

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 currency symbols (£) and some numerical values.

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

Anne Hawkins, BA, ACMA is a Management Accountant with a first class honours degree in Business Studies. Anne has progressed from this strong knowledge base to gain senior management accounting experience within consumer and industrial product industries. As a Training Consultant she develops and presents finance programmes to Directors and Managers from all sections of industry.



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