

{ Strategic Resource Planning and Budgeting – The Key to Managing Costs Strategically }

**CMA/CAM-I Summit
September 6, 2006**

Presentation Overview

- ⦿ Budgeting – a broken process
- ⦿ Activity-Based Planning and Budgeting – the first step
- ⦿ Strategic Resource Planning and Budgeting – taking it up a notch
- ⦿ Closing the loop and the link to strategic planning
- ⦿ Implementation and software considerations

Budgeting – A Broken Process

- ⦿ Resource allocations are almost exclusively top-down, with little or no room for a bottom-up feedback
- ⦿ Incremental budgeting is the rule
 - ⦿ What was the budget last year, how much can we increase or decrease?
- ⦿ The process takes too long – budgets are often not completed prior to the beginning of the fiscal year
- ⦿ There is often a lot of political gaming
- ⦿ The budget exercise is mainly financial and does not take into account operational needs
- ⦿ Activity-Based Planning and Budgeting can solve or mitigate these problems – but it's not a panacea

What is Activity-Based Planning & Budgeting?

- ⦿ A budgeting methodology that is demand-driven
 - ⦿ Demand can be internal or external
- ⦿ Most applicable in a process-based, transactional environment
 - ⦿ Processing applications, cases, requests, claims
 - ⦿ Responding to inquiries
 - ⦿ Staffing actions, contracts, help desk requests
- ⦿ Unlike traditional budgeting, focus is on the level of activity and the related costs, not just on the nature of expense (inputs)
- ⦿ Provides a logical linkage between the results to be achieved, services to be provided, work required, and cost of resources.

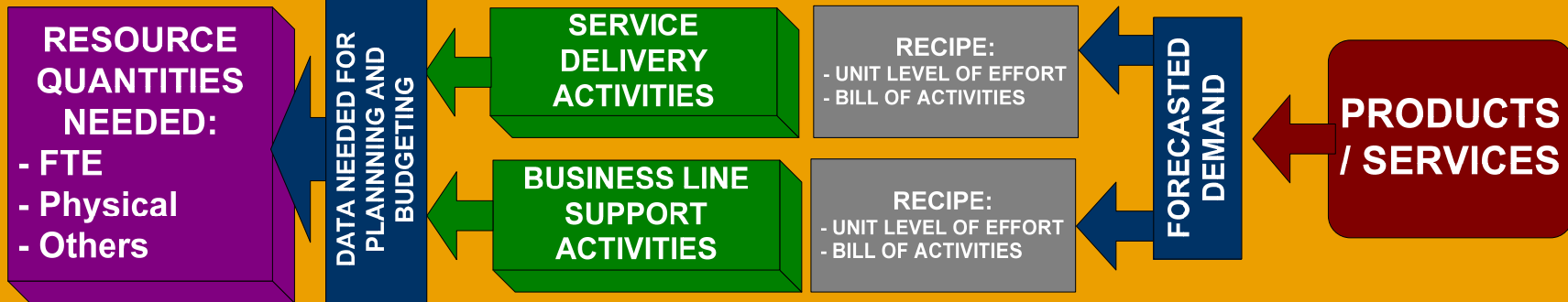
BUDGETS

ACTIVITIES

COST OBJECTS

PULL METHODOLOGY

ACTIVITY-BASED PLANNING - DEMAND DRIVEN COSTS



CONVERT RESOURCE REQUIREMENTS TO BUDGETS

Salary Budgets

Other Expense Budgets

ACTIVITY-BASED BUDGETING

BUDGET BY ACTIVITY

BUDGETED COST PER PRODUCT OR SERVICE

PUSH METHODOLOGY

RESOURCES

**PERSONNEL
OFFICERS
1 FTE**

**PERSONNEL
ASSISTANTS
.6 FTE**

ACTIVITIES

**CLOSED
COMP.
PO: 1,000 HRS
PA: 500 HRS**

**TRANSFER
PO: 40 HRS
PA: 100 HRS**

**ACTING
APPOINTMENT
PO: 150 HRS
PA: 180 HRS**

Resource Drivers

**PO ULE: 20
PA ULE: 10
(HOURS)**

**PO ULE: 2
PA ULE: 5
(HOURS)**

**PO ULE: 5
PA ULE: 6
(HOURS)**

Activity Drivers

**50 STAFFING
ACTIONS**

**20 STAFFING
ACTIONS**

**30 STAFFING
ACTIONS**

PULL METHODOLOGY TO PROVIDE PLANNING DATA

ULE: Unit Level of Effort

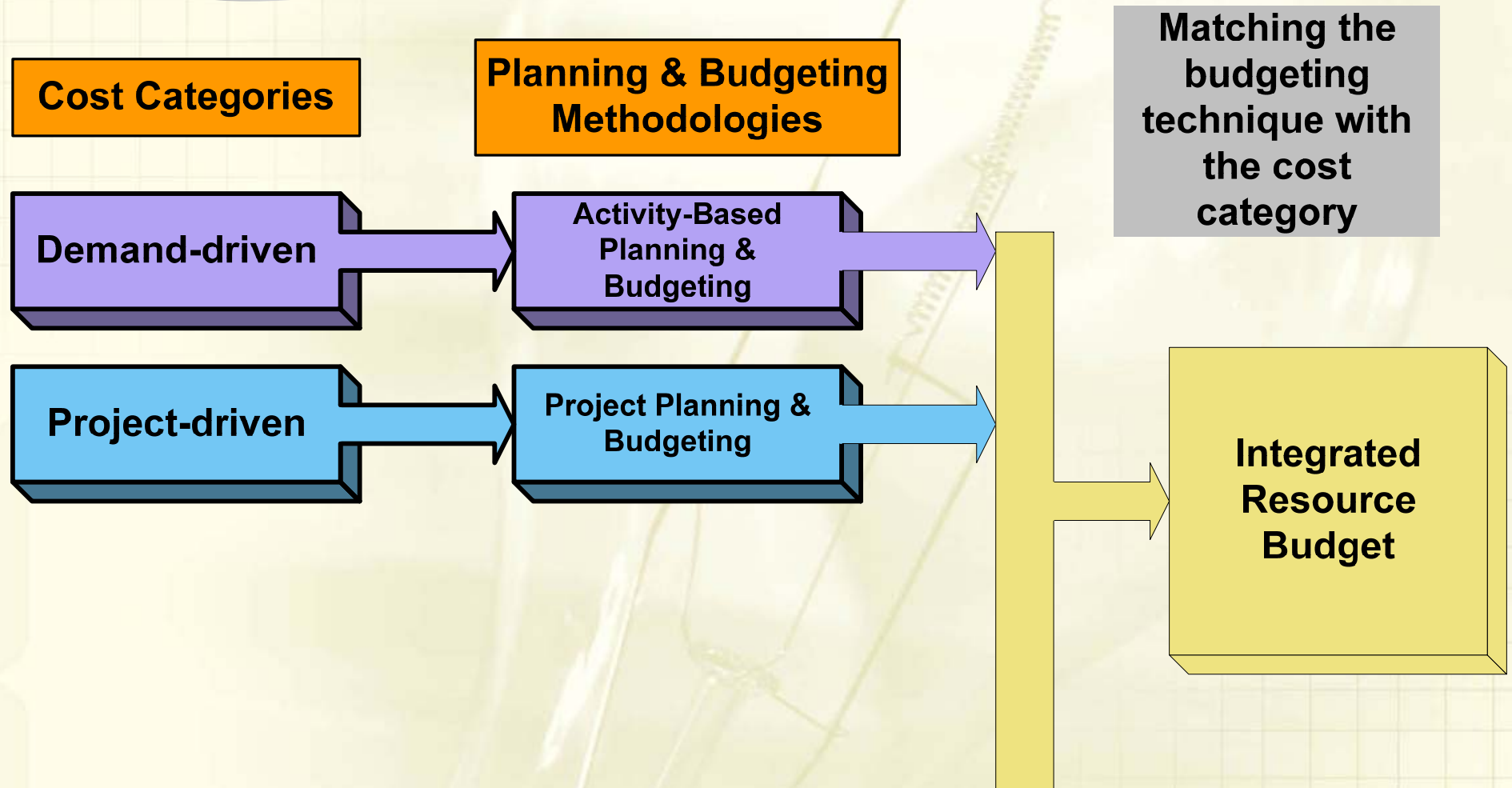
Why ABP/B Can't Do the Whole Job

- ⊙ Activity-Based Planning and Budgeting is really only appropriate for those costs that are associated with activities and processes that arise from handling volumes of transactions
- ⊙ Organizations do a lot of other things that incur costs:
 - ⊙ IT and other types of projects
 - ⊙ Marketing and communications programs
- ⊙ There are also significant costs of maintaining the corporate infrastructure
- ⊙ How can we include these costs in our budgeting model?

All Costs Have a Driver

- ⊙ Cost driver: a factor that causes the cost to be incurred
- ⊙ Four main driver types:
 - ⊙ Demand
 - ⊙ Internal or external demand
 - ⊙ Ongoing service delivery processes
 - ⊙ Projects
 - ⊙ Projects, initiatives
 - ⊙ Structure
 - ⊙ Organizational, physical, technological
 - ⊙ Decisions
 - ⊙ Management decision on level of expenditure
- ⊙ A different budgeting methodology for each category of cost

Strategic Resource Planning & Budgeting



Project-driven costs

- ⊙ These may occur in a number of areas:
 - ⊙ IT
 - ⊙ Internal audit and evaluation
 - ⊙ Communications
 - ⊙ Facilities management
 - ⊙ Training
- ⊙ They frequently involve personnel from several sectors of the organization
- ⊙ Failing to include these requirements in the planning process is a frequent cause of delays and even failure

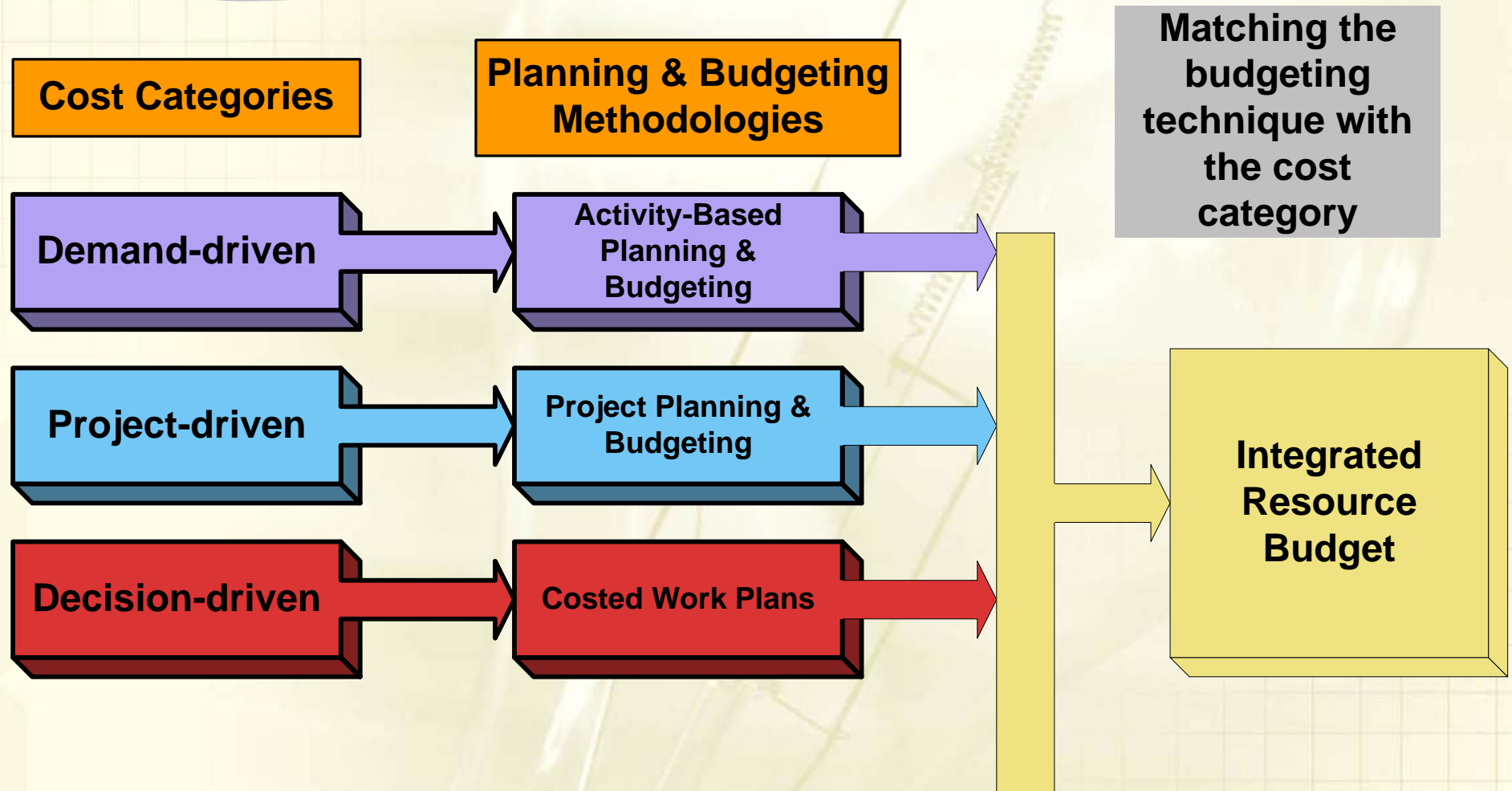
Project Planning and Budgeting

- ⦿ A well-developed discipline
- ⦿ Identify the projects
- ⦿ Define the project tasks and milestones
- ⦿ In many project-based organizations, project templates may be available
- ⦿ Estimate resources required for each task or milestone for the budget year, which may be only a portion of the project life cycle
- ⦿ Include salaries and other costs
- ⦿ Calculate the total value of the project and classify by nature of expense

Project Planning and Budgeting (cont'd)

- ⦿ Project plans may already exist
- ⦿ Need to be translated into time requirements by personnel category
- ⦿ Same numerator (productive hours per FTE per year) as was used in ABP/B
- ⦿ May only need the summary level of project plans
- ⦿ Need to have a fiscal year view, not the overall project view
- ⦿ A project is really a structured set of activities that each occur only once in the fiscal year (driver volume=1)
- ⦿ The activity level of effort is like the ULE in ABP/B

Strategic Resource Planning & Budgeting



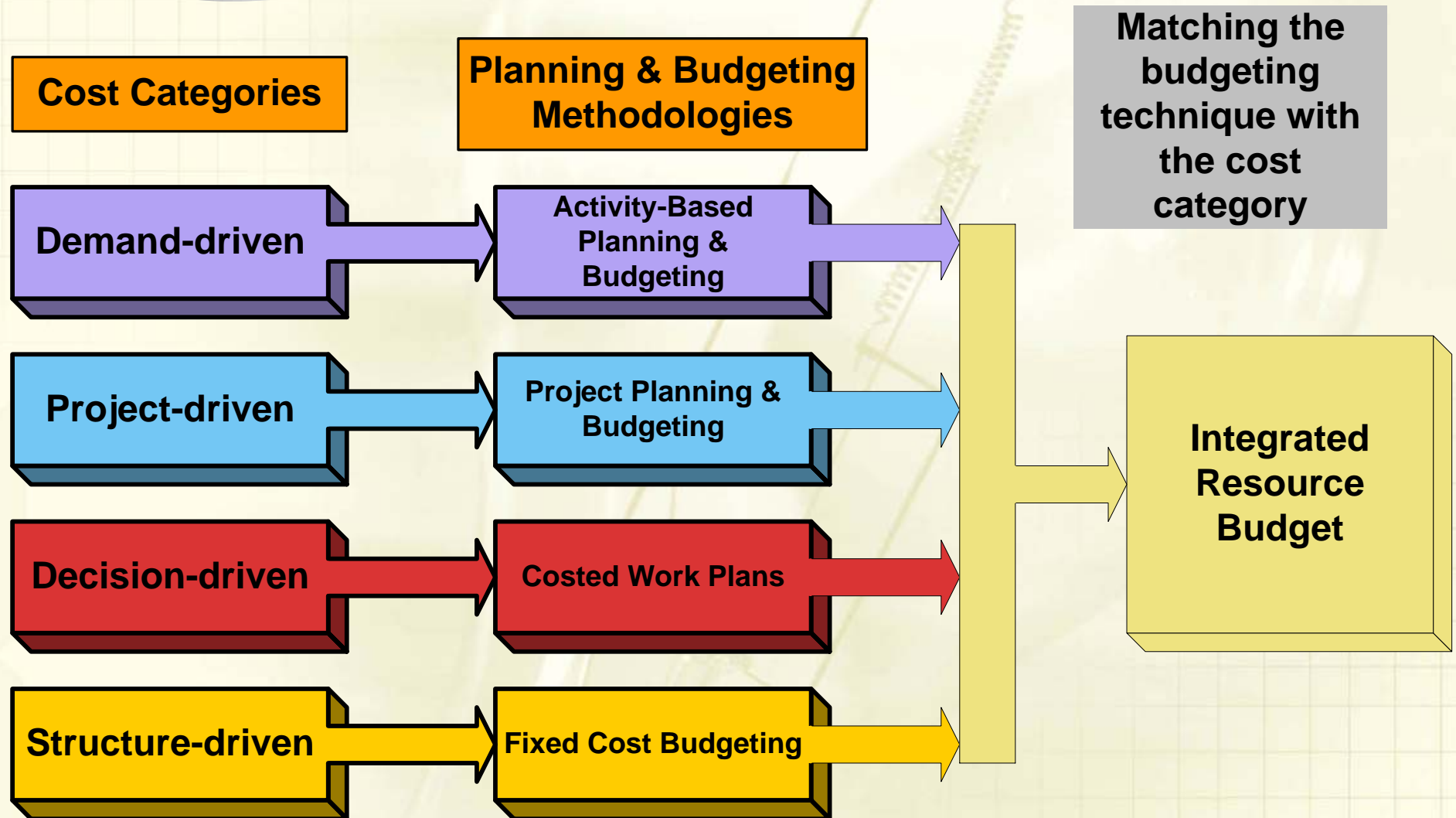
Budgeting for Decision-Driven Costs: Costed Work Plans

- ⊙ An approach that links costs to different levels of service
- ⊙ Costed Work Plan headings:
 - ⊙ Major Activity
 - ⊙ Activity
 - ⊙ Person-days
 - ⊙ Salary Costs
 - ⊙ Other Costs
 - ⊙ Results
 - ⊙ Relation to Strategic Objectives
- ⊙ If the function includes project-driven costs, these can be incorporated into the Costed Work Plan, using the same headings

Budgeting for Decision-Driven Costs: Costed Work Plans (cont'd)

- ⦿ Can also include “stretch” activities (what could be done with more funds)
- ⦿ If the function also includes some demand-driven costs, these can also be incorporated in the Costed Work Plan

Strategic Resource Planning & Budgeting



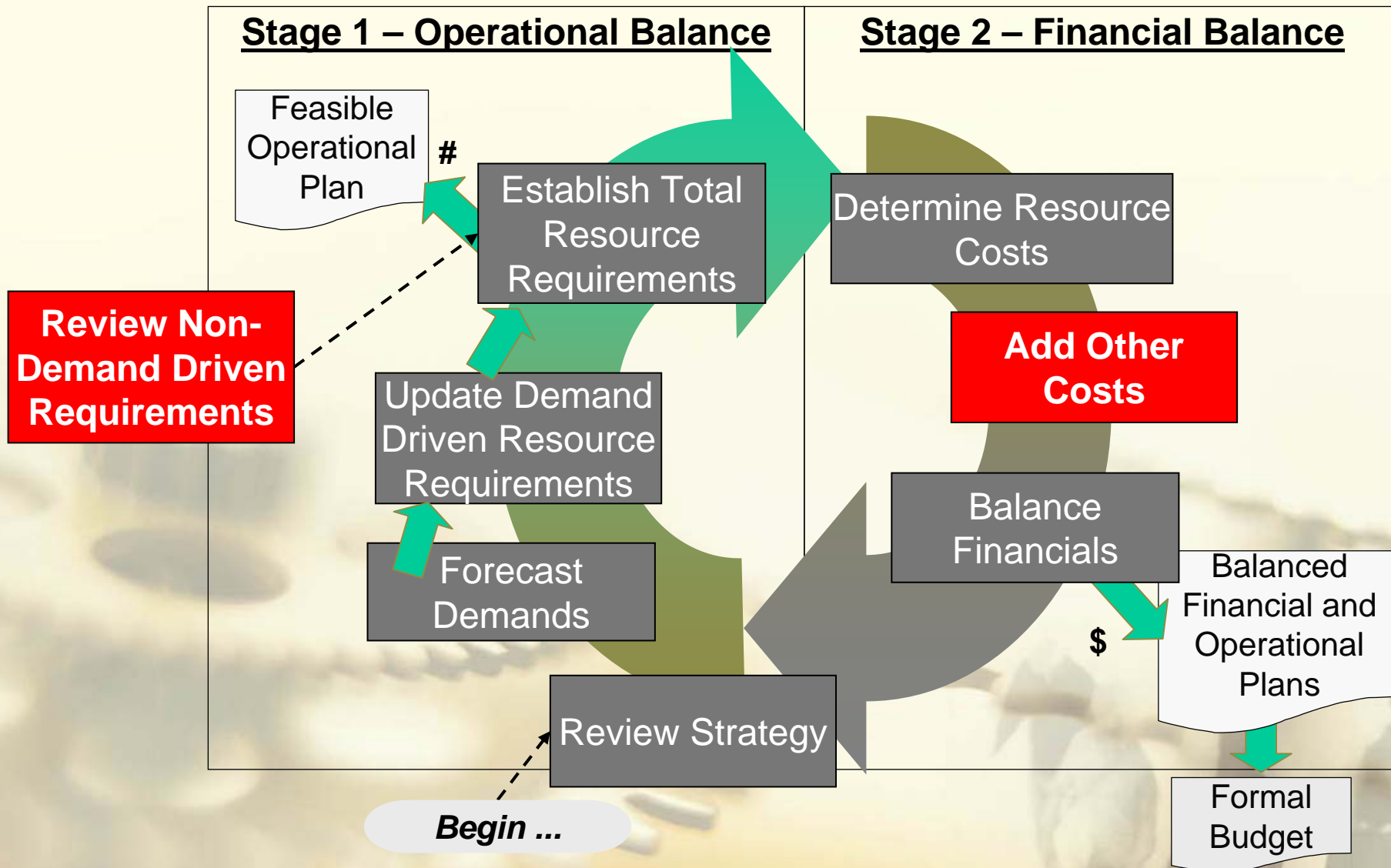
Activities are a common thread...

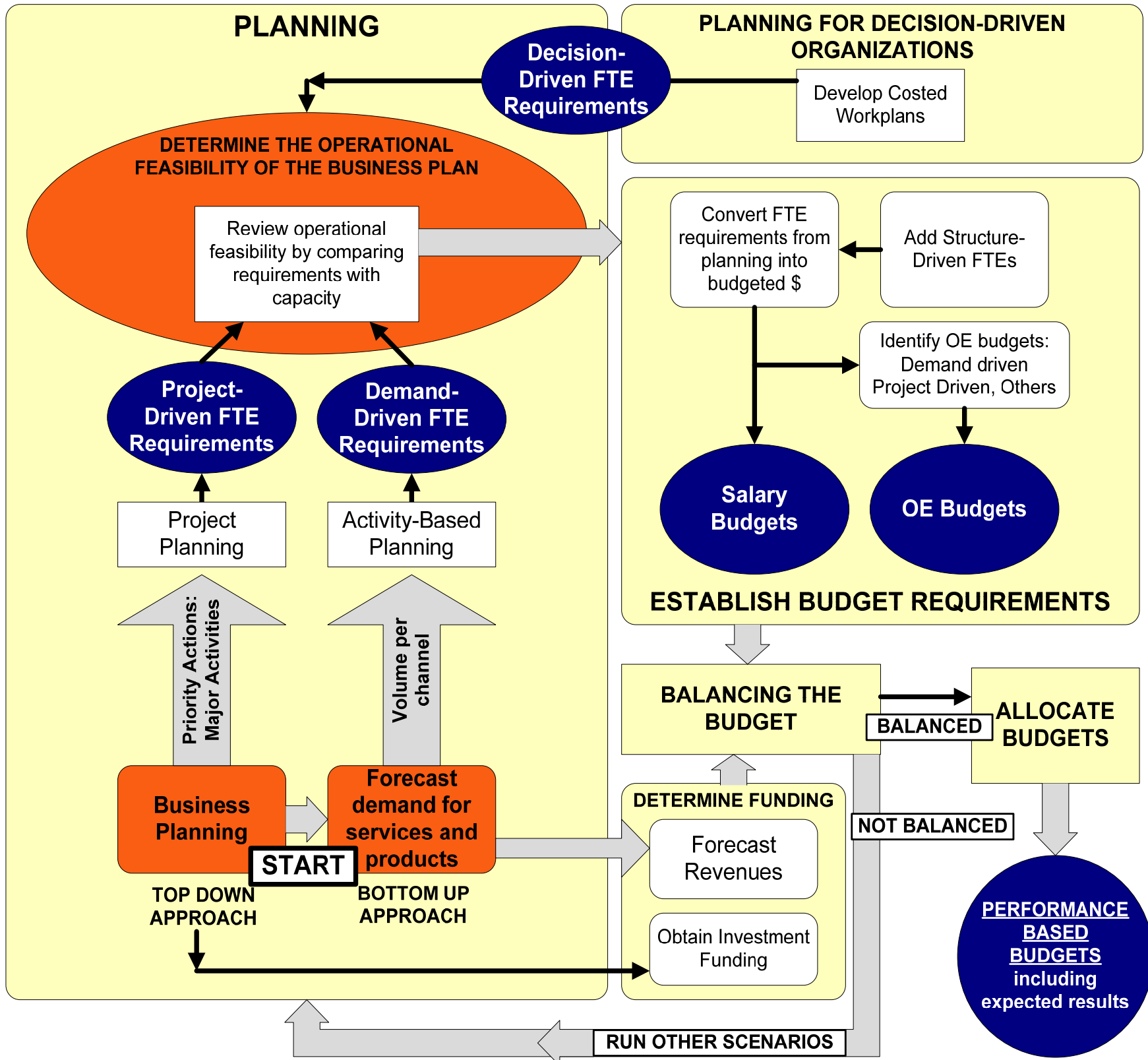
- ⦿ Activity-Based Planning and Budgeting is all about activities
- ⦿ A project is a collection of activities, each occurring once in the project plan with an associated level of effort (resource consumption)
- ⦿ Costed work plans are centered around activities that consume resources
- ⦿ All three approaches are needed to measure the total resource demands on capacity – ABP/B is not enough
- ⦿ This is significant in terms of the accountability of managers and employees
- ⦿ And in terms of ABM software

Compliance-driven costs

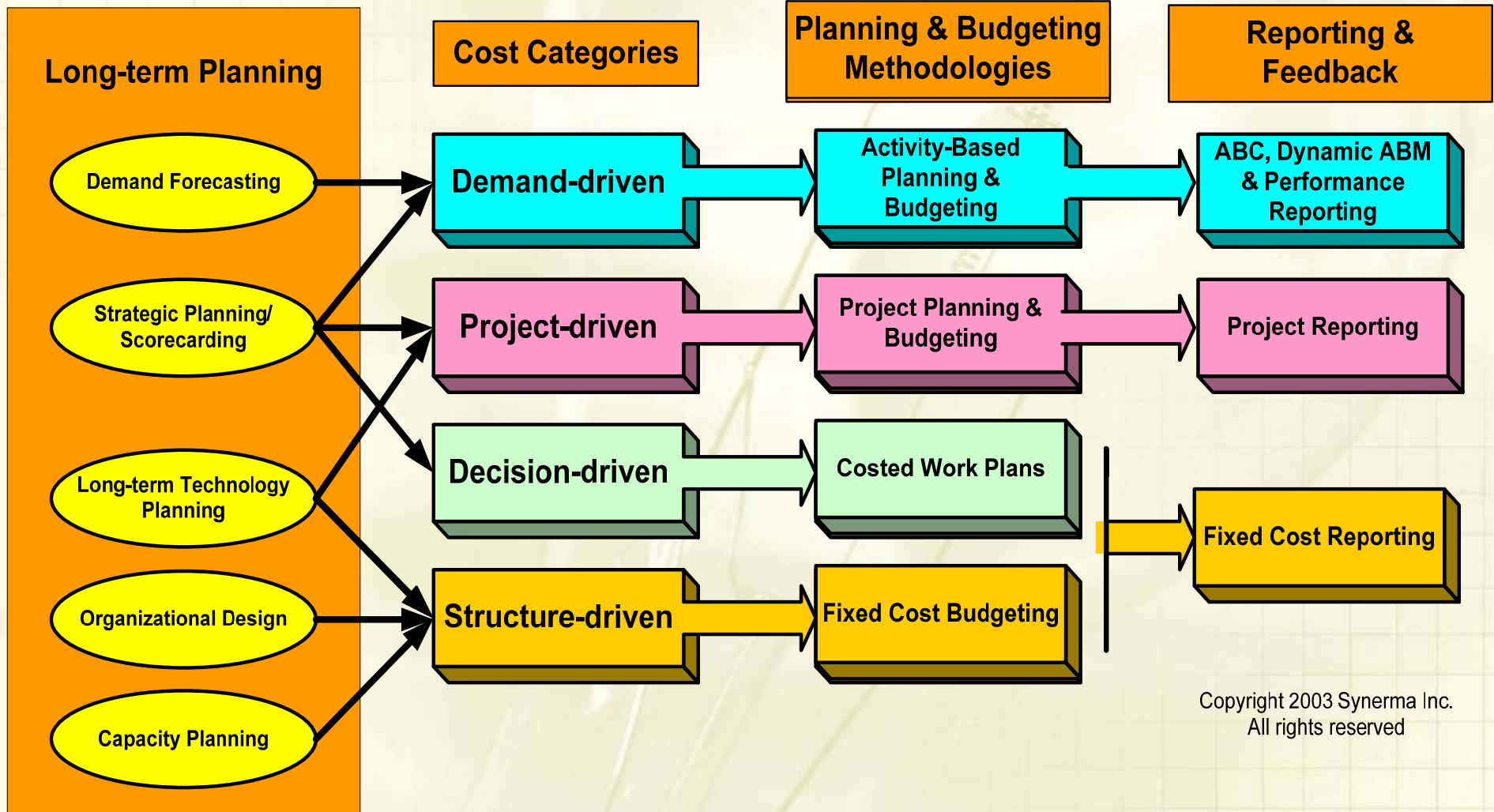
- ⊙ Not really a separate category, but may be an important cause of costs
- ⊙ The costs of complying with:
 - ⊙ Legislation
 - ⊙ Regulations
- ⊙ These costs could also be driven by one of the other factors, but it is important to flag them separately
- ⊙ Identify the risks of non-compliance: what could happen if we reduce or eliminate these costs?

The Closed Loop: Achieving Operational and Financial Balance





Strategic Resource Planning & Reporting



Implementation Considerations

- ⦿ A variety of approaches are possible
- ⦿ Consider doing one or two pilots
- ⦿ Important to get management buy-in, both senior and middle management
- ⦿ ABC can be used for a first cut
- ⦿ There will be a learning curve, may be a two or three-year process
- ⦿ External resources can provide expertise and manpower, but need to have a strong internal team
- ⦿ Scoping & planning is an essential first step
- ⦿ Software needs to be looked at early

Software Considerations

- ⦿ SRPB can be done in ABM software, if it has a pull capability
- ⦿ Results can be fed to financial management software
- ⦿ Another approach: use ABM software for demand and project-driven costs, feed these to financial management software, and add the structure-driven and decision-driven costs

How Have We Responded to the Broken System?

- ◉ The process may still be top-down, but now we have a tool for a dialogue on accountability
- ◉ SRPB is a major move away from incremental budgeting
- ◉ The length of the process may be shortened by the use of effective software – particularly in subsequent years
- ◉ Political gaming is made more difficult, although it probably won't go away
- ◉ Financial and operational data are closely linked
- ◉ We have a tool that addresses all of the organization's costs

Time for questions.....

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