***Forecasting costs***

In our budget we are forecasting our costs and revenue for the coming year. If we’re going to forecast our costs correctly, we need to forecast the resources that we’ll be spending that money on. So our budgeting process begins with our objectives:

1. What do we have to achieve or deliver next year?
2. What’s our plan for doing that?
3. What resources do we need?
4. So what will those resources cost?

Question 4 is the cost question, but we need to answer questions 1 through to 3 first.

Once we get to question 3 we can think about those resources in several ways.

**What people resources do I need?**

This will probably involve our current team, but we may need to enlarge (or even reduce) that team. How will we get the right number of people in place, and are there any associated recruitment or redundancy costs? Will we need overtime, temps or agency staff, or contractors to fill the gaps at busy times? What’s the cost of these temporary resources?

**What about the skill mix?**

It’s not just about having enough people, it’s about having the people with the right skills. Has our team got the skills it needs to achieve our objectives? If not, how will we get those skills on board, and what’s the cost of that?

**And equipment?**

What about machinery; vehicles; tools; IT software and hardware; furniture; etc? We need to know what we need, and what the cost will be. If we’re looking at expensive equipment we may need to make a bid for capital expenditure, if it’s smaller scale stuff it may come out of our running costs budget.

**Don’t forget the day to day ‘stuff’.**

Stationery, toner cartridges and postage add up surprisingly quickly! If we’re manufacturing there will be all kinds of other materials. We’ll need to be clear about what we need, and its cost.

**Do management charges and other costs get added on to budgets?**

Many organisations allocate central overheads to teams that use the HR, IT or Finance functions’ services. Depreciation may be charged to your budget. Don’t forget to include these when forecasting your costs!

**Development for the future.**

All budgets should include what we’re delivering this year, but also what we need to do this year to remain ‘fit for the future’. For organisations this will involve things like marketing; research; product development; staff development; investment in new equipment or buildings; etc. We need to understand how much of this relates to our team; and include the appropriate cost.

**Subscriptions; maintenance contracts; hire costs; etc.**

 We may pay professional subscriptions: have we included the cost of that? If we pay an annual or monthly charge for equipment hire or for maintenance, we’ll need to include those. Because we pay many of these only once a year it’s easy to forget them!

**What are our costs at the moment?**

Budgeting isn’t about simply repeating this year’s costs; it’s about forecasting what we’ll be doing next year. But it’s useful to look through our current costs just to make sure we haven’t missed out anything obvious!

**Get professional help!**

The Finance department are there to help. Once you’re sure you’ve included all your costs, it’s useful to talk it through with Finance to ensure you haven’t missed anything out, or included anything that you don’t need to include.

**What if I’m just told what my budget is?**

Even if your budget is just allocated to you with no discussion, you still need to go through this process to work out how you’ll achieve your objectives within the allocated budget. if you haven’t got enough budget to achieve your objectives you’ll need to raise that as an important issue.