***Profiling your budget***

Budgeting achieves two things. It helps the company allocate resources effectively, and it gives the budgetholder a ‘road map’ of their financial journey through the year. It’s this second aspect we’re looking at here.

Think about your personal expenditure. It isn’t spread evenly throughout the year. Christmas is always expensive, so is our summer holiday. Unless we pay our utility bills by direct debit, the month when the quarterly gas, electricity and phone bills coincide with the car and house insurance will be a challenge.

And so it is with our budget at work. We need to understand when we’re spending our money (and when we expect to be billing customers) if we’re going to be in control of our budget.

That’s why we *profile* (or *phase*) our budget. This process is simply spreading the annual budget over the year to show when we expect to spend the money.

**Even expenditure**

Some costs can be divided by 12, and spread evenly over the year. The wage bill for example (unless we know there’ll be a pay rise, or that staff numbers will change). Also any costs we pay by monthly direct debit (utilities, perhaps), or where we know the monthly cost will remain unchanged (rent).

**One-off expenditure**

Other costs will go out in a single lump. Examples might include professional subscriptions; insurance or maintenance contracts (unless we pay the by direct debit); new equipment; etc. We can allocate these costs to the months in which we expect to pay them.

**Uneven expenditure**

Some costs will be very uneven: overtime; contractors; temps, for example. We’ll allocate these costs, as far as possible, to the months in which we expect to incur them. This involves understanding why we have included these costs in our budget.

“The temps are there to provide holiday cover.” In that case it seems sensible to allocate them mostly to July and August.

“We cover our February to May busy season by having lots of overtime.” No prizes for guessing where most of the overtime will be then!

“The contractors will be helping launch the new IT system that’s going live in October.” That will help us allocate those costs correctly.

So the uneven expenditure will be spread unevenly over the year, giving us expensive months and cheap months in the budget.

**Unpredictable expenditure**

There are some costs that we simply can’t predict when we’ll incur them. That’s okay, we have three choices.

First, we can allocate them evenly over the year. We know we won’t spend the money that way, but it’s a best guess.

Secondly, we can front-load the budget, and put the entire budget into month 1. Then we’re spending each month against a pot of budget, and we know how much we still have left. The snag with this approach is that we’ll appear to have more budget than we need, and our budget may get ‘raided’ by the company if things get difficult later in the year.

The third choice is to have the entire budget line for the year in month 12. We’re spending, apparently, without a budget, but we know how much the budget is, and – so long as we don’t exceed that budget – everything will come out fine at the end of the year. It also means we don’t appear to have budget that we don’t need!

## The road map

If we know the link between what we’re doing; our resources; and our budget; and if we’ve profiled our budget accurately, we have a ‘road-map’ of what we expect to spend, and when we expect to spend it.

Any variation in actual expenditure against this road map tells us that we’re deviating from our budget, and gives us plenty of time to take action.

We’ll still need to understand why we’re deviating. It may just be a timing difference, and everything will come out in the wash. It may be more fundamental, and we’ll need to take action to put things right. But the key thing is that it gives us early warning that we might have budget problems later.

The more warning we have, the longer we have to do something about it!