



Budgets – my favourite thing..?

Budgeting! Not a topic to excite and set the pulses racing. It's quite likely that when this subject comes up our eyes glaze over and we think about what else needs doing that day. Or else we listen in confused bewilderment, unsure what the jargon means, feeling unqualified to participate. Or perhaps we just want to go and hide!

When I talk to HR and training managers I am often told that budgeting is done by the finance department. The subtext here is that if it is the province of the finance department, no-one will understand it, and it's up to finance to get it right.

In the present financial situation, however, it is more important than ever that the HR department raises the red flag of revolution, and reclaims budgeting as the right – and privilege – of the line manager.

It is also important for HR to remember that managers need help in learning how to manage their budgets. In many UK organisations the assumption is that budgetholders will pick it up as they go along. For some reason we don't train our surgeons, HGV drivers and sales staff this way!

Budgets aren't really important – there's always a way round them

This is an almost universal misconception. Budgets are often seen as just another target to achieve; an obstacle in the way of doing the job; or another system to be manipulated. They are described with phrases such as 'the black art of finance'; perceived as ancillary, unnecessary financial distractions; almost always misunderstood; and generally feared. How many staff have you come across who have jumped for joy when told they will be made a budgetholder?

Yet this misconception is so wrong. Budgets – when implemented well – do three things.

First, budgets give line managers the authority and resources to achieve success in their roles. Imagine the teenager asking their parents for an allowance. The allowance gives them limited independence to live as they choose. Budgets are similar.

Second, budgets ensure financial success. Unless your organisation has unlimited income, you need to live within that income. Imagine a couple buying their first house. They need to work out what level of mortgage they can afford, along with all the other household bills. If they take on a mortgage they can't afford, they will most likely end up losing their home. Good budgeting makes home owning a fantastic, positive experience. Bad budgeting makes it a prolonged nightmare, ending in failure.

Third, good budgeting helps an organisation decide what its priorities are. It is an integral part of the planning process of deciding what we are doing next year. Line managers must have an input into that discussion. As budgets allocate financial resources, and resources dictate what we can do, leaving the training budget in the hands of the finance department means the Finance Director rather than the training needs analysis dictates what training is carried out!

Because budgeting is so important, and because it is about financing the resources needed to do the job, it is too important to leave in the hands of the finance department. But let's look a bit more closely at what budgeting is, and how different parts of the team are involved in the process.

What do we mean by 'budgeting'?

When we say "budgets" we generally mean the financial budget setting process that happens once a year (when finance sets the budgets); the monthly financial report (produced by finance); and the end of year inquest (carried out by finance) into what went wrong. Budgets are solely a financial tool, and the budgeting process measures money, right?

Wrong!

Budgets are an expression of what we aim to achieve, and how we will achieve that aim. They express the resources we need to achieve success. Money is merely the common denominator all departments use to measure those resources. And because budgets are measured in money, they have become the property of the finance department.

What would happen, though, if money was unlimited, but your organisation only had half the number of staff? The scarce resource we are now allocating is people, not money, and budgets would then come under the HR department. If floor space was the limiting factor, the property department would be allocating the scarce resource.

Stage 1 – how finance allocate budgets

As the finance department is in charge of managing the money resource, they kick off the budgeting process. They will do this by trying to forecast what income is likely in the coming year. And no-one has to be Einstein to know that money is scarcer in 2009 than it was in 2008, and 2010 is unlikely to be significantly better. Alistair Darling has highlighted that it will be 2017 before public expenditure is back to 'normal', so in the public sector there will probably be less income for some time to come.

Once finance have forecast what income is likely to be received next year, that is the 'cake' they will give everyone a slice of. They will allocate all departments a budget, so distributing the cake to all and sundry. This is the first stage in the budget process, and reflects finance saying "This is what we can afford." Many organisations see this as being the end of the budgeting process. It isn't, it's only the beginning.

How do finance carry out this initial allocation? Possibilities include:

- basing the allocation on last year’s budget (plus or minus a few percent). This ignores the reality that some departments might need to deliver a lot more than last year, others a lot less;
- allocating the funds in line with last year’s *actual* expenditure – so the departments that overspend get more, those that underspend get less;
- allocating to departmental directors as a result of a directors’ meeting, leaving directors to allocate the money within their departments. This may mean that all departments are funded according to their requirements, or it may mean that the money goes to the directors who are the best negotiators;
- allocating funds based on results achieved (as the Government does with schools and hospitals). This may be seen as rewarding success, or as denying funding to those departments that need the resources to improve.

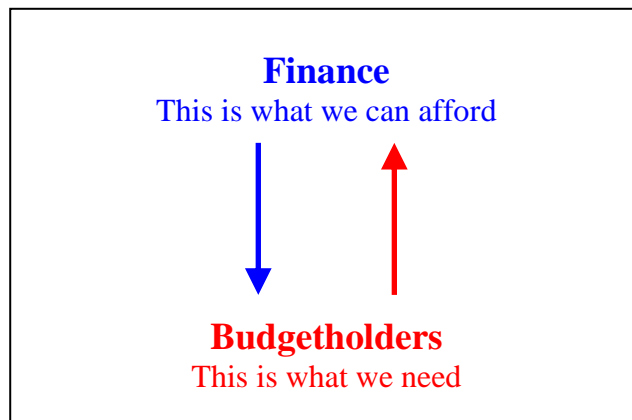
There is no ‘right’ way of doing this initial allocation, and that’s okay if it is only the first stage of the process.

Stage 2 – the budgetholders’ involvement

This is the stage that is often missed out in organisations. When training managers tell me “finance set the budgets here”, it often means this vital second stage has been missed out, and budgets have only been half set.

Finance are merely telling the organisation what is affordable overall. Budgetholders need to say what they need to achieve success in their area.

This second stage means there will be an element of negotiation in the budget process. The end result will be that budgetholders are given the resources they need to achieve their objectives, and the organisation can afford those budgets. Objectives may be prioritised if money is tight, but the whole organisation will look closely at what it plans to do.



This is the same process we see at home.

Some readers will be old enough to remember the early 1990s, when the mortgage interest rate was more than 15%. (For those too young to remember this, it meant the monthly cost of a repayment mortgage was more than doubled!). Amongst other things, I had no holiday that year, and sent back my rented TV and video – measures I would not have dreamt of in easier times. Budgets ask the question “Why are we doing this?”

The weakness of most organisations though, is that the budgetholders don’t know how to fulfil this role in the budgeting process. They are given their initial allocation, and that’s the end of it. (It may also be true that finance departments like it that way. They give the money out, and no-one questions it. It certainly makes life easy.)

So how do budgetholders decide what they need?

This is where the budgeting process can become very powerful, enabling the organisation to become much more financially successful.

There are several steps in budgetholders deciding how much they need.

- 1 They need to ask the existentialist question “Why are we here?” What, for example, is the purpose of the HR department? How does it help support the success of your organisation? What difference would there be if your HR department didn’t exist, and all its tasks remained undone? This question can be asked by the department as a whole, and by each team within it. Organisations are good at creating teams (and departments) that remain long after their purpose has been fulfilled.
- 2 The next question is “What do we *need* to do to achieve our purpose?” Not “What *do* we do,” you will notice. I have a hunch that most departments in a large organisation produce reports that no-one reads! This stage is an opportunity to stop doing things that are unnecessary, and to prioritise the value of what we do. (If we are later asked to save money we can do so fairly easily by stopping doing the lowest priority, least valuable tasks).
- 3 Once we know *what* we are doing, the next question is “*How* do we do it?” This stage can involve the whole team. In a training department this might mean asking ‘do we train people through formal courses; using CBT; on the job training; lunchtime seminars; college release; recommended reading; etc’. We are often blinkered in how we achieve our objectives. Every department also has processes, which tend to be amended from year to year. They end up unwieldy, illogical, and expensive. Changing *how* we do things can dramatically change the *cost* of doing them. As a left brained accountant, I ‘reorganised’ our food shopping by making a shopping list that made it easy to see what we needed to buy. It was organised on a kitchen cupboard by cupboard basis, and listed everything we use. Genius! The next time I went to Sainsbury’s I spent ages dashing up and down the store: my list bore no resemblance to the layout of any sane supermarket! Good ideas can make our processes impossibly expensive.
- 4 The penultimate stage, once we know what we are doing, why and how we are doing it, is seeing what resources we need to do it with. Resources such as people, equipment, supplies, utilities, building space, etc.
- 5 The final stage is setting the budget. This involves costing the resources identified in stage 4. As simple as that!

Reading this, you will probably be aware of three things:

- stage 5, producing the budget, really is a very small and easy stage;
- the budget will only be as good as the effort that has gone into stages 1 to 4;
- these earlier stages involve no financial background or skill, but need deep knowledge of the job.

Begin the revolution – enable financial success!

This is why it is so important for the HR department to reclaim budgeting as the responsibility of the budgetholder.

Being involved in the budget negotiation enables line managers to have the resources they need to do their job.

Through the budgeting process line managers can chop away the dead wood of pointless tasks and inefficient processes that have built up over time.

Only line managers, who understand the detail of what needs to be done, and how it is done, can make savings that will significantly change the financial success of your organisation.

To achieve this you need to ensure your budgetholders have the knowledge and skills to be involved effectively in this process.

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.