



Better budgeting

2 – Allocating budgets

There are two sides to budgeting.

One is the organisation's allocation of budgets to budgetholders. The other is about budgetholders deciding how they'll use that allocation to provide the resources to achieve their objectives.

This second aspect is critical, which is why the bulk of these articles focus on it.

But it helps to understand how budgets are allocated.

In the budget allocation process your organisation is slicing up the financial cake for next year, and giving each budgetholder a slice.

The process isn't about "fairness". It's about ensuring each budgetholder has the resources they need; and that there's enough cake to go round.

The first problem is the size of next year's financial cake. What's next year's income? We don't know. But budgets are being allocated out of that income.

The next problem is about individual budgetholders' needs. "How much do you need next year?" "That depends what you want me to do."

If we want the IT department to roll out a new system next year, they'll need more budget than this year.

If there's new Health & Safety legislation, it may have budget implications.

So the allocation needs to be more sophisticated than last year's budget +/- a bit.

But the key is that budget allocation is about achieving organisational objectives. We'll come back to that later when we look at negotiating the allocation.

What are your organisation's objectives? How do you help achieve them? If you can't answer that question, can you justify your budget?

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