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

- Budget Formulation
  - How are spending priorities determined

- Budget Execution
  - How funds are allocated

- Budget Monitoring
  - How is spending accounted for?

Four Types of Budgets

- Operating Budget – Accrual Basis

- Cash Flow Budget
  - LM is Cash Basis
  - Best practice for many locals

- Capital Budget

- Opportunity Budget
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

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
Organization Wide Budget

“The Big Picture”

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

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
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

Shared Responsibilities

- Strategic Planning
- Goal Setting
- Monitoring
- Corrective Action
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

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
How Does Uncertainty Factor In?

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
Priorities Shift

Distress or Turnaround

PRIORITY
- Growth
- Talent
- Liquidity
- Costs

Prolonged Uncertainty

PRIORITY
- Growth
- Liquidity
- Talent
- Costs

Where Do You Start?

- Transforming the operating model
- Optimizing Business Processes
- Right Sizing FTE
Aligning Costs to the strategic objectives versus global cost cutting

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

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

Scenario Analysis to Budget Revenue

Gather Data
Key factors
- Trends
- Geographical influence
- Uncertainties

Develop Scenarios
Prepare Narrative Outcomes around Uncertainties
- Moderately good outcome
- Moderately bad outcome
- Worst possible outcome

Cost out
Cost out Scenarios
- Basic Case
- Worst Case
- Best Case
Optimizing Business Processes

- Map out processes (Dues, HR, Representation, Union Administration, Overhead)
- Analyze Data
- Identify weak or inefficient processes
- Optimize
  - Restructure
  - Reassign
  - Automate

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?

### 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

Variance Analysis

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

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
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

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
Budget Administrative Tips

- Planning
- Communication

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
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

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
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

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
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

Questions?

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