Who will lead your budget development effort, and why?

B. What will be the roles/responsibilities of the various team members?

	Team Member	Role	Responsibility
--	-------------	------	----------------

1.	<hr/>		
2.	<hr/>		
3.	<hr/>		
4.	<hr/>		
5.	<hr/>		

C. What will be the key questions that need to be answered to develop an effective budget?

1.	<hr/>
2.	<hr/>
3.	<hr/>
4.	<hr/>
5.	<hr/>

D. Identify the major tasks that need to be accomplished to develop the budget:

1.	<hr/>
2.	<hr/>
3.	<hr/>
4.	<hr/>
5.	<hr/>
6.	<hr/>
7.	<hr/>
8.	<hr/>

Action Step 3: Establishing A Budget Development Schedule

- A. The length of your funding period:
___ 1 year ___ 3 years ___ Other: _____
- B. Do you currently have a fiscal calendar? ___ Yes ___ No
- C. When will you begin developing the grant application and budget for the next funding period? _____
- D. Given the tasks identified in Action Step 2, identify when these tasks will need to take place in order to have the budget completed in time for submission:

Task	To Be Completed By:
1.	_____
2.	_____
3.	_____
4.	_____
5.	_____

Action Step 4: Selecting the Appropriate Budget Type

- A. What process have you used in the past to develop your annual budget?
- _____ Incremental increases by line item (e.g., 10%)
_____ Total re-budgeting of specific line items based on detailed cost analysis
_____ Combination of both
_____ Other (specify): _____
- B. What would you specify as the current primary program activities that drive program costs?
1. _____
2. _____
3. _____
4. _____
5. _____

C. Specify any major program changes that will have a definitive impact on any future budget development.

- 1. _____
- 2. _____
- 3. _____
- 4. _____
- 5. _____

D. Based on the above information, which budget type would most effectively meet your cost allocation needs?

- _____ Incremental: Standard or predetermined increase or decrease of current line item figure
- _____ Zero-based: Re-costing of program activities, as justified by an analysis of their necessity and priority
- _____ Activity-based: Re-costing of program activities, with focus on those that are primary to achieving program goals
- _____ Any combination of the above (please explain):

Action Step 5: Collecting Budget Support Data

A. List the information/data you will need to determine program needs for budget development:

Information/Data	Source
1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____

B. List the information/data you will need to ensure budget compliance:

Information/Data	Source
1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____

Action Step 6: Specifying Program Goals

Based on the information gathered in Steps 4 and 5, specify the major program goals that will need to be supported by your budget.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____

Action Step 7: Identifying Cost Objectives

Based on the program goals identified in Step 6, specify the cost objectives for each goal.

GOAL	ACTIVITIES	COST OBJECTIVES
Example: Develop an effective transition program to assist parents in preparing for kindergarten	Home visits Parent involvement in classrooms	Increase funding for parent activities by 20%
1.	.	.
2.	.	.
3.	.	.
4.	.	.
5.	.	.
6.	.	.

GOAL	ACTIVITIES	COST OBJECTIVES
7.	.	.
	.	.
	.	.
8.	.	.
	.	.
	.	.
9.	.	.
	.	.
	.	.

Action Step 8: Determining Budget Impacts and Constraints

Based on the cost objectives specified in Step 7, what factors need to be considered that may impact or place constraints on development of your budget (e.g., changes in guidelines, anticipated reduction in non-Federal share resources, etc.).

	COST OBJECTIVES	IMPACTS/ CONSTRAINTS
1.		
2.		
3.		
4.		
5.		

Note: Use a separate sheet for additional activities.



STEP 8. WORKSHEET B (FEDERAL STAFF): BUDGET GUIDANCE PLAN

Suggested time: 40 min.

Purpose: Use this worksheet to specify critical areas for guidance to programs in the planning and development of program budgets. Feel free to customize the steps to meet your region's specific needs.

Action Step 1: Establishing A Budget Planning and Development Team

A. Specify ways in which Federal staff can interface with a program's budget development team:

1. _____

2. _____

3. _____

B. Specify what guidance you would provide to a program's budget development team as part of an orientation to the budget development process:

Action Step 2: Defining the Budget Development Process

A. Specify critical questions to be answered by the program's budget development team as they commence the budget planning process:

1. _____
2. _____
3. _____

B. Identify tasks the Regional Office considers critical to budget development:

1. _____
2. _____
3. _____
4. _____

Action Step 3: Establishing A Budget Development Schedule

Specify the most beneficial timeframes for programs to begin the budget development process:

- during original grant application: _____

- during grant continuation: _____

Action Step 4: Selecting the Appropriate Budget Type

A. Specify general guidance the Regional Office would give to programs regarding the selection of an appropriate budget type for determining costs:

B. Factors that would make a total line item re-budgeting necessary:

1. _____
2. _____
3. _____
4. _____

C. Program activities that generally tend to drive costs:

1. _____
2. _____
3. _____
4. _____

D. Typical program changes that need to be considered in budget development:

1. _____
2. _____
3. _____
4. _____

Action Step 5: Collecting Budget Support Data

Program data considered critical to effective budget justification:

1. _____
2. _____
3. _____
4. _____

Action Step 6: Specifying Program Goals

Specify reasons it is important to link costs to program goals and activities:

1. _____
2. _____
3. _____
4. _____

Action Step 7: Identifying Cost Objectives

A. Specify ways it is beneficial to budget development to identify cost objectives:

1. _____
2. _____
3. _____
4. _____

B. Specify key program activities that would benefit from the identification of cost objectives:

1. _____
2. _____
3. _____
4. _____

Action Step 8: Determining Budget Impacts and Constraints

A. Common budget constraints programs should be aware of:

1. _____
2. _____
3. _____
4. _____

B. Factors that may impact program budgets for the upcoming period:

1. _____
2. _____
3. _____
4. _____



STEP 9. SUMMARY

Suggested Time: 10 min.

Key Points

- A team approach to budget development
- Critical budget planning tasks
- Establishing cost objectives
- Types of budgets
- Budget monitoring and cost containment

PERSONAL REVIEW

What did you learn from this activity?

1. _____

2. _____

3. _____

How will you use your new knowledge and skills in your work?

1. _____

2. _____

3. _____

What other things do you think you might need to learn in order to master the skill of budget planning and development?

1. _____

2. _____

3. _____

