

## PREPARING A WORKABLE BUDGET CHECKLIST

Preparing a budget is an annual process every budget holding manager has to go through. This checklist is designed to help you avoid the common pitfalls and disappointments that often occur during this process.

You may find it useful to give lower-level budget holders that contribute to your final budget this checklist when briefing them on your requirements. It clearly defines what you expect from them in terms of the thought process and analysis they have performed when compiling their budget figures.

You will need to adapt the elements of the checklist to suit the way your organization works but the principles it describes are universal.

### Being Assigned a target Budget Figure

The annual budgetary process for most organisations starts towards the end of its second quarter or beginning of the third quarter of its financial year.

This begins with the executive board assigning key targets that meet the long-term (4-8 years) business development plans of the organization. The latter will have been altered by the executive board according to their understanding of the organisation's ability to meet the planned objectives in the anticipated environment.

Typically these targets will be based on one or more of the following:

- ✦ Current year's performance against targets,
- ✦ Remaining quarterly forecasts,
- ✦ Economic indicators
- ✦ Potential threats to the organization's goals.

These are then translated into business unit, divisional and departmental targets. They can be presented in a variety of ways and reflect the nature and contribution each makes to the overall goal defined in the business development plan. For example,

- ✦ An annual sales/revenue figure,
- ✦ Percentage increase on this years target,
- ✦ headcount restrictions or cuts,
- ✦ Percentage savings on your current budget.

The resulting figure you are given is what your manager expects you to report back on. This includes a high-level breakdown of how this is allocated between different costs centres.

You will be given a timeframe to present your desired budget figure and an overview explaining how this expenditure will attain the set target.

## Assess How Well Your Current Budget is Performing

Before you can decide what budget is needed for the coming year you must have a clear picture of how well your current budget is performing against its set target.

You look at the impact events, restrictions or regulations that have occurred in the year have had on your budget's performance. You must identify cost areas that have:

- Exceed budget
- Below budget
- Unexpected but necessary
- In hindsight should have been avoided.

For each of these reasons you need to identify what it was you had not anticipated and assess the likelihood it may occur again in the coming year.

Armed with how well your current budget is performing against targets and how accurate your predicted forecasts are based on what has happened before you can begin to put together a budget for the following year.

## Analyse the Implications Next Year's Targets will have on your Budget Figure

Looking at how next years targets differ from the current year's you consider what implications these differences will have on your budgetary needs for the following year.

In broad terms this could mean you require:

- More headcount or need to reduce it
- Make use of contractors, internships or agencies etc.
- Additional training for all/some members of your team
- Change type of activities or agencies to meet targets.

## Prepare an Initial Draft Budget

Draft a budget that you believe will enable you to undertake the necessary activities to achieve the targets you've been given. Carefully consider what this means to each of your costs centres and the implications any changes will have on your ability to attain your target. Where possible you build in a certain level of contingency that you are happy to sacrifice if asked to make further reductions. Every manager is familiar with the saying '*more for less!*'.

This gives you a *desired budget*, which inevitable needs trimming down to meet the targets you've been given.

## Building in Contingency & Acceptability for Your Needs

Using your desired budget you then begin a process of whittling your overall budget figure down to what you think will be acceptable to your superior or board AND meet your set targets.

- Determine if you have any cost areas that can easily be reduced with little or no effect on your set targets.
- It is essential to identify cost areas that CAN'T be reduced without having serious impact on your ability to attain your targets.
- Using what you've established above to experiment with reducing different cost areas and assessing the impact each reduction will have on your ability to succeed.
- Repeat this exercise at least three to four times saving each version carefully so that you can select the one that is closest to the feedback you receive on your submitted version.

Take the opportunity to build in a some contingency wherever possible for each cost area or center. This is the amount you are happy to sacrifice if asked to make further reductions. Every manager is familiar with the saying '*more for less!*'.

## First Budget Submission

For your first budget submission give your manager or supervisor the one that enables you to achieve the most in the following year. Most senior management only require an overall figure for each cost area. They are concerned with how you'll achieve your target with the assigned budget, not the minutiae of each expenditure.

It is necessary to provide a one page summary with each submission you make. This explains and provides a justification of your proposed budget figures, what it enables you to achieve, including any impact and implications it has on your team / department / division in terms of attaining the required target.

**You repeat this process until your budget is approved.**

**NOTE:** *If you are responsible for managing a devolved budget, then ensure that each of those contributing to your overall budget provide you with a full and frank explanation with each submission they make.*

**Always check your budget at every attention to ensure that you are not being charged for an expense or service that is not appropriate to you and your department / division.**