



10 Steps to Budgeting for Salary and Wages

1

Forecasting. Salaries typically make up the greatest portion of the expenditure budget, so it makes sense to try and better understand how different trends or cost drivers may impact payroll costs.

2

Personnel tracking system.

Budget payroll projections are based on the estimate of budgeted positions for the year, so make sure the number of budgeted positions is correct. If the system that tracks budgeted positions is outside of finance, ensure there is regular coordination and communication to ensure accurate information.

3

Vacancy adjustments. Address expected vacancies in the salary budget. Consider tracking expected start dates; reviewing trends (average filled positions per year versus average vacant positions) to determine the dollar impact of

including a hiring lag; quantifying the money saved by not filling frozen or eliminated positions; tracking unfunded positions; and budgeting payouts where employees have indicated specific retirement dates.

4

Collective bargaining units.

Note the positions that are covered under collective bargaining, identifying the group name and representation, along with the beginning and end date of the contract and key dates in contract provisions; consider setting aside reserves for contract settlements. Also account for any union agreement items such as overtime and holiday premiums that may be different.

5

Impact of inflation.

The Consumer Price Index is used most often for determining cost-of-living adjustments, but the U.S. Bureau of Labor Statistics Employment Cost Index might be a better choice, as it measures the change in the cost of labor, free from the influence of employment shifts among occupations and industries.

6

Optimal staffing level. Some governments compare their staffing levels to those of other governments; some make hiring decisions to fulfill strategic initiatives. You might also use volunteers or part-time or seasonal employees in certain programs or services. Some governments make more use of overtime instead of hiring full-time workers.

7

Compensation approaches.

When analyzing current compensation levels, or comparing to other governments, consider total compensation. Costs of benefits, retirement programs, employee training, and other related costs beyond salary can be significant.

8

Program costs. You may want to consider tracking time and costs that relate to the specific services that your government provides. Tracking costs to specific programs can provide better data for evaluating cost of service and making decisions on how to best achieve outcomes.

9

Outsourcing or shared services.

Governments may be able to improve service levels or reduce costs by considering partnerships with vendors, non-profits, or other governments. However, keep in mind that outsourcing some services may not directly result in position reductions as employees may also be providing other services that were not outsourced.

10

Monitoring. Monitor the salary and wages budget throughout the year, not just when the budget is being put together. Should actual results significantly deviate from the budget, you'll need to make adjustments.

For more details, visit:

gfoa.org/materials/effective-budgeting-of-salary-and-wages