

City of Richmond

Administrative Manual

SUBJECT: Annual Operating Budget

SECTION: Finance

POLICY NUMBER: AP 501

INITIAL DATE PREPARED: November 24, 1999 **LAST DATE REVISED:** November 24, 1999

I. Purpose

To establish and recognize the City of Richmond's approach in preparing the annual operating budget.

II. Policy

The City's annual operating budget is an essential component of the City's process for financial planning, management and control. The budget is a plan of revenue and expense activities for the fiscal year and is intended to provide a clear, concise, and coordinated financial program to attain the City's goals and objectives.

The City's Policies and Procedures relating to Capital Improvement Budget and Capital Improvement Program (CIP) are included in Policies AP 512 Budgeting and Purchasing of Capital Equipment, AP 513 CIP, and AP 514 Capitalization Policy.

III. Guidelines and Conditions

A. Responsibilities

1. The Director of Finance has the overall administrative responsibility for planning, coordinating, analyzing, preparing and issuing the budget.
2. Each Department Director is responsible for preparing and submitting the budget for the department and its subsidiary divisions in accordance with the budget instructions.
3. The City Manager, in close consultation with the Assistant City Manager and department directors, is responsible for making the final determination of the proposed budget to be submitted for approval to the City Council.
4. The City Council is responsible for approving the annual operating budget.

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B. Budget Cycle

1. The City's fiscal year begins each July 1.
2. The budget has a three-year focus. The budget for the next fiscal year is adopted by the City Council annually. Proposed budgets for two subsequent years are prepared for planning purposes and are approved in concept.

IV. Procedures

A. Preparing the Budget

1. As a general rule, from October to December, the City Manager, Assistant City Manager, the Director of Finance, and Budget and Analysis Division hold a series of planning meetings to analyze financial performance and determine preliminary budget guidelines for the upcoming fiscal year.
2. Following the planning meetings, the Director of Finance prepares strategy recommendations for the upcoming budget and presents them to the City Manager.
3. The City Manager, Assistant City Manager, and the Director of Finance make a final determination of the budget strategy and guidelines.
4. In February, Budget and Analysis drafts the budget guidelines, instructions, supporting materials, forms and worksheets, and distributes them to all departments and divisions responsible for budget preparation.

The budget guidelines are based on financial information that includes:

- a. New budget policies for the upcoming fiscal year.

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- b. Department worksheets with a three-year history of actual and proposed operating revenue and expenses.
 - c. Variance analysis (actual versus budgeted financial activity) and forecast analyses.
5. Budget and Analysis coordinates a series of workshops to provide technical assistance to staff who are involved in preparing budgets for their departments or divisions.
6. Under the direction of the department director, departments and divisions prepare their budgets.
 - a. Budgets are expected to conform to the standards set forth in the Budget Guidelines and Instructions (AP 501-1).
 - b. Should the budget deviate from those standards, the department or division prepares a justification.
 - c. If a department's proposed budget includes new programs, the department includes information and justification on the programs including amounts that will be required to fund their implementation.
7. When the division and department budgets are completed, the department director reviews them and forwards them to Budget and Analysis.
8. Budget and Analysis compiles the divisional and departmental budgets into a draft for a single City-wide budget, analyzing all revenue and expenditure projections to ensure that they meet the City goals and objectives, adhere to the budget guidelines and that no category has been overlooked.

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9. Budget and Analysis presents to the City Manager and the Director of Finance the completed draft budget and a master list of departments' proposed new programs.
10. The City Manager, Director of Finance, and department directors meet between March and the end of April to review the draft budget, make necessary adjustments and determine which of the proposed new programs will be adopted. These meetings are an opportunity for each department and division to present their proposed budget and their justifications for new programs, and to enhance senior management's knowledge of operational needs.
11. When the draft budget has been approved by the City Manager, Assistant City Manager, and the Director of Finance, the adjusted divisional and departmental budgets are returned to the department directors for their information and acknowledgment.
12. In early May, Budget and Analysis compiles a brief summary of the draft budget (AP 501-2) and sends a copy to the City Council pursuant to the applicable City resolution.
13. Budget and Analysis distributes the draft budget summary to the City Council. At the May City Council meeting, the department directors hold a work session to inform the City Council about the budget and the strategies and the financial data upon which it is based.
14. Based upon the City Council's comments, Budget and Analysis may subsequently revise the draft budget.
15. At its June meeting, the City Council adopts the budget for the first fiscal year formally and the two other years in concept. Once adopted, the budget is the City Council approved operational plan for the ensuing fiscal year (AP

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B. Monitoring the Budget

1. Once in place, the adopted budget becomes the main internal control document used to monitor and manage the City's financial position.
2. Accounting provides a Monthly Revenue and Expenditures Report (AP 501-4) to department directors indicating revenue and expenditures for the month and year to date. These data are intended to help department directors control expenditures and maximize revenue.
3. Department directors review the reports and prepare written explanations of significant variances between actual revenues and expenditures and the budget projections.
4. After receiving the Monthly Revenue and Expenditures Report (AP 501-4) for the quarter ending month, department directors may submit new appropriation requests and adjustments to the adopted budget. The Budget and Analysis Division prepares quarterly Variance Reports (AP 501-5) for City Council and with approval of the City Manager, Assistant City Manager, and Finance Director, may include requested appropriation changes and/or adjustments for the approval of the City Council.
5. Throughout the year, department directors assist their divisions and departments in taking any necessary corrective action to control costs.

C. Budget Exception Review

1. When a situation arises that requires an expenditure not authorized in the

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budget, the appropriate department director must authorize a request for the expenditure (AP 501-6) in writing to ensure proper fiscal control. This applies to all out-of-budget requests for capital equipment, personnel, renovation projects, contractual services, or program changes that require the expenditure of City resources.

2. The request is submitted to Budget and Analysis for approval. Budget and Analysis works with the division or department to review expenditures to date to identify an appropriate source of funds. Approval of the request is contingent on funds being identified within the scope of the department's budget so as not to exceed the total departmental projected expenses for the year.