

Managing In and Beyond COVID-19

Budgeting & Scenario Planning



Presented by

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

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- **Tailored investments**
- **Strategic advice**
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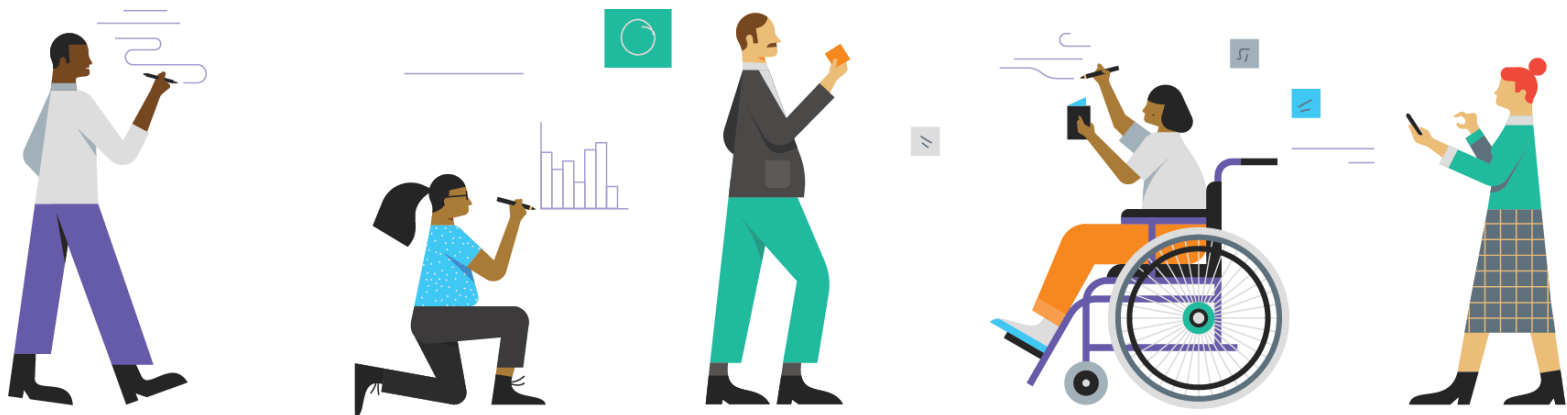


Planning for the Known and the Unknown

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

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)?

Key Variable	Prediction
Staffing	Some staff will need to work remotely to reduce on-site #s Equipment purchases for staff working remotely New hires to offset volunteer positions Need for PPE for on-site staff Increased cleaning fees for the facility
Service volumes	Increase in demand current services Limitations on daily client volume to reduce on-site #s Need for PPE for clients Increase in demand for ancillary services

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)?

Key Variable	Expense	Revenue
Staffing	\$1K/staff (remote) for equip. \$18/hour per new hire \$5/day per on-site staff for PPE 50% increase in daily cleaning costs	\$500K SBA PPP loan
Service volumes	25% reduction in daily client volume \$5/day per on-site client	25% reduction in daily FFS revenue \$25K rapid response grant from foundation partner

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?

FY2020 Budget 01/01/20 - 12/31/20	FY20 Approved Budget
Revenue	
<i>Earned Income</i>	
County Contract	
State Contract	
<i>Contributed Income</i>	
Individual Donor	
Fundraising Event	
Foundation Grant	
Government Grant	
Net Assets Reversal	
Total Revenue	
Expense	
Personnel	
Contract Services	
Support & Supplies	
Occupancy	546
Volunteer Expenses	217
Total Expense	3,947
Surplus/(Deficit)	215

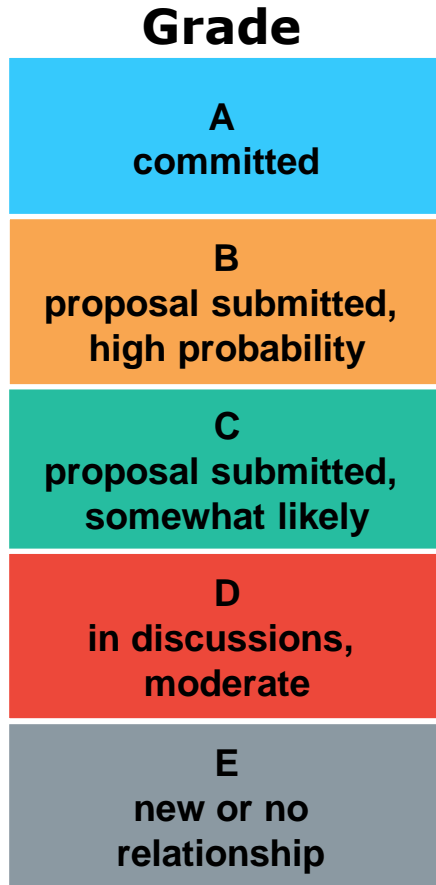
When planning, **do not assume that your organization is receiving government stimulus** funding (e.g., PPP and EIDL), and do not make decisions about maintaining costs that you otherwise would not keep.

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



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

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

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

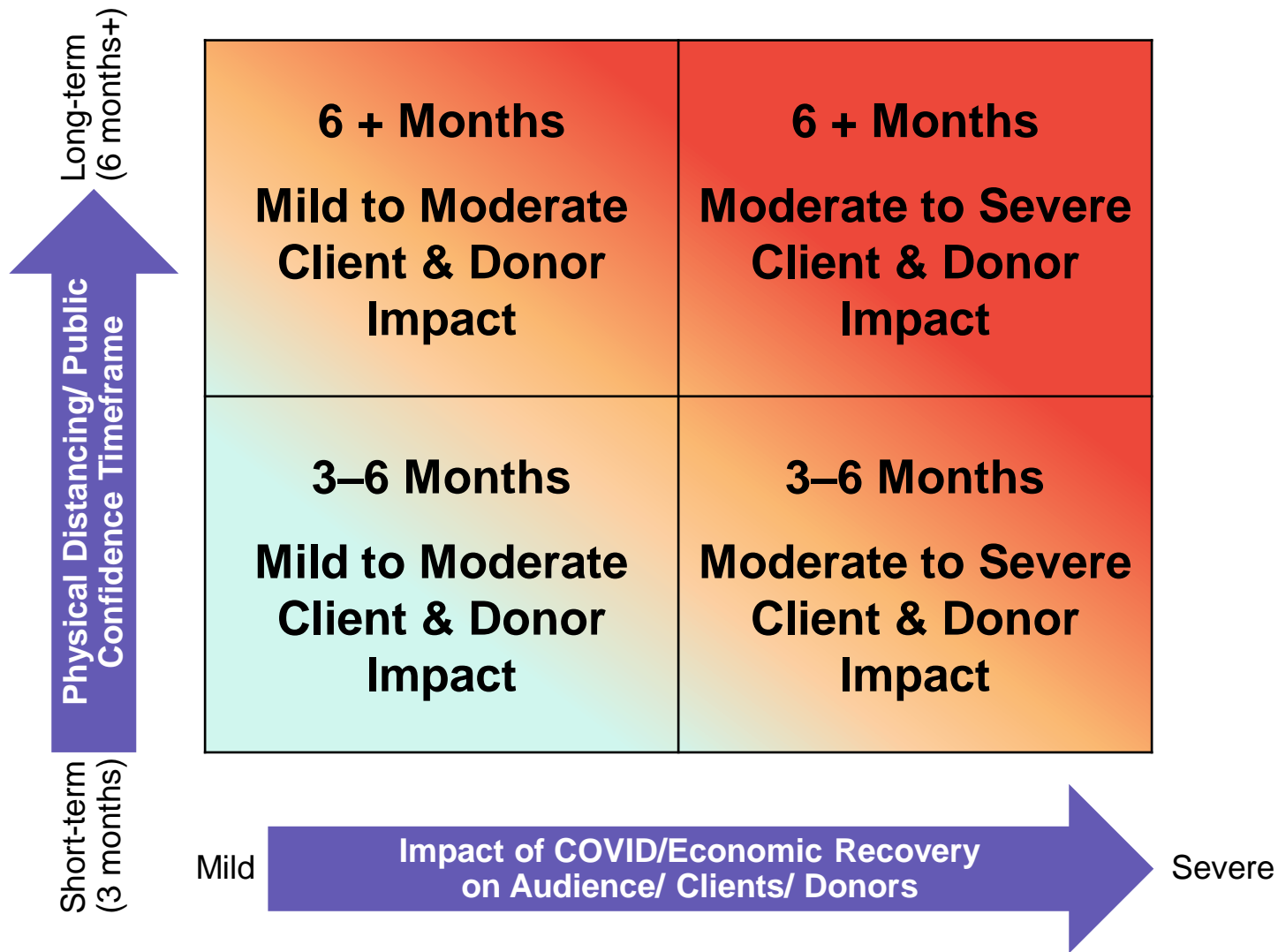
Types of Scenario Plans

- **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



Building Scenario's in Times of Uncertainty

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

	<u>Scenario A</u> Physical distancing ends Sept. 30; growing service demand	<u>Scenario B</u> Physical distancing ends Sept. 30; moderate service demand
Earned Revenue	Increased income from government contracts	Reduced income from government contracts
Contributed Revenue	Increased special event revenue based on announcement of expanded footprint	No change to special event revenue
Personnel Costs	Increased staffing due to increased programming and reduced volunteer workforce	Increased staffing due to increased programming and reduced volunteer workforce
Support & Supply Costs	Increased supply costs due to increased programming	Increased supply costs due to increased programming
Occupancy Costs	Additional rental space to expand programming	Additional rental space to expand programming

Sample Scenario Plan

Considering multiple potential operating results

FY2020 Budget 01/01/20 - 12/31/20	FY20 Budget Reforecast	Scenario A	Notes	Scenario B	Notes
Revenue					
<i>Earned Income</i>					
County Contracts	400	500	Increased service delivery	375	Reduced service delivery
State Contracts	500	650	Increased service delivery	475	Reduced service delivery
<i>Contributed Income</i>					
Individual Donations	650	650		650	
Fundraising Events	505	600	Increased support from Annual Gala	505	
Foundation Grants	80	105	Rapid response funding (\$25K)	105	Rapid response funding (\$25K)
Government Grants	100	100		100	
Net Assets Released	1,503	1,503		1,503	
Total Revenue	3,738	4,108		3,713	
Expense					
Personnel	2,694	2,755	Increased staffing costs	2,755	Increased staffing costs
Contract Services	149	149		149	
Support & Supplies	460	500	Increased supply cost	500	Increased supply cost
Occupancy	679	754	Additional rental space for services	754	Additional rental space for services
Volunteer Expenses	94	94		94	
Total Expense	4,076	4,252		4,252	
Surplus/(Deficit)	(338)	(144)		(539)	

Contingency Planning

Strategic Decisions

- 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