Managing In and Beyond COVID-19
Budgeting & Scenario Planning

Presented by
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Nonprofit Finance Fund: Where Money Meets Mission

NFF envisions a world where capital and expertise come together to create a more just and vibrant society

We unlock the potential of mission-driven organizations through

- Tailored investments
- Strategic advice
- Accessible insights

Guided by our Core Values

- Equity in Action
- Rigor Without Attitude
- Responsiveness
- Generosity of Spirit
- Leading By Doing
- CORE VALUES

Guided by our Core Values
Planning for the Known and the Unknown
Short- and mid-term budgeting and scenario planning

Planning for the future begins with **visualizing and reimagining the possibilities for mission delivery** given:

1. The future conditions or events that are probable (or possible),
2. What the consequences or effects would be as a result of these conditions or events, and
3. How you might respond to or benefit from them.
Management Tools to Help You Plan
Mitigating risk and preparing for opportunity

Day-to-Day Management
- **Budgets:**
  - Financial planning/monitoring
  - Business variables
  - Revenue discounting
- **Cash Flow Planning:**
  - Estimating the timing of money
  - Anticipating the need to access & repay debt

Strategic Decision Making
- **Scenario Plans:**
  - Articulating the “what ifs”
  - Quantifying contingencies
  - Identifying triggers
- **Multi-Year Projections:**
  - Multi-year planning
  - Modeling change
  - Growth planning
Budget
Financial plan to carry out an organization’s mission

Every organization needs a plan to reflect how to spend limited resources for a stated period of time

A budget is a road map, a guide, a financial plan

A good budget is a versatile, often under-utilized tool that can help to:

▪ Allocate resources
▪ Monitor progress
▪ Increase focus
▪ Set realistic goals
▪ Implement strategy
▪ Communicate priorities
▪ REIMAGINE!
Considerations for COVID-19 Budgeting

General
• Impact of physical distancing
• Impact of COVID-19 on the community you serve
• Fully operational vs. reduced service levels vs. pause in service delivery

Revenue
• Revenue losses from reduced service levels or funder/donor hardship
• Emergency funding (e.g., govt. stimulus, rapid response grants from philanthropy)
• Philanthropic revenue that funders have removed restrictions on

Expenses
• Increased short-term expenses (e.g., PPE, remote working, unanticipated demand)
• Decreased short-term expenses due to closure or reduced service levels (e.g., staffing, utilities, program supplies)
• New ongoing expenses that support you in the new norm (e.g., changes to service delivery, volume, community needs)
Budgeting in a Crisis
Simplify where possible and focus on flexibility

Overall Tips

• If appropriate, look at historical data, but remember that we may not be going back to ‘normal operations’
• Line by line review, but focus on ‘big ticket items’
• Document assumptions
• Can be easier to start with expenses before going to revenue
  • Identify both upfront and ongoing costs (e.g., one-time cost for remote working software vs. ongoing subscriptions costs)

Revenue & Expense Ideas

• Consider major business variables
  • Average cost per staff x Number of staff
  • Service volumes
  • Specific anticipated changes
• Make a list of funding sources / donors and assign a percentage of confidence
• Estimate number of gifts at different levels
In what ways is physical distancing impacting your budget(s)?

<table>
<thead>
<tr>
<th>Key Variable</th>
<th>Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staffing</strong></td>
<td>Some staff will need to work remotely to reduce on-site #s</td>
</tr>
<tr>
<td></td>
<td>Equipment purchases for staff working remotely</td>
</tr>
<tr>
<td></td>
<td>New hires to offset volunteer positions</td>
</tr>
<tr>
<td></td>
<td>Need for PPE for on-site staff</td>
</tr>
<tr>
<td></td>
<td>Increased cleaning fees for the facility</td>
</tr>
<tr>
<td><strong>Service volumes</strong></td>
<td>Increase in demand current services</td>
</tr>
<tr>
<td></td>
<td>Limitations on daily client volume to reduce on-site #s</td>
</tr>
<tr>
<td></td>
<td>Need for PPE for clients</td>
</tr>
<tr>
<td></td>
<td>Increase in demand for ancillary services</td>
</tr>
</tbody>
</table>
Business Variables Predict Financial Performance
Identifying variables enables a more accurate projection of revenue and expense goals and needs

In what ways is physical distancing impacting your budget(s)?

<table>
<thead>
<tr>
<th>Key Variable</th>
<th>Expense</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staffing</strong></td>
<td>$1K/staff (remote) for equip.</td>
<td>$500K SBA PPP loan</td>
</tr>
<tr>
<td></td>
<td>$18/hour per new hire</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$5/day per on-site staff for PPE</td>
<td></td>
</tr>
<tr>
<td></td>
<td>50% increase in daily cleaning costs</td>
<td></td>
</tr>
<tr>
<td><strong>Service volumes</strong></td>
<td>25% reduction in daily client volume</td>
<td>25% reduction in daily FFS revenue</td>
</tr>
<tr>
<td></td>
<td>$5/day per on-site client</td>
<td>$25K rapid response grant from foundation partner</td>
</tr>
</tbody>
</table>
Budgeting in a Crisis
Utilizing short-term budgets

3, 6, 9-month Budgets

- Allow for greater visibility and flexibility given uncertainty
- Budgets can be more easily customized to specific scenarios as physical distancing measures are refined
- Allow for greater transparency and ease of financial storytelling

Tool for Storytelling

- ‘What happened?’ and ‘Why?’
- In light of COVID-19 and changes to programs and services, what can leadership do?
- Given what we know, how can we adjust today? What can we do to adjust tomorrow?
3, 6, 9 Month Budget Sample
What assumptions can we make based on what we know?

<table>
<thead>
<tr>
<th>FY2020 Budget 01/01/20 - 12/31/20</th>
<th>FY20 Approved Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
</tr>
<tr>
<td>Earned Income</td>
<td></td>
</tr>
<tr>
<td>County Contracts</td>
<td></td>
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<tr>
<td>State Contracts</td>
<td></td>
</tr>
<tr>
<td>Contributed Income</td>
<td></td>
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<tr>
<td>Individual Donations</td>
<td></td>
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<tr>
<td>Fundraising Events</td>
<td></td>
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<tr>
<td>Foundation Grants</td>
<td></td>
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<tr>
<td>Government Grants</td>
<td></td>
</tr>
<tr>
<td>Net Assets Released</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Expense</strong></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td></td>
</tr>
<tr>
<td>Contract Services</td>
<td></td>
</tr>
<tr>
<td>Support &amp; Supplies</td>
<td></td>
</tr>
<tr>
<td>Occupancy</td>
<td>546</td>
</tr>
<tr>
<td>Volunteer Expenses</td>
<td>217</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td>3,947</td>
</tr>
<tr>
<td><strong>Surplus/(Deficit)</strong></td>
<td>215</td>
</tr>
</tbody>
</table>

When planning, **do not assume that your organization is receiving government stimulus** funding (e.g., PPP and EIDL), and do not make decisions about maintaining costs that you otherwise would not keep.

Treat government stimulus and other response funding as a potential windfall, not something you are expecting.
Incorporating Revenue Probabilities into Budgets
Budgeting for unpredictable revenue

Start by ranking revenue according to grade or probability

Grade

A committed

B proposal submitted, high probability

C proposal submitted, somewhat likely

D in discussions, moderate

E new or no relationship
Accounting for Risk & Uncertainty

**Cutoff Methodology**

- Rank all revenue in the pipeline from “A” to “E” based on likelihood
- Only include certain levels above the cutoff in the budget
- Example:
  - Assuming cutoff at “C” revenue
  - $20,000 @ “B” = $20,000
    - $20,000 included in the budget
  - $50,000 @ “D” = $0
    - $0 included in the budget

**Discount Methodology**

- Discount revenue by % probability
- Include ALL of the discounted amounts in the budget
- Example:
  - $20,000 @ 75% = $15,000
    - $15,000 included in the budget
  - $50,000 @ 25% = $12,500
    - $12,500 included in the budget
## Revenue Probabilities Inform Budget Expectations

<table>
<thead>
<tr>
<th>Source</th>
<th>Opportunity Amount</th>
<th>Grade / Probability</th>
<th>Cutoff Method (Grades A-C)</th>
<th>Discount Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation X</td>
<td>$250K</td>
<td>A / 100%</td>
<td>$250K</td>
<td>$250K</td>
</tr>
<tr>
<td>Funder X</td>
<td>$75K</td>
<td>A / 100%</td>
<td>$75K</td>
<td>$75K</td>
</tr>
<tr>
<td>Special Event X</td>
<td>$50K</td>
<td>C / 75%</td>
<td>$50K</td>
<td>$37.5K</td>
</tr>
<tr>
<td>Foundation Y</td>
<td>$200K</td>
<td>C / 75%</td>
<td>$200K</td>
<td>$150K</td>
</tr>
<tr>
<td>Agency X</td>
<td>$100K</td>
<td>C / 75%</td>
<td>$100K</td>
<td>$75K</td>
</tr>
<tr>
<td>Individual X</td>
<td>$50K</td>
<td>D / 50%</td>
<td>$0</td>
<td>$25K</td>
</tr>
<tr>
<td>Foundation Z</td>
<td>$100K</td>
<td>E / 25%</td>
<td>$0</td>
<td>$25K</td>
</tr>
<tr>
<td>Funder Y</td>
<td>$50K</td>
<td>E / 25%</td>
<td>$0</td>
<td>$12.5K</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$875K</strong></td>
<td><strong>$675K</strong></td>
<td><strong>$650K</strong></td>
<td></td>
</tr>
</tbody>
</table>

All revenue should have a plan – avoid plugs like, “to-be-raised”!
Developing Scenario Plans For Future “What Ifs”
Articulating the potential impact of risks and opportunities

**Identify:**
- Your main questions, issues, or opportunities
- Your team
- Areas of risk, variability, or lack of viability

**Know:**
- The management actions you can use to make changes
- The range of change that may occur and map a range of outcomes

**Articulate:**
- The assumptions you are making within any scenario

**Create:**
- An actionable plan, with timeline, benchmarks and clear objectives/priorities
- Contingency plans with clear triggers
Scenario Planning
Test the effect of different choices or events

Types of Scenario Plans

• **Back of Envelope/High Level Analysis:** To gauge high-level financial impact; easier to do but may lack accuracy

• **Go/No-Go Analysis:** Cost-benefit of a strategic decision

• **Better/Best or Worse/Worst Case Scenarios:** “What if’s” of building on a baseline budget

• **Detailed Multi-Year Scenario Plan:** Quantifies the effects of choices/events over time and reveals important inflection points, trends, or financial variables
Scenario Planning in the Age of COVID-19
Considerations when timeframes and circumstances are uncertain

- **6 + Months**
  - **Mild to Moderate Client & Donor Impact**
  - **Moderate to Severe Client & Donor Impact**

- **3–6 Months**
  - **Mild to Moderate Client & Donor Impact**
  - **Moderate to Severe Client & Donor Impact**

Impact of COVID/Economic Recovery on Audience/ Clients/ Donors
# Building Scenario’s in Times of Uncertainty

What unknowns are we trying to plan around? What decisions do we have to make?

<table>
<thead>
<tr>
<th>Scenario A</th>
<th>Scenario B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Physical distancing ends Sept. 30; growing service demand</strong></td>
<td><strong>Physical distancing ends Sept. 30; moderate service demand</strong></td>
</tr>
<tr>
<td><strong>Earned Revenue</strong></td>
<td><strong>Contributed Revenue</strong></td>
</tr>
<tr>
<td>Increased income from government contracts</td>
<td>Reduced income from government contracts</td>
</tr>
<tr>
<td><strong>Contributed Revenue</strong></td>
<td><strong>Personnel Costs</strong></td>
</tr>
<tr>
<td>Increased special event revenue based on announcement of expanded footprint</td>
<td>Increased staffing due to increased programming and reduced volunteer workforce</td>
</tr>
<tr>
<td><strong>Support &amp; Supply Costs</strong></td>
<td><strong>Support &amp; Supply Costs</strong></td>
</tr>
<tr>
<td>Increased supply costs due to increased programming</td>
<td>Increased supply costs due to increased programming</td>
</tr>
<tr>
<td><strong>Occupancy Costs</strong></td>
<td><strong>Occupancy Costs</strong></td>
</tr>
<tr>
<td>Additional rental space to expand programming</td>
<td>Additional rental space to expand programming</td>
</tr>
</tbody>
</table>
Sample Scenario Plan
Considering multiple potential operating results

<table>
<thead>
<tr>
<th>FY20 Budget 01/01/20 - 12/31/20</th>
<th>FY20 Budget Reforecast</th>
<th>Scenario A</th>
<th>Notes</th>
<th>Scenario B</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County Contracts</td>
<td>400</td>
<td>500</td>
<td>Increased service delivery</td>
<td>375</td>
<td>Reduced service delivery</td>
</tr>
<tr>
<td>State Contracts</td>
<td>500</td>
<td>650</td>
<td>Increased service delivery</td>
<td>475</td>
<td>Reduced service delivery</td>
</tr>
<tr>
<td>Contributed Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Donations</td>
<td>650</td>
<td>650</td>
<td></td>
<td>650</td>
<td></td>
</tr>
<tr>
<td>Fundraising Events</td>
<td>505</td>
<td>600</td>
<td>Increased support from Annual Gala</td>
<td>505</td>
<td></td>
</tr>
<tr>
<td>Foundation Grants</td>
<td>80</td>
<td>105</td>
<td>Rapid response funding ($25K)</td>
<td>105</td>
<td>Rapid response funding ($25K)</td>
</tr>
<tr>
<td>Government Grants</td>
<td>100</td>
<td>100</td>
<td></td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Net Assets Released</td>
<td>1,503</td>
<td>1,503</td>
<td></td>
<td>1,503</td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>3,738</td>
<td>4,108</td>
<td></td>
<td>3,713</td>
<td></td>
</tr>
<tr>
<td>Expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>2,694</td>
<td>2,755</td>
<td>Increased staffing costs</td>
<td>2,755</td>
<td>Increased staffing costs</td>
</tr>
<tr>
<td>Contract Services</td>
<td>149</td>
<td>149</td>
<td></td>
<td>149</td>
<td></td>
</tr>
<tr>
<td>Support &amp; Supplies</td>
<td>460</td>
<td>500</td>
<td>Increased supply cost</td>
<td>500</td>
<td>Increased supply cost</td>
</tr>
<tr>
<td>Occupancy</td>
<td>679</td>
<td>754</td>
<td>Additional rental space for services</td>
<td>754</td>
<td>Additional rental space for services</td>
</tr>
<tr>
<td>Volunteer Expenses</td>
<td>94</td>
<td>94</td>
<td></td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>Total Expense</td>
<td>4,076</td>
<td>4,252</td>
<td></td>
<td>4,252</td>
<td></td>
</tr>
<tr>
<td>Surplus/(Deficit)</td>
<td>(338)</td>
<td>(144)</td>
<td></td>
<td>(539)</td>
<td></td>
</tr>
</tbody>
</table>
Contingency Planning

- Engage staff, board, and funders in data-driven strategic conversations
- Understand the implications of the decisions you make as to the best path forward
Operationalizing Your Planning

Develop:

- An action plan that outlines what you will do if a scenario becomes reality. It describes the key steps, timelines, benchmarks, objectives and teams for implementation.

- Monitoring mechanism that enables you to look out for the triggers that signal a shift from your current budget to the scenario.

Articulate:

- The main scenario situation.
- Priorities driving decision-making.
- Areas of risk, variability, or constants.
- The assumptions you are making.
- The triggers that will prompt action.

Scenario Plan A: Action Plan

- Timeline
- Benchmarks/milestones
- Concrete steps/actions
- Staff or team responsible
- Communications strategy
Thank You!

https://nff.org/covid-19-tools-and-resources-nonprofits

Self-guided resources

• Website-based
• Blog and downloadable tools

Group programs

• Webinars
• Small-group coaching sessions
• Cohort / custom group programs* (arts, health, etc.)

Individualized help

• ‘Ask NFF’ email service and FAQs
  https://nff.org/ask-nff
• Individual coaching sessions*

*to inquire about these services please contact consulting@nff.org