

# **THE MANAGING BUDGETS POCKETBOOK**

By Anne Hawkins and Clive Turner

*Drawings by Phil Hailstone*

“A clear presentation of ‘how to’ in an area of management where there are so many examples of ‘we didn’t’. It successfully deals with a subject area that is either mystique-ridden or handled too simplistically, showing that budgets are based on a series of practical management decisions rather than on one simple technique”.

**Peter Nicholls, Head of Investors In People, Walsall Training & Enterprise Council**

“Typical of Clive’s excellent teaching standards. It deals with a critical process in a very readable style, and reflects the very practical experience that both authors have gained in their careers”.

**Andy Stevens, Chief Operating Officer, Messier-Dowty International**

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## REVENUE BUDGETS

### AIM



The icon shows a calculator and a spreadsheet. The spreadsheet has columns with the pound symbol (£) and contains numerical values: 198.5, 45.7, 300, 2,300, and 150. The calculator also displays the number 198.5.

The Revenue Budget sets out the expenditure plans for the running costs of the business.

- What are we trying to achieve?
  - an effective and efficient allocation of resources to achieve the company plan
- What do many businesses have?
  - a discredited process which everyone ignores!

Why?

Recognise any of the following?

## REVENUE BUDGETS

### THE BUDGET SABOTEURS!



- 1 *“Nobody asked my opinion ... even a half-wit should have realised that we’d need extra maintenance work”*
- 2 *“You want me to set my budget? I’ve got customers screaming, suppliers on strike ... say £10,000 and leave me to get on with my real job”*
- 3 *“My budget for next year? What have I spent this year?”*
- 4 *“I’ll need £9,000 ... I’d better add £1,000 for contingencies, and last year they cut all budgets by 8%, so I’ll top it up by 10% just in case ... Tell them £11,000”*
- 5 *“If my budget gets smaller I’ll lose status in the organisation”*
- 6 *“That’s finished the budget then. Let’s pass it to the accountant and it’s her problem for the next 12 months”*
- 7 *“If I don’t spend everything in my budget I won’t get as much next year”*
- 8 *“As long as I stay within budget, nobody will ask me any questions”*

## REVENUE BUDGETS

# GOLDEN RULES OF BUDGETING



**1: Draw everyone into the process. Build a team solution to a team challenge.**

**DON'T** make budgeting a top-level activity

**DO** involve everyone who is responsible for spending the business's money

- they have 'hands on' knowledge of where resources will be required
- involvement encourages them to 'buy into' the plan
- if they are to be responsible for the outcome they must have a role in determining the resources available to them
- Commitment to the ownership of the figures in the budget plays an important part in making them achievable during the year

NOBODY ASKED  
MY OPINION ..EVEN  
A HALF-WIT...

## REVENUE BUDGETS

# GOLDEN RULES OF BUDGETING



**2: Budgets are a key part of the planning process.  
Invest sufficient time to do them properly!**

**DON'T** underestimate the importance of budget setting ... it **IS** a **VITAL** part of your job

**DO** take sufficient time to set the budget properly

- Setting a budget properly requires you to formulate your plans; this will help with day-to-day decisions as well
- Too low a budget and you spend the next year trying to achieve the impossible
- Too high a budget and you deprive others of valuable resources they could have used to benefit the business

I'VE  
GOT CUSTOMERS  
SCREAMING,  
SUPPLIERS ON  
STRIKE...

## REVENUE BUDGETS

# GOLDEN RULES OF BUDGETING



### 3: Budgets allocate resources to meet future needs. Keep looking ahead!

**DON'T** base the future on the past

**DO** look at what you need to achieve in the budget period

- Making comparison with last year - applying a small across the board increase - is a common method of budgeting; it is one way of finding a starting place, **but it is not enough**
- How many businesses assume next year will be the same as this year - and survive to tell the tale!
- Planning is not easy - next year **will** be different ... in what ways?

WHAT HAVE  
I SPENT  
THIS YEAR?

## REVENUE BUDGETS

# GOLDEN RULES OF BUDGETING



	£	£	£
178.5			
45.7			
300			
2,300			
150			

**4: Budgets allocate scarce resources to competing needs. Don't ask for more than you need!**

**DON'T** pad budgets

**DO** budget on a 'most likely' basis

- Clearly state the budget assumptions
- Explain resource implications of alternative scenarios
- Budget padding turns the budget process into a game - the business will be the loser

BETTER ADD £1,000  
FOR CONTINGENCIES,  
AND I'LL TOP IT UP JUST  
IN CASE OF CUTS ...

## REVENUE BUDGETS

# GOLDEN RULES OF BUDGETING



**5: The successful manager is not the one with the largest budget; he or she is the one who makes best use of the budget available.**

**DON'T** measure people by the size of their budgets!

**DO** judge them by how effectively and efficiently they use the resources available to them

- Condemn empire-building
- Change parochial attitudes aimed at 'protecting' the department
- Promote the team approach



## About the Authors

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