Chapter 8

Management of Financial Resources

Chapter Overview

This chapter discusses effective management of financial resources, including the need for budgets, types of budgets, and the budgetary process.

Objectives and Resources

**Learning Objectives**

* Discuss what guidelines should be used for effective management of financial resources.
* Explain why budgets are necessary in fire department operations.
* Describe the expense budget and the capital budget and how they are used.
* Explain the use of budgets in justifying funding requests.
* Explain the budgetary process.

Support Materials

* Dry-erase board and markers
* LCD projector and computer
* PowerPoint presentation

Teaching Tips

* Stress that one important aspect of becoming familiar with the government’s financial operations is understanding where its funding comes from.
* Emphasize that fire officers who understand fiscal responsibility (management’s ability to operate within a budget) are a crucial element in maintaining public trust.
* Note that an expense (or operations) budget contains costs of a recurring nature.
* Remind students that a capital budget lists planned expenditures for items that have a useful life of more than one year.

Presentation Overview

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| Total time: 1 hour 31 minutes (with enhancements) | | |
|  | Activity Type | **Time** |
| Pre-lecture |  |  |
| **I. Case Study** | Small Group Activity/Discussion | 15 minutes |
| Notes\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | |

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| **Lecture** | | | | |
| **I. Introduction** | Lecture/Discussion | | 1.5 minutes | |
| Notes\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | |
| **II. Where Does Public Money Come From?** | Lecture/Discussion | | 4.5 minutes | |
| Notes\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | |
| **III. Fire Department Budgets** | | Lecture/Discussion | | 6 minutes |
| Notes\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | |
| **IV. The Budgetary Process** | | Lecture/Discussion | | 6 minutes |
| Notes\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | |
| **V. Summary** | | Lecture/Discussion | | 3 minutes |
| Notes\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | | |

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| Post-lecture | | |
| **I. Wrap-Up Activities**  Case Study  Challenging Questions | Individual/Small Group Activity/Discussion | 35 minutes |
| **II. Lesson Review** | Discussion | 15 minutes |
| **III. Assignments** | Lecture | 5 minutes |
| Notes\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | |

Pre-lecture

I. Case Study

Time: 15 minutes

Small Group Activity/Discussion

Purpose

To stimulate classroom discussion, capture students’ attention, and provide an overview of the key topics in the chapter.

Instructor Directions

1. Direct students to read the Case Study scenario found at the beginning of Chapter 8.
2. You may assign students to a partner or a group. Direct them to review the discussion questions at the end of the scenario and prepare a response to each question. Facilitate a class dialogue centered on the discussion questions.
3. You may also assign this as an activity and ask students to turn in their comments on a separate piece of paper.

Lecture

I. Introduction

Time: 1.5 minutes

Slide: 3

Lecture/Discussion

A. **Slide 3** Decisions that affect resource allocation have grown more complex.

1. Understand the need for changes in fire and emergency service resources.

a. Develop an understanding of the ways in which funds are generated.

b. Develop an understanding of the systems that allow the management function to occur.

2. In the past, fire departments struggled to fill leadership positions with properly trained professionals.

3. Today, the financial operations of the fire service are very different.

a. Fire service leaders must be able to operate within their given budgetary system.

b. Fire service leaders must be able to follow the many rules, regulations, laws, and similar constraints placed upon the fire service by local government.

4. Fire officers should be familiar with various aspects of managing financial resources.

a. Assist the department in meeting its budgets.

b. Explain related issues to their staff members when the need arises.

II. **Where Does Public Money Come From?**

Time: 4.5 minutes

Slides: 4–6

Lecture/Discussion

A. **Slide 4** Most fire department resources, with the exception of those provided by certain volunteer fire departments, are purchased with public money, which may be supplemented by any of the following alternative means:

1. Financial donations

2. Equipment donations

3. Fundraising events

4. In-kind donations of service by professionals

5. Public-spirited citizens with special skills

6. Reimbursement for services rendered that can be billed to insurance providers or the person served

7. Grants from county, state, and federal sources

a. Assistance to Firefighters Grant (AFG)

b. Staffing for Adequate Fire and Emergency Response (SAFER) Grant

c. Fire Prevention and Safety (FP&S) Grant

8. Slide 5 There are a number of accepted ways in which government can gather the funds to operate:

a. Taxation

i. Real estate taxes

ii. Sales taxes

iii. Income taxes

b. Assessment of user fees

c. Funds from other levels of government

B. **Slide 6** Borrowing

1. Borrowing to provide financial resources is another way to fund government operations.

a. When considering the use of borrowing, it is imperative that the cost of capital be factored into the equation.

2. When funds must be borrowed for large-scale projects, the issuance of government bonds is often a method selected.

a. The jurisdiction depends upon its good name and credit rating to entice lenders to invest in their project.

b. These bonds are generally issued with some level of tax-free status, which allows the lender to accept a lower interest rate because they do not have to pay taxes on their earnings.

c. This tax-free bond mechanism is commonly used by all levels of government.

3. Borrowing money from a local bank can also be a viable option, as long as the best possible rate is available and the amount being borrowed is not too high.

III. Fire Department Budgets

Time: 6 minutes

Slides: 7–10

Lecture/Discussion

A. **Slide 7** Budgets are important management tools, and every fire officer should understand the purposes they serve and the basis for formulating them.

1. Budgets serve the following useful purposes:

a. Guides or forecasts that make planning easier

b. A communications link, joining the department with the public and officials

c. Records showing how fast available funds are being spent

2. Progressive fire departments use the budgetary process to list the goals and objectives of the department, along with the financial resources necessary to achieve them.

B. **Slide 8** The Expense Budget

1. This budget, sometimes called the operating budget, spells out the expenditures that are anticipated for the department’s operations in the coming year.

a. The budget allocates financial resources to the different uses for which the money is intended.

b. Expense budgets contain recurring costs:

i. Salaries

ii. Fringe benefits

iii. Small-equipment purchases

2. Line-item system

a. In a line-item budget, each expense, along with the amount that can be spent on it, is listed on a line.

b. This system makes it difficult to determine how much of the budget is being spent on fire service functions.

c. Line-item budgets also have the potential negative effect of controlling resources too strictly.

3. Program system

a. In a program budget, expenditures are allocated for specific functions.

b. A department estimates the total expense—including items such as salaries and materials used—for performing a specific function over a given period of time.

c. A program budget requires more record keeping than a line-item budget, but it permits a department to fund its work so that the activities that deserve higher priority receive the appropriate attention.

4. Budget worksheets

a. Worksheets usually show the amount budgeted for a function or purpose with a record of expenditures for it during the current year.

C. **Slide 9** The Capital Budget

1. A capital budget lists planned expenditures for items that have a useful life of more than one year.

a. It usually represents the intention of the governing body to allocate the specified amount to the listed item.

2. Funding for capital items, such as a new fire station or new apparatus, must be spread over a number of years.

a. These budgets usually involve only a few items.

b. They are not considered to be working tools for a manager in the same sense that expense budgets are.

D. **Slide 10** Budgetary Justifications

1. There are two aspects to justifying the expense of an item:

a. Showing the need for the item

b. Showing why the requested funds are the best way to satisfy the need

2. Fire officers must be aware of the purchasing requirements that apply in their locality.

a. Bid laws require competitive bidding to assure that the lowest possible price is received.

b. Care must be exercised in drawing up purchase specifications or requests for proposals (RFPs) so that they conform to all legal and procedural requirements.

IV. **The Budgetary Process**

Time: 6 minutes

Slides: 11–14

Lecture/Discussion

A. **Slide 11** Formulation

1. During the formulation phase of budgeting, fire department managers review past budgets to see how well the estimated outlays compared to the actual expenditures.

2. Focus must be paid to the variations in order to make better predictions for the future.

a. Planning suggestions are solicited from each division, bureau, or level of the fire department so that all useful ideas can be considered.

b. Using the specific knowledge of those responsible for implementing the budget helps to set priorities and make more accurate estimates.

3. A budget spreadsheet can be useful during the development of a budget request by showing:

a. How much money was actually spent

b. How much money is requested for the current year

c. How much greater this request is than that of the previous year

B. **Slide 12** Transmittal

1. After the preliminary budget has been prepared, it is transmitted to the local governing body for review, usually by a municipal finance officer or finance committee.

2. The fire chief or a financial officer should be available to answer any questions that may be raised by the governing body.

C. **Slide 13** Approval

1. Once approved, the budget does not take effect until the beginning of the fiscal year.

a. If the budget is not approved in time, a municipality usually permits expenditures at the same rate as the previous year.

2. This process may be altered somewhat for:

a. Volunteer departments that raise funds themselves.

b. Departments that obtain grants for special projects from a private foundation or from the state, provincial, or federal government.

D. **Slide 14** Management

1. After the approval phase, fire department administrators must attempt to manage the department within the budgeted guidelines.

a. Excessive spending and even significant underspending are signs of shortcomings in a department’s competence.

b. These can lead to credibility problems, as well as more critical reception of future budgetary requests.

2. When preparing capital budgets, department management must consider long-range need and the fact that, to some extent, capital and expense budgets compete for funds.

a. Purchasing all new items in one year would be impractical.

b. The expense would cut into a department’s ability to fund other important activities such as fire prevention work.

V. Summary

Time: 3 minutes

Slides: 15–16

Lecture/Discussion

* Slide 15 Typically, a fire officer has few responsibilities in the management of financial resources, except when asked to provide specific input to the planning of the following year’s budget. Still, officers, as managers, should understand budgets and the budgeting process so that they are prepared to answer any questions that arise from team members.
* As an officer rises through the ranks within his or her department, the officer’s exposure to the budgetary process normally increases.
* To be effective in correcting wasteful practices, officers should consider many of the leadership guidelines, especially those that pertain to goals, participation, and psychological rewards.
* Slide 16 Most fire department resources, with the exception of those provided by certain volunteer fire departments, are purchased with public money, which may be supplemented by a number of alternative means.
* The chief officer must at some point present a budget and request funding for the operations of a department. Fire department budgets are important management tools that can be used as guides or forecasts that make planning easier, as a communications link between the department, the public, and officials, and as records showing how fast available funds are being spent.
* Two basic types of budgets are used in municipal fire departments: the expense budget, which spells out the expenditures that are anticipated for the department’s operations in the coming year, and the capital budget, which spells out planned expenditures that have a useful life of more than one year.
* Two basic systems are used to prepare and keep track of the expense budget: the line-item system and the program system (a performance-based or functional system).
* The budgetary process essentially consists of four parts: formulation, transmittal, approval, and management.

Post-lecture

I. Wrap-Up Activities

Time: 35 minutes

Small Group Activity or Individual Activity, and Discussion

A. Case Study

This activity is designed to assist the student in gaining a further understanding of the chapter’s topics. The activity incorporates both critical thinking and the application of fire fighter knowledge.

**Purpose**

This activity allows students an opportunity to analyze a scenario involving principles of management and develop responses to critical-thinking questions.

**Instructor Directions**

* Direct students to read the Case Study scenario located in the Wrap-Up section at the end of Chapter 8.
* Direct students to read and individually answer the quiz questions at the end of the scenario. Allow approximately 7.5 minutes for this part of the activity. Facilitate a class review and dialogue of the answers, allowing students to correct responses as needed. Allow approximately 7.5 minutes for this part of the activity.

**Case Study Questions**

You are teaching a class for fire officer candidates. You require them to create a mock budget based on their own fire departments. They must provide information about the data necessary to create the budget and supply realistic numbers within the budget. Additionally, they must justify the need for budgetary items and provide information necessary for the bidding process.

1. The \_\_\_\_\_ budget is a type of expense budget that allocates expenditures for specific functions.
   1. performance
   2. line-item
   3. broad
   4. **program**
2. Budget \_\_\_\_\_ usually show both the amount budgeted for a function or purpose with a record of expenditures for it during the current year.
   1. **worksheets**
   2. samples
   3. justifications
   4. forecasts
3. \_\_\_\_\_ require competitive bidding to assure that the lowest possible price is received for a budgetary expenditure.
   1. Nonessential budgetary items
   2. Operations budgets
   3. Federal mandates
   4. **Bid laws**
4. Which of the following would be used to issue purchase specifications for competitive bidding?
   1. **Request for proposal**
   2. Budget spreadsheet
   3. Formulation phase data
   4. Expense budget line item

**B. Challenging Question**

**Purpose**

This activity is designed to assist the student in gaining a further understanding of the chapter’s topics. The activity incorporates both critical thinking and the application of fire fighter knowledge.

**Instructor Directions**

* Direct students to the Discussion Questions located in the Wrap-Up section at the end of Chapter 8.
* Direct students to read and individually answer the test questions. Allow approximately 10 minutes for this part of the activity. Facilitate a class review and dialogue of the answers, allowing students to correct responses as needed. Allow approximately 10 minutes for this part of the activity.

**Challenging Question**

1. Obtain a copy of the operating and capital budgets for your department or a copy of the municipal budget that includes the fire department. Figure out where equipment, supplies, maintenance, and repair costs are covered in the budget.

II. Lesson Review

Time: 15 minutes

Discussion

Note: Facilitate the review of this lesson’s major topics using the review questions as direct questions or slides. Answers are found throughout this lesson plan.

1. What are the benefits of involving company officers in the budget planning process?
2. How is a budget system used as a planning tool and a control device?
3. Provide a brief explanation of a line-item budget system and a program budget system, including a simplified example of each.
4. List (and discuss) the steps that must be taken to develop a budget and obtain approval for it.
5. List and describe the ways in which funding can be generated for a fire department.

III. Assignments

Time: 5 minutes

Lecture

A. Advise students to review materials for a quiz (determine date and time).

B. Direct students to read the next chapter in *Management in the Fire Service*, Fifth Edition, as listed in your syllabus.