

How to Budget Training

Managing the Training Function

Info-line

The *How-To* Reference Tool for Training & Performance Professionals



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Association for
Talent Development

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Managing the Training Function

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Printed in the United States of America.



**Linking People,
Learning & Performance**

Fear of the Training Budget

Few words strike as much fear in the heart as the word “budget.” Whether in business, volunteer work, or at home, few people enjoy the combination of financial rigor, forward planning, and accountability associated with the budget process. Yet, as disliked as budget planning may be, it is critical to running a business, organization, or home. Budgets force us to weigh the costs and make choices about what we plan to accomplish in the upcoming year.

What is a budget? According to the *American Heritage Dictionary*, 2nd edition, a budget is “an itemized summary of probable expenditures and income for a given period, or a systematic plan for meeting expenses in a given period.” Thus, a budget has a dual purpose. First, it is a plan by which you balance planned expenditures against expected income; second, it is the working plan to ensure that you spend the appropriate levels of funds on initiatives, programs, and projects.

The budget process is especially critical to training and development functions. No matter where it is positioned in an organization, training serves as an organization support function—providing your workforce with the skills and knowledge it needs for business success. As a support function, you need to organize and run training like a business itself, demonstrating as much planning and fiscal responsibility as your parent organization. By running your training function like a viable business enterprise, you gain credibility with business leaders and will be able to command greater responsibility in the organization.

Talking with veterans of budget processes, one hears terms like “budget wars” and “battling for funds.” If budgets are no more than our plans and their associated costs, why then is the budget process so feared and loathed? Like many activities in organizations, budgeting combines both the logical, objective world of numbers with the subjective arena of relationships and politics. Rarely do organizations have sufficient funds for all their desired plans.

A good budget is much more than an annual event designed to document spending, it is a working plan that guides fiscal decisions. And if soundly designed and executed, a good budget forms the foundation for developing the next year’s budget.

Regardless of budget process details, you will find it useful to think about the implications of budgets for training. Budgets are important to training because they show the costs and benefits of investing in the future of the organization. Whether training is intended to correct past inadequacies or bring new expertise into the organization, understanding the value of the training investment requires the financial data a budget provides.

In addition, assessing training goals in terms of cost emphasizes the linkage between training and the strategic plan for the overall enterprise. The decision making that goes into planning a clearly budgeted training program helps management understand exactly how training can enable the organization to realize its vision. As the organization commits resources to training, it also makes a commitment to creative growth. So while the numerical boundaries of a budget may seem like constraints, the budget itself delineates the opportunities for training to contribute to the business and its success.

You will not find a magic solution to help you design the perfect, ultimately defensible budget. But you can adhere to certain principles that will greatly increase the probability that your budget will be funded to the levels you require. These principles help us to go beyond our own area of expertise and seek support and partnerships with others in the organization that can help us.

The purpose of this *Info-line* is to present the fundamentals of the budget process. It covers general principles and guidelines for developing good budgets. While each organization may have its own accounting practices, the theoretical underpinnings of how you account for income and revenue remain the same. This *Info-line* focuses on these general principles rather than on the details of accounting or bookkeeping that are specific to every organization.

Budget Process Overview

Although we refer to budgeting as a process, in reality it is part of a larger accounting system. A typical accounting system includes the following elements:

- A. Budget design and development.
- B. Budget execution.
 - expense tracking and record keeping
 - program monitoring
 - project management
- C. Reporting and reconciliation.

This process is circular. You execute your budget within a specific window of time, normally a calendar year, and just before the yearly cycle closes, you again begin at step one: design and develop a new budget for the next fiscal year.

The accounting system is a subset of the overall business management process, which actually begins with the planning process. Management develops both long-term strategic and year-long tactical plans for the organization, then it designs the accounting systems to ensure that it specifies adequate funds to each plan. In the optimal business planning process, you design budgets based on the business plan, not on other factors like available revenue to fund the plan or prior year spending levels. The assumption here is that the business goals will justify the expenditures.

A good training budget must follow the same planning rigor. Training managers can develop a strategic and annual training budget plan, designed to support the overall goals of the business. They can then prioritize training programs, services, and projects based on the overall impact each has on organizational business goals.

In many organizations, the budget process begins with a series of memos or a visit from someone in the Financial Department. The training manager receives information about the budget process, usually a timeline of submission deadlines, as well as guidance on how to submit the figures and printouts of the past year's chart of accounts with proposed and actual expenditures. This informa-

tion is often accompanied by spending target requirements for the next year, usually stated as percentage reductions.

Once the budget is drafted, it typically goes through various rounds of submissions and approvals, from the training manager's immediate supervisor up to various senior levels, depending upon the size of the organization. No matter how critical the funding need, unless you present your proposed budget in a logical, concise manner that documents how projects and programs directly link to the success of the business, it will be subject to revisions and budget cuts.

Preparing and managing budgets involves three major steps:

1. Pre-work research.
2. Training plan processes.
3. Budget management.

Use these steps to design a realistic, defensible, and manageable budget.

Step 1: Pre-Work Research

Whether you are the training manager of an existing training function or building the training function from scratch, what sources can you use to gather information about your next budget? Spreadsheets listing account codes can be daunting if you do not know what to put in them. Along with your training plan, use the following sources to gather pertinent information:

■ *Historical Records*

The past can (sometimes) predict the future. If you have records of prior years' budgets, examine them to discern any trends. Some of the more stable accounts like audio/video (A/V) or travel may have a regular percentage increase every year. This will give you a quick indication of how much to fund those accounts.

■ *Baseline Funds*

Likewise, prior years' training activity records can give you good information about funding amounts for your baseline programs. If you have offered 12 "Introduction to Supervision" programs each year

Glossary

Accounting: the process of recording, classifying, and reporting the financial data of an organization.

Accounting period: the time period for which accounting reports are related to, typically one year.

Accounts receivable: amounts owed to an organization from its customer for goods or services it has provided.

Accrual: revenue earned or expense incurred by an organization that has not yet been received or paid.

Amortization: the periodic decline in value of an intangible asset that is charged to an expense account.

Asset: an economic resource of an organization that may be expressed in monetary terms.

Budget: a summary of expected future cash inflows and outflows for a given period.

Chart of accounts: the listing of account lines maintained in the general ledger.

Cost-benefit analysis: a comparison to weigh the costs of a training activity against the outcomes achieved. A cost-benefit analysis is done to determine ROI.

Cost center: a unit within an organization that contributes costs without offsetting these costs with revenue.

Expenses: costs that an entity incurs in the process of earning revenues and conducting business.

Financial statements: the four statements that present the end result of an organization's financial condition: the Balance Sheet, the Income Statement, the Statement of Cash Flows, and the Statement of Owner's Equity.

Incurred expense: an expense in which the obligation has been fulfilled, however, not paid.

Operating expense: an expense that relates directly to business operations, not product or service production.

Overhead: costs within an organization that are not directly attributable to the operations of a business and, therefore, occur regardless of business volume fluctuations.

Profit center: a unit within an organization whereby the attributable revenues are greater than the expenses, and, therefore, the unit is said to have a net income.

Revenue: money an organization earns by providing goods or services to its customers.

ROI: an acronym for "return-on-investment," meaning the amount (expressed as a percentage) earned on an organization's invested capital. This percentage is a useful way of measuring an organization's efficiency as well as the viability of their product lines. A "return" can be dollar or non-dollar amounts.

SWOT: an acronym used to refer to the identification of organizational strengths, weaknesses, opportunities, and threats. A SWOT analysis presents a realistic view of an organization's current framework based on those four factors.

Budget Research Checklist

Gather the following items before you start designing your budget:

- A copy of prior year's budget.
- A copy of prior year's actual expenses (for example, general ledger reports and budget tracking reports or worksheets).
- Any guidelines or procedures from your Finance Department.
- A copy of your budget process timeline, including deadlines and deliverables.
- Needs assessment data and reports.
- Any client program and service requests.
- A copy of the guidelines from your unit management on budget targets and reductions.
- A copy of your organization's vision statement.
- A copy of your organization's mission statement.
- A copy of your organization's strategic plan.
- A copy of your organization's annual report.
- Your organization's prior year reports to its Board of Directors.
- Prior year's performance reports on accomplishments to goals.

for the past three years and plan to do the same the next year, expenses for these programs will be a matter of record and easy to pull together.

■ *Budget Accuracy*

Examine prior years' actual data to verify the accuracy of prior budgets. If you budget \$10,000 every year for travel, yet you never get approval to spend more than \$5,000, the actual data will tell you a more accurate figure for next year's budget.

■ *Benchmark Data*

If your training department is new, you may not have historic data. If this is the case, look at external benchmark data for funding information. ASTD has extensive benchmark data that is cross-referenced by industry, size of organization, and other factors. Network with other training managers and use them as another source of information about program costs and expenses.

■ *Postmortems*

Conduct project postmortems to determine why projects succeed or fail. Especially in program development projects, failure or success may hinge on adequate funding. A development project inadequately funded may have lacked resources for proper instructional evaluation, adequate instructors, or other factors. This information can help you more accurately budget for new development in the next year.

Finally, remember that training never drives the budget process, finance does. Thoroughly research successful budgets from outside your functional area. Perhaps even ask someone on the financial staff of your organization the following questions:

- Has anyone ever submitted a budget that was approved with minimal revision?
- What made the process work well for that manager?
- What tips can he or she give you to help you help the financial staff?

Ask this person to share some of his or her budget "horror stories." Use your colleagues in finance as strategic partners in the budget process rather than as adversaries.

Step 2: Training Plan Processes

You already know the importance of starting the budget process with a good training plan. A sound, realistic plan, based on the business, makes developing a budget a fairly simple task. Without a plan, you may be reduced to guess work on how to fund the various budget accounts. Without a solid plan that is tied to the business, the amount of funds you request will be subject to potential reduction and elimination. So how do you come up with a good plan? In most planning processes, you will obtain information from two directions:

1. Top-down.
2. Bottom-up.

Top-Down Process

Business organizations determine direction and priorities based on their stated vision, mission, and strategic plan. Often these planning documents are supplemented with core value statements. Some organizations also specify core competencies required to meet business goals and objectives.

When starting the planning process, you need to gather all documents describing strategic, long-term business goals as well as annual operational objectives. These documents specify the results the business leaders need to achieve in the next 12 to 18 months. The question you need to answer in your training plan is this: What training programs or services does the training department need to provide to ensure that the workforce meets these goals? Include these programs as part of the offerings listed in your training plan for the upcoming year.

Top-down planning can sometimes be “organizational detective work” depending on how much access you have to this high-level organizational information. Many organizations will restrict the distribution of strategic plans or future forecasts for fear that they end up in the hands of competitors. But as difficult as it may be to find out strategic information, it is critical for the future success of your development efforts.

Building the training plan based on the “words from the top” would seem like a foolproof way to build a defensible budget. But there are some inherent flaws with relying only on top-down input:

- Often organizational planning information may be vague or generalized and not specific enough to determine training needs from this information alone.
- Top-down information often overlooks what you need to run the day-to-day operations of the organization.
- The skill and knowledge needed to develop new products or explore new markets, as indicated by the long-term goals, may not be the same as those needed to support existing customers or maintain existing products. For this information, you need to look at the bottom-up information.

Bottom-Up Process

Bottom-up information is the needs assessment data and participant feedback information gathered from your clients. Because these requests frequently are in reaction to current situations or crises, the focus of the training programs in response to these needs tends to be more operational than strategic. But there are advantages to using the bottom-up process:

- Front-line management and employees usually generate training requests based on a critical current need.
- If you deliver to these needs in a timely way you gain real advocacy for your programs.
- This advocacy, in the form of satisfied customers, can be a genuine asset in budget defense.

Measurement, Metrics, and Budget Data

Measurement and metrics are key to managing any business function. When you talk about training, you need to prepare the facts and figures in a language familiar to all managers. As in other business functions, financial data is an essential component of many Human Resource (HR) metric systems. If you do not have good financial data for your training function, you will not be able to accurately determine the following business measures:

- return-on-investment (ROI)
- cost of training (per employee, organizational unit, initiative, company, and so forth)
- training costs as a percent of operating costs
- training investment as a percent of other business investments
- cost-benefit analyses

Not only does good financial data help you measure and manage the training function, training cost data is also a key component of many HR measurement systems such as the following:

- cost of employee turnover (the training investment is lost once employees leave the company)
- cost of hires (new hire training)
- cost of employee benefit programs (if training is defined as an employee benefit)
- individual project or program costing (to acquire skills for specific tasks)

One cautionary note: You must research what you define as a training “cost” and track it uniformly for all programs and services. Consistently tracking costs for all programs should include both internally and externally sourced training (in-house and outsourced training). Estimating costs for programs using internal resources can be essential to decisions about who should perform the training. This seems like a simple thing to do, but organizations can vary considerably in what they include in costing the training efforts. Consider the following factors as you begin your research.

■ *Black and White Factors*

These factors are almost always included in costing training and are referred to as “hard” or “fixed” costs:

- course materials
- instructor fees
- facility rental fees
- catering or food
- travel (participants or instructors)
- equipment purchase or rental
- audiovisual rental, purchases, or lease

■ *Gray Factors*

You may or may not include gray factors in cost tracking. They are “soft” or variable costs such as the following:

- lost opportunity costs for employees absent from their jobs while attending training
- overhead costs on a facility owned by the organization
- instructor costs when the instructor is an employee
- participants’ pay or salaries while attending training

These lists are by no means exclusive. Cost variable can exist in all organizations. Your Financial Department is a good source for information when determining the costs for training. Ask someone on the staff to provide you with what he or she would include in costing training based on the organization’s policies or philosophies on budget management.

One final note: The variability of training costs makes benchmarking these costs a challenge. If you are comparing what your organization spends on training with that of a competitor, you need to make sure that the competitor’s financial data is drawn from the same costing model as yours or your comparisons will be invalid. The ASTD Benchmarking Forum has done extensive research in defining a standard model for costing training and in collecting costing data across different organizations. The Forum reports can provide you with a great place to start researching your own costing model.

Like the top-down planning information, bottom-up data is essential because it anchors the training to perceived real business needs. Sources for this information include:

- end-of-course appraisal forms (with responses to questions like “Would you recommend this training to others in the organization?” and “What other training programs do you need?”)
- line manager surveys
- other feedback devices (for example, email suggestion boxes)
- analysis of current operational plan objectives for indicated training needs
- introduction of new product or programs that might require training of internal staff

Although valuable, bottom-up data, like top-down data, should never be the sole source of information for your training plan. Not only does it tend to lack the “long view,” but it is also frequently in response to current crises. Developing and delivering training programs in repose to crises can result in a plethora of unrelated topics or skill offerings that give the impression of “flavor of the month” offerings as opposed to a well thought-out plan.

Components of a Training Plan

Include the following elements in your training plan:

Organizational elements. Each of these items illustrates the link between your training plan and the organizational strategic plan:

- organization’s vision statement
- organization’s mission statement
- strategic goals
- annual goals or objectives
- value statements
- organization’s core competencies

Training plan elements. Link these items to organizational elements:

- training program title
- knowledge, skills, and abilities (KSAs)
- program objective
- competencies taught

Training data needed for costing programs. Include the training data you require to cost programs, such as the following:

- duration (in days or hours)
- frequency (how many times taught per year)
- number of participants per class
- instructor costs
- travel expenses (instructor and participants)
- facility costs (room rental, equipment rental)
- A/V (video rental, purchase)
- materials (workbooks, handouts)
- equipment (purchase or rental)

Step 3: Budget Management

When you put a budget together, you need to document accounts and amounts. Although you may need reams of backup documentation, the actual budget itself is a simple total of line-item accounts and dollars. But once your budget is approved, you need to track some additional information to manage those approved funds.

Expense Logs

There may be considerable lag between the date that you purchase goods or services and the date that expense is recorded in your organization’s General Ledger (GL) system. If you have many purchases, the delay in debiting the accounts could

cause you to overspend, thinking you have more funds in the account than you actually have. Following is an example of how budget problems can occur:

Sam, a training manager for ABC Electronics, has \$2,000 in his A/V account to purchase training videos. In February, he purchased a new safety video for \$995.00. The video arrived mid-March with an invoice, payment due in 30 days. Sam sent the invoice with a payment approval form to Accounts Payable on March 30. Accounts Payable sent the check to the vendor mid-April, noting the expense in the GL system. Sam receives his GL reports from accounting the last week of every month. Thus, from the day he purchased the video to the day that his budget reports reflected the debited amount was a span of nearly three months, from February to April.

Thus, the first tracking system you need to establish is one that logs in all expenses the day that you incur them. These logs give you an indication of expenses that are currently in “the pipeline” and not reflected on your GL reports. This tracking log functions much like your check register in your personal checkbook, noting expenses when they occur, not necessarily when the bank deducts the funds from your account. Once the expense is actually debited from your budget, you can remove it from this tracking system.

Variance

By keeping an accurate expense log, you can report with great accuracy the actual funds spent and remaining per account. You need this information to explain variances. A variance is any deviation from budget. You may need to justify variance on a monthly, quarterly, or biannual basis. The example below illustrates how variances affect your budget:

Assume that you budget \$12,000 in your travel account. The finance department in your organization assumes that you spend funds evenly throughout the year and allocates \$1,000 per month in your monthly budget break down. But in February, you and three of your staff attend a conference, totaling \$3,000 in travel expenses. Your Feb-

ruary budget report shows a negative variance for the year of \$1,000 even though there were adequate funds in the year to cover these expenses.

Organizations differ in how they deal with variances. Some require written justification of any negative variance. Some require documentation on both negative and positive variances. Others want variance explained monthly, quarterly, or not at all. The degree of accurate detail you need to track on your budget will vary depending on the accounting standards for your organization. Check with your finance department on variance tracking to learn its standards.

Budget Reviews and Outlooks

Another accounting standard that can vary across organizations is whether or not they perform periodic budget reviews and outlooks. Most frequently, organizations conduct a mid-year review in June. At mid-year budget review, GL reports are examined for any positive variances in accounts. If you cannot explain these positive variances with evidence of planned spending in the second half of the year, management will remove the funds and reallocate them to other budgets:

Pat had budgeted \$5,000 to purchase workbooks for the Forklift Training Program this year. In March, she was told that the Shipping Department was retiring the current forklifts and replacing them with a new model from a different vendor, due to be delivered in July. The manager of operations requested that Pat suspend all forklift training until the fourth quarter of the year. In June, at mid-year budget reset, the Finance Department notified Pat that it was taking \$2,500 from her supplies account unless she could document that she had plans to spend that money before year end. Pat immediately prepared a memo to Finance documenting that the training had been postponed and requesting that they do not remove these funds from her budget.

Once again, a well-researched budget, tied to an approved training plan, allows a manager to determine whether losing funds is an appropriate or inappropriate action.

Cost vs. Revenue Centers

Overhead. This is the one word ascribed to a training function that can spell doom to requests for additional dollars or resources. “Overhead” refers to those functions and activities in organizations that do not directly contribute revenue to the organization. If you do not contribute revenue, you are called a “cost center” or an organizational element that contributes costs without offsetting these costs with revenue.

In every organization, the goal is to have costs centers that are as lean and efficient as possible. Because all costs need to be outweighed by revenue to have a profitable business, organizations have two paths to follow to be successful: reduce costs and increase revenue.

Thus, upper management often challenges training functions to curtail expenses as much as possible. But can training pursue the other path and generate revenue? Some training organizations have been successful at converting themselves from cost centers to revenue centers by selling some form of product or service to external customers. Often the product or service sold is one that you develop for internal clients but find that it also has external value.

Finding the value in the external market can take some time. As you begin to sell training, you develop an understanding of what you can market and what resources you require. Training organizations usually have three products they can sell externally: training programs, training facilities, and training expertise.

You can sell or license programs; you can sublease training classroom space; and you can contract out experienced training staff to external clients. Although turning internal resources into revenue is very tempting, you have to recognize that you are converting a support organization into its own business enterprise. A training revenue center needs careful planning and business management to succeed, especially in the area of financial management. Consider the following when planning to generate revenue out of your training unit:

- Develop a business plan that researches all aspects of marketing and selling your product. This plan gives you the information you need to judge the feasibility of the entire operation.

- Define revenue and costs carefully, and build them into a model that you use consistently across all programs (see the sidebar *Measurement, Metrics, and Budget Data*). Is all revenue booked to the training accounts or will you have to share part of it with other business centers that support your business? Remember, you use resources such as marketing, information systems, and finance to support your training function.
- Work with your Finance Department to define your revenue chart of accounts. Will you have one account (“training revenue”) or separate ones for each product or service sold?
- Determine your organization’s rules for booking revenue: Is it on invoice date or receipt of payment?
- Know who will process invoices. Do you have an Accounts Receivable Department that manages this for you or does management expect you to process your own invoices?
- If you are billing and receiving payment, document your policy on how you will deal with past due bills or customers delinquent in payments.
- Determine who will sell your training services and products and how they will be compensated. This issue is not insignificant in these days when services are often the most profitable part of the business.

These issues are just a few that you need to think about before you attempt to offset your training costs with revenue. Many training managers, tempted by the prospect of bringing income into their organizations, find that the levels of profit they expected are soon diminished by the additional expenses they incur supporting the production, sales, and customer support needed in running a complete revenue generating business enterprise. But, if you have a product or service you feel is marketable externally, do your research. The training organization that is managed as a profitable revenue center commands greater credibility in any organization as a productive business partner rather than as simple overhead.

Managing Your Account and Developing a Training Plan

Keeping a chart of accounts is a simple and easy way to track and manage your budget. On this chart, you should list your account codes and titles and track the expenditures for each.

Sample Chart of Accounts

Account Code	Description	Prior Year	Proposed	Variance Percentage	Variance Amount
1000	Salaries				
2000	Benefits				
3000	Professional Services				
4000	Supplies				
5000	Transportation				
6000	Conferences and Seminars				

Sample Training Plan

To develop a good, defensible budget, you will find it helpful to plan out your programs, projects, and events for the upcoming year. To do this, you need to create a training plan. Your annual training plan should combine those existing programs and services you intend to continue providing along with proposed new programs. The following example is typical of annual plans.

Program	Link to Business Plan	Length	Amount Frequency
HR Policy Overview	Supports organizational objective of reducing costs associated with employee turnover, lawsuits, and so forth.	1/2 day	3 classes of 25, offered monthly
Performance Management	Supports organizational objective of measuring and managing workflow, productivity, and business results.	1/2 day	10 classes of 15 offered during third quarter only
Workplace Harassment	Supports organizational value of fair and equitable treatment of all employees.	2 hours	2 classes of 20, offered monthly

Budget Types and Techniques

Generally, every organization prepares two types of budgets on an annual basis: operating budgets and capital budgets. Operating budgets contain those general and administrative expenses needed to run the business day-by-day: salaries, supplies, travel, and so forth. Capital expenses cover the purchase of equipment and property. You need to consider both of these budgets to effectively manage your fiscal responsibilities.

Operating Budgets

If you approach developing a budget from a financial analyst's point of view, you start with a chart of accounts. This chart lists account codes and account titles used to track expenditures and typically looks something like the sidebar at left.

The norm for most accounting systems is to store and manage the chart of accounts, in summary and detail, on spreadsheets. As a tracking and management tool for a budget, it is the simplest and easiest to use.

But to design a good, defensible budget, you need to put aside the account system and go directly to your plan for projects and programs for the upcoming year. Your annual training plan should be a combination of existing programs and services that you will continue to offer along with proposed new programs. Training plans take many shapes and forms. You should design yours to fit the format required by your planning department. A typical annual plan looks something like the sample training plan on the previous page.

Once you have determined the training program, its frequency, class size, and duration, you can then project the expenses associated with each program. Existing baseline programs will incur the typical expenses shown in Part 1 of the sidebar on the following page. New program development and implementation will have some of the expenses outlined in Part 1, but may also incur the additional expenditures detailed in Part 2.

Once you determine the costs per program, you can determine total costs based on the number of times you plan to teach the program in the upcoming year or the number of participants. Combine these totals and transfer these figures to the chart of accounts spreadsheets required by your Financial Department for budget submission.

Why start the process at the program or project level? Because building your budget up from the actual deliverables to the account level, you have the basis for truly defending the spending amounts. If you are then asked to reduce certain accounts by a fixed percent or amount, you can specify the impact of that cost to the particular program or service affected. By presenting decision makers with the program impact, they have the information required to balance competing priorities to make the right decisions for the organization.

The Finance Department was asking all managers to reduce their budget submission by 25 percent. Evan clicked on the sheet that sorted all expenses by project and initiative. In a meeting with his boss and the finance managers, he demonstrated, line item by line item, what program the expenses were supporting. "In conclusion," Evan remarked, "What do you want to cut? If we eliminate the OSHA training, we are at risk for accidents or fines. If we eliminate the leadership training, we won't deliver programs specifically requested by the CEO. And if we eliminate the New Hire Program, it will put the responsibility for company acclimation on the hiring managers. You tell me which of these negative business impacts you want to have." After some deliberation, Evan's training budget was approved as submitted.

Capital Budgets

Capital expenses, those expenses used to purchase equipment or property, generally are handled as a separate budget because they require separate accounting procedures. And because capital accounts tend to be quite large in today's technology-driven business world, capital funds can be difficult to defend. Early in the budget process, find out how your organization handles capital budgeting. Find answers to the following questions:

- What is the budgeting procedure for capital expenses? Is it a separate set of deadlines and procedures?
- What constitutes a capital expense? Is it by dollar limit or type of purchase? For instance, does your organization consider desktop personal computers a capital expense? What about calculators? Data projection devices? Overhead projectors?

Projecting Training Expenses

Part 1. Typical Expenses of Baseline Programs

After developing a training plan that identifies your training programs and their corresponding frequency, class size, and duration, you can extrapolate the expenses associated with each program. Your existing baseline programs will incur the following typical expenses:

Account Code	Description	Item	Costs	Total
3000	Professional Services	Instructor fees	\$1,500 per diem (class 2-days long)	\$3,000
4000	Supplies	Participant materials	\$100/participant (20 participants per class)	\$2,000
5000	Audio/Video	Video rental	\$195 per class	\$195
			Total Per Class	\$5,195

Part 2. Additional Expenses for New Programs

Any new programs you decide to develop and implement will have some of the above expenses. New programs may also cause you to incur some of the following additional expenditures:

Account Code	Description	Item	Costs	Total
1000	Salaries	Course developer	300 hours @ \$150/hour	\$45,000
5000	Audio/Video	Video development	Studio costs for development of one five-minute video	\$5,000
7000	Facilities	Room rental	Rent for 3 days for offsite dry run @\$450/day	\$1,350
			Program Total	\$51,350

Tips for Defending Your Budget

In many organizations, you must present and get approval of your training budget from various layers of management—from the direct manager of the training function up to the senior leaders. Use the following tips to help preserve your plan and budget:

- Be able to tie every expense back to an organizational goal or objective, demonstrating the impact of any cost reduction.
- Ascertain how management likes to receive information before you design your presentation. Following are some options:
 - ultimate detail—short text papers on major proposed projects, listing plan, costs, and estimate impact on the business
 - moderate detail—overhead presentation with side notes on major initiatives and expenses
 - minimal detail—short talking points in outline format
- Present some either/or options in your budget (for example, make or buy and insource or outsource). This demonstrates flexibility on your part.

- Don't sweat the small stuff. Line expenses like audio/video and printing can pale in comparison to the big items. Below are the largest budget items (and thus the items most put to scrutiny):

- salaries
- travel
- professional fees (consulting, outside resources)

Make sure you can fully justify every dollar in these accounts first.

- Be creative on staffing options:
 - Use contract trainers and developers on a per project basis. They may command a higher hourly rate than salaried staff, but you can “pay as you go” and not use them in the training slow periods like summer and year-end.
 - Look at using temporary help for administrative work rather than salaried support.
- Check and re-check everything. One typo or error can ruin the credibility of your entire presentation.

Early in the budget process, review your plans and highlight any expenses for capital equipment or facilities. Check with your financial staff for their procedures. Careful research saves rework and frustration. Capital budgets often require different documentation and defense. If you put capital items into your operating budget in error, you may miss the timetable to later resubmit them under your capital budget process.

Building in Flexibility

Building a budget can be as much art as science. As you work from your plan to the budget, always keep in mind what you can do to reduce expenses if needed. Essentially, you must build in strategies to reduce the size of your budget that will have minimal impact on your overall training plan:

Eliminate entire programs or services. This obviously reduces the various accounts associated with the eliminated program.

Reduce costs within a specific account by doing things differently. For instance, if you budget dollars for vendor-provided course development but later find that your Professional Services account

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exceeds targeted levels, you may decide to purchase an existing program and modify it rather than develop custom training.

Negotiate lower rates, if you are using outside resources for services, by giving more work to fewer vendors. Many vendors will discount the price of their service for a larger contract.

Be wary of large travel accounts that may indicate haphazard organization. You can achieve overall expense reduction with better planning. Advanced bookings on flights and incentives for travelers to stay over a Saturday are some of the ways to trim travel expenses.

Look into virtual meetings using email, teleconferencing, and video conferences to limit travel expenses.

Research local training providers rather than pay instructor travel expenses to deliver equivalent training.

Obtain bids from both small and large companies when outsourcing training. Often the smaller provider will be more flexible on price and can discount for volume commitments. Also, the smaller vendor will often have lower overhead costs and can react more quickly to last minute requests.

How much flexibility you build in from the beginning really depends upon your organization's whole approach to the budget process. Some organizations expect two to three versions of the budget from each manager, gradually reducing costs with each version. Other organizations expect a manager to develop a lean budget with the first draft and will be suspicious if a manager can continually reduce costs with every version. Research the cultural practices in your organization to determine how much flexibility you may need to include.

No More (Budget) War

If fear is based on facing the unknown, hopefully you see by now that there is little to fear in designing and managing a training budget. Successful budget design is nothing more than documenting the financial side of a good plan. If you build your training plan to support the needs of

the organization, defending it is no more than asking the client to verify that he or she still requires the services stated in the plan.

But it would be shortsighted not to acknowledge that business decisions are not always based on clear, sound logic. Instead, interpersonal relations or office politics can carry as much weight in determining program funding as logic and a clear plan. Many managers have done their homework, developed sound plans and reasonable budgets, but have still seen dollars and headcount cut to fund other programs.

So, here is one final caution in this process of budgeting: keep a balance between the fact-based activities of planning and budgeting and relationship building and alliance formation. It is often the combination of activities in these two realms that determines management success.

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Project Expense Worksheet

Need to calculate the costs of a curriculum development project but do not know how to get started? Begin by using this worksheet to identify the particulars of your project. This collected data will help you calculate the costs.

Research				Total
Purchase books, articles, CDs, and so forth	Item	Number	Amount	
Purchase materials and equipment	Item	Number	Amount	
Travel for onsite research	Item	Cost Per Trip	No. of Trips	
Researcher expenses	Item	No. of Hours	Hourly Rate	
Subject matter expert (SME) expenses	Item	No. of Hours	Hourly Rate	
Other research expense				
Curriculum Development				
Developer/writer	Number	Hourly Rate	Hours	
SMEs	Number	Hourly Rate	Hours	
Other development expense				
Marketing				
Copy development	Item	Cost		
Printing	Item	Cost		
Postage/shipping	Item	Cost		
Other marketing expense				
Implementation				
Copying/printing	Rate	Amount		
Materials purchase (videos and so forth)	Rate	Amount		
Facility rental/lease	Rate	Amount		
Audio/video rental/lease	Rate	Amount		
Catering	Rate	Amount		
Instructor expense	Number	Hourly Rate	Hours	
Travel	Item	Cost Per Trip	No. of Trips	
Participant expense	Number	Hourly Rate	Hours	
Travel	Item	Cost Per Trip	No. of Trips	
Other implementation expense				
Grand Total				

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