

Types of Budgets

Dear Reader:

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We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Types of Budgets

Reference Number: MTAS-1787

There is more than one way to define a budget. Local governments usually use one of three types of budgets: line item, program, or performance. Which budget you should use will depend on what you plan to measure.

Line Item Budget

Reference Number: MTAS-1788

The line item budget typically is used when control is the budget's main function. It also is the budget type most cities and towns use. In a line item budget, expenditures are listed under a large subject area – a fund; then broken down by a function or purpose, such as a department; then by an object, for example, office supplies or utilities. Utilities can then be further broken down into items such as gas, water, and electricity. Imagine a tree, where you start at the trunk, then split into branches, then spread into leaves. The trunk is the General Fund, the large branches are the departments, and the leaves are all the items that will be purchased within each department. The more detailed the line items, the more control the governing body or manager has over expenditures.

According to Budgeting: A Guide for Local Governments:

"... the line-item budget originated in the late nineteenth century in response to the excesses of the political machines that controlled many state and local governments: this format was ideally suited to shifting power away from political bosses and toward legislative bodies, which were more accountable to voters."

The downside to line item budgets is they provide no information about the activities or functions of a program or department and how efficiently they operate. The focus is strictly on what is spent.

Performance Budget

Reference Number: MTAS-1789

A performance budget allocates money to activities or programs; plus it describes the amount of services that will be produced with the money allocated. It allows an adjustment of the level of services provided as to both quality and quantity. It is a very useful budget system, but it is difficult to prepare because of the amount of information necessary to do so properly.

Program Budget

Reference Number: MTAS-1790

A program budget focuses on the services to be provided by the city and budgets money according to functions such as public safety, general government, public works, recreation, etc. It shows the purposes for which money will be spent and the importance the city places on these functions. It does not show the level of services provided, and some say that, as a result, its value as a tool for managing the quantity and quality of public service programs is weakened.

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