

Financial training For non financial staff



The financial training specialists

Financial habits - part 8 (Budgeting, Profit)

The final habit in this series is about seeing our budget in the context of our objectives.

We're given a budget to deliver our objectives. If we spend the money, but don't deliver what's needed, we can't justify spending the money - whether we're under or over budget.

So our thought process becomes: "I'm under budget by 5% - that's good. However, I've only achieved 90% of my objectives." If we've only achieved 90% of our agreed objectives, perhaps we should have only spent 90% of our budget?

The converse can be true: "I've over-spent by 5%, but I've over-delivered against target by 10%." That's surely a reasonable outcome - but can the business afford the overspend?

And there's a problem with information. Finance will deliver our financial results but can't tell us about progress against objectives: how do we get that information?

When we agree our budgets at the start of the year, it makes link that to our objectives. As we go through the year additional tasks will almost certainly be loaded onto us. Do those tasks come with additional budget? If not, how will we resource them? If we're being asked to do additional tasks with no additional budget, what can we stop doing instead? And do we need agreement to stop doing those tasks?

We're looking here at the budget being our *input* to finance our resources, and our objectives being our *output*. Of course they're linked - our job as a financial manager is to understand that link.