

Financial training For non financial staff



The financial training specialists

How much? (3) (budgeting)

This article looks at discretionary and non discretionary costs. Previous articles have seen how the cost per unit generally falls as the number of units rises and how we can control the amount of some – but not all – costs.

Discretionary costs are those costs we have a choice about incurring. They have similarities to controllable costs, but the underlying issues are about the benefits they bring.

We'll stick with the example of the car. Car tax and third party insurance are a legal requirement, so are non discretionary. Depreciation is non discretionary in that it cannot be avoided. Once I have decided to make a particular journey, fuel costs are non discretionary, although they are partly controllable.

Fully comprehensive insurance is discretionary, as is AA or RAC cover. However, I choose to incur these costs for the benefits they bring. When my car broke down in winter, on the A1 outside Newcastle, I quickly revised my thoughts about cancelling my RAC membership. Fully comprehensive insurance is a financial bet to cover me against the inconvenience of having to finance a replacement vehicle.

The entire cost of running a car is discretionary – many of us would find it cheaper to use public transport. Cheaper, but far less convenient!

If budgets are under pressure one response is to identify the costs & activities that give least benefit to the organisation, and propose cancelling them. This may promote a real cost/benefit discussion that could bring value to the organisation.