

# Business Resilience Toolkit

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## Budgeting

Presented by Jacqui Shaw, Business Consultant

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### Transcript:

Let's talk about the "B" word today.....Hi, I'm Jacqui Shaw, a Finance Consultant with CBB, & I'm going to briefly chat with you about budgeting processes.

I'll start off here with my definition of what a budget is.....a budget is basically a financial plan for a specified, future period of time.

So, why are budgets important financial management tools for your, & every, organisation?

- ▶ Budgets are important as they help you control, track & monitor the financial performance of your organisation;
- ▶ They help you to plan & stay focused on your organisation's future activities & direction;
- ▶ Budgets help you to see if you can fund your upcoming commitments;
- ▶ And they can help you acquire finance;
- ▶ Having a budget, assists you in making confident financial decisions;
- ▶ and budgets can help you identify trends, & also identify problems before they occur eg cashflow difficulties.

Now, what are some good budgeting requirements that you can follow?:-

- ▶ Firstly, your budget should reflect your strategic vision and mission, for example, if your budget shows a huge profit, but your mission is to have a social impact, it would appear/be apparent that the budget doesn't seem to align well with your mission. Your organisational strategy will determine the activities you need to deliver to achieve your strategic objectives, and your budget is the costing of these activities. Your organisational strategy may also include targets for surplus and growth, and may also include the building of future reserves that your organisation may need.
- ▶ Timing! Now, there's a few things here - Set the timeframe that your budget will cover, along with how this will be broken down eg. monthly, quarterly, etc, so that it aligns with your organisation's needs.
  - ▶ Plan to ensure that your budget is approved & in place for the start of the time period you're budgeting for.
  - ▶ And allow enough preparation, consultation & thought time in the lead up to this - as your organisation's budget will pretty much never be completed on the first cut of the numbers.
- ▶ Give thought to the methodology/calculation basis that you will employ to prepare your budget – for example, will you start with a blank slate from scratch, or say use the current year's projected actuals with a percentage increase as your starting point? But think about the best way to tackle this for your organisation – if there are significant activity & strategy changes from one year to the next,

using projected actuals with a flat increase wouldn't be the most robust approach. And don't forget that not all revenue & expenditure increases at the same rate.

- ▶ Also give thought to what your known commitments are for the coming year. Eg. which of your grants are part way through or coming to the end of their agreement, & other contractual or lease agreement arrangements & scheduled wage increases.
- ▶ Whatever way you decide to start the process, ensure you have sufficient & accurate revenue & expenditure line item categories.
- ▶ Think also about what other information you'd like to see when pulling your budget together, for example, it may be beneficial to have the current year's budget & projected actuals included for comparative analysis, or FTE's summarised on your wages worksheet.
- ▶ Importantly, ensure that your budget document details the basis of how each category line item amount has been calculated – 'cause I can guarantee you, in a couple of months time you probably won't remember specifically how all those numbers came about – and another bonus to this, is that it makes the numbers transparent for all involved.
- ▶ A well communicated budget helps those involved understand the priorities of your organisation.

There are different types of budgets, but the more common ones I see being used are Operating Budgets, Cashflow Budgets & Capital Expenditure Budgets.

- ▶ Operating Budgets relate to your organisation's operational activities - that is, all the different types & amounts, of estimated revenue & expenditure, that is required by your organisation to fulfil it's ongoing, day to day activities.
- ▶ A Cashflow Budget is an estimate of all the incoming & outgoing money to your organisation's bank accounts over the specified budget period. It is a useful tool that can help avoid short term cash shortages, or at least allow you to plan or prepare for them. It can also help you if you need to schedule some irregular or necessary once off expenditure.
- ▶ And Capital Budgets are about the evaluation of major projects or investments, & deals with the allocating of money for the acquisition or maintenance of fixed assets – such as land, buildings, motor vehicles or equipment.

So, once your Budget (or Budgets!) have been approved by your Board, or Management Committee, you now have a clear financial direction on what you expect to occur & when.

I bet right about now you were thinking of heaving a big sigh of relief after wrapping up your budget process....but, hang on.....that's not the whole end of the exercise! So what happens now?.....

The next step is to use your budget as a monitoring tool. This usually happens when your budget is entered into an accounting software package. The reporting in your accounting software should allow you to view your actual results against where your organisation thought it would be at that given time.

By having detailed budget documents you'll be able to work out what, & why, any actual variation has occurred. And by comparing, & reviewing these if needed, allows you to make any necessary organisational adjustments to compensate, minimise risk or perhaps enhance your activities.

Besides the monitoring of your actual financial figures, your budget can also assist with projecting the future financial results for your organisation.

By using a mix of what has already happened financially so far (i.e. historical data), along with the future remaining budget period, you are able to project an estimated, future financial position for your organisation.

Well - I'm pretty sure by now it's apparent why budgeting is such a very important business requirement if your organisation is to be financially on top of it's game.....so probably the final thought I'll leave with you here, is.....that having budgets in place puts you in the financial driver's seat for your organisation – you have control of the financial reigns, so to speak – it doesn't necessarily mean that it will always be a smooth road travelled, but as best as you could have, you've planned your trip & your organisation financially knows where it's headed - and, believe me, that's less stress all round!

I know there's a lot more we could discuss on all the intricacies of budgeting, but I think we'll leave that for another time. I hope you've enjoyed our budget chat today.

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