

Chapter XXII

Budget Making and Control

WHAT IS A BUDGET? Useful as accounting systems are for showing the sources and the disposal of funds of social agencies, it is vital also to plan the future of an organization in terms of the income which will be or must be made available, the expenditure which necessitates that income, and the service which will require that expenditure. Such a financial forecast is known as a budget. The budget has long been given official recognition by the United States government in its Budget Bureau and by many state and local governments in similar bureaus. Careful budgeting is an almost universal practice of business corporations. It is required of member organizations of community chests and is in general use among competent social agencies which are not members of chests. Yet some social agencies still proceed from hand to mouth financially. Others which have ostensible budgets seem to regard them not as useful guides to activity but as benevolent gestures of propitiation toward the apparently foolish requirements of community chest budget committees. Every social agency that has a sense of trusteeship, however, should establish an annual budget and endeavor to guide its work in accordance with that budget.

BUDGET THE SERVICE BEFORE THE INCOME. A budget in its simplest terms is merely a picture in dollars and cents of the service the social agency expects to render during some period in the future—usually a year. In order to make a budget intelligently, therefore, the agency must first have a plan of its service in the year ahead. This plan should be expressed in terms of the numbers of people to be served; the quality and quantity of service to be rendered; the equipment which must be repaired, replaced, or purchased to make that service possible; the expenditures which will be necessary for relief and other aid to clients, members, and patients; and the personnel which will be necessary to render that service.

The budget can be based in part on statistical trends of previous

years. These will show the annual fluctuations in service and the probable measure of the increase or decrease likely to prevail in the coming year. The community's rate of growth, as indicated by the censuses and estimates of the Federal Census Bureau may be a factor in planning. The changing nature of the population, such as the number of foreign-born, the age distribution, and other similar data, may also be of use. So too may be the evidence of economists and statisticians as to probable unemployment or prosperity and trends in building construction, utility connections, and other elements in the economic life of the community. Data of the Federal Bureau of Labor Statistics and other research and statistical agencies will help in computing rises (or falls) in the costs of commodities and service.

Changes in the division of work among social agencies in the community may increase or decrease the prospective volume of work of the individual agencies. An institution may plan to add a new wing, a new department, or a new building which will increase the number of users of its services. Some improved form of service may be projected, as in the case of a social settlement which plans to add an art class or music classes to meet the demands of its constituents. Recommendations of dietitians may be factors in estimating the amount which will be necessary for feeding inmates or patients. On the other hand, the agency may be in a position to use the services of a central purchasing bureau, or it may provide additional storage facilities which will allow the purchase of large quantities of commodities and thus reduce their cost. It may be desirable to employ additional or better qualified workers to carry on an undermanned piece of work in the year ahead.

Research bureaus, study groups of community councils of social agencies, and social surveys may produce data and recommendations as to extensions or reductions in areas or types of service by the agency.

These are among the factors which the social agency will have to take into consideration in planning the quantity and quality of its work and, consequently, in building up its budget. All this material should be worked into the agency's service program and hence into its financial program or budget. The budget is manifestly the financial reflection of the policies of the agency and of the relationship of that agency to other agencies as well as to the life of the community and of the nation. Planning of service must therefore precede the budgeting of income and expense.

COMPARISON WITH PREVIOUS FINANCIAL EXPERIENCE. In financial terms, the budget for the coming year is usually prepared on the basis of a comparison with the experience of past years. In that way the committees and boards which finally pass upon the budget may know the relation of previous income and outgo to proposed receipts and expenditures. The usual procedure is to list the items of income and expense down the left side of a sheet of paper. Then in parallel columns to the right are set the corresponding figures for each item for two or three previous years and for that part of the current year which has already elapsed, and also the estimate for the year ahead. There might well be a final column to show the amount of increase or decrease proposed for each item. If the items in the budget are built up, as they should be, from those in the monthly and annual statements of the organization, it will be easy to insert the experience of previous years. The budget is the financial projection into the future of the experience which the accounting system has already recorded.

Salaries should be given special attention. All those proposed should be listed on a sheet attached to the budget, with comparative figures for at least two previous years. The salary sheet should also give the minimum and maximum figure for each job and the proposed rate of increase, and should list perquisites in addition to salaries—meals, rooms, and so forth. If the agency has adopted a job classification system, as described in Chapters XVI and XVII, the classifications of the jobs and their occupational descriptions might well be made part of the record.

Further comment on salaries is given by our expert consultant on this chapter, John B. Dawson, Executive Director of the Community Fund of Philadelphia and Vicinity:

One of the toughest problems which an agency has to consider in the preparation of its budget is how to limit and control its program so that, within the range of available allocations, reasonable compensation can be given to those who are employed to carry on the work of the agency. For example, we have in Philadelphia in the Community Fund agencies a pay roll of approximately \$6,600,000. For the next fiscal year the amount which we will have available for distribution will probably be increased by approximately \$200,000. I have no doubt that salary and wage adjustments which might be considered reasonable in relation to present trends in the cost of living and current increases in business and industry, if applied to our pay roll of \$6,600,000, would far exceed the increase which we will have available for the coming year. Under these circumstances an agency must decide whether it will restrict its program

and pay adequate compensation to those whom it employs, or whether it is going to sacrifice the welfare of its employees in the interests of expanding its program.

DEPARTMENTALIZED BUDGETS. In a simple organization one budget will cover the whole situation. If, however, the organization is elaborate and has various departments—such as a family society with a central office and various district offices, a YMCA with various branches of activity, or a hospital with a large variety of departments—a separate budget should be made for each department. The figures for the whole should be combined in one master budget.

PROJECT BUDGET. In order to present more clearly the significance of the proposed income and expense, some social agencies prepare their budgets in terms of projects. Typical project budgets might be: all the income and expense connected with a Boy Scout circus; factors in the publication of an annual report or the conduct of a survey; activities of major importance which can be made to stand out by themselves as specific pieces of work.

The project budget alone does not seem to meet satisfactorily the problem of adequate budgeting. A more effective procedure is to prepare a detailed budget for each department, with the income and expense carefully itemized, and to interpret this budget by project budgets which show the income and outgo for specific activities. The committee or board which is responsible for a budget usually wants to see the whole picture of the organization's financial relationships as well as the profit or loss on individual projects. It is to be suspected that project budgets are sometimes arranged rather to dazzle the committee which is to consider them than to give it an opportunity to gauge the propriety and feasibility of the expenditures proposed. The fundamental purpose of a budget, of course, should be to give an accurate and intelligible statement of the proposed income and expense of the organization and to show the relationship of those figures to past experience.

FIGURE FOR SAVINGS AS WELL AS FOR INCREASES. Each item of expense should be computed not only in terms of the growth of the organization but also in terms of economies which can be worked out, savings which can be made, and consolidations of activities which can be effected. In an honest budget it is just as necessary for the executive to figure reductions in some items of expense as to figure increases in others. It is much harder, though, to persuade the individual who is making a budget to relinquish a dollar which

he does not really need but thinks he may than it is to persuade him to add \$25 to a proposed expenditure.

ESTIMATES OF INCOME. Income must be figured just as carefully as expense. Every possible increase in income aside from gifts (direct or from the community chest) should be studied. When an agency is supported by public funds, whether they are received as gifts or through taxation, it is part of the responsibility of the executive to spend only that money from these sources which is not available from other sources.

The agency should be as self-supporting as possible, consistent with the fulfillment of its social purpose. Payments by patients, by members of clubs, or by parents and guardians of dependent children should be carefully studied with a view to estimating possible increments to income. The possibility of improved collections on loans to clients should be considered. In the case of private agencies which receive appropriations from public authorities, endeavor should be made to get the authorities to appropriate the full cost of the services rendered to persons who are public charges. Investments should be analyzed with a view to ascertaining whether additional income might be secured from holdings just as safe but more lucrative than those held at present (difficult at this moment). All other sources of income should be analyzed to make certain that every penny which can legitimately be secured from other sources than contributions through taxes or gifts is planned for.

In a hospital, for example, as Frank E. Chapman suggests,¹ "estimating the income is not particularly difficult. The hospital knows or should know the approximate expectancy of the demand for its services. It knows the amount of those services which are available for its clientele. It knows the charge that is to be made for that service. It knows or should know the approximate loss from uncollected accounts. Given these constants of computation, the accumulation of totals is but a mathematical process." Similar businesslike methods might well be applied to other social agencies.

Unfortunately the executive often tends to play safe by figuring the income as low as possible and the expenses as high as possible so that he will have leeway in case the income decreases or the expenses go up. This is not correct procedure. The executive should put the income figure, apart from contributions (whether from the community chest or direct from contributors), as high as it is fair to

¹ *Hospital Organization and Operation*, p. 48. The Macmillan Company, New York, 1924.

set it, as a mark for his staff to shoot at in their endeavors. Conversely, as a matter of fairness to the public, expenses should be kept as low in estimate as is possible in the light of adequate quantity and quality in the service rendered.

PARTICIPATION IN BUDGETING. The budget usually is a composite. In putting it together the frequently discussed principle of participation should be followed. Usually each departmental executive, if the agency is so organized, is asked to submit a budget of his department's probable activity in finance and service for the year ahead. He discusses this budget with the executive of the agency and with the committee responsible for the management of his department, if there is such a committee. The departmental budgets are then turned over to the agency executive. He analyzes them with the help of any staff members who are especially competent in this respect. The combined budget is then discussed by the cabinet or some other group of department heads. After their recommendations have been incorporated, so far as the executive deems desirable, the budget is ready for consideration by the budget committee, if there is one (and there should be). Its recommendations are then passed on to the executive committee and to the board of directors, and from them to the budget committee of the community chest for its action (if the agency is a member of a chest). Budget preparation can thus be made a co-operative activity in which many persons may contribute their experience and judgment.

BUDGETING FOR INTANGIBLES. Although most social agencies figure their expenses in terms of the actual income and expense for the year, others consider it desirable to include various other elements, such as depreciation or the interest which would be paid on funds invested in building if those funds had been borrowed instead of contributed. One authority says that depreciation should be figured at two per cent on fireproof buildings and at ten per cent on the furnishings and mechanical equipment.

We do not agree with this procedure for a social agency which is supported by contributed funds. Contributors give their money for the agency's current expenses and not for use as a depreciation fund on a building that has been financed by a separate building fund campaign or by one or more large gifts or bequests. A depreciation fund would merely be used to replace that building or to build new buildings at some time in the future, and it would withdraw contributed funds from current use.

The budget of the organization should cover necessary repairs and

replacements. When new buildings are to be financed, the money should be raised by efforts separate from those in behalf of the current financing of the organization. A social agency is not a business institution. It does not distribute cash or stock dividends to those who have invested funds. Nor does it have to set up a reserve for obsolescence before such dividends can be paid. If the social agency is a member of a community chest, the repairs and replacements of the different agencies average up from year to year so that a separate fund for depreciation is usually not necessary. The budget of a social agency, as submitted to the public either directly or through the community chest, should not contain any "water" or imaginary features. The budget should be reduced to the bedrock of actual needs for current service.

There may be a few exceptions to this general rule, particularly if the agency is an institution with elaborate and expensive equipment which must eventually be replaced because of wear or the development of new and more efficient mechanisms, or if the agency is largely self-supporting, as in the case of a hospital or a YMCA or YWCA. In those cases a reserve for replacement of equipment might be established, to be financed out of excess earnings. In order to prevent the accumulation of large unused reserves, however, we believe it would be better practice, when the large-scale expenditures for repairs or replacements cannot be handled in the current budget, to borrow the necessary funds and to make the interest and amortization a budgetary charge.

John B. Dawson, commenting on the above, writes:

Something is being done here and there in the way of combining capital fund requirements with operating requirements in the one appeal. Apart from the question of buildings, however, there is a twilight zone illustrated by major items of equipment, elevators, heating plants, and the like, which, when they go, go with a bang. They may be regarded as "necessary repairs and replacements," but they involve such substantial expenditures that there is a good deal to be said for having the provision for such items spread out over a period of years. In Philadelphia we have permitted our hospitals to establish reserves for deferred maintenance during the past two or three years, chiefly because they were unable to make current repairs and replacements during the war period. We also recognized that the leeway which developed during these years was due in part to the fact that they could not maintain their staff organizations at normal levels. Over a three-year period, thirteen hospitals of the community fund established such reserves in an amount approximating \$715,000.

CONTINUOUS BUDGETING. Budget making is not a task to be confined to the period just before the budget is to be submitted. It is a continuing job. The secretary of a social agency who has been very successful in budgeting reports:

I keep a year-round folder on all matters pertaining to budget needs. This includes not only certain costs which will be repeated in other years but may not have been incorporated in the current budget form, but also notations on pieces of work which we were unable to do because of lack of funds, and in some instances indication of the value of such work and what might be the anticipated cost. At the time of making out the budget, the contents of this folder are carefully studied. This material, together with figures over previous years, is effective in suggesting what might be the legitimate budget request, including old work, new work, and extension of service.

INTERPRETING THE BUDGET. The budget may be interpreted through additional data for consideration by the board of directors of the organization or by the budget committee of the community chest. As an experienced secretary of a family society has stated:

The requests made by the executive might be backed up in various ways. For example, if the salaries are low, salaries of similar organizations in other cities and data on the subject collected by our national agency might be presented. If increased funds are needed for the purchase of commodities, official statistics may be quoted as to changing prices. If costs are higher, the reason why should be shown. If special community conditions exist which demand particular kinds of service, the surveys on special studies which have been made should be quoted to show the facts.

A good method of handling such explanations is to attach to the budget one or more pages of description or "justification" which refer line by line to the budget and explain exactly why each proposal is made. Charts may be made to show graphically such relations as comparative commodity prices, salaries compared with those of other agencies, trends of service over a series of years, variations in relief expenditure month by month, and so on. Testimony as to the importance of proposed activities may be secured from the community council of social agencies or from competent individuals. For example, the judge of a juvenile court could testify to the importance of a proposed extension of a boys' club.

MAKING THE BUDGET A PART OF THE MINUTES. When the budget is finally approved by the board, it should be signed by the officers of the organization responsible for it and then incorporated in the minutes.

SPECIAL CONSIDERATIONS FOR BUDGETS OF CHEST AGENCIES. In the presentation of social agency budgets to the budget committees of community chests, the principles which have already been discussed should be followed in the main. Yet some special considerations may enter. The social agency should not pad its budget in the thought that the budget committee will make general cuts in all budgets and that out of the compromise the agency will get at least some of what it expected. Chest committees generally detect such subterfuges and are more likely to cut the budget of an agency which tries to "put something over" than that of an organization which makes the committee a partner in all the planning. The agency should explain to the budget committee of the community chest the social implications of each proposal. The agency should make its proposals conservatively and leave to the budget committee the decision as to whether or not it wants to accept responsibility for the social consequences of failing to make the proposed allocation.

It is a good plan for the agency's representative to discuss its budget with the executive or budget secretary of the community chest in advance of the meeting. He may have in mind special considerations which may either modify the budget or enable the agency to meet, by suitable explanation, objections that are likely to be made.

The community chest should send to the agency, in advance of the meeting, copies of the questions regarding the budget which it sends to its own budget committee.

Sometimes the chest executive, in advance of the budget conference, makes recommendations to the budget committee regarding the agency's budget. Ordinarily, though, he lets the facts speak for themselves and leaves to the agency the support of any proposition it wishes to make.

The agency's budget should always be presented to the chest budget committee by at least two persons—preferably the executive and one or more members of the board. The executive alone is not the proper person to present it, because of his peculiar interest. Also, if he fails to secure what he wants, he may blame the community chest for its lack of sympathy rather than put the blame on his own inadequacy, where it may belong. It is a good thing for him to have some witnesses from his agency observe his performance. Moreover, the board of the agency presumably has assumed responsibility for the budget. Board members should therefore officially stand as budget sponsors. On the other hand, large numbers of important cit-

izens are usually not necessary to impress the budget committee. What the committee wants is facts intelligently presented. Yet it also wants the agency sufficiently represented to make sure that the committee's own point of view is sympathetically presented to the agency's board.

The discussion of the budget should not be a "hearing" in which the chest's budget committee makes a more or less arbitrary decision, but, rather, a conference in which mutual agreement is reached as to which agency budgets are justified in view of the total need to be met by chest agencies and of the funds likely to be available. The social agency which interprets its needs clearly, conservatively, accurately, and graphically is likely to secure the fullest possible appropriation from the funds available for distribution by the budget committee of the community chest.

PRESENTATION OF THE BUDGET TO THE PUBLIC. If the budget does not go to the budget committee of a community chest, it should at least be presented to the public through adequate newspaper publicity or through publication in the agency's bulletin. This presentation should be as complete as the space available allows. It should be accompanied by a specific statement of the reasons for the adoption of the budget. Publicity may be of great value in interpreting the service and plans of the agency. Frankness and fullness of presentation may be important factors in securing the funds which the budget shows are necessary.

CHECKING THE BUDGET AGAINST PERFORMANCE. The budget, even when approved and publicized, is only a chart on which is drawn the prospective progress of the organization, in terms of service as expressed by dollars, toward the goal of a satisfactory year's activity. Progress in terms of both income and expense must be carefully checked against the budget. Expenses must be so handled that they will not run above their appropriations, and income must be watched and stimulated so that it will come up to expectations. Some basis for the measurement of progress must be set up, so that the board, the executive, and the staff can know whether the agency is progressing according to schedule.

(a) *Effective Comparisons.* A satisfactory way to measure the financial status of the agency in relation to its budget is to compare each month's financial report with the budgeted income and expense. This can be done by listing the items of income and expense down the left side of a sheet of paper, and then listing to the right in vertical columns the figures for the total budget for the year, the

pro rata budget for that part of the year which has elapsed (for example, one-third of the budget for the first four months of the year), the actual income and expense for that period, the amounts by which income and expense exceed or are under the budgeted allowance for the period, the budgetary allowance on a pro rata basis for one month, the actual income and expense for the past month, and the amount by which the month's actual experience is greater or less than the average monthly expectation. This tabulation will show clearly the general tendency of income and expense for that part of the year which has elapsed, will point out any difficulties due to operation during the last month, and will suggest action when more attention must be given to increasing income or when expenditures must be watched in order to keep them within the appropriation. A final and useful column may show the balance still unexpended or the amount still to be received in income for each item. A statement of this kind, prepared each month, will give the organization definite means of controlling its operations. The comparative figures should be interpreted, of course, in relation to the variations in income and expense which come with the seasons of the year. Do not bind the agency with a budget, but make the budget serve the agency!

According to various experienced administrators, several useful variations of this general procedure are possible:

One executive of a social settlement figured the *average* monthly expense based on three years' expenditures and then made monthly subtractions from the estimated allowances in the budget. This showed how much remained and gave a basis of comparison with average monthly expenses free from the variations of one year.

The secretary of a community council of social agencies kept a control book of income and expense and tried to distribute the expenditures in relation to the income so that the payment of certain dues and other controllable items was arranged for a time when the financial condition of the agency seemed to warrant those expenditures.

As the secretary of a family agency explained its procedure, "At the beginning of each month each district office is budgeted for relief for the month. The bookkeeper prepares a weekly report showing the amount allowed for relief and the amount expended. This gives us a weekly control which has been very helpful in facing the problem of over-expenditure before it has reached a large figure."

The secretary of a YMCA had all his department heads check up

on budgeted expenditures for the month and for the year to date every ten days, and on budgeted income twice a month, so that any dangerous tendencies would be brought to light before they became serious.

The secretary of a national organization explained its method as follows: "Since certain expenses are seasonal, because printing is apt to vary greatly from month to month, a monthly budget is prepared about a week before the beginning of each month. This is checked over with reference to the budget for the entire year to make sure that the expenditures are being kept within the total budget adopted and within the income which is being received from month to month for the support of the organization."

(b) *Information for Groups Responsible.* Not to the executive alone are budgetary statements useful. They should be submitted to the board of directors and to the executive committee of the organization as evidence of the progress of the work in accordance with the plan that has been made. They may serve as a basis for discussions of agency policies and of measures to meet emergency situations which develop and may require changes in the plan of finance or of service.

More than this, monthly statements should be distributed to staff members responsible for keeping expenditures within the budget and should be discussed with them. Department heads of an organization who are faced with budgetary statements of this character will feel a responsibility for performance. Case workers who can see the relationship of their relief authorizations for clients to the agency's relief bill will be more careful in their expenditures. Dietitians in a children's institution who know whether their own departmental activities are over or under the budget can handle their work with a responsibility which otherwise would be impossible. In the analysis the budget manifestly should be departmentalized. Every person responsible for expenditures should be given the budget information correlated with the monthly financial reports.

(c) *A Means of Avoiding Difficulty.* The budgetary statement should not be merely a basis for post-mortem discussion of difficulties. The analysis of income and expense should be a means for planning expenditures in advance so that the allowance for the various items in the budget will not be exceeded and also for bolstering up finance through further development of the membership, the solicitation of contributions, or additional allocations from the chest budget committee, before the falling off in income becomes so se-

vere that a deficit is incurred. Through the budgetary statement, properly handled, the whole financial program of the organization can be controlled, as well as the activities of the person responsible for expenditures.

(d) *Making Comparisons Vivid.* Budgetary statements can be prepared in a variety of ways which will aid in their effectiveness. They can be expressed in percentages of the total budget or of the pro rata appropriation of income and expense for the year to date. If the annual allowance for a day nursery is \$4,800 and the agency in three months has spent \$2,400 of this amount, it can be shown that the organization has spent either 50 per cent of its annual appropriation or 200 per cent of its three-month pro rata allowance of \$1,200; or, in percentage of over-expenditure for the pro rata allowance for this period, it would have overspent its allowance 100 per cent.

These relationships can also be expressed by charts, with bars which correspond to the percentage expenditure for each item. Curves can also be used to show the cumulative totals of income and expense from month to month in comparison with those which show the normal income and expense; or they can show the actual relationship of budget and performance month by month either in dollars or in percentages. Graphic presentation will help forcefully in calling attention to the danger points in financial experience.

ACTION ON BUDGETARY INFORMATION. The tendency revealed by the monthly budgetary statements should be translated into prompt action in the social agency. It is manifestly impossible for any organization to estimate with absolute accuracy its income and expense in detail for twelve, fifteen, or eighteen months ahead. Experience seldom checks up with anticipation. On the other hand, as noted at the beginning of this chapter, the budget is, in terms of dollars, a picture of the program of the agency's service. The budget represents an appropriation by the governing board (and often by the community chest) for the activities of the agency, and it should be adhered to unless conditions make a change necessary. It should be changed only if the board of directors (and the chest board) approves that change.

(a) *Transfers within the Budget.* The executive should be authorized by his board to make small transfers of expenditures from one item to another if such changes do not affect the program of the agency but are merely the result of changed conditions that are beyond control and if they do not entail an increased total expenditure

for the year or commit the agency to greater expenditure for years to come. For example, if \$100 was appropriated for roofing repairs and the actual work was found to cost \$125 because of conditions which were not apparent until the shingles had been wrenched off, it would be proper for the executive to transfer to this expenditure money which had been saved on some other activity. On the other hand, if the executive had an appropriation of \$3,000 for an employee's salary for one year, was unable to find the right person, and employed two people for the last six months at the rate of \$3,000 each per year (paying each only \$1,500 for this six months so that the total expenditure would be \$3,000), the procedure could not be countenanced; the number of persons employed for this salary would not be in accordance with the agency's plan. Moreover, such action would in a sense commit the agency to the employment of two persons at an annual salary of \$3,000 each (\$6,000 per year in all) for the next year.

(b) *Approval by Board and Chest.* The executive should take to his board for approval every situation which calls for a transfer of funds much larger in amount than the agency's total appropriation for the item in question or for an activity that would commit the agency to an increased expenditure for the following year. If the agency is part of a community chest, it should also secure the consent of the budget committee of the chest; for in a sense the organization has a contract to carry on its work in accordance with its budget, in return for the funds supplied through the chest.

(c) *Periodical Revision of the Budget.* The above does not mean that the budget is to be held inviolate. After all, it is merely a plan and an estimate which should be changed when conditions are found to differ from those anticipated. It is well to revise the budget in detail each month to accord with the actual experience of the organization. Revision, however, should follow careful analysis and be the result of sound planning. The agency should do its financial planning for at least a year in advance, and it should make changes in its plan only when they are shown to be essential in the light of experience.

(d) *When Income Falls.* A serious situation develops when income falls incurably below expectation and necessary expenses show no drop. The agency must then face the problem of whether it will curtail its service either in quantity or quality, do without proposed additions to equipment or activity, or incur a deficit in the hope that

the shortage can be evened up in later years. No definite rule can be followed.

Our friendly commentator, John B. Dawson of the Community Fund of Philadelphia, correctly adds:

There is the possibility that the agency would reopen the consideration of the budget with the budget committee of the community chest. The chest is a partner in this matter of agency budgeting and would want to take counsel with the agency on any problems which might arise during the year. Moreover, if an agency surplus reverts to the community chest, there is an added obligation resting on the chest to consider the plight of the agency when things go into reverse.

Incidentally, this suggests the further thought that the chest has a stake not only in the financial end result of agency policy but also in the considerations which determine policy. For example, one agency in this area recently decided to increase the rate of payment to its foster mothers for the care of children, without saying anything to either of the chests from which it received support. Apart altogether from the question of whether this would call for more money from the supporting agencies, we felt that the considerations leading to this decision ought to have been reviewed with us before such action was taken, more especially since we were financing two or three other agencies doing similar work and having similar problems. In another instance, two agencies, one within the Community Fund territory and the other outside it, decided to change the dividing line between the territory covered by each and did so in a way which did not conform with the fund-raising territory and which affected the budget of each. In order to act intelligently a budget committee must be aware of the influences and necessities which shape the service program.

If income is irretrievably lost, the agency should ordinarily refrain first of all from engaging in new activities. It would probably postpone the addition of a new department for work already budgeted, the employment of additional workers, raises in pay, replacement of old equipment, or painting and repairs not absolutely necessary. The agency would cut down on appropriations for conference and travel expense (perhaps in the expectation that the workers themselves would pay a larger part of these expenses than would normally be the case). Last of all, the agency would cut down on the adequacy of service or the number of people served.

Actual reduction in service should be announced to the public in advance of actual action, thus giving people a chance to supply enough extra funds to make the cut unnecessary. If the funds were not then forthcoming, the public would know why the agency had to cut down its service.

This point is especially important when the agency is a member of a community chest. Any necessary limitation in service should be discussed with the budget committee of the chest. The chest should in turn be prepared to present the situation to the public and to accept the responsibility if curtailment of service brings complaints.

Indeed, proposed reduction in service should be discussed with the appropriate group in the community council of social agencies. What occurs in one agency may affect many in the closely interwoven fabric of modern social work. Common discussion may lead to inter-agency adjustments in programs and budgets which will meet the community problem presented by the financially disturbed agency.

As John B. Dawson again suggests:

The individual agency budget is important in relation to the community needs and requirements taken as a whole. Sometimes an agency is apt to overlook the fact that, when we assemble all the individual agency budgets and proceed to analyse them and examine the supporting data, we begin to get a picture of the problems, needs, and resources of the community which is of significance both in terms of social welfare planning and for the purpose of determining campaign objectives.

Experience in the area of budgeting has great educational value for board members. Some board members respond to this experience more readily than others, but it has great possibilities for the development of lay participation. For that matter, budgeting in its processes and in its end results can prove of educational value to the community as a whole.

The above discussion should make clear the importance of comparing financial statements in detail with budgets from month to month and of checking them carefully with each month's budgetary allocation and with the year's budgetary allowance for the total period which has elapsed. This procedure is a means of guiding the social agency's ship past the shoals of inadequate finance, out of the storms of increased demands for service, and through the tides of shifting events and of fitful demands of local needs which during the year may necessitate great changes in proposed expenditures. The skipper will modify his course continually in accordance with these chartings of actual financial experience. Thus may he reach safely the goal of the year's economical, effective, and satisfactory service without accumulating a large surplus of funds through unnecessary parsimony in expenditure or unduly cautious underestimation of income. Thus also may he avoid a deficit as a liability on future endeavors. The executive who blandly says he knows nothing about the financial data of his organization is as incompetent as the pilot

of a ship would be if he said he did not know how to tell the position of his ship on the face of the ocean in terms of latitude and longitude. Budgetary control is essential to organization control.

QUESTIONS

1. What definitions can you give for the term budget?
2. In some typical social agency you know, what is the relation of service, actual and projected, to the budget?
3. How is the financial budget related to previous financial experience?
4. Does this agency use departmental budgets? If so, how?
5. Does it use project budgets? If so, how?
6. Does it figure decreases as well as increases in various budget items?
7. How do staff and board members share in budgeting?
8. Are depreciation and hypothetical interest figured in the budget?
9. How is the budget interpreted?
10. If the agency is a member of a community chest, how is the budget presented to the chest for consideration?
11. How is the budget put before the public?
12. How is it checked against performance?
13. What use is made of this information?
14. How if at all are comparisons made graphic?
15. What is the policy concerning transfers of items of expense within the budget?
16. What is done when the expense budget must be revised upward?
17. What is done when income falls short of expectations?
18. How might the practice of the agency in any of these respects be improved?