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Kate Sayer: Preparation is key when you are building a business plan

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It's important to understand the key drivers for income and expenditure, and how they are linked, writes our columnist

Kate Sayer

Many organisations produce great strategies, but then find them difficult to implement. An important part of converting strategic thinking into practical plans is budgeting. Too often, budget setting is a bad-tempered round of number crunching, from which everyone emerges dissatisfied. Preparing operational plans and converting them into financial budgets is the remit of the executive team, but the board needs to be sufficiently involved and properly briefed that it can approve the operational and financial plans. The budget is far too important to leave to finance people.

Budgeting is often messy because we are trying to do too many things in one process and one document. We try to make the budget operate as a plan, a way of allocating resources, a forecast, a way of controlling the finances and assessing performance. This inevitably leads to problems and confusion. It might be better to focus on one aspect and communicate the purpose to all involved. To me, the primary purpose of budgeting should be to create a credible implementation plan, allocating resources to activities. This creates the framework. The board should be involved in a strategic-level allocation of resources.

As a starting point, everyone needs to be on the same page, thinking about finances in the same way. Some organisations will be simple, with one main activity or one type of funding. Others will have two or three significant activities, each with different operational and funding models. It's important to understand the key drivers for income and expenditure, and how they are linked.

Without acknowledging it, the people preparing a business plan are making numerous decisions about how the organisation will work, how much it will charge, how staff and volunteers should spend their time, and so on. There are myriad assumptions underlying any set of numbers. Before anyone gets the calculator out, you need to set the scene. The first task might be to clarify how the strategic plans translate into operational plans.

Next you can start to think about the principles on which you wish to build your financial framework. Consider the financial objectives for a service or areas of your work: subsidise - for a core service that delivers your charitable objects; full cost recovery - for a service that is highly valued by members, beneficiaries or service users, but needs to cover costs; and generate surplus - for an activity where the purpose is to raise funds, such as getting donations.

Agree the approach so that everyone can think consistently. Should you take a pessimistic view and assume the worst? Some people develop a base case as a springboard for decisions; others incorporate pipeline income and plans. It's like decorating: the more time you spend on preparation, the better the end result. And it all pays off, because it's much quicker when you finally get the paintbrush in hand.

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