Budgeting for Safety

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Ir Richard WN Tse
PGDip, MSc, MBA, MSc, CEng, MIET, MHKIE, MMS, CMIOSH, RSO, RSA,
Six Sigma Black Belt,
IRCA registered OHSAS 18001 auditor,
IRCA registered ISO 9001 auditor
What is budget?

• A budget is a qualified plan of action for forthcoming accounting period. A budget is a plan of what the organisation is aiming to achieve and what is has set as a target whereas a forecast is an estimate of what is likely to occur in the future.

• The budget is ‘a quantitative statement for a defined period of time, which may include planned, revenues, expenses, assets, liabilities and cash flows’. A budget facilitates planning.
Objectives of budgeting

• To ensure the achievement of the organisation’s objectives
• To compel planning
• To communicate ideas and plans
• To coordinate activities
• To provide a framework for responsibility accounting
Objectives of budgeting

- To establish a system of control
- To motivate employees to improve their performance
- To provide a framework for authorisation
- To provide a basis for performance evaluation
Preparation of budgets

• Planning is the establishment of objectives, and the formulation of the policies, strategies and tactics required to achieve them.
• Planning comprises long-term/strategic planning, and short-term operation planning
Importance of long-term planning

- Know what should be trying to achieve
- criteria against which to assess possible courses of action
- Likely to bring better potential benefits
Responsibility for preparing budgets

• Those who will be carrying out the budget, operating and authorising expenditure
• Budget holder is responsible for setting and achieving the budget for the budget centre
Budget committee

• Co-ordination of the preparation of budgets
• Issuing of timetables
• Allocation of responsibilities
• Provision of responsibilities
• Communication of final budgets
• Comparison of actual results with budget
• Continuous assessment of budgeting and planning process for continuous improvement
Departmental/functional budget

• A budget of income and/or expenditure applicable to a particular function
• A function may refer to a department or a process
• Is safety a function within an organisation?
Monitoring budget

• The budgeting process does not end for the forthcoming year once the budget period has begun
• Budgeting should be seen as a continuous and dynamic process
• Regular comparison - Actual Vs budget
• If difference are within control of management, take correction
• If unrealistic, invalidate the remainder of the budget

Ir Richard WN Tse
Incremental budgeting

• Base next year’s budget on current year’s results plus an extra amount for estimated growth or inflation next year

• Is it good a good way of budgeting?
Incremental budgeting

- Budget slack (unnecessary expenditure)
- No challenge of whether current level of expenditure necessary?
- Just to ensure the current budget is spent
- Encourages slack and wasteful spending to creep into budgets
- Past inefficiencies are perpetuated
- Inefficient form of budgeting
Zero based budgeting

• Budget should be prepared from ‘scratch’ or zero
• Every item of expenditure must be justified to be included in the budget, as though the activities to which the budget relates were being undertaken for the first time.
• Without approval the allowance is zero
Zero based budgeting

- Start from current level of expenditure and work downwards
- Ask what would happened if any particular aspect of current expenditure and current operations were removed from the budget
- Examine cost and benefits
- Encourage to select better alternatives
Development of a questioning attitude

• Does the activity need to be carried out?
• What would be the consequences if the activity were not carried out?
• Is the current level of provision adequate?
• Are there alternative ways of providing the function?
• How much should the activity cost?
• Is the expenditure worth the benefits achieved?
Three steps of ZBB

• Define decision packages
• Evaluate and rank packages
• Allocate resources
Step 1 Define decision packages

- Define activities which could be evaluated and ranked in order of priority
- Mutually exclusive packages
  - Comparing cost and benefits for best option
- Incremental packages
  - start with base package
Step 2 Evaluate and rank packages

• Evaluate and rank each activity (decision package) on the basis of its benefit to the organisation
• Lengthy process
• High priority for
  – Minimum work requirements (those that are essential to get a job done)
  – Legal compliance
Step 3 Allocate resources

• Allocate resources in the budget according to the funds available and the evaluation and ranking of the completing packages
Zero based budgeting for safety

• What might the base package and incremental packages for a safety department cover?
ZBB advantages

- Possible to identify and remove inefficient or obsolete activities
- Forces to avoid wasteful expenditure
- Can increases motivation
- Responds to changes in the business environment
- Appraises costs and benefits
- Challenges the status quo
- More efficient allocation of resources
ZBB limitations

- Continually update about assumptions for costs and benefits for each package and new packages
- Short-term benefits Vs long-term benefits
- Assume all decisions have to be made in the budget (deal with unforeseen opportunities and threats)
- More demand on management skills in the ZBB process/techniques
ZBB difficult ranking process

- Large number of packages
- Packages which appear to be equally vital, for legal or operational reasons
- Activities which have qualitative rather than quantitative benefits (e.g. staff welfare and working conditions)
Analytic Hierarchy Process

Goal

Criterion 1  Criterion 2  Criterion 3  Criterion 4

Alternative 1  Alternative 2  Alternative 3
Using ZBB

• Best applied to support expenses
• Activities are less easily quantifiable by conventional methods and more discretionary in nature
• Alternative levels of provision of each activity are possible and costs and benefits are separately identifiable
Cost of safety

- Hardware
- Labour safety and health protection
- Emergency response
- Safety training and promotion
- Routine safety
- Safety management system
- Travelling and accommodation
Hardware

• Hazardous sources rectification
• Retrofit potential hazardous equipments or work processes
• Purchase of new tools, machines and equipment
Labour safety and health protection

- Personal protective equipment
- Physical medical examination/health check
- Health surveillance
Emergency response

- Emergency response equipments
- First aid box/kit and refill
- Fire fighting equipment
- Emergency response and first aid training
- Drill exercises
Safety training and promotion

- External safety training and development
- External training, examination fee, registration and renewal etc leading to trade specific license
- Safety promotion activities/printing material
- Development / preparation of safety training material
- Purchase of safety books, standard, regulations, laws, posters and safety training materials etc
Routine safety

- Safety incentive/award
- Examination/verification/calibration fee of special equipment
- Occupational hygiene or environmental health monitoring
Safety management system

- Establishment/maintenance of OHSAS 18001 safety management system
- Quality assurance of safety management system
Travelling and accommodation

- Attending internal/external safety council meetings and safety management review meeting
- Transportation to jobsites
- Conducting cross organisation safety audit
- Other safety activities (e.g. performing safety inspection and delivering internal safety training etc)
Thank You!!
Ir Richard WN Tse
email: wn_t@yahoo.com