

Webinar #7

# Strategic Budgeting and Scenario Planning



Facilitated by

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Nonprofit Finance Fund

May 18, 2021  
1 pm ET



# 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: Where money meets mission

**NFF envisions a society where money and knowledge come together to support just and vibrant communities.**

Help mission-driven organizations achieve their communities' aspirations through

- **Tailored capital**
- **Strategic Advice**
- **Accessible Insights**

Guided by our Core Values →



# 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

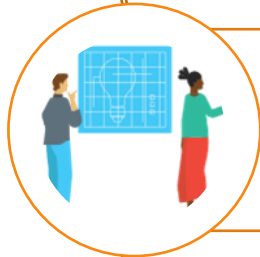
At what point should  
I think about  
increasing staff to  
meet demand?

Other questions?  
What questions  
are you thinking  
about coming  
into 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 the through scenario planning

## Poll:

**On a scale of 1 – 5, how comfortable are you working with your organization’s budget?**

1 = beginner level

5 = advanced/proficient



# Key Considerations in Strategic Budgeting

## Build A Budget That...

Reflects your **strategic goals**

Sets **realistic** expectations

Accounts for **revenue restrictions**

Includes **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?



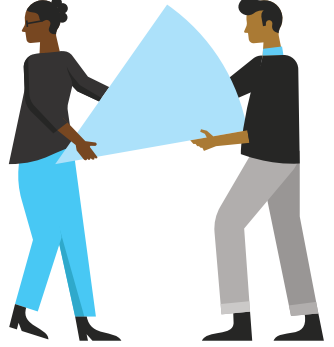
Prior year's outcomes



Strategic goals



Funding & expenses already committed



Program and management staff input



# Identifying Risk and Opportunity in Budgets

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## Budget

### Revenue

Earned

Contributed

Private Sources

Government

### Expenses

Personnel

Professional Fees

Occupancy

Program Costs

Support

Other

### Surplus / Deficit

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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?

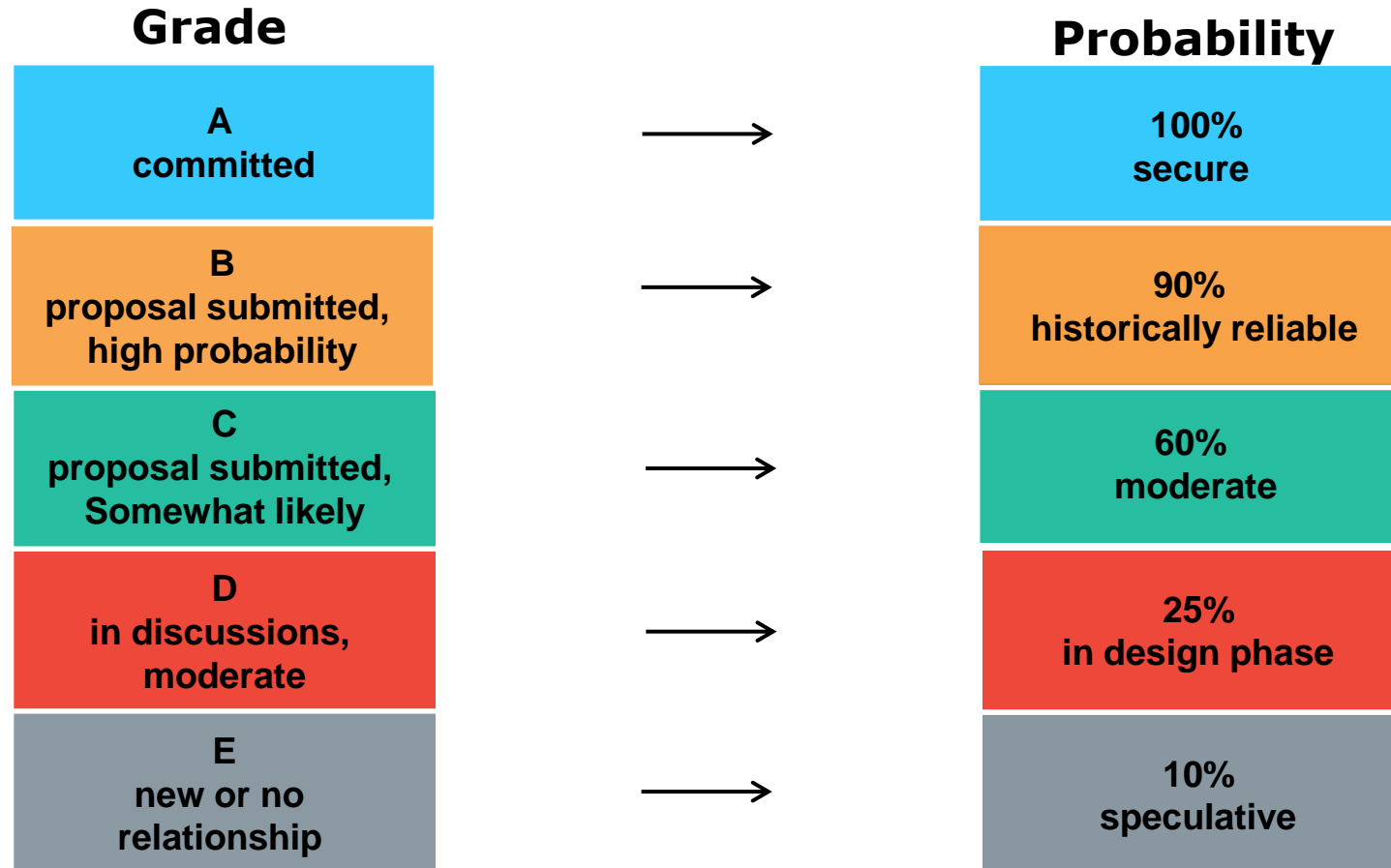
What is our relationship with them?

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

# Discounting Revenue: Cutoff Method

## Example: ABC Organization

| Source                | Status  | Probability  | Amount          |
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|                       |   | <b>TOTAL</b> | <b>\$56,000</b> |

## Check-in on Chat:

**Do you think you can this methodology be in your revenue projections? Why? Why not?**

# 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

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## 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

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## 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?





## Poll: How are you planning for this year?

1. Planning to stay mostly remote for most of 2021
2. Planning to re-open programs in person on a set date and have decided on what it will likely look like
3. Planning to re-open programs in person, but don't know when or what it will look like
4. Already operating programs primarily in-person



# 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<br>(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<br>(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<br>1/1/21 - 12/31/21<br><i>\$ in thousands</i> | FY 21<br>BUDGET | SCENARIO A   |                                      | SCENARIO B   |                                |
|---|-----------------|--|--------------------------------------|--|--------------------------------|
|   |                 | Programs fully re-open by September;<br>growing service demand |                                      | Programs go fully remote;<br>moderate/declining service demand |                                |
|   |                 | Budget   | Notes                                | Budget   | Notes                          |
| <b>Revenue</b>  |                 |  |                                      |  |                                |
| <i>Earned Income</i>  |                 |  |                                      |  |                                |
| County Contracts  | 500             | 600  | Increased service delivery           | 450  | Reduced service delivery       |
| State Contracts   | 700             | 850  | Increased service delivery           | 675  | Reduced service delivery       |
| <i>Contributed Income</i>                                     |                 |  |                                      |  |                                |
| Individual Donations  | 750             | 750  |                                      | 750  |                                |
| Foundation Grants   | 585             | 635  | Rapid response funding (\$50K)       | 330  |                                |
| Net Assets Released   | 1,503           | 1,503  |                                      | 1,503  |                                |
| <b>Total Revenue</b>  | <b>4,038</b>    | <b>4,338</b>   |                                      | <b>3,708</b>   |                                |
| <b>Expenses</b>   |                 |  |                                      |  |                                |
| Personnel   | 2,694           | 2,755  | Increased staffing costs             | 2,694  |                                |
| Contract Services   | 149             | 149  |                                      | 149  |                                |
| Support & Supplies  | 460             | 500  | Increased supply costs               | 320  | Reduced supply costs           |
| Occupancy   | 679             | 754  | Additional rental space for services | 679  |                                |
| Volunteer Expenses  | 94              | 94   |                                      | -  | Reduced volunteer availability |
| <b>Total Expenses</b>   | <b>4,076</b>    | <b>4,252</b>   |                                      | <b>3,842</b>   |                                |
| <b>Surplus (Deficit)</b>                                      | <b>(38)</b>     | <b>86</b>  |                                      | <b>(134)</b>   |                                |

# 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>



# Scenario Planning Tool User Guide



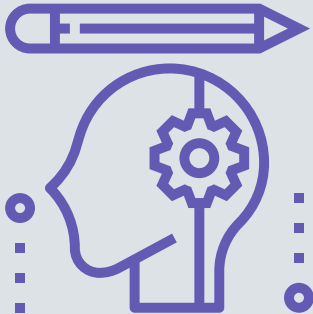
# Check-Out

Please share via chat your response to any of all of the following questions:

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## Head

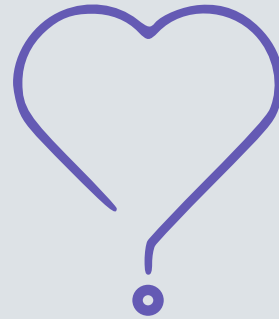
What did you **learn** from today's session?



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## Heart

How did today's session make you **feel**?



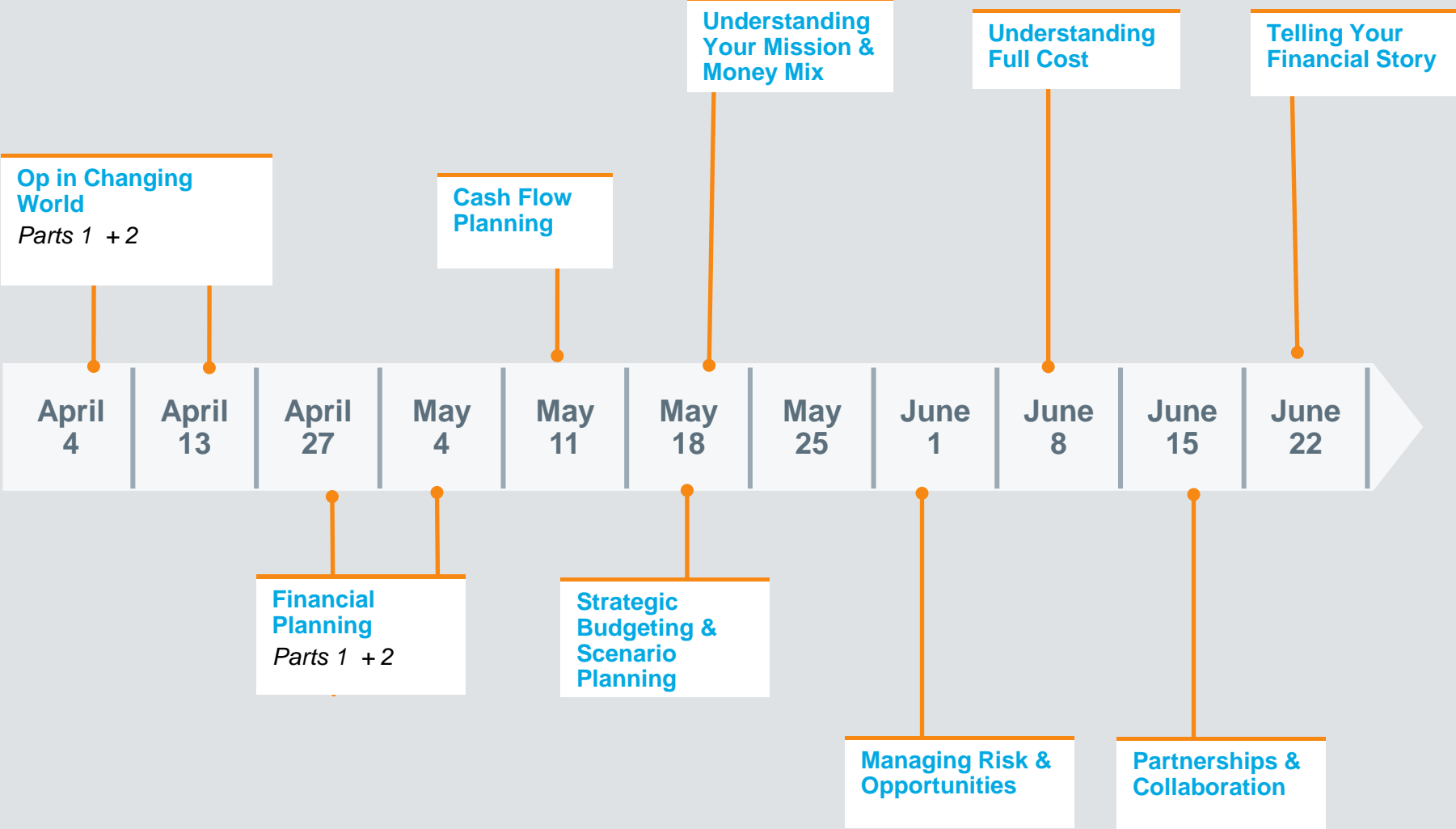
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## Feet

What **actions** will you take to bring this back to your organization and community?



# Upcoming Sessions



# Up Next

## Understanding Your Mission/Money Mix

May 25, 2021 1 – 2 pm EST

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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