Annual Budgeting Disciplines
An Essential Element of Performance Management

Ed Rehkopf
The Annual Budget

Budgeting is the act of establishing a plan for the financial performance of the club for the coming operating year and broken down into monthly projections for both income and expenses.

The importance of a budget is that it allows the manager with bottom line responsibility to project future revenues and expenses and then track actual performance against the budget month to month during the coming year. This is done with the understanding that if you are missing your revenue projections or your expenses are running high, you can intervene to do something month by month throughout the year.

This is especially important when the club has plans to expand operations, renovate facilities, buy new equipment or technology, or spend funds on any other important project or improvement in the club. If these plans are dependent upon the club continuing to perform at a certain level to fund the improvements but the net operating income is not meeting projections, it may require the club to increase dues, establish or increase assessments, or borrow money.

Zero-Based Budgeting

Any club serious about performance management must use Zero-Based Budgeting as a necessary budgeting best practice (see PCPM, Insights and Ideas, Performance Management - An Essential Discipline of Success for detail).

This method of budgeting is distinct from the common practice of taking last year’s operating results and adding a percentage inflationary increase thereby incorporating last year’s operating inefficiencies and plan requirements into the financial plan for the coming year. This problem merely compounds erroneous and often “fat” budgets year after year.

The concept of zero-based budgeting calls for each year’s budget to be built from scratch based on the coming year’s annual plan. This seemingly challenging requirement can be greatly simplified by using revenue and payroll projections based on two sets of variables – the number of sales transactions and average revenue per transaction and the number of payroll hours and the average hourly wage (for non-exempt employees) respectively. These key drivers of revenue and payroll cost are easy to obtain if department heads have properly benchmarked their operations during the current year (see PCPM, Operational Resources - Club Benchmarking Operations for more information).

Dues Income

Dues income is easy to forecast based on current membership numbers, historical yearly resignations, and the forecasted goals for new members by category and by month.

Operating Revenues

Forecasting revenue is the first step in establishing a budget as club expenses are greatly dependent upon the volume of business which directly impacts variable staffing and some other operating expenses.
This is relatively easy to do if your club benchmarks revenues year by year. Simply review the revenues month by month for the past year. Unless there is a significant change in the business or marketplace, last year’s month by month revenues are the best indicators of revenues for the coming year. One must always keep in mind, though, that revenues can be affected by changes in the number of members, varying average expenditures by members, or changes in pricing. Such variations will require adjustments from the historical results.

**Payroll and Related Expenses**

Payroll is the single largest expense in club operations and the most difficult to control (see *PCPM, Insights and Ideas, Controlling Payroll Cost - Critical Disciplines for Club Profitability*, for more information). As with revenues, the best indicator of payroll costs in future periods is the historical record. Knowing what was spent pay period by pay period in the current year helps to budget payroll cost for the coming year, though it can be significantly affected by varying levels of business, staffing changes, increases in wages for employees, and overtime payments.

Payroll cost is made up of two variables – the total number of hours worked by employees, and the level of employee wages as computed by the average hourly wage.

In addition to salaries and wages, the club also pays payroll taxes – which are directly dependent upon the wages paid. The club’s benefit costs depend upon the number of employees eligible for benefits, the benefit premiums paid, and the club’s matching retirement funding.

The best way to budget payroll taxes and benefit costs is to base them upon the historical percentage from the current year. If payroll taxes and benefit costs amounted to 13.8% of total salary and wages in the current year, that percentage (plus any anticipated rise in benefit premiums) would be a good basis to estimate benefit costs for the coming year. Keep in mind, though, that this percentage is only valid so long as the number of employees eligible for benefits and their benefit choices remain relatively constant. If not, adjustments will need to be made. The controller can provide the historical benefit cost as a percentage of payroll cost for budgeting purposes.

**Cost of Goods Sold**

Cost of goods sold is computed for any retail (or resale) item that is sold to members by the club. Examples are items in the pro shops, other retail outlets, and food and beverage. For the purposes of budgeting, you should use the historical average cost of goods sold percentage for each category of retail sales (e.g., in the golf pro shop - equipment, soft goods, golf balls) to determine the cost of goods sold for that category. Keep in mind that the historical cost of goods sold percentage may need to be adjusted along with pricing to achieve a more desirable goal for the coming year.

To budget your Cost of Goods Sold, simply multiply your projected sales in each category by the desired cost of goods sold percentage.

For example: if you are projecting $400,000 of a la carte food sales in the dining room and the historical cost of food is 40%, simply multiply $400,000 times 40% to get the projected cost of food – in this case, $160,000.
Other Operating Expenses

The best way to budget for other operating expenses is to have a good idea of what you spent in each expense category each month of the previous year, while factoring in any known price increases from vendors or new products or services that will be purchased in the coming year. It is also helpful to understand the amount of each expense category that is a fixed expense (that is, recurring regardless of member activity) or a variable expense. In the case of variable expenses, you may be able to multiply last year’s expense-to-sales ratio by the coming year’s projected sales to determine the level of expenses.

Using the Tools to Beat Budget program will provide department heads with a month-by-month record of the current year’s other operating expenses for each expense account and will greatly aid in preparing departmental budgets (see PCPM, Insights and Ideas, Real Time Accounting - A Compelling Best Practice for Club Profitability, for more detail).

Statement of Assumptions

Managers preparing budgets should state their assumptions when calculating their major revenues and payroll expenses. By building data entry cells into budget spreadsheets that calculate revenues based upon volume benchmarks (such as rounds of golf, meals served, etc.) and average sale (such as golf fees per round, average meal check, etc.), you can quickly calculate revenues while allowing reviewers to easily understand your assumptions month by month.

Below is a sample spreadsheet for golf operations where the revenue projections are derived from the rounds of golf and various revenues per round. When multiplied together, they provide the projected revenues by income categories. The most accurate zero-based revenue projections will be calculated from historical benchmarks (usually, the previous year’s benchmarks) of rounds per month and revenues per round.

The same concept applies to forecasting payroll costs since overall payroll cost is the result of the number of hourly staff payroll hours (volume) times the average hourly wage.
If you have used the benchmarked payroll data from the previous year, tracked in the Departmental Payroll Summary Analysis, PCPM Form 230, it is easy to use the number of hours worked benchmark (29,393.89) and multiply it by the total YTD average hourly wage benchmark ($10.96) to project payroll cost for the coming year. However, as can be seen from the following table, due to a proposed 2.5% increase in dining hours and a planned 1.2% across the board pay increase, the adjusted number of hours (30,128.7) and average hourly wage ($11.09) are used to calculate the budgeted annual and per period payroll projections.
A further refinement to budgeted payroll cost per pay period can be made by analyzing the Departmental Payroll Summary Analysis from the previous year to establish each pay period’s percentage distribution of the annual payroll cost and use those percentages (see blue highlighted line in PCPM Form 230 above) to allocate the annual budgeted payroll cost to each pay period in the upcoming year. This refinement will remove most of the seasonal variations in the budgeted pay cost and can be easily done whether your club pays monthly, semi-monthly bi-weekly, or weekly.

The per pay period budgeted payroll costs can then be entered in Departmental Payroll Summary Analysis spreadsheet for the coming year and provide an ongoing comparison to actual payroll cost. This real time accounting of your largest departmental expense, along with a comparison of actual to budgeted hours and average hourly wage, makes it easy to spot overages and their cause, thereby leading to timely corrective action.

The budgeted hourly wage projections for non-exempt employees per pay period will need to be recast for the monthly budget presentation and combined with the monthly exempt employee compensation to arrive at the department’s total monthly pay cost. Related payroll expenses (payroll taxes and benefit costs) computed as a percentage of monthly pay cost will then be added to arrive at the total budgeted monthly payroll and related cost.

Private Club Performance Management has designed budget spreadsheets with such data entry cells for both revenues and payroll which are available at PCPM, Operational Resources, Club Forms on the PCPM Marketplace store.

Other Operating Expense budget lines may require assumptions stated in “notes” column or you may attach an “assumptions” page to your budget spreadsheet.

**Budgeting Disciplines**

Most managers are familiar with the concept of budgeting, but here are some standards and disciplines that will organize and streamline the process:

- The budgeting process starts with the board and/or the general manager deciding upon strategic direction and specific goals for accomplishment during the coming year. These goals often have a direct impact on departmental plans and budgets and must therefore be considered during the budgeting process.
Those individuals responsible for financial performance of their departments must prepare the budgets for which they are accountable within the guidance established by the board and general manager. In some organizations budgeting is a fully top-down process which robs the people responsible for performance of the incentive to meet or exceed budgets.

Prior to budgeting, the controller can streamline the budget development process by preparing standardized departmental spreadsheets with pre-defined and labeled revenue and expense lines. Department heads are then provided with the standard spreadsheets for their departments to prepare budgets.

When departmental budgets are completed, department heads return the budget spreadsheets to the controller in both paper and digital form. The controller reviews the paper copy and then copies and pastes the digital revenue and expense numbers into the Master Budget file. When all departments numbers have been entered in the Master Budget file and the file recalculated and saved, the draft budget is finished and ready for the general manager's review.

Tools to Beat Budget

Tools to Beat Budget is a powerful aid, not only to help beat budget during any given operating period, but also to help clubs do a better job of budgeting in future years. It is based upon the premise that, if your department or club was your own business, you would pay close attention to revenues day to day, and to every expenditure of funds. Tools to Beat Budget is a program devised by Private Club Performance Management to:

- Assist managers with bottom line responsibility in meeting the goals of their annual operating budget.
- Help managers become more familiar with the details of their operation.
- Provide managers with more real time information about the health and well-being of their operation.
- Make it far easier to prepare accurate, zero-based budgets in coming years.

The concept behind Tools to Beat Budget is no different than an individual monitoring personal income and expenses each month. While simple in concept, Tools to Beat Budget does require managers to view each expense account (payroll and other operating expenses) as if their balances were maintained in a separate checkbook. Therefore, managers must add revenues and deduct expenses as incurred and keep a current balance in each account.

As with any other management tool, Tools to Beat Budget is only as valuable to a manager as the effort put into it. Managers should keep in mind that if their operation was their own business, each of the tools would be a necessary part of maintaining the business' profitability. While you don't own your operations, your management responsibility to ensure financial performance is just as much a necessity. For more information see PCPM, Insights and Ideas, Tools to Beat Budget - A Proven Program for Club Performance.
Summary

By establishing basic budgeting standards and disciplines, including the ongoing discipline of using the Tools to Beat Budget program, everyone involved will find the annual budgeting chore to be far easier and far more accurate, while maintaining the discipline of real time accounting club-wide. Together with appropriate planning and strict accountability for results, these budgeting disciplines, and Tools to Beat Budget, are essential elements of performance management.
About the Author

Ed Rehkopf is a graduate of the U.S. Military Academy and received a Master of Professional Studies degree in Hospitality Management from Cornell’s School of Hotel Administration. During his long and varied career, he has managed two historic hotels, managed at a four-star desert resort, directed operations for a regional hotel chain, opened two golf and country clubs, worked in golf course development, and launched a portal web site for the club industry.