



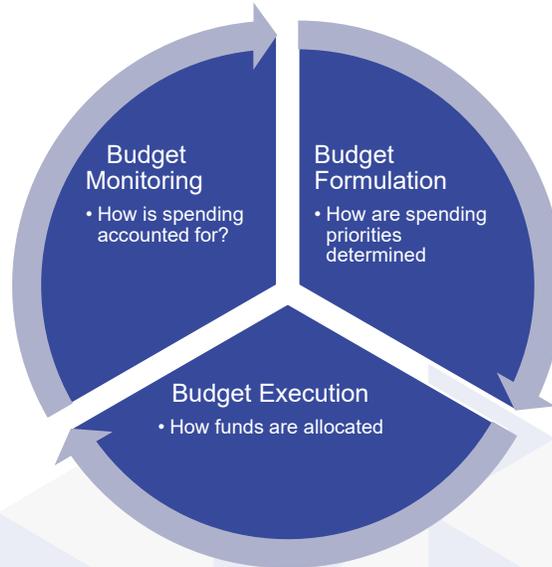
## Proactive Budgeting in the Face of an Uncertain Future

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### Topic Outline

- Budgeting Basics
- Roles and Responsibilities
- How Uncertainty factors into the budgeting process
  - Transforming the operating model
  - Optimizing business processes
  - Right sizing staff size (FTE)
- Monitoring Budgets
- Administrative Tips

## Budgeting is a continuous process



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## Four Types of Budgets

- Operating Budget – Accrual Basis
- Cash Flow Budget
  - LM is Cash Basis
  - Best practice for many locals
- Capital Budget
- Opportunity Budget

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## A Good Budget ...

- Contains well thought out goals that are essential to the organization's success
- Clearly defines the activities and resources needed to achieve organizational goals
- Sets deadlines and establishes a timetable for the activities of the organization
- Defines who is responsible for the budget

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## A Good Budget ...

### Will Allow the Organization to ...

- Gauge whether it is meeting its financial goals
- Provide useful information to internal decision makers and the general public
- Review the performance of its programs and initiatives

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## Organization Wide Budget

### “The Big Picture”

- Central Budget
  - Employees
  - Contract Consultants
  - Building/Facilities Costs
  - Other allocated costs
- Roll Up of Program Budgets

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## Program Budgets

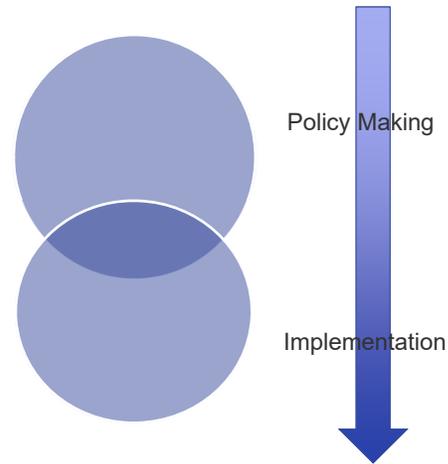
- Operational budgets for individual programs/activities are the building blocks of the organizational budget
  - Costs included should roll up to the organizational budget and include all elements necessary to evaluate the operations of a specific program/activity



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## Budgeting Roles and Responsibilities

- Board Responsibilities
- Shared Responsibilities
- Officers/Staff responsibilities



## Board Responsibilities

- Develop mission statement and endorse fund-wide and state-wide processes and/or plans for the projects
- Establish general polices such as requirements for a balanced budget and use of cash reserves
- Set goals
- Formally reviewing and approving the budget
- Regularly monitoring results

## Board Responsibilities

- Ask Mission Questions
- Reassess the need for high-cost, low-return initiatives
- Consider long term commitments
- Focus on program performance avoiding the time-honored but ill-advised practice of across-the-board spending cuts -- a strategy that implies that everything is equally important at the margin
- Regularly monitoring results

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## Shared Responsibilities

- Strategic Planning
- Goal Setting
- Monitoring
- Corrective Action

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## Officers' Responsibilities

- Schedule strategic planning sessions with the Board (or subset) and prepare recommendations to guide budget development
- Create budget schedule and ensure that deadlines are met
- Review draft budgets and provide recommendations for any changes necessary
- Prepare the budget document for presentation to the Board
- Review financial reports and correct deviations from budget throughout the year
- Make resource allocation decisions
- Communicate results of monitoring to the Board

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## Officers' Responsibilities

- Develop and propose budget goals that will be approved by the Board
- Collaborate with Regional Directors to create detailed operational budgets for each program/activity
- Develop capital budgets for new equipment needed
- Make resource allocation decisions within their areas to meet targets
- Develop scenario budgets
- Monitor and be accountable for variances throughout the year

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## How Does Uncertainty Factor In?



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## Don't Confuse Uncertainty with Distress

### **Distress or Turnaround**

- Cash conservation
- Global cost reduction

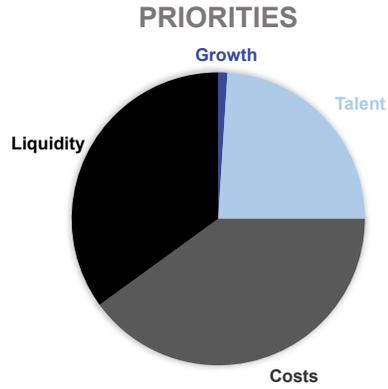
### **Prolonged Uncertainty**

- Transforming operating model
- Optimizing business processes
- Right sizing FTE

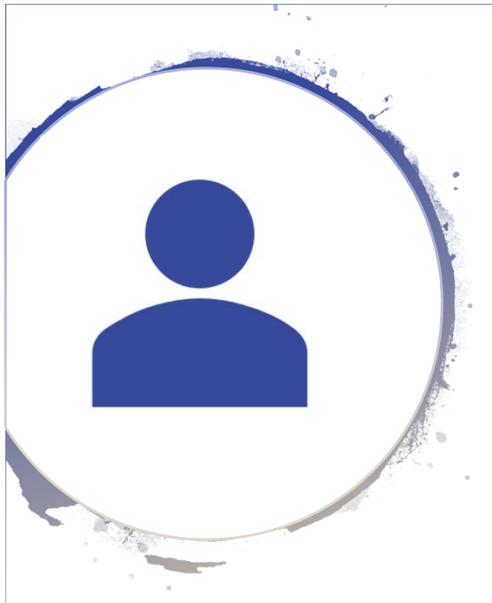
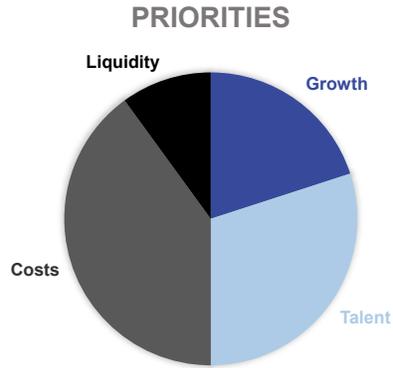
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## Priorities Shift

### Distress or Turnaround

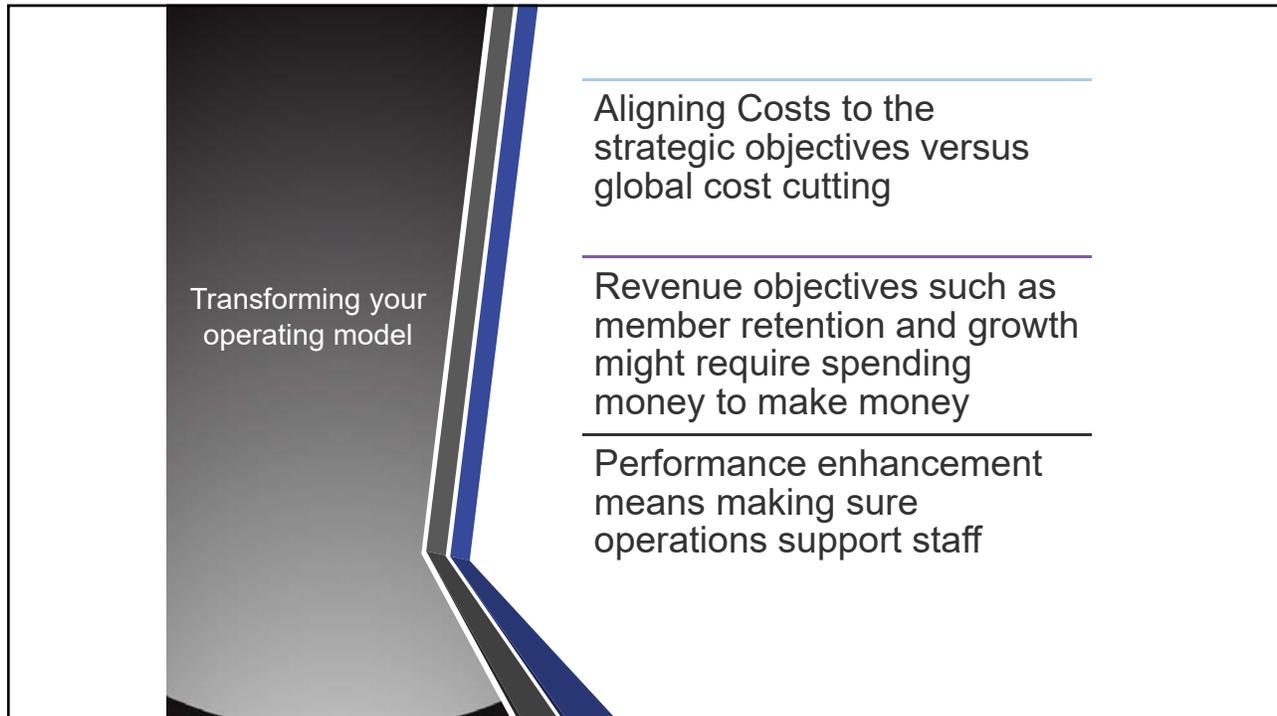


### Prolonged Uncertainty



## Where Do You Start?

- Transforming the operating model
- Optimizing Business Processes
- Right Sizing FTE



Transforming your operating model

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Aligning Costs to the strategic objectives versus global cost cutting

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Revenue objectives such as member retention and growth might require spending money to make money

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Performance enhancement means making sure operations support staff



Aligning Costs to Strategy

- Aligning starts with dissecting and segregating costs
- Good Costs are capabilities that add value and spending focused on what really matters
- Bad costs are non essential areas of spending

## Judging the Good and the Bad

"Lights On" Costs to operate or building costs

Fixed Costs & "Can't avoid"

Constitutional Requirements, DOL Requirements

Not required

Non essential capabilities

Low or no Return on Investment (ROI)

## Benchmarking or Comparing Trends with Other Labor Organizations

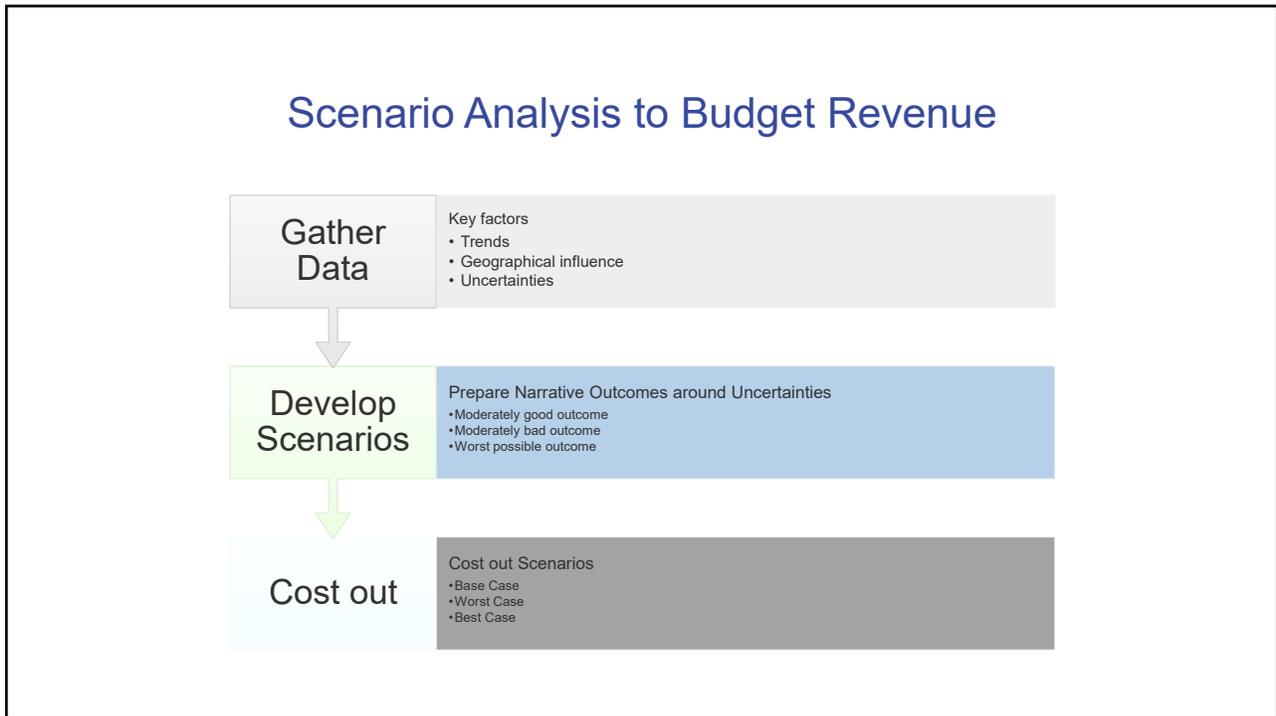


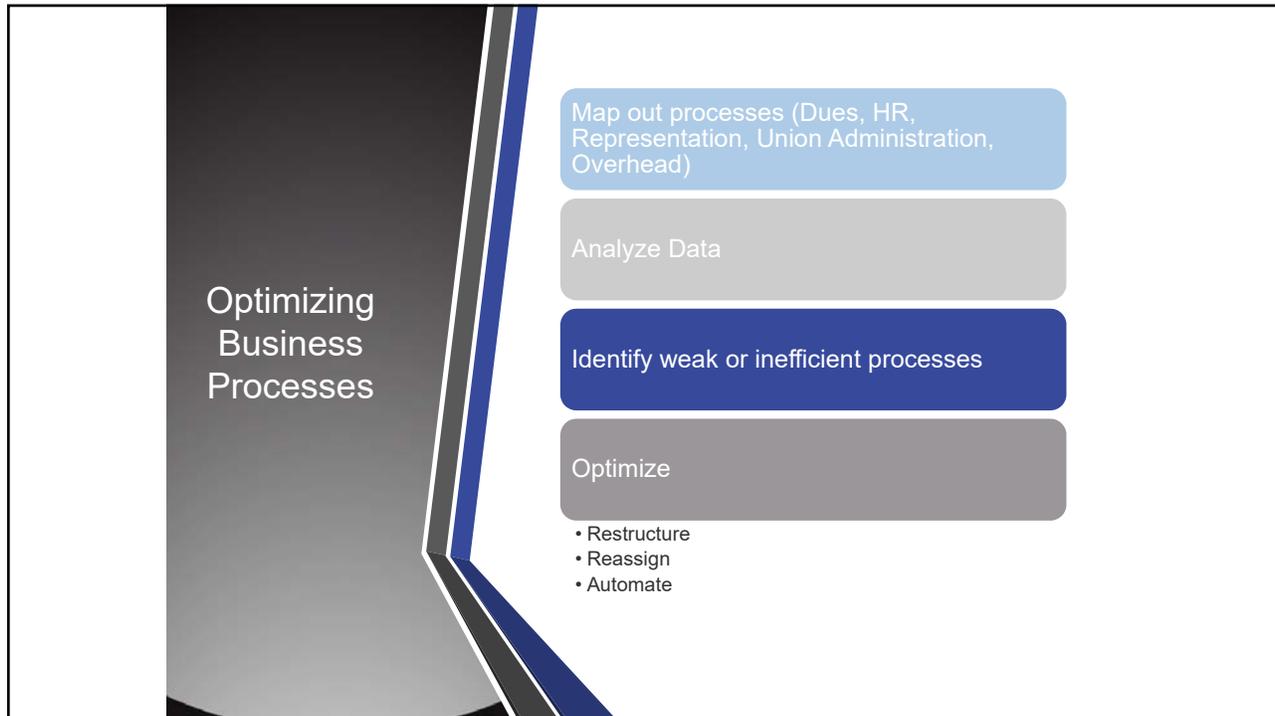
- Identifies best practices
- Highlights potential areas of concern
- Often results in cost savings
- Easy and affordable

**Benchmarking Tools**

**Calibre Labor Union Report**

- Year over Year LM2 Data
- Separates information into three groups based on size of Per Capita Tax/Dues/Fees
- Totals and Averages





## Analyzing Data

- Revenue and expense trends over 3 to 5 years capture nonrecurring items and cycles longer than one year
- Useful in identifying total costs
- Predictable versus unpredictable
  - Per FTE ratios for predicting other costs such as travel, training, use of consultants
  - Historical costs for predicting meeting costs etc
  - Costs subject to COLA



## Analyze your IT Costs

- Business typically spend 4.1% of their revenue budget on IT
- Optimizing technology is essential to performance enhancement
- Potential cost savings
  - Virtualization
  - Outsourcing IT
  - Outsourcing Security
  - Hybrid Cloud Implementation
  - Pay as you go benefits



## Optimizing for Efficiency

- Restructure
- Reassign
- Automate

## Right Sizing the Workforce



## Human Resources Planning

Total  
Organization  
Demand

Auditing  
Jobs and  
Skills

Capabilities  
Inventory

## Matching Demand to Jobs and Skills

### Organization Demand

- Analyzing needs based goals and objectives
- Availability of human resources
- Collective bargaining/unit demands
- Include benefits as a cost component

### Jobs and Skills

- What jobs exist now?
- How many individuals are performing each job?
- How essential is each job?
- What are the characteristics of jobs needed to implement new strategies?

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## Capabilities Inventory

- Compilation of the skills, education and experiences of current employees.
- Assess whether current staff can meet strategic goals
- Identify and plan for training gaps
- Succession planning
- If you don't have a formal evaluation process now is a good time to start!

# Monitoring Budgets

## Current Year Implementing and Monitoring

- Comparing Budget to Actual Results – What Happened?
  - **Actual Expense – Budgeted Expense = Variance**
- Variance Analysis : Why?
  - Typically reported both as an amount and as a %

## Updating Fiscal Projections

Reexamine the assumptions used in projecting income and expenses

Adjustments to the budget must be made if:

- Administrative costs are more than projected
- Price increases were lower than estimated
- New sources of income were found and utilized

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## Variance Analysis

- Small variances are normal and expected
- Large variances need to be understood.

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## Variations can be due to:

- Timing/Delays in processing payments or receiving income
- Uneven spending patterns
- Incorrect profiling of budgets
- Incorrect budget assumptions
- Mis-codings
- Centrally managed budgets
- Activity/Demand changes
- Management of resources

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## Tools for better variance analysis

- Refer back to the narrative portion of the budget to help:
  - Identify incorrect assumptions
  - Identify incorrect budget profiling
- Transaction comparisons; monitoring reports show totals. Ask for lists of transaction detail to help:
  - Identify mis-codings
  - Identify activity/demand changes

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## When to take corrective action

### Typically no corrective action:

- Timing issues
- Uneven spending patterns
- Centrally managed budgets

### Might require corrective action:

- Incorrect profiling of budget
- Mis-codings
- Activity/Demand changes
- Management of resources

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## Corrective Action

### Variance

- Incorrect profiling of budget
- Mis codings
- Activity/Demand changes
- Management of resources

### Possible Corrective Action

- Noted for next years budget
- Reclassification entries
- Re-forecast budget, re-align priorities
- Immediate action to make sure problems don't worsen over time

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## Budget Administrative Tips

- Planning
- Communication

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## Planning the Budget Process

### Four Steps for Developing a Budgeting Calendar

1. Think through the entire budget cycle
2. Establish time frames and specific deadlines
  - Start with known deliverable dates and work backwards
3. Establish accountability by clearly assigning ownership to tasks
4. Allow time for drafts and revisions

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## Communicating the Budget Process

- Budget Kick-Off meeting to introduce the process
  - Budget preparation package with:
    - The Budget Calendar
    - Budget Instructions
    - Budget Worksheets
- Budget Training
  - It may be necessary to go over the Budget Instructions & Worksheets in greater detail at a separate Budget Training Session

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## Suggestions for Budget Instructions

- Each line item should include written narrative that explains and justifies its figures
- Use current year figures as a starting point for next year's budget
- Determine which expenses to have the accounting department budget centrally and have them provide allocations to program directors as appropriate
- Make sure the personnel budget captures total cost including benefits and taxes and proposed increases

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## Payroll Budget Suggestions

- Payroll – Consider OT and travel time in the upcoming year and figure in any anticipated increases; vacation and supplemental dues are added to the base hourly wage to get the taxable wage
- Build Pension/Health & Welfare/Payroll Taxes/ Workers Comp into the workbook so they will be automatically calculated based changes to staffing

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## Travel Budget Suggestions

- Budget trips/events individually and provide narrative. This helps identify and avoid duplication
  - Location
  - Timing
  - Attendees
  - Purpose
- Provide guidelines such as:
  - Limits on airfare, hotel, car rental
- Consider IT and material needs at offsite locations

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## Capital Budget Suggestions

- Evaluate age and book value of furniture and equipment in planning replacement
- Seek economies of scale in purchasing – see if bundling purchases previously made separately might lower prices
- Evaluate cost associated with auto policy
- If you own a building consider a facility condition assessment to prioritize and plan for renovations and repairs

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## Questions?



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