

BUDGETING

*Decision Making
Framework*

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INTRODUCTION

Budgeting is a crucial part of Indigenous financial management that involves planning and controlling finances. For finance staff, understanding the budgeting decision-making framework can help in making informed and effective financial decisions.

KEY COMPONENTS OF BUDGETING

SETTING OBJECTIVES

- **Define Goals:** Identify the financial and operational goals of the organization.
- **Prioritize:** Rank goals based on importance and impact on the organization.

GATHERING INFORMATION

- **Historical Data:** Review prior year financial statements and budgets.
- **Market Analysis:** Understand the current market conditions and trends.
- **Resource Assessment:** Evaluate available resources, including staffing, software, and technology.

BUDGET PREPARATION

- **Revenue Forecasting:** Estimate future revenues based on historical data, funding agreements, and market trends for interest rates and loans.
- **Expense Estimation:** Predict future expenses, categorizing them into respective expense accounts such as office supplies, contracting, wages, utilities, etc.
- **Capital Budgeting:** Plan for long-term investments and capital expenditures for buildings and equipment with a useful life beyond 1 year.

BUDGET REVIEW AND APPROVAL

- **Draft Review:** Prep area draft budget at least 3 months prior to the deadline and review it for accuracy and alignment with goals.
- **Stakeholder Input:** Seek feedback at least 2 months prior to the deadline, from key stakeholders and make necessary adjustments.
- **Approval:** Obtain formal approval at least 1 month prior to the deadline from senior management or the board of directors.



DECISION-MAKING

Framework

1 IDENTIFY THE DECISION

- **Define the Problem:** Clearly state the financial, ask, issue, or decision to be made.
- **Set Criteria:** Establish criteria for decision-making, such as cost, impact, and feasibility.

2 GATHER RELEVANT INFORMATION

- **Data Collection:** Collect all necessary financial data and information.
- **Analyze Data:** Determine if the information/data is reliable.

3 DEVELOP OPTIONS

- **Brainstorm Options:** Generate a list of possible solutions or actions (2 or 3 alternatives).
- **Evaluate Options:** Assess each option against the set criteria.

4 MAKE THE DECISION

- **Choose Best Option:** Select the action that best meets the criteria and organizational goals.
- **Document Decision:** Record the decision-making process and rationale for transparency.

5 IMPLEMENT THE DECISION

- **Action Plan:** Develop a detailed work plan for implementing the chosen solution.
- **Assign Responsibilities:** Allocate tasks and responsibilities to team members (oversight and workers).

6 MONITOR AND REVIEW

- **Track Progress:** Monitor the work plan and compare actual results/financials against the budget.
- **Adjust as Needed:** Make adjustments to the budget and work plan as necessary.

TOOLS AND TECHNIQUES

SWOT Analysis

- Strengths, Weaknesses, Opportunities, Threats.
- Use SWOT analysis to evaluate internal and external factors affecting budgeting decisions.

Financial Ratios

- **Liquidity Ratios** Assess the organization's ability to meet short-term obligations.
- **Profitability Ratios:** Evaluate the organization's ability to generate profit (Own Source Revenue Departments).

Cost-Benefit Analysis

- Weigh Costs and Benefits.
- Compare the costs and benefits of different options to determine the best course of action (Buy vs Lease etc.).



TIPS

For Effective Budgeting

BE REALISTIC

Use realistic assumptions and estimates in your budget.

INVOLVE STAKEHOLDERS

Engage relevant stakeholders in the budgeting process for better buy-in and accuracy.

REGULAR REVIEWS

Conduct regular budget reviews to stay on track and make necessary adjustments.

USE TECHNOLOGY

Leverage budgeting software and tools for more accurate and efficient budgeting.

CONCLUSION

By following this budgeting decision-making framework, finance staff can enhance their ability to make, and support leadership in making informed financial decisions, contribute to effective financial planning for their Indigenous organization, and support the organization's fiscal health. Regular practice and continuous professional development will further refine these skills.



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