

Financial training for non financial staff



The financial training specialists

What if your budget is cut?

Here's another in our series of articles about managing budgets. The examples are based on an HR or Learning & Development budget, the issues are applicable to any discipline.

In "How will you spend your budget?" we looked at the link between what we do and what we spend. In this article we'll look at how we can respond to a cut in our budget.

Why might you have to reduce your budget?

There are generally two scenarios that might require us to reduce our budget.

If you put a budget bid in at budget setting time you'll probably be asked to do the same for 5% (plus) less. This may be because there simply isn't enough income to cover the budgeted expenditure. It may also be as an encouragement to managers to achieve better efficiency. Both are quite valid reasons (even if they are uncomfortable to deal with!).

You may be asked to cut your budget part way through the year. This is likely to be in response to other financial problems within the business. The problem probably isn't of your making, but you've become part of the solution.

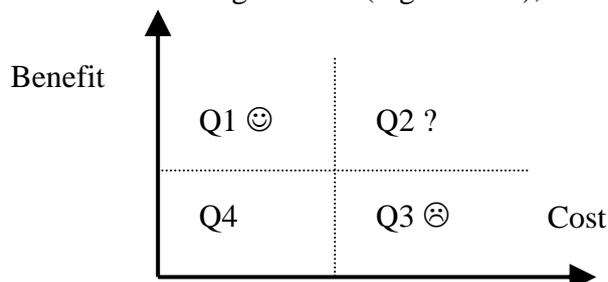
Whatever the cause, we need to have some strategies to respond.

Prioritise

In our last article we looked at the objectives of the organisation, and we listed all the things our cost centre does. The only reason for spending is to achieve the organisation's objectives. So with everything we do we should be able to answer the question "Why are we doing this?"

But some of these tasks will be more important than others. Which ones are vital, which ones are merely "nice to have?" Worse, which ones do we do "because we've always done that"? If we stop doing the low priority things we'll still achieve our objectives, but we'll spend less. A low priority item in a training budget might be providing lunch for course participants.

We can develop this idea by classifying everything we do as high or low benefit, and measure then also measuring the cost (high or low), and then plot the results:



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The quadrant 1 activities are great: low cost and effective – we want to keep doing them.

Equally, quadrant 3 is an obvious area to make savings: these activities are expensive, and don't add much to the organisation.

But what about quadrant 2? “High value, but expensive.” In a training budget this could be the 3 day management course run residentially in a hotel, with 2 external trainers and a bunch of actors for the role play on day 2. It's a priority, but it consumes a quarter of the budget every year, and it only runs three times a year...

There's no simple answer to the quadrant 2 tasks, but we need to know what they are, and how much they cost us.

Quadrant 4 can also be a problem. These things don't cost much, but don't add much value either.

Do less

If we spend money as a result of what we do, we'll spend less if we do less. So we need to know “how many?”

How many people does the training department train? How many reports do we produce? And so on.

Training fewer people will save money. But we train people to benefit the organisation, so training fewer people will have an adverse effect on the organisation.

So it's back to cost/benefit. Does the financial saving outweigh the benefit the organisation will lose from the activity?

Quality

Too little quality costs: it costs more to put things right than to do them right first time. But too much quality costs as well. From a training point of view quality could be the number of people on a course, or course length. Very small groups led by experts would be the Rolls Royce of training, but would probably be prohibitively expensive.

More people on course means fewer courses, which saves money. So we do we draw the line. 4 people on a course? 8? 12? 20? 50?

It's up to the training manager (the organisation's training expert) to make recommendations about quality, but there will often be a compromise between quality and cost.

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Course length is another example of quality. The longer the course the more we can cover, but the higher the cost. So what must we cover, and what could we cover? Is this the same for all participants?

Of course, the training manager's recommendations may not be accepted: "I quite agree that this is what we should be doing, but we can't afford to do it. This is how much we can afford, so what can we do with that?"

Do it differently

There are usually several different ways to achieve an objective. For example, from a training point of view we could:

- run a course
- provide some e-learning
- gather a library of training books
- find some evening classes
- etc

It's back to the cost/benefit analysis. Different methods have different costs, and we'll have views about their effectiveness.

The key question in the face of a demand to reduce costs is "How else could we achieve the same result?"

Who's doing the work?

One of the questions in the budgeting model was "What resources do you need?" It's these resources that cost the money.

We'll look at staff costs specifically in a later article, here we'll just focus on the expensive resources. Typically these are contractors, consultants and agency staff.

Do we really need them, and what's our exit strategy? We want to avoid the "permanent temps" – the contractor (on a high daily rate) who has been with the organisation 15 days a month for 18 months now...

What next?

In another article we'll look at staff costs in more detail, and at negotiating for more budget.

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