

Webinar **Strategic Budgeting and Scenario Planning**



Facilitated by
Nonprofit Finance Fund

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Acknowledgment of Indigenous Territories



- We invite you to share in the chat the Indigenous Territory you are joining us from:

<https://native-land.ca/>

Nonprofit Finance Fund

We are on a mission to support community-centered organizations led by and serving people of color, helping them access the investment capital and financial knowledge they need to realize their aspirations.



What's This Session All About?

There are many ways
this year could go.
How do I plan?

I'm not sure what the
impact will be if we don't
bring in as much with
our virtual fundraiser

At what point should I
think about increasing
staff to meet demand?

What other
questions are on
your mind for this
session?

Today's Learning Goals



Use your budget strategically to identify & prepare for risks and opportunities



Enhance visibility to enable nimble decision-making across stakeholders



Navigate through scenario planning

Key Considerations in Strategic Budgeting

Build A Budget That...

Reflects your **strategic goals**

Sets **realistic** expectations

Accounts for **revenue restrictions**

Considers surpluses to support longer-term needs

Account for Uncertainty

Discount revenue based on reliability and predictability

Know **what it takes** to reach your goals

Know Your Options

Identify your **fixed** vs. **variable** expenses

Be clear about the **trade-offs** when considering scenarios

Iterate

Compare **budget to actuals** regularly

Update projections when new information comes in

Make **decisions**, when necessary, in response to change

Communicate to your team and stakeholders about decisions

What Informs My Budget?



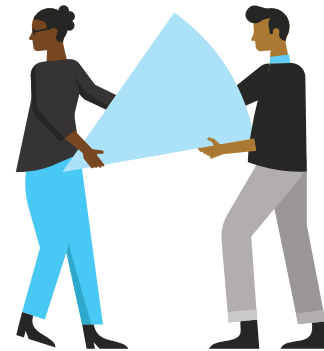
Prior year's outcomes



Strategic goals



Funding & expenses already committed



Program and management staff input

Identifying Risk and Opportunity in Budgets

Budget

Revenue

Earned
Contributed
Private Sources
Government

Revenue Dynamics

- How does your organization's generate or make money?
- What feels reliable or at risk? How does seasonality play a factor?

Expenses

Personnel
Professional Fees
Occupancy
Program Costs
Support
Other

Expense Dynamics

- How did the organization spend its money?
- What is predictable?
- How responsive can we be to changes?
How prepared are we to make hard decisions?

Surplus / Deficit

Profitability & Savings

- How were costs covered?
- What surplus was available?

Identifying Risk and Opportunity in Budgets

Budget

Revenue

Earned

Contributed

Private Sources

Government

Expenses

Personnel

Professional Fees

Occupancy

Program Costs

Support

Other

Surplus / Deficit

1. Articulate your assumptions
2. Identify your key risks or potential swings
3. Identify what you do and do not have control over

How can we account for the uncertainty of different revenue sources as we plan out our budget?

- Make a list of all of the **confirmed and potential sources of revenue**
- For potential sources of revenue, assess the **likelihood of receiving funding** from them and **how much they might fund**
- Use this information to make a **data-informed projection of potential revenue**

Assessing Your Revenue Potential from a Funder

How aligned are we with what this funder funds?

- E.g. issue area, geography, target demographics served, etc.

What types of things have they funded in the past?

What do we know about the amounts they have granted to others in the past?

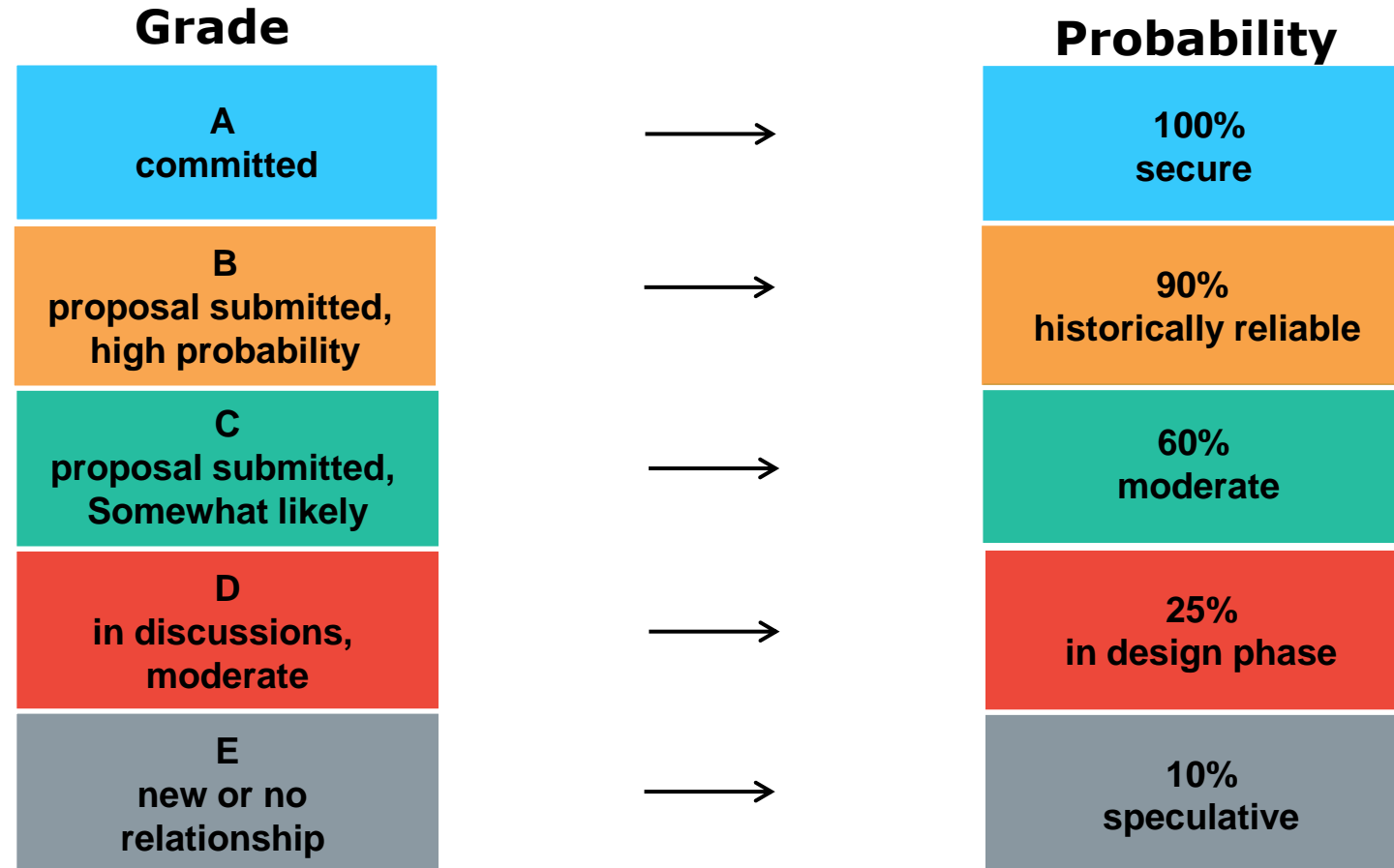
What is our relationship with them?

- E.g. did they reach out to us? How many times have we met with them? Are we responding to an open RFP?

Incorporating Revenue Probabilities into Budget

Budgeting for unpredictable revenue

Start by ranking revenue according to probability.
BELOW IS AN EXAMPLE (you can use your own percentages based on your confidence)



Discounting Revenue: Discount Method

Example: ABC Organization

Source	Status	Probability	Amount	Discount
Government Agency	Contract signed, will be paid via reimbursement	100%	\$25,000	\$25,000
Reliable Foundation	Strong alignment, has been reliable in the past, no major concerns	90%	\$20,000	\$18,000
Sometimes Major Donor	Strong alignment, has supported on and off, interested in renewing, hasn't given a timeline	60%	\$1,000	\$600
New Corporation	Engaged, in the learning process, final scope TBD	25%	\$5,000	\$1,250
Prospects	Researching and contacting potential donors	10%	\$5,000	\$500
TOTAL			\$56,000	\$45,350

Discounting Revenue: Cutoff Method

Example: ABC Organization

Source	Status	Probability	Amount	Cutoff
Government Agency	Contract signed, will be paid via reimbursement	100%	\$25,000	\$25,000
Reliable Foundation	Strong alignment, has been reliable in the past, no major concerns	90%	\$20,000	\$20,000
Sometimes Major Donor	Strong alignment, has supported on and off, interested in renewing, hasn't given a timeline	60%	\$1,000	\$1,000
New Corporation	Engaged, in the learning process, final scope TBD	25%	\$5,000	\$0
Prospects	Researching and contacting potential donors	10%	\$5,000	\$0
TOTAL			\$56,000	\$46,000

Forecasting Expenses: Direct vs. Indirect, Variable vs. Fixed

Operating expenses are often more directly within our control than revenue.

When building a budget, keep these types of expenses in mind:

- **Direct:** directly tied to program (e.g. program advertising costs)
- **Indirect:** organization-wide expenses (e.g. utility bill)
- **Fixed:** do not change when we do more or less (e.g. mortgage or rent on year-round facility)
- **Variable:** increase or decrease based on activity level (e.g. office supplies)

Important to understand how changing your expenses will impact your mission delivery.

A Strategic Budget Quantifies Risk & Aids in Decision Making

Illustrates 'What happened?' and 'Why?'

- Shows variance between Actuals and Projected numbers
- Tracks year-to-date performance
- Includes notes and states assumptions
- Clearly shows what restricted revenue is available this year and for future years

Budget Data Supports 'Real Time' Decision Making

- In light of performance short falls, or unexpected events, what can leadership do?
- Given what we know, how can we adjust today? What can we do to adjust tomorrow?



Defining the Scenarios to Explore (ABC Organization Example)

Permission to Make Your Best Guess

	Fast-Paced Re-Opening	Slow-Paced Re-Opening
Low Financial Impact (Client Demand, Funder Support)	Phased return in May with full return in-person in Sept. Funding minimally affected for 2021 and returns for 2022.	
High Financial Impact (Client Demand, Funder Support)		Fully remote in 2021 and phased return in Jan 2022. Funding decline in some areas.

Pick the scenario(s) that will help you plan your way forward.

Sample Scenario Budgets

Considering multiple potential operating results

Baseline budget – reflects current operations with limited re-opening

FY 2021 Budget 1/1/21 - 12/31/21	FY 21 BUDGET	SCENARIO A		SCENARIO B	
		Programs fully re-open by September; growing service demand		Programs go fully remote; moderate/declining service demand	
		Budget	Notes	Budget	Notes
Revenue					
<i>Earned Income</i>					
County Contracts	50,000	60,000	Increased service delivery	45,000	Reduced service delivery
State Contracts	70,000	85,000	Increased service delivery	67,500	Reduced service delivery
<i>Contributed Income</i>					
Individual Donations	75,000	75,000		75,000	
Foundation Grants	58,500	63,500	Rapid response funding (\$50K)	33,000	
Net Assets Released	105,030	150,300		105,300	
Total Revenue	358,530	433,800		325,800	
Expenses					
Personnel	269,400	275,500	Increased staffing costs	269,400	
Contract Services	14,900	14,900		14,900	
Support & Supplies	46,000	50,000	Increased supply costs	32,000	Reduced supply costs
Occupancy	67,900	75,400	Additional rental space for services	67,900	
Volunteer Expenses	9,400	9,400		-	Reduced volunteer availability
Total Expenses	407,600	425,200		384,200	
Surplus (Deficit)	(49,070)	8,600		(58,400)	

Implications of the Scenario Plan

Strategic Implications

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

Identify Options

- Developing explicit contingency plans
- It is difficult when you are forced to take drastic action without a thoughtful plan

Articulate Triggers

- Determine the triggers that lead to Scenario B, Scenario C, etc.
- For example: if X% of revenue doesn't arrive by Y, we will cut Z% of expenses

A Sample Scenario Planning Tool with Step-by-Step Instructions is Available at: <https://nff.org/covid-19-tools-and-resources-nonprofits#tools>



Webinar Sessions 1 – 12



Up Next

Understanding Your Mission/Money Mix

To make informed decisions, nonprofit leaders must understand how their programs contribute to both financial and mission objectives. You will use NFF's Program Economics Analysis to see how your mission can inform financial decisions, explore where well-placed subsidy can maximize your organization's impact, and determine how to adapt your programs in response to the current moment.



Thank You!

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