

# How to Budget Effectively in Changing Times

Rob Faulk, Partner



# Learning Objectives

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## You will be able to:

- **Tie budgets to strategy, even in uncertain times**
- **Create budget scenarios when everything is changing**
- **Develop strategies for reducing costs**

# The Challenge

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**Current pandemic and economic circumstances create uncertainty regarding future revenues, expenses, opportunities, and challenges**

**Shifting priorities, strategies, tactics**

**This is an Opportunity**

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***Man built most nobly  
when limitations  
were at their greatest***

**Frank Lloyd Wright**

# **This is an Imperative**

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**Things will never be  
the same again**

***Adapt or die***

**—Brad Pitt, *Moneyball***

# Key Considerations

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**Don't let ambiguity lead to inaction—act on what you know or can anticipate**

**Understand those changes and how they impact ministry activities and required resources**

- **What activities are stopping, and what are the associated costs?**
- **What activities are starting, and what are the associated costs?**
- **What new infrastructure is required?**

# **Cash Flow is Vital**

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**Update cash flow forecast**

**As granular as required**

- **Budget may look at monthly cash flow**
- **Now it may need to be weekly or even daily**

# Budgeting Directions

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## Top-down

- **Pros—efficient**
- **Cons—lack of ownership by others**

## Bottom-up

- **Pros—buy-in and more realistic**
- **Cons—time-consuming and difficult to administer**



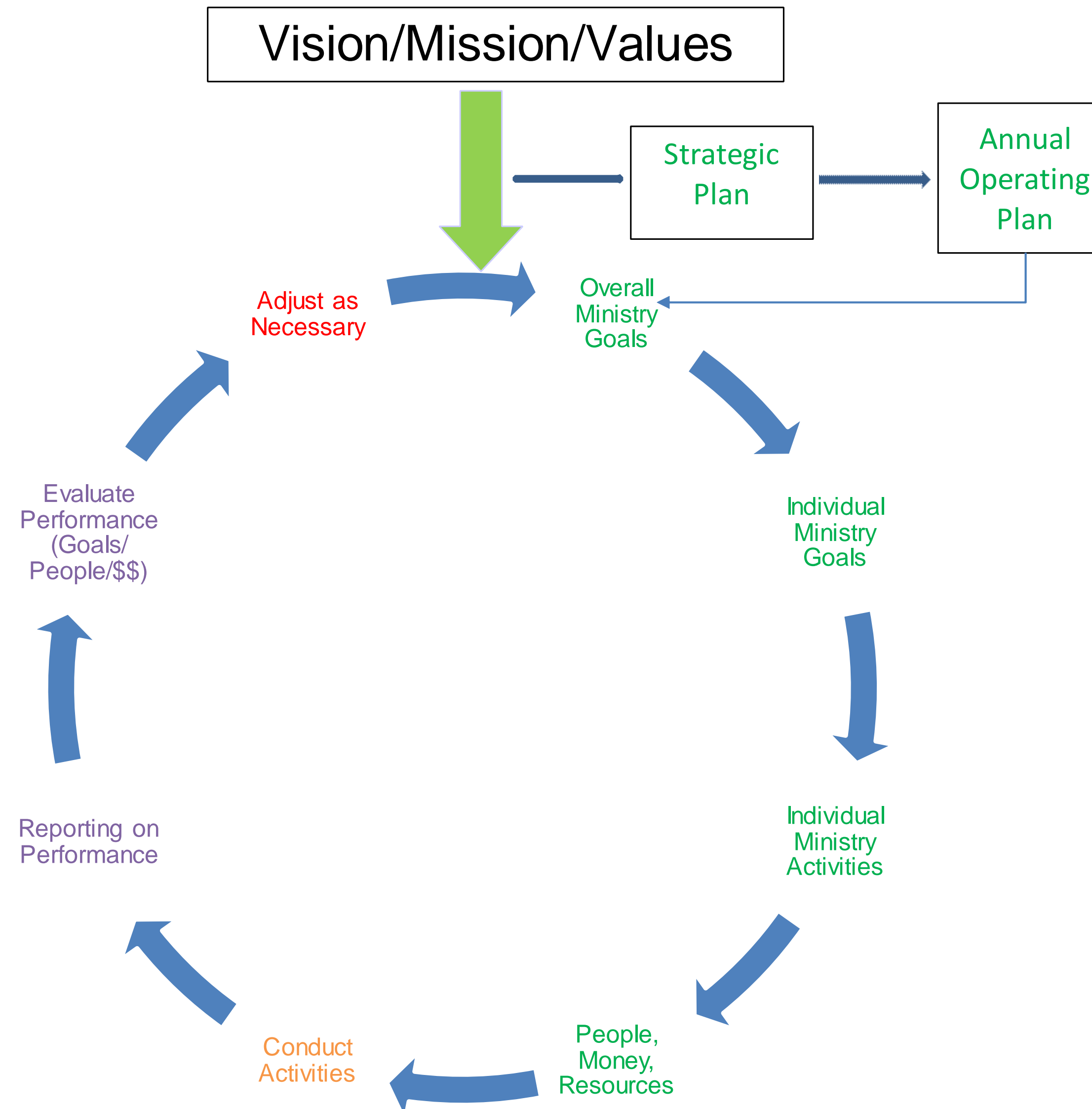
# Budget Strategies

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**Driven by the organization's strategic plan**

- **Key first step**
- **1 year, 2 year, 5 year**
- **Example—Nonprofit Administration Model**

# Strategically Vital Nonprofit Administration Model



# What's the Budget About

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**Priorities!**

# **Ask What Has Changed**

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**Because of the impact of COVID and the resulting uncertainty, how have the following changed?**

- Strategic plan?**
- Annual operating plan?**
- Overall ministry goals?**

# Ask What Has Changed

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**What key assumptions or drivers have changed?**

## **Revenue**

- **Expected giving?**
- **Contracts/grants?**
- **Other revenue sources?**

## **Expenses**

- **Personnel?**
- **Travel?**
- **Other?**

# Challenge Your Assumptions

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## Expenses

### Fixed

- Are they really fixed?
- What can be negotiated, deferred, eliminated?

### Semi-fixed

- Personnel
- Employee benefits

### Variable

# Don't Do These

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- **Ignore cash reserves**
- **Unrealistic income forecasts**
- **Across-the-board cuts**
- **Fail to inform your donors, congregants**
- **Let emotions drive difficult decisions**

# Do These

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- **Communicate, communicate, communicate**
- **Solicit input from all levels of the organization**
- **Create multiple budgets**
  - **Baseline**
  - **Over baseline—10%, 20%, more**
  - **Under baseline—10%, 20%, more**
  - **Determine in advance triggers for additional spending/  
additional cuts**
- **Monitor actuals vs. budgets regularly**



# The Revised Budget

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**What if the revised budget shows an unsustainable loss?**

- **Don't panic**
- **Revisit analysis – challenge your assumptions again**

# What Costs to Cut?

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## Ministry-by-ministry or departmental approach

- **Ineffective ministries/departments – sacred cows, outdated ministries, etc.**
- **Inefficient processes or practices**
- **Non-strategic ministries**
- **Reverse order of how a start-up would build the ministry**
- **Personnel who aren't performing or are in non-strategic positions**

# Maintain Perspective

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**COVID-19 won't last forever**

**With challenges come opportunities**

**Consider what your ministry will look like post-pandemic**

- **Changes now aren't just for survival but to position the ministry to flourish post-pandemic**

# Things to Remember

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**There may be fear in your organization**

**Communicate**

- **As often as possible**
- **As honestly as you can**
- **Ask for input**

**Don't sugarcoat, but don't *catastrophize***

# Things to Consider

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**Rolling budgets**

**Building/rebuilding cash reserves**

- Target three to six months of expenses

**Debt reduction strategies**

**Imagine and re-imagine ...  
creativity counts**

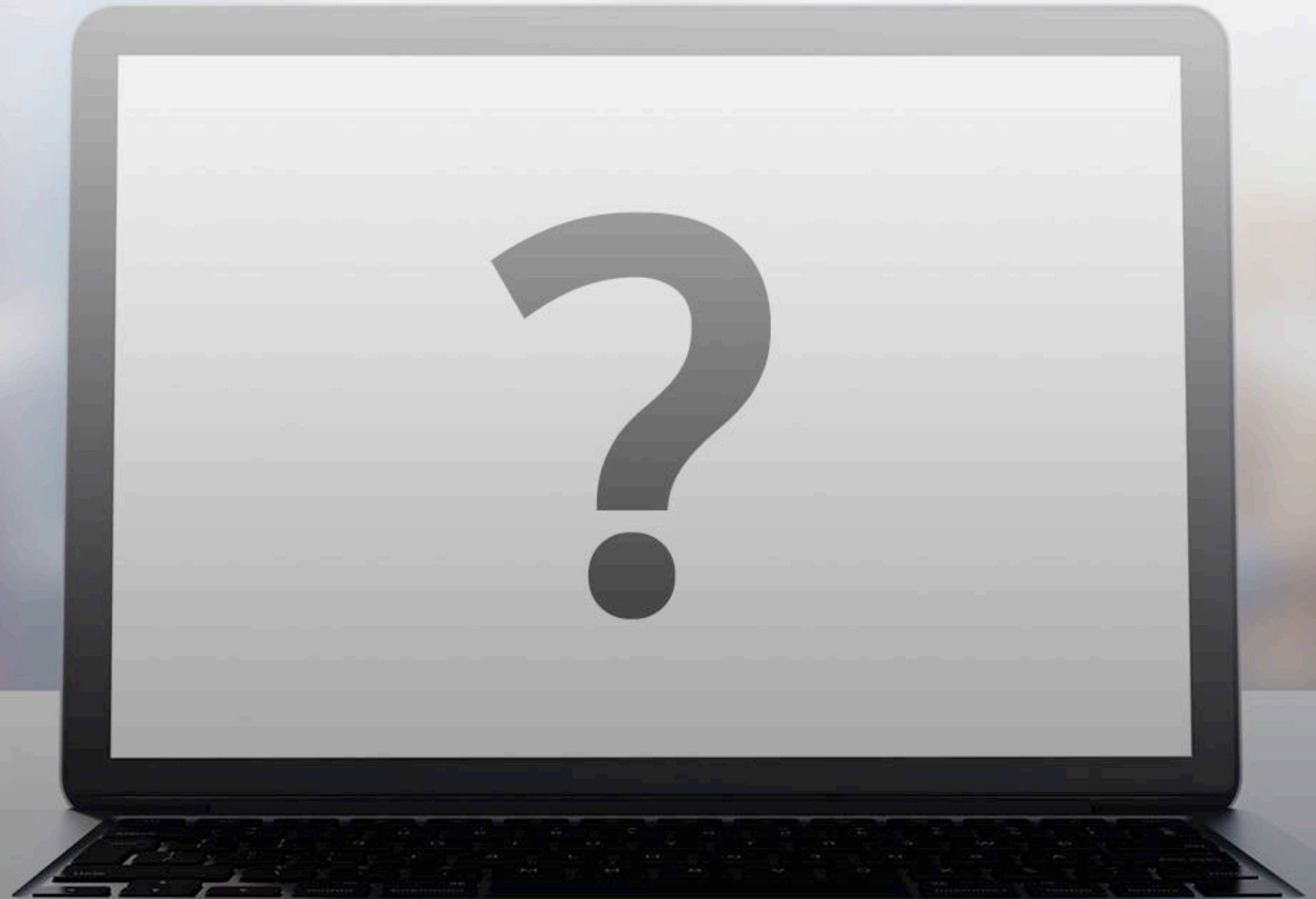
**Look for operational improvements**

# Some Helpful Tools

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- **Excel Budget Analysis Template**
- **Cash Flow Template**

**Questions?**





# Thank you.

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