

Financial training For non financial staff



The financial training specialists

Budgeting toolbox

Introduction

This article looks at some of the tools available to help you reduce your budget.

We will start with a recap of the budget model, then look in more detail at the tools available.

The budgeting model

If you have been on one of our courses, you will know that the important part of the budgeting process isn't the allocation of money to budgetholders, but their decision about how to spend that money.

Our budget setting model asks 5 questions:

What are your organisation's objectives?	1, 2
• How does your department contribute towards these?	
What do you deliver?	3
• Quantity?	4
• Quality?	5
• When?	6
How will you deliver it?	7
What resources do you need?	8
What will they cost?	

The quality of the budget depends on the first four questions. The blue references relate to the notes in the rest of the article.

Turkeys voting for Christmas?

Some of the examples and techniques may make you think “Why should I do that?” But the aim of planning is to put your department in a good place to deal with the difficult times still to come. Planning means you have time to take the initiative.

If public sector funding is to fall by 14% (Alistair Darling's expectations) then both the private and public sectors will feel the pinch. It's better for you to plan the changes now, rather than wait for someone to inflict them on you.

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1 The strategic purpose of the organisation

What is the aim of your organisation? How does your department or team help fulfil those aims?

Teams are put together and grow over time, often outliving their original purpose. Does your team still fulfil a useful purpose?

2 Departmental structure

Is your department structured in the most efficient way? If it is centralised, would it be better if it was fragmented across all departments?

Can you benchmark the size of the department against similar departments elsewhere? There is a story about Ford re-organising its worldwide supplier payment department. Numbers were reduced from 500 to 400, and the management felt proud of the result. Until someone noticed that Mazda did the same job with just 4 people!

Is your team duplicating the work of others? If budgets are tight big savings can be made by eliminating unnecessary duplication.

3 What products and services does the department deliver?

List every product and service (I'll refer to them as "outputs") that your department delivers. How does each output support the organisation's aim?

Prioritise the outputs. Which of them add most value to the organisation? Which add least?

Neil Russell-Jones (Business Planning Pocketbook – www.pocketbook.co.uk) has ten categories of priority:

1. Imperative (business cannot function without)
2. Must have (absence will impair business seriously)
3. Should have
4. Could have
5. First to be dropped if funding fails

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6. First to be reinstated if funding increases
 7. Could get funding
 8. Might get funding
 9. Probably won't get funding
 10. Stop this now!

Rather than leave someone else to take the axe to your outputs, do this yourself first!

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Check how your outputs interact with those of other departments. For example, the plans of sales, production, warehousing and delivery departments must interrelate.

4 How many outputs are being delivered?

The law of diminishing returns will apply. As you sell more, the price has to fall to win extra sales. As you deliver more you are delivering to people who need it less.

If money is tight, what is the minimum that you need to deliver and how can you ration the output? This is easier when rationing places on a training course than places in a care home.

What is the cost of each output? This will be made up of a combination of time and materials. If these can be quantified (easier for some things than others), the cost can be calculated.

Once you know the unit cost of each output you can make good cost: benefit decisions.

5 Quality of outputs

Quality costs money. It costs more to build a Rolls Royce than a Ford Focus. But lack of quality also costs money. If your output is substandard you have to repair or replace it, or compensate the customer. You also have to deal with the complaints!

How do you define quality? What is the current level of quality? What is the minimum level of quality that would work? What is the client's expectation? What level do competitors deliver? How much are clients prepared to pay for quality? What are the legal requirements?

These questions give a sliding scale for an acceptable level of quality. The upper limit is defined by the competition and customer expectations. The lower limit is defined by legal requirements and the minimum required for the output to "work".

How do you increase or reduce quality? What is the implication on cost? You can now link cost to quality. The aim should be to deliver an appropriate and affordable level of quality.

6 When are the outputs being delivered?

What is your annual "shape" of demand? When are the highest periods of demand, when are the lowest levels? What is the "shape" of your resources? Key resources may be people (who may want to have school holidays off), or materials of some kind. If you superimpose these two shapes, what gaps are highlighted?

To what extent can the shape of demand and resources be changed?

For example, in a business selling Swaledale lamb, the key resource (lamb) is available in autumn when the lambs go to auction. However, they can be frozen to provide a year round supply. In a Parks maintenance department there is much more work to be done in summer

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than winter, yet the staff are employed throughout the year. If the Parks and Highways department can team up, can Parks staff work on road gritting in winter?

These mismatches may also highlight a need for multi-skilling, storage, or advertising.

It may even be possible to turn this problem into an advantage. For example Grant Thornton second staff from their offices to their national training centre in autumn. This is the quiet season in the offices, but the busy season in the training centre where the new graduates intake is being trained. But for the rest of the year there are staff experienced in training in the offices who can be used as an expert office training resource.

7 Production processes

Earlier we looked at whether we needed the output at all. Now we will look at how we provide the output. A semi efficient production or service delivery process costs more than an efficient one.

What is your process? Many processes have grown over time, and would look radically different if designed from scratch. Try mapping and recording your production process.

Once the process has been mapped, ask “Who else could do this?” “How could it be done differently?” and “How can we ensure an appropriate level of quality?” Then redesign the process in a more sensible way.

If you know how many hours of people’s time and what other resources are involved, the existing and proposed processes can be costed. The finance department can help here.

When working with a public sector client we mapped their existing production process. It quickly became apparent where the duplications and inefficiencies were. Everyone knew why they were doing their bit of the process, but the component parts didn’t fit together efficiently. The client redesigned their process from scratch, and reduced costs by a substantial amount.

The processes to focus on are those that are carried out a large number of times, or those that take a long time to carry out. The law of diminishing returns applies – you will save most by streamlining the processes that cost most.

8 What resources are needed?

Your latest budget report for this year will list the cost of all the resources you have used.

With some of these you have a lot of control over the amount you use (eg people and materials). You have no control over some costs – you have to pay the maintenance contract, for example. Some of your costs are linked to other costs – some costs are allocated on a per head basis, so if you reduce headcount corporate overheads may fall as a result.

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Isolate the costs you can control, and rank them in order of magnitude. Make sure you understand how the costs behave. Which costs are variable (so increase as we do more), and which are fixed (and stay the same even though we do more)?

To some extent your people costs can be reduced by putting some of the ideas above into practice. However, there are other things to look at. Who are the expensive people? Consultants are expensive, how will you replace them? Any consultant (ourselves included!) should only be brought in with an exit strategy in mind. At BAE Systems we frequently hear of expensive consultants who have been working on projects for years. If a lot of overtime is being worked would it be cheaper to recruit another member of staff? Alternatively, if there is a very seasonal pattern to the work is it cheaper to employ fewer full time staff, and pay seasonal staff and overtime instead?

Think about the real cost of replacement however. Bringing an external trainer in to run a course is expensive, but probably cheaper than designing and running a one off specialist course in house. But if the course is being run many times it is probably cheaper to buy the rights to the course and run it in house.

What about wastage? How can it be reduced?

Can expensive resources be replaced with cheaper ones? We have changed how we bind course materials and reduced the cost of binding by some 90%.

Think about the cost of quality. Our Samsung printers cost 6.8p per page for colour, and 1.3p per page for black and white. If we know the cost of quality we can make better decisions.

Looking at alternative suppliers can help. Switching from making phone calls on BT to the most competitive Orange package has cut 20% from our marketing costs.

Summary

This article can be summarised in four budgeting “commandments”:

- know your outputs
- know your quality
- know your processes
- know your costs

Good budgeting is about knowing what is happening, and ensuring things happen as you want them to happen.

Contact us

Phone us on 0121 276 0040, or email us at alex@attainmenttraining.co.uk, and we can arrange a visit to discuss these issues further.