BUDGETING

Budgeting is the process of creating **a plan to spend your money**.

- This spending plan is called **a budget**. Creating this spending plan allows you to determine in advance whether you will have enough money to do the things you need to do or would like to do.
- **Budgetary control** refers to how well managers utilize budgets to monitor and **control** costs and operations in a given accounting period.

In other words , **budgetary control** is a process for managers to set financial and performance goals with budgets, compare the actual results, and adjust performance, as it is needed.

BUDGET PROCESS

A budget is a plan. It projects both the revenues the hotel anticipates during the period covered by the budget and the expenses required to generate the anticipated revenues. The executive housekeeper's responsibility in the budgetary process is IMPORTANT .She has to the plan what expenses the housekeeping department will incur in light of forecasted room sales. Second, since the budget represents an operational plan for the year, the executive housekeeper ensures that the department's actual expenses are in line with budgeted costs and with actual occupancy level. Budget may need to be adjusted in light of unforeseen or changing circumstances.

IMPORTANCE OF BUDGET:

As a plan, a budget is also a guide. It provides the managers with standards by which they can measure the success of the operations. By comparing actual expenses with allocated amounts, the executive housekeeper can track the efficiency of housekeeping operations and monitor the department's ability to control it's expenses within the prescribed limits

The operating budget outlines the financial goal of the hotel. It relates operational costs to the year's expected revenues. The yearly operating budget is broken down into budgets for each month of the fiscal year.

Budgeting helps in the following-

- **It helps you control your spending**
- **Track your expenses**
- **Save more money**
- **Budgeting can help you make better financial decisions**

- **Prepare for emergencies, get out of debt, and stay focused on your long-term financial goals.**
- **Provides a guideline – How much, on what**

TYPES OF BUDGET

Two types of budgets are used in managing a hotel's financial resources: -
1. Capital budget
2. Operating budget

Capital budget plans for the expenditure of company assets for costly items. Typically, these items are not used up in the normal course of operations; instead they have a lifespan that exceeds a single year. E.g., furniture, fixtures, equipment, etc. In addition major initial purchases of recycled inventoried items (linen, towels, uniforms, etc) may fall under capital budget as they have a relatively long useful life.

Operating budget forecasts revenues and expenses associated with the routine operations of the hotel during a certain period. Operating expenditures are those costs a hotel incurs in order to generate revenue in the normal course of doing business.
Other than this hotels may have separate budgets for 'repair and maintenance' and 'payrolls' or 'salaries and wages'. Usually the chief engineer in liaison with the housekeeper prepares the repair and maintenance budget. Salaries and wages budget is as high as 75 - 90% of the total operating costs. In many hotels it comes within operating budget.

PREPARING THE OPERATING BUDGET

The process of planning an annual operating budget involves gathering information, formulating initial plans, reconsidering goals and objectives and making final adjustments. Operating budgets are typically prepared for each fiscal year. Monthly operating budgets are also prepared to enable managers to clearly outline seasonal variations in expected revenues and corresponding expenses.

In the budgeting process the first step is always to forecast room sales. Room sales is going to generate the revenue for operating various revenues and most of the expenses that a department can expect and control are directly related to room occupancy levels. The concept of cost per occupied room is the major tool executive housekeepers use to determine the levels of expense in the different categories. Occupancy forecasts are generally developed by the front office manager working closely with the property's general manager and sales team. The forecast is based not only on the past occupancy levels and their distribution among the budget periods; but also on information supplied by the marketing department concerning the anticipated effect of special events, advertising and promotions, on room sales.

Once occupancy levels are predicted, the departments whose costs fluctuates with occupancy levels can forecast expected costs and submit prepared budgets to the general manager and controller for review. Upper management analyses and returns budgets to department heads with comments and recommended adjustments.

By specifying expense levels in relation to room sales, the budget actually expresses the level of service the hotel will be able to provide. Hence the department heads have to specify how the adjustments or cuts will affect the service levels.

The cycle of feedback and discussion continues until an agreement if finally reached. This final budget represents forecasts, goals and constraints. Each department is then committed to operate under the limits of the budget.

Using the operating budget as a control tool

Each month the hotel's accounting department produces statements reporting actual costs in each of the expense categories. These actual costs are listed alongside budgeted costs, and variances are assessed. This enables the executive housekeeper to monitor how well the housekeeping department is doing in relation to budgeted goals and constraints. Small deviations can be expected, but serious deviations require investigation and explanation. When comparing actual and budgeted expenses, the executive housekeeper should first determine if the forecasted occupancies were actually achieved. A decrease or increase in expenses should be proportional to the variation in occupancy levels. If actual costs far exceed the budgeted amounts while the predicted occupancy levels remain the same, the executive housekeeper need to find sources of deviation and formulate a plan to correct it. If the department is far ahead of the budget, it may indicate deterioration of service levels that were built into the original budget plan. Identifying and investigating deviances on a timely basis is one of the most important functions of the executive housekeeper.

Operating budgets and income statements

An income statement or statement of income, expresses the actual results of operating during an accounting period, identifying revenues earned and itemizing expenses during that period. The difference between an income statement and an operating budget is that the former expresses actual results of operations for a period that has ended while the second expresses the expected results of operations for a current or coming period. One is a report of what actually occurred while the other is a forecast or plan for what is to come. The success of a hotels plan as expressed in the budget is determined by how closely its forecasted numbers match the numbers on the end of the period income statement.

Hotel income statement

The statement of income provides important financial information about the results of hotel operations (actual expenses as well as the net income) for a given period, which maybe monthly, quarterly or more but within a business year.
Separate departmental income statements prepared by each revenue center presents more detailed information. Housekeeping is related to the rooms' division income statement. The executive housekeeper is directly concerned with some items listed in the expense section. They are: -

- **Salaries and wages**
- **Contract cleaning**
- **Laundry and dry-cleaning**
- **Linen**
- **Operating supplies**
- **Uniforms**

In the budget planning process the room manager will solicit information from the executive housekeeper concerning the expense category falling under housekeeping department's area of responsibility. Expected expenses are assessed as a percentage of the revenue forecasted for room sales. This percentage is standardized in relation to generated revenues.

Budget reports

Based on monthly income statements, a room's division budget report is prepared, which shows the variances between budgeted expenses and actual expenses. When the actual revenue exceeds the budget, or budgeted expenses exceeds actual, it is a favorable variance. When the budgeted revenue exceeds the actual or the actual expenses exceed the budgeted ones, it is an unfavorable variance. Percentage variances are determined by dividing the variance by the budgeted amount.

Budgeting expenses

Since the expense levels in the entire expense category on the departmental income statement vary with occupancy, everything in the operating budget depends upon how accurately occupancy levels are forecasted. The rooms' manager gives the executive housekeeper the yearly forecast of occupancy levels broken down into monthly budget periods. Using historical data along with input from hotel's marketing department, the rooms' manager will provide an occupancy percentage for each budgeted period. The executive housekeeper can predict a certain level of expense when he/she knows

• Cost per occupied room for each category of expense
• Number of occupied rooms forecasted for each budget period.

The budgeting process simply involves relating cost per occupied room to the forecasted occupancy levels.

Salaries and wages: By using a staffing guide, the executive housekeeper can determine how many employees of each job classification are needed to ensure smooth operations at varying levels of occupancy. When planning the salaries and wages expense for the operating budget, the executive housekeeper can use the staffing guide in conjunction with the occupancy forecast to determine staffing needs for each budget period.

Employee benefits: Calculations related to employee benefits depend on the number of labour hours expected to be scheduled, the type of job classifications involved and the property's policies regarding employee benefits.

Outside services: if the hotel employs any outside contractors for major cleaning projects or for laundry and dry cleaning services, then the costs of these services are averaged through the budget periods. The executive housekeeper can consult current contracts or past invoices to determine the expense levels to budget.

In house laundry: The forecast of occupancy levels provided by the rooms division, along with property's staffing guide, will be the basis for determining all expenses related to salaries, wages and benefits for laundry personnel. The cost of operating the OPL is directly related to the volume of soiled items to be processed, which is directly related to hotel's occupancy levels.

Linen: Although linen falls under recycled inventory item, their life span is ultimately limited. Replacements costs for new linen as older ones are removed from service due to loss damage or wear; is an expense that needs to be worked into the budget planning process. Monthly physical inventories of linen show, how long the existing stock of linen lasts and how much of each type of linen needs to be reordered to maintain appropriate par levels. The executive housekeeper can use the cost per occupied room for replacement linen to forecast linen expense for the periods covered by the operating budget.

Operating supplies: The operating supplies expense category includes non-recycled inventory items like guest supplies and amenities, cleaning supplies and small equipment items. These are budgeted on the basis of cost per occupied room. Budget amounts for guest supplies are determined by multiplying their cost per occupied room by the number of occupied rooms in the budget's forecast. By following inventory control procedures, the executive housekeeper can effectively track the usage rates for the various cleaning supply items at different levels of occupancy.

Uniforms: Provisions must be made in the operating budget for the cost of new and replacement uniforms. In addition, cost of washing or dry-cleaning uniforms, as well as cost associated with repairing damaged uniforms, may feature. Like linen, uniforms are recycled inventory item. But unlike linen, their usage and replacement rates are not predictable. It depends on employee turnover and new recruitment. To organize information for making budgets, itemized list of all uniforms should be kept along with number of staff in each uniformed position.

CAPITAL BUDGETS

Purchase of items with relatively high costs and long life spans are planned as a part of capital budgets, because they involve additional capital investments by the hotel.

Capital budgets are prepared annually. The executive housekeeper will have to specify the need for funds to purchase the machine or equipment. This should be supported with proper justification. When purchasing equipment, executive housekeeper should focus on long-range considerations. Along with being of proper type, quality and quantity; the equipment should last through continuous use with minimum maintenance. Cost effectiveness is the most important consideration. Price needs to be considered with respect to quality and durability of the product.

CAPITAL BUDGET HEADS	**OPERATIONAL BUDGET HEADS**
Large equipment and machines.	Salaries and wages
Furniture, fixtures and fittings in rooms and public areas.	Contract cleaning
Linen and soft furnishings. Uniforms.	Laundry and dry-cleaning
Miscellaneous(Contingency)	Linen

Special project (construction of new rooms etc.)	Operating supplies
Renovation of rooms or public areas.	Uniforms Maintenance

Categorized by Type of DEPRTMENTS

Master budget – These represent the forecasted target set for the whole organization and incorporate all incomes and expenditures estimated for the organization.

Department budget – each department of the hotel forwards a budget for its estimated expenses and revenues to the financial controller. For instance, there would be a housekeeping budget , an F&B budget, a maintenance budget, and so on.

Categorized by Flexibility of Expenditure

Fixed budget – These budgets remain unchanged over a period of time and are not related to the level of revenues. Such budgets include budgets for advertising and administration.

Flexible budgets – These budgets pre-determine expenditure based on the revenue expected and differ with different volumes of sale.

Controlling housekeeping expenses means ensuring that actual expenses are consistent with the expected expenses on the operating budget. There are four methods OF BUDGETORY CONTROL -

- **<u>Accurate recordkeeping</u>; helps to monitor the usage rates, inventory costs, and variances with standards**
- **<u>Effective scheduling</u>; with the help of the staffing guide, personnel costs stay in line with occupancy reports**

- **Careful training and supervision; important for controlling the cost of inventoried items. E.g. training in the proper use of cleaning supplies can improve usage rates, and lower the cost of cleaning supplies per occupied room**
- **Efficient purchasing; ensures that the hotel's money is well spent and the maximum value is received from products.**