



Corporate Financial Planning

Slides available on course web site:
www.fis.utoronto.ca/phd/vandenberg/budget.pdf

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Introduction

- We're going to cover a lot of detailed material in a short period of time
- Financial planning is generally an iterative process, but we only have time for one pass
- Let's have some fun!



Outline

- The Details
 - What is Corporate Financial Planning?
 - What are the various formats?
 - Is it all numbers?
 - How is it done?
- Let's practice!
 - Teams, Exercises, Spokespersons,
 - Building your case
 - Board Presentations, Allocations



Timeline

- 6:40 to 7:30 Lecture
- 7:30 to 7:40 Questions & Answers
- 7:40 to 7:50 Exercise explained, Groups formed, Budget cases distributed
- 7:50 to 8:00 Break
- 8:00 to 8:30 Budget preparation
- 8:30 to 9:05 Advocating your budget case to the Board of Directors
(Only 5 min. per group!)
- 9:05 to 9:15 Wrap up



What is Money?

- *Money* is something which people generally accept in exchange for a good or a service. Money performs three main functions:
- a *medium of exchange* permitting the buying and selling of goods and services instead of bartering;
- a *unit of account* or standard for counting the relative value of goods and services;
- a temporary *store of value* between exchanges



One Necessary Characteristic

- The only necessary characteristic of money is **general acceptability**. If everyone regards an item as money and is willing to accept it as payment for goods and services, then that item is money.



Desirable Characteristics

For ease of exchange, it is desirable that money be:

- *Easily Recognizable* as money;
- *Scarce* and in stable controlled supply;
- *Durable* and storable;
- *Divisible* without any loss of value;
- *Portable* and not too expensive to carry.



What is Corporate Financial Planning?

- Corporate = a “body” or organization
- Financial = the emphasis is on the measurement of value
- Planning = future oriented
- A Corporate Plan is a reflection of the values and priorities of an organization
- The Budget forms the bulk of most Corporate Business Plans
- A Board Approved Plan provides management with the authority to spend



What is a Budget?

- “The budget is a presentation of the library’s objectives in terms of specific programs to be carried out within a specified period of time.”
- “It can be considered a plan set forth in financial terms”
- “As a political document, the budget... is a statement of the [relative] importance of library services”
 - Ann E. Prentice, Public Library Finance



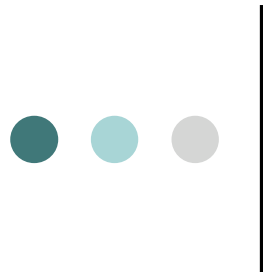
What drives the Budget?

- The Strategic Plan
 - Gather relevant information
 - Review and **prioritize** long term goals and objectives in accordance with organizational **values**
 - Evaluate alternative paths for goal achievement
 - Select most feasible path
 - Implement plan (using budget and other means)



Budget Design

- Operating – funds to be spent and benefits to be realized within one year
 - Personnel
 - Maintenance
 - Supplies
- Capital – to provide a benefit extending beyond one year

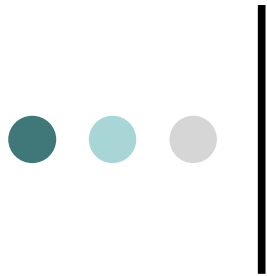


Budget Approaches & Emphasis

- Line Item – Categorization
- Lump Sum – Total Only
- Incremental – % Change
- Formula – Predetermined Standards
- PPBS – Programs & Performance
- ZBB – Justification

Sample Line Item Budget

| CLASSIFICATION | Actual Expenditure 2 years ago | Actual Expenditure Last Year | Budgeted for This Year | Requested for Next Year | Recom- mended | Final Budget |
|---------------------------------|--------------------------------------|------------------------------------|------------------------------|-------------------------------|------------------|-----------------|
| Personal Services | | | | | | |
| Salaries - Full Time | \$168,923 | \$182,698 | \$185,000 | \$200,000 | \$190,000 | |
| Salaries - Part Time | \$74,523 | \$85,236 | \$90,000 | \$100,000 | \$95,000 | |
| EI | \$2,236 | \$2,557 | \$2,700 | \$3,000 | \$2,850 | |
| CPP | \$2,981 | \$3,409 | \$3,600 | \$4,000 | \$3,800 | |
| Benefits | \$3,726 | \$4,262 | \$4,500 | \$5,000 | \$4,750 | |
| WC | \$1,490 | \$1,705 | \$1,800 | \$2,000 | \$1,900 | |
| TOTAL | \$253,879 | \$279,867 | \$287,600 | \$314,000 | \$298,300 | |
| Supplies | | | | | | |
| Office | \$3,216 | \$3,469 | \$3,500 | \$3,600 | \$3,600 | |
| Operating | \$48,240 | \$52,035 | \$52,500 | \$54,000 | \$54,000 | |
| Repair & Maintenance | \$1,608 | \$1,735 | \$1,750 | \$1,800 | \$1,800 | |
| TOTAL | \$53,064 | \$57,239 | \$57,750 | \$59,400 | \$59,400 | |
| Other Services | | | | | | |
| Professional Services | \$31,589 | \$32,568 | \$34,000 | \$38,000 | \$36,000 | |
| Communication (Tel., Fax. etc.) | \$1,785 | \$1,695 | \$1,750 | \$1,800 | \$1,800 | |
| Transportation | \$38,462 | \$35,984 | \$36,900 | \$38,500 | \$37,800 | |
| Insurance | \$569 | \$575 | \$585 | \$600 | \$600 | |
| Utilities (Heat & Hydro) | \$3,659 | \$3,751 | \$3,850 | \$4,000 | \$4,000 | |
| TOTAL | \$76,064 | \$74,573 | \$77,085 | \$82,900 | \$80,200 | |
| Capital | | | | | | |
| Equipment | \$44,340 | \$67,384 | \$70,000 | \$75,000 | \$75,000 | |
| Leasehold Improvements | \$8,613 | \$3,965 | \$5,000 | \$5,000 | \$5,000 | |
| Other _____ | \$967 | \$234 | \$0 | \$0 | \$0 | |
| TOTAL | \$53,920 | \$71,583 | \$75,000 | \$80,000 | \$80,000 | |
| GRAND TOTAL | \$436,927 | \$483,262 | \$497,435 | \$536,300 | \$517,900 | |



Sample Lump Sum Budget

| CLASSIFICATION | Actual Expenditure Last Year | Budgeted for This Year | Requested for Next Year | Recom- mended | Final Budget |
|--------------------------|---|---------------------------------------|--|--------------------------|-------------------------|
| Personal Services | | | | | |
| TOTAL | \$279,867 | \$287,600 | \$314,000 | \$298,300 | |
| Supplies | | | | | |
| TOTAL | \$57,239 | \$57,750 | \$59,400 | \$59,400 | |
| Other Services | | | | | |
| TOTAL | \$74,573 | \$77,085 | \$82,900 | \$80,200 | |
| Capital | | | | | |
| TOTAL | \$71,583 | \$75,000 | \$80,000 | \$80,000 | |
| GRAND TOTAL | \$483,262 | \$497,435 | \$536,300 | \$517,900 | |



Sample Incremental Budget

| CLASSIFICATION | Actual Expenditure Last Year | Percentage Increase | Budgeted for This Year | Percentage Increase | Recom- mended | Final Budget |
|---------------------------------|------------------------------------|------------------------|------------------------------|------------------------|------------------|-----------------|
| Personal Services | | | | | | |
| Salaries - Full Time | \$182,698 | 1.5% | \$185,438 | 2.0% | \$189,147 | |
| Salaries - Part Time | \$85,236 | 2.0% | \$86,941 | 1.5% | \$88,245 | |
| EI | \$2,557 | 2.0% | \$2,608 | 2.0% | \$2,660 | |
| CPP | \$3,409 | 2.0% | \$3,478 | 2.0% | \$3,547 | |
| Benefits | \$4,262 | 2.0% | \$4,347 | 2.0% | \$4,434 | |
| WC | \$1,705 | 2.0% | \$1,739 | 2.0% | \$1,774 | |
| TOTAL | \$279,867 | 1.7% | \$284,551 | 1.8% | \$289,807 | |
| Supplies | | | | | | |
| Office | \$3,469 | 0.9% | \$3,500 | 1.0% | \$3,535 | |
| Operating | \$52,035 | 0.9% | \$52,503 | 1.0% | \$53,028 | |
| Repair & Maintenance | \$1,735 | 0.9% | \$1,750 | 1.0% | \$1,768 | |
| TOTAL | \$57,239 | 0.9% | \$57,754 | 1.0% | \$58,331 | |
| Other Services | | | | | | |
| Professional Services | \$32,568 | 4.5% | \$34,034 | 4.0% | \$35,395 | |
| Communication (Tel., Fax. etc.) | \$1,695 | 3.0% | \$1,746 | 3.0% | \$1,798 | |
| Transportation | \$35,984 | 2.5% | \$36,884 | 2.0% | \$37,621 | |
| Insurance | \$575 | 1.8% | \$585 | 1.5% | \$594 | |
| Utilities (Heat & Hydro) | \$3,751 | 2.5% | \$3,845 | 2.0% | \$3,922 | |
| TOTAL | \$74,573 | 3.4% | \$77,093 | 2.9% | \$79,330 | |
| Capital | | | | | | |
| Equipment | \$67,384 | 4.0% | \$70,079 | 4.0% | \$72,883 | |
| Leasehold Improvements | \$3,965 | 25.0% | \$4,956 | 25.0% | \$6,195 | |
| Other _____ | \$234 | -100.0% | \$0 | -100.0% | \$0 | |
| TOTAL | \$71,583 | 4.8% | \$75,036 | 5.4% | \$79,078 | |
| GRAND TOTAL | \$483,262 | 2.3% | \$494,433 | 2.4% | \$506,546 | |



Sample Formula Base Budget

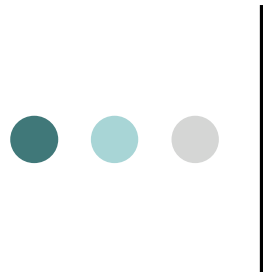
| | Target | Actual | Shortfall | Factor | Product | Price | Total |
|-----------------------|------------|--------|-----------|--------|--------------|---------|-----------------|
| Holdings | | | | | | | |
| Formula A | | | | | | | |
| | Volumes | | | | | | |
| Basic Collection | 85,000 | 84,500 | 500 | 1 | 500 | \$50.00 | \$25,000 |
| per FTE faculty | 100 | 97 | 3 | 300 | 900 | \$50.00 | \$45,000 |
| per FTE student | 15.0 | 14.5 | 0.5 | 3,000 | <u>1,500</u> | \$50.00 | <u>\$75,000</u> |
| | | | | | 2,900 | | \$145,000 |
| Staff | | | | | | | |
| Formula B | | | | | | | |
| | Librarians | | | | | | |
| per FTE faculty | | | | | | | |
| per FTE student | | | | | | | |
| Facilities | | | | | | | |
| Formula C | | | | | | | |
| | Sq. Metres | | | | | | |
| per FTE faculty | | | | | | | |
| per FTE student | | | | | | | |



Planning, Programming, & Budgeting System

A budgeting system developed particularly for use in **non-profit** organizations, such as libraries and local governments. The system is based on **the grouping together of activities with common objectives and a long-term plan** relating to the objectives of the organization as a whole, which is **subdivided into programs**. Conventional annual expenditure budgeting procedures are applied within this framework.

A Dictionary of Accounting, Oxford University Press, © Market House Books Ltd 1999



Planning, Programming, & Budgeting System

- **Program** has focus on delivery of services
- Alternatives to deliver **Benefits**.
- **Performance** has focus on activities
- How much it **Costs** to deliver benefits efficiently.
- Balance of Needs and Available Resources.



Gathering Benefits Data

- How many clients are served? What are the demographics?
- Which service is most heavily utilized? Any trends? And why?
- What is the average utilization rate of each client? Of the entire population?
- What do the client surveys indicate about the value, or lack of value, of the services received?



Gathering Cost Data

- What were the costs last year? Were was the money spent? Present from various perspectives:
 - Per unit of Service delivered
 - Depreciation
 - Fixed versus Variable
- How much was spent on capital?



Benefit per Unit Cost

- Balance of Needs and Available Resources
- What are the costs of delivering each of the benefits?
- Comparison of Actual Expenditures against Previous year's Budget
- Any efficiency improvements?
- Are some programs more or less efficient?



Zero Base Budget

- Similar to PPBS but start with zero and justify every expenditure
- Every enterprise must periodically justify its existence
- Basic question – should a particular activity be conducted at all
- Highly evaluative
- Services categorized into “decision packages” which are ranked in priority

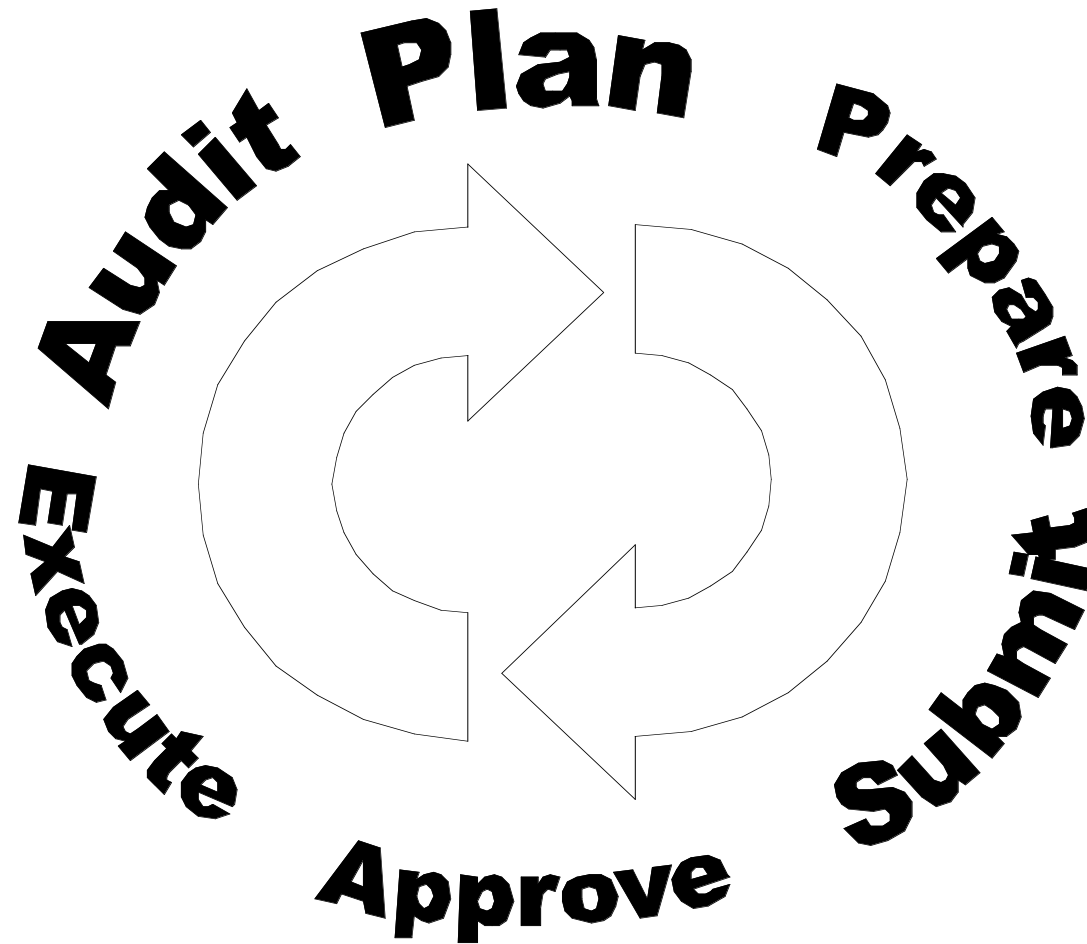


Summary of Approaches

| APPROACH | CHARACTERISTICS | | | | |
|--------------------|-----------------|------------------|---------------------|-----------------|-----------------|
| | Orientation | Ease of Change | Ease of Preparation | Justification | Ease of Audit |
| Line Item | Input Focused | Inert | Very Easy | Detailed | Designed for it |
| Lump Sum | Input Focused | Some Flexibility | The Easiest | Difficult | Tough |
| Incremental | Input Focused | Some Flexibility | Easy | Easy | Easy |
| Formula | Input Focused | External Target | Easy | Equitable | O.K. |
| PPBS | Effectiveness | Flexible | Most Complex | Analysis | Easy |
| ZBB | Effectiveness | Most Flexible | Complex | Designed for it | O.K. |



Budget Cycle





Is it all numbers?

- It's about the provision of **Value!**
- Analyze your clientele
- Raise awareness of the value you provide
- Seek support for your programs from your most influential clientele



Influencing Decision Makers

- Decision makers are complex individuals
- Their values and motivations may differ or conflict with yours
- They will have a variety of allegiances and loyalties
- They may be resistant to, or embracing of, change
- Become part of the “Team”



Insufficient Funds?

- “Friends of the Organization”
- Gifts in exchange for a Membership Fee
- Gifts accepted as Memorials
- Provision of special Tours & Exhibitions
- AV Presentations
- Volunteers
- Special Projects
- Planned Giving



Insufficient Funds?



- Governments
- Private foundations
- Historical boards



Insufficient Funds?

- Corporate philanthropy
- Services to Corporations
- Public Relations
- Development Officer



Time Check

- Questions and Answers until 7:40 p.m.





Let's Practice!

- Formation of 7 Teams
- Selection of Director to the Board
- Selection of Team Spokesperson
- Distribution of Budget Cases
- Instructions on Case completion
- 7:50 to 8:00 Break



Break



“The most valuable commodity I know of is
Information”

- Michael Douglas as Gordon Gekko in the film, “Wall Street”



Budget Preparation

- 8:00 p.m. to 8:30 p.m.





Advocating your Case

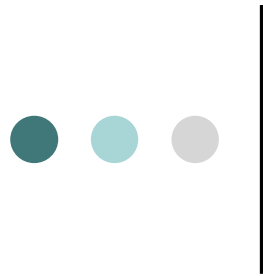
- 8:30 p.m.to 9:05 p.m. (Only 5 min. per group)





Thoughts on the Exercise

- We used a variation of the **Zero Based Budgeting** process with decision packages
- Resources are limited, but wants are not
- Board members hold a diversity of views
- Budgeting is a political process involving trade-offs among conflicting demands
 - Youth versus seniors
 - Strictly library versus expanded services
 - Labour intensive versus automation



Results from Exercise

| DECISION PACKAGE | TEAM | LAST YEAR'S BUDGET | THIS YEAR'S BUDGET | | | |
|--------------------------------|------|-----------------------|--------------------|-------------|---------|-------------|
| | | | AFTERNOON | RELATIVE | EVENING | RELATIVE |
| | | | CLASS | CHANGE | CLASS | CHANGE |
| INFORMATION LITERACY PROJECT | 1 | 32.0% | 31.5% | -0.5% | 31.5% | -0.5% |
| COLLECTION DEVELOPMENT PROJECT | 2 | 10.1% | 14.6% | 4.5% | 12.5% | 2.4% |
| CATALOGUING PROJECT | 3 | 10.5% | 7.7% | -2.8% | 7.9% | -2.6% |
| MULTILINGUAL LIBRARY SERVICE | 4 | 8.4% | 14.7% | 6.3% | 14.2% | 5.8% |
| EARLY CHILDHOOD PROJECT | 5 | 13.2% | 12.7% | -0.5% | 13.8% | 0.6% |
| INTERNSHIP PROJECT | 6 | 10.8% | 8.8% | -2.0% | 10.0% | -0.8% |
| CONNECTIONS "OLDER ADULT CLUB" | 7 | 12.9% | 10.0% | -2.9% | 10.1% | -2.8% |
| TOTAL | | 100.0% | 100.0% | | 100.0% | |