H4 Consulting Brief

# Collaborative Budgeting

**In publicly funded organisations every operational decision is also a financial decision about how to deploy finite resources. Similarly, financial decisions are also operational decisions about the resources available for service delivery. Too often, budgeting is seen as the exclusive domain of accountants rather than as an instrument of strategy. Budgeting must be freed from the finance silo to harness its power to set and communicate priorities.**

Budgets can be a powerful internal communication tool. Done well, budgeting establishes a common understanding of the focus of planned spending and enables strategic decisions about how to maximise value with limited resources. Done poorly, budgeting uncritically reinforces historical allocations, and excludes managers who feel that their work is neither understood nor adequately resourced, leaving them frustrated, confused, and disengaged.

Budgeting is done poorly in many publicly funded organisations, as a primarily financial process within the accountancy silo, far removed from service delivery. A budget emerges periodically, and operational managers are charged with sticking to it.

The disconnect between financial officers who design and monitor budgets and the managers who spend budgets creates constant tension. It is common to hear managers complain that budgets are unrealistic, opaque, and riddled with errors. These managers tend to take little interest in financial management, and often fail to consider financial consequences when making operational decisions.

Engaging these internal stakeholders as partners in the budgeting process helps to bridge the trust gap between finance and operations by creating a shared understanding of financial pressures and priorities, leading to both better budgets and better financial management by operational decision makers.



A stakeholder-driven approach to budget development takes effort, and rarely comes naturally to the individuals involved. It requires the finance team to genuinely collaborate with operational managers. It also requires operational managers to genuinely develop an understanding of the benefits, costs, and opportunity costs of their work.

The benefits, however, are worth the effort. Managers who are engaged in the budgeting process feel more ownership over their budgets, and so are more inclined to manage their budgets actively and well. Managers who better understand the financial implications of operational decisions are also more likely to make or support decisions that maximise public value, even if that means more resources being allocated to other parts of the organisation.

Managers who have been actively involved in the budgeting process can be held accountable for budget management in ways that disconnected, disengaged managers cannot. They may not like managing their budgets, but they cannot claim ignorance or dismiss budgets as inaccurate, unworkable, or irrelevant.

Collaborative budgeting offers better strategic communication and allocation of resources to maximise value, including opportunities for investment and disinvestment. It also improves the quality of budgets, including finding and correcting errors in key source information such as staffing establishments. Most importantly, however, collaborative budgets build individual capability, organisational capacity, and culture that can recognise and respond to both operational and financial challenges.

To find out more about how you can use this approach in your organisation, contact us: info@h4consulting.com.au
Find additional resources at www.h4consulting.com.au/resources

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