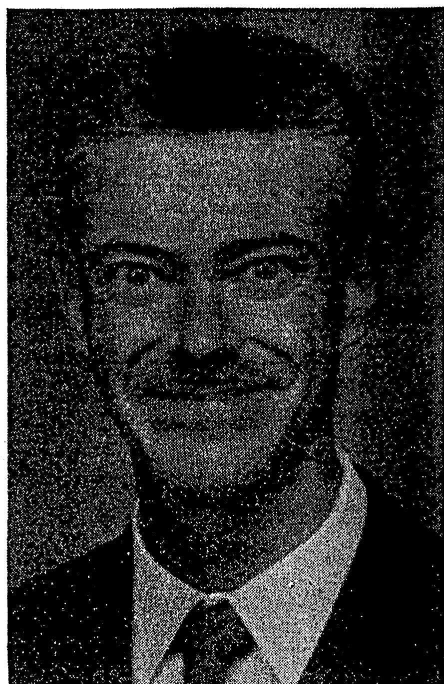

Budget planning: an approach for ELT managers

Some ELT managers have greatness thrust upon them. Others have to make do with responsibility for preparing an annual budget. Having survived the latter experience, **Tony Crooks** outlines, for the benefit of the apprehensive, the irresolute and the reluctant, a system of budgetary planning that has proven a useful management tool at his language centre in Indonesia.

As the financial expression of an organization's strategy and goals, budgets perform three crucial functions in:

- highlighting the financial implications of management's plans for the future;
- defining the resources required to achieve those plans; and
- providing a means of measuring, monitoring and controlling results against the plans.

At the Indonesia Australia Language Foundation (IALF), the annual budget is seen as the key business control programme. This article outlines the system of budgeting that has been developed in the organization.

Context: financial structure of IALF

The IALF is a non-profit educational institution operating on a fee-for-service basis. Its legal status prohibits it, under Indonesian law, from raising funds from outside sources; i.e. it is not entitled to overdraft or loan facilities. In business planning terms, the organization is a single profit centre comprising four Business Units, each of which represents a revenue centre. These are:

(i) Language Programmes for Development Projects (chiefly full-time pre-departure EAP for groups of fellows sponsored by development agencies)

(ii) Company and General Language Training (part-time courses for company classes and for individuals)

(iii) Testing Unit

(iv) Projects and Consultancies Unit

The sales budget is both the most critical element in the budgeting process and the most difficult to get right.

These units are supported by the services of three cost centres:

(i) Finance and Administration (including control of premises, transport and security)

(ii) Resource Centre (library, technical and computer services)

(iii) Materials Production Unit

The Marketing Unit is not strictly speaking a cost centre, since it is concerned with outputs. Nevertheless, like the cost centres, it provides a central service to each of the Business Units.

The planning period

Although financial plans are drawn up to cover a five-year period, the plans for the second to fifth years comprise only summary projections. It is only for the year ahead that a detailed budget is prepared. The budget is divided into twelve monthly sub-periods.

The sales budget

The first step in the budget planning process is to specify assumptions for the planning period with respect to rates of inflation, conversion rates and levels of fees and costs. Once this has been done, the sales budget is tackled by the Language Centre Manager (LCM) and the Heads of the various Business Units. The sales budget is both the most critical element in the budgeting process and - operating as we all do in highly uncertain markets - the most difficult to get right.

Once the sales forecast has been prepared, the various components of the operating expenditure budget can be undertaken.

Projections are drawn up at three contingency levels: the "target" level, the "standard projection" and the "bad-case scenario", with the higher and lower figures tending to vary from the standard by about 15%. Seasonal variations are also taken into account.

Sales projections are expressed both in cash value and in sales units, the unit varying from service to service: for company-sponsored courses, for example, it represents the class hour; for the General English programme the individual student; and for consultancies the person-day.

The expenditure budget

Once the sales forecast has been prepared, the various components of the operating expenditure budget can be undertaken. By far the most significant variable here is teaching staff salaries and benefits, accounting for some 70% of expenditure. Again it is important, therefore, that every attempt is made to arrive at the best possible estimate of the staffing levels required to meet the sales unit projections at the various levels of contingency, with due allowance also being made for adequate relief cover. This component of the budget is again the responsibility of the LCM and the Heads of the Business Units.

Meanwhile, the managers of the cost centres prepare and submit their draft budget covering their individual areas of responsibility. Costs are classified as fixed, variable or discretionary. Variable costs, such as stationery supplies and social activities, are co-ordinated to the three contingency levels of the sales budget. The same applies to discretionary costs (e.g. staff development, non-capitalized premises improvement), but here managers are required to rank their priorities.

Business Unit Heads also work with teachers to prepare a budget for discretionary expenditure, covering such activities as conference attendance and reduced teaching loads for course development.

Proposals for discretionary expenditure are all made in conformity with the principles of zero-based budgeting. In other words, managers are required to justify the budget request by providing a cost-benefit analysis for the activity. Decisions on the allocation of resources for discretionary expenditure will eventually be made by the LCM.

A zero-based approach is also taken with regard to the marketing budget, which lists budgeted expenditure against specific marketing activities, together with the anticipated outcomes of those activities.

The same principles are applied, too, to the allocation of resources for capital expenditure: library resource materials, technical equipment, premises fit-out, furniture and vehicles.

The zero-based approach to discretionary and capital expenditure has the salutary effect of encouraging managers to clarify to themselves their objectives and their priorities.

Putting it all together

The various budgets are compiled to form the draft master budget, which comprises three components:

(i) **Budgeted profit and loss account**, showing monthly revenue and expenditure on an accrual basis and including non-cash charges such as depreciation.

(ii) **Cash budget**, showing actual cash movements also by month. Because of the organization's inability to access outside funding, cash flow is a crucial concern, and it is only after the month-by-month cash projection for fixed and variable operating costs has been prepared that decisions can be taken on the timing of discretionary expenditure and the purchase of capital assets.

(iii) **Projected balance sheet**, showing the net effect of the budgets on the financial position of the organization at the end of the budget period.

All three components of the master budget are prepared at the three contingency levels.

The various budget components are summarized in Figure 1.

The draft projections are reviewed and assessed by the management team and revised as necessary. Once agreed upon and accepted, they are adopted formally by management as its financial plan for the coming year, and they thereby provide the budget against which performance will be measured.

Benefits

This procedure has been refined over a number of years, and, while we are always aware of further improvements that could be made, it serves our purpose well. The built-in flexibility compensates to some extent for the

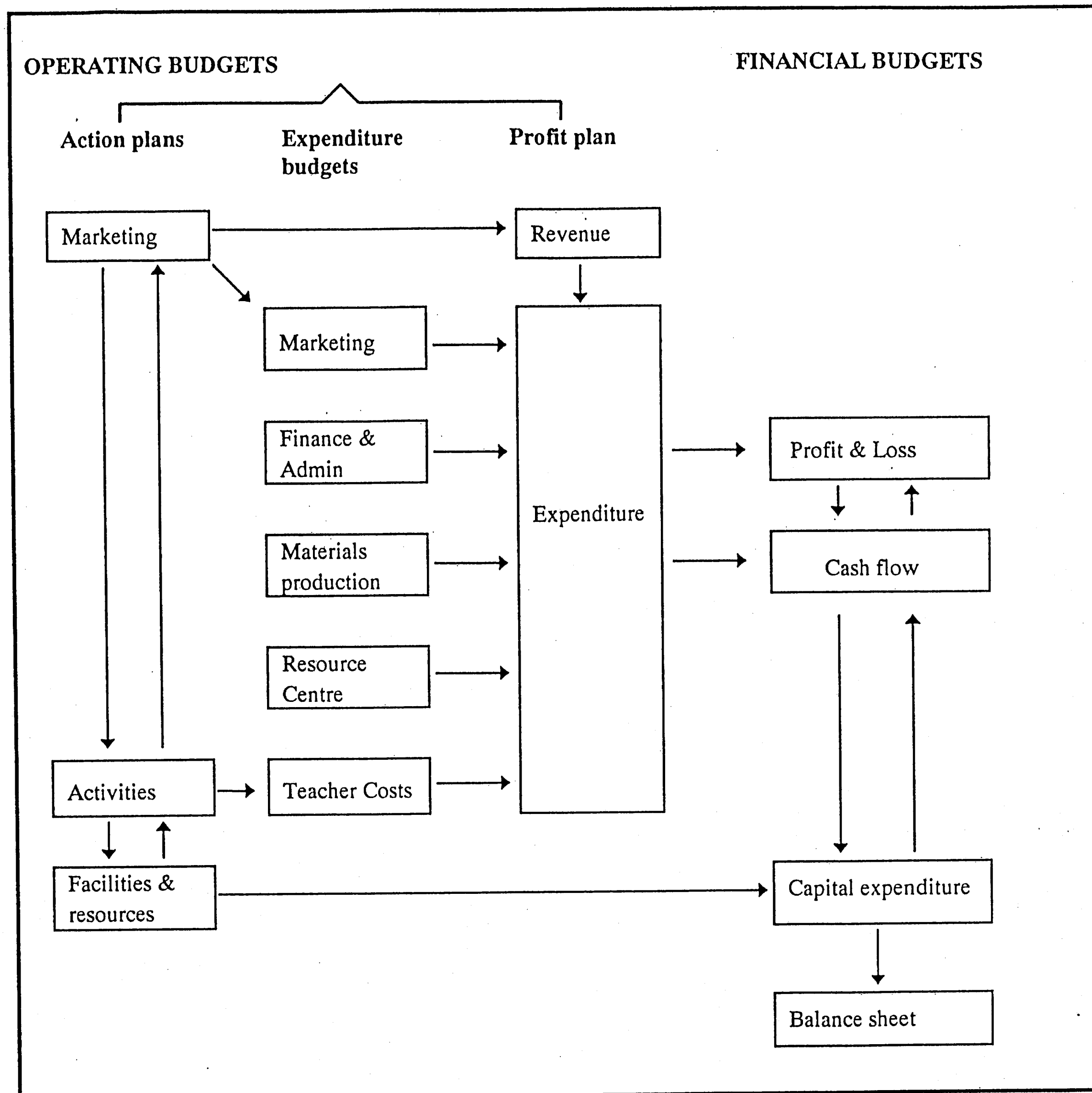

Figure 1: Budget components

limitations of sales forecasts. The zero-based approach to discretionary and capital expenditure has the salutary effect of encouraging managers to clarify to themselves their objectives and their priorities, and also ensures that low-priority activities are trimmed or eliminated.

Too often, budgets are seen as an obstacle to effective management. With a bit of thoughtful preparation, however, the annual budget can be one of the most useful tools in the manager's kit.

Tony Crooks has for the past seven years been Manager of the Indonesia Australia Language Foundation in Bali. Trained as an ELT professional, he later developed a strong interest in financial management and in the marketing of language training services.

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