

## Is your budgeting process adding value to your company?

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Vast amounts of management and accountants' time are invested right across the country in this exercise. Yet, within months the whole exercise is revisited, and then forecasts are performed.

Have you ever worked out how much is invested in the budget process? We estimate that for a hypothetical company with 500 staff, the personnel costs are between \$310,000 to \$400,000 (based on 42 working weeks a year).

	Accounting & planning	Budget holder
Up dating the guidelines	1	
Up dating the system to take the numbers	1 to 3	
Completion of budgets		1
Liaison / assistance with budget holders	2 to 5	
Consolidation and eliminating of errors	1 to 3	
Re-cuts of the numbers	1 to 3	1
Final budget write up	2 to 4	
Enter budgets into the accounting system	2 to 5	
Re-budgeting during year	3 to 6	1
Update accounting system	2 to 5	
<b>Total weeks of effort</b>	<b>15 to 35</b>	<b>3</b>
Say 50-70 budget holders		170-210
Senior management ( combined time)		5 to 8
Personnel cost ( based on 42 weeks)	\$25-50k	\$285-350k

The real costs to the organisation are however considerably higher as critical resources are being tied up, which could be making money.

Is there a better way? From the waymark solutions studies, participants\* are finding ways to improve the budget process.

### The Problem.

How do you reduce the time while still setting realistic goals / targets?

### Successful steps taken

- robust forecasting / budgeting on-line system
- forecasting out past year end
- management to commit to a budget fortnight
- kick the process off with a formal presentation
- client managers within the accounting function
- the budget is the budget
- "top-down" process to set the limits

### Robust forecasting / budgeting on-line system

Companies are now ensuring that they have an online budget /forecasting system which replaces the less robust spreadsheet based solutions. Directors can have more confidence in the numbers as they are less prone to errors that can creep in when spreadsheets are amended by well meaning budget holders or up graded by the accounting function.

### Forecasting out past year end

If your budget holders are used to forecasting out past year end they are already thinking about the next year's budget. One participant\* forecasts out 6 quarters on a quarterly basis. Each budget holder is now focused on their cost drivers and find the forecasting easy. They prepare their budget in 2 weeks as they simply utilise the relevant 4 quarters that make up the new financial year from their forecasting model and add the additional detail.

### Management to commit to a budget fortnight

By committing the budget holders, including the "budget review committee", to an intensive fortnight of activity, one participant\* manages the budget process in a month. In the first week the budget review committee reads all submissions. In the second week the committee panel interviews each major budget holder ("2 to 3 hours each"). Most adjustments are agreed upon at this meeting as the CEO is on the "budget review committee".

### Kick the process off with a formal presentation.

One participant formally presents its budget package to a "packed house" most budget holders attend as they find it a much more efficient way than fighting their way through lengthy instructions.

### Client managers within the accounting function.

Participants\* are commenting of the positive effect of the finance team being allocated budget holders. It gives a single point of contact, and during the budget preparation is invaluable.

**The budget is the budget.** The growing trend is to stick to the original budget and supplement this by periodically forecasting the year's result. The logic of re-budgeting needs careful consideration. What really will be the benefit? How long will it be more meaningful than the original budget ?

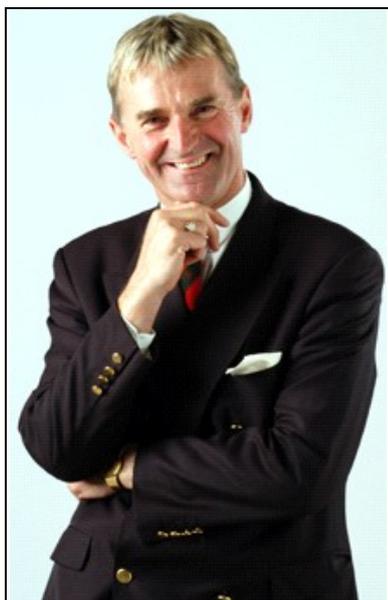
**"Top-down" process to set the limits.** One participant has centralised the budget process. They found that much time was spent by the budget holders in a bottom-up process, only to find that the "first cut" budgeted profit was well down on the previous year and many adjustments had to be made. The accounting function now calculates all the main budget items centrally and offers a "tick if OK" option. The budget holders seem to prefer this approach as a time saver and it has not affected their "ownership" of the budget.

## Last words

- avoid lengthy instructions packs - they may never get read
- accounting staff to become client managers
- provide training to new managers

“quick month end reporting”, “Beware corporate mergers”, “Implementing a Balanced Scorecard in 16 weeks not 16 months”, “Convert your monthly reporting to a management tool”, “Smash through the performance barrier”, “Is your board reporting process out of control?” He can be contacted at [parmenter@waymark.co.nz](mailto:parmenter@waymark.co.nz) or telephone +64 4 499 0007 He has recently completed a series of white papers which can be purchased from his website <http://www.waymark.co.nz>. His recent thinking is accessible from [www.DavidParmenter.Com](http://www.DavidParmenter.Com)

## W riter's biography



David Parmenter is the CEO of waymark solutions. David specialises in assisting organisations measure, report and improve performance. waymark helps organisations streamline their: month-end reporting and annual planning processes, implement quarterly rolling forecasts, adopt the principles of beyond budgeting, develop decision

based reports, and adopt performance measures that will improve performance. He has had speaking engagements in 2007 in Wellington, Auckland, Christchurch, Sydney, Melbourne, Brisbane, Canberra, Adelaide, Perth, Kuala Lumpur, Singapore, Dublin, Edinburgh, Glasgow and London.

John Wiley & Sons Inc are publishing two of his books in 2007 “Key performance indicators – developing, implementing and using winning KPIs” (January 07) and “Pareto's 80/20 Rule for the Corporate Accountant” – better practices from winning finance teams (April 07).

David has an in-depth understanding of better practices of corporate accountants across all sectors. David has also worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse. David is a fellow of the Institute of Chartered Accountants of England and Wales.

He has written over 30 articles for the accounting and management Journals in Australia, Malaysia, Ireland, England and New Zealand. His articles published include: “quarterly rolling planning - removing the barriers to success”, “Throw away the annual budget”, “Maybe its time to look at your KPIs”, “seven time wasters”, and