

Budgeting Effectively During Economic Uncertainty

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Learning Objectives

- After this webinar, participants 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

- Possible declines in giving
 - Concerns over possible recession
 - Boomers moving into retirement likely to reduce giving
- Increased expenses
 - Inflation
 - Higher interest rates if mortgages must be refinanced
- Ongoing impact of the pandemic, including strategy changes

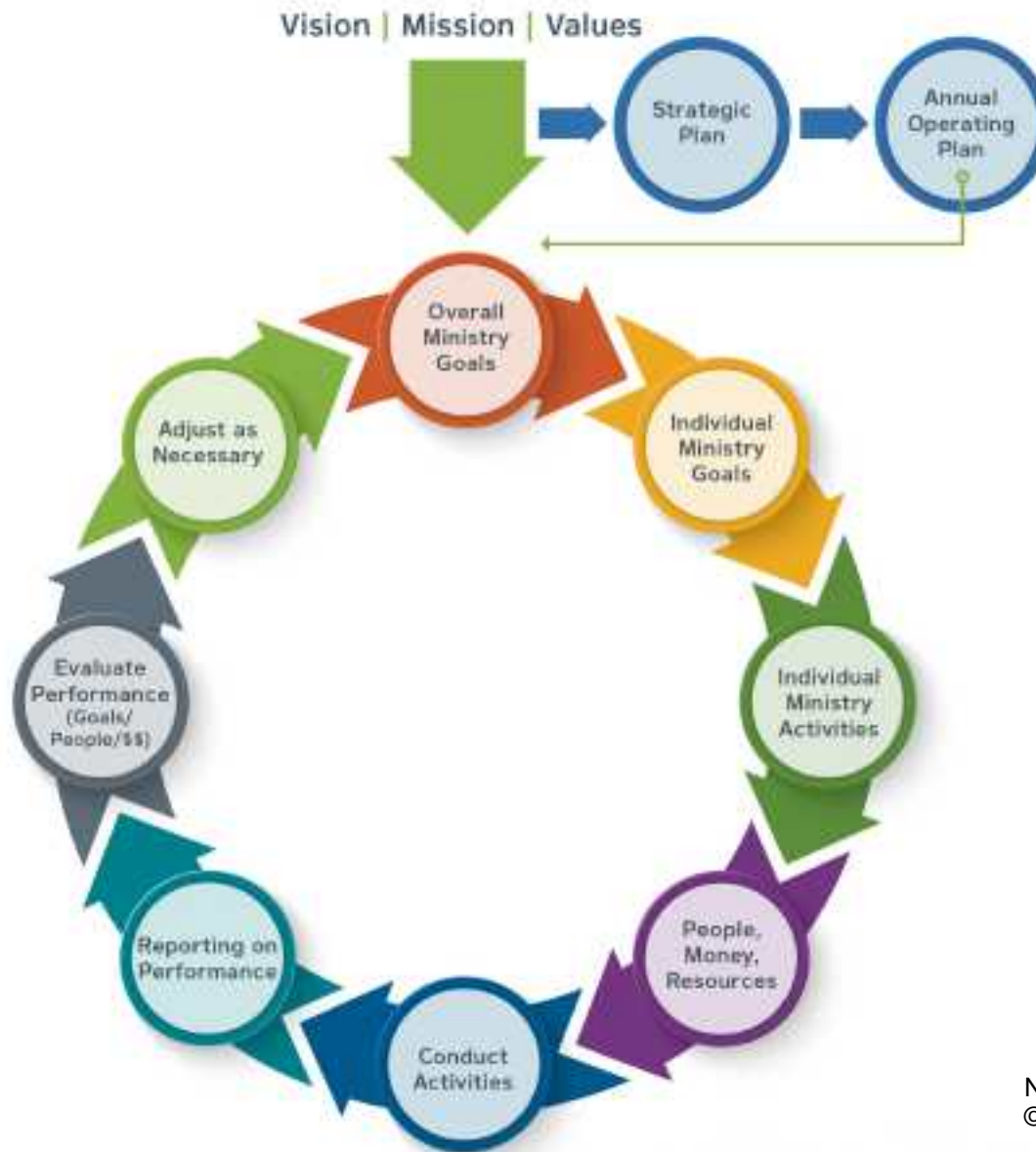
Key Considerations

- Budgets **MUST** be tied to strategy
- Don't let ambiguity lead to inaction — act on what you know or can anticipate
- Decreased revenues and/or increased costs will lead to painful decisions

Budget Strategies

- Driven by the organization's strategic plan
 - Doesn't need to be complex
 - Focus on vision, mission, values, and goals
- Example – Nonprofit Administration Model

Nonprofit Administration Model[©]



Revenue Budget

- For most churches, offerings are 85% or more of revenue
- Considerations
 - Giving last two years
 - Economic, demographic changes in the church's community
 - Age of congregation

Revenue Budget, continued

- Analyze your donor database
 - Giving patterns
 - New, at-risk, or lapsed givers
 - Stages of donor giving
 - Top donors

Expense Budget

- Expenses should be tied directly to strategic initiatives
- Methods for budgeting
 - Incremental (last year + X%)
 - Zero-based
 - Program budgeting
- Reserves and sinking funds
- Don't underestimate inflation or interest expense increases

A Word About Loan Refinances

- Most analysts predict interest rates will decline 1.5% – 2.0% over the next two years — but there is no guarantee of that
- Refinances in the next two years are likely to be at higher rates than existing loan rates
- An increase of even 1.5% – 2.0% on existing loans is likely to take a substantial bite out of the budget
- Consider implementing changes now so that significant cuts aren't required when the loan is refinanced
- Talk to your bank early and often!

The Revised Budget

- What if the revised budget shows an unsustainable loss?
 - Don't panic
 - Revisit analysis — challenge your assumptions again

Challenge Your Assumptions

- Expenses
 - Fixed
 - Are they really fixed?
 - What can be negotiated, deferred, eliminated?
 - Semi-fixed
 - Personnel
 - Employee benefits
 - Variable

What Costs to Cut?

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

Some Thoughts on Cost Reduction

- Driven by strategy
- Make decisions ahead of time
- Don't let emotions drive the decisions

Cash Flow is Vital

- Update budgeted cash flow
- As granular as required
 - Budget may look at monthly cash flow

Don't Do These

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

Do These

- 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, the triggers for additional spending/
additional cuts
- Monitor actuals vs. budgets regularly

Budgeting Directions

- 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

Things to Consider

- Rolling budgets
- Building/rebuilding cash reserves
 - Target three – six months of expenses
- Debt reduction strategies
- Imagine and re-imagine... creativity counts
- Look for operational improvements

Some Helpful Tools

- E-book: How to Budget Effectively in Changing Times
- Excel Budget Analysis Template
- Cash Flow Template

Download your free resources today!
Scan the QR code or visit
capincrouse.com/budgeting-tools



Questions?



Thank you.

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