

Budgeting for Safety

28 April, 2009

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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 it 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

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 increase motivation
- Responds to changes in the business environment
- Appraises costs and benefits
- Challenges the status quo
- More efficient allocation of resources

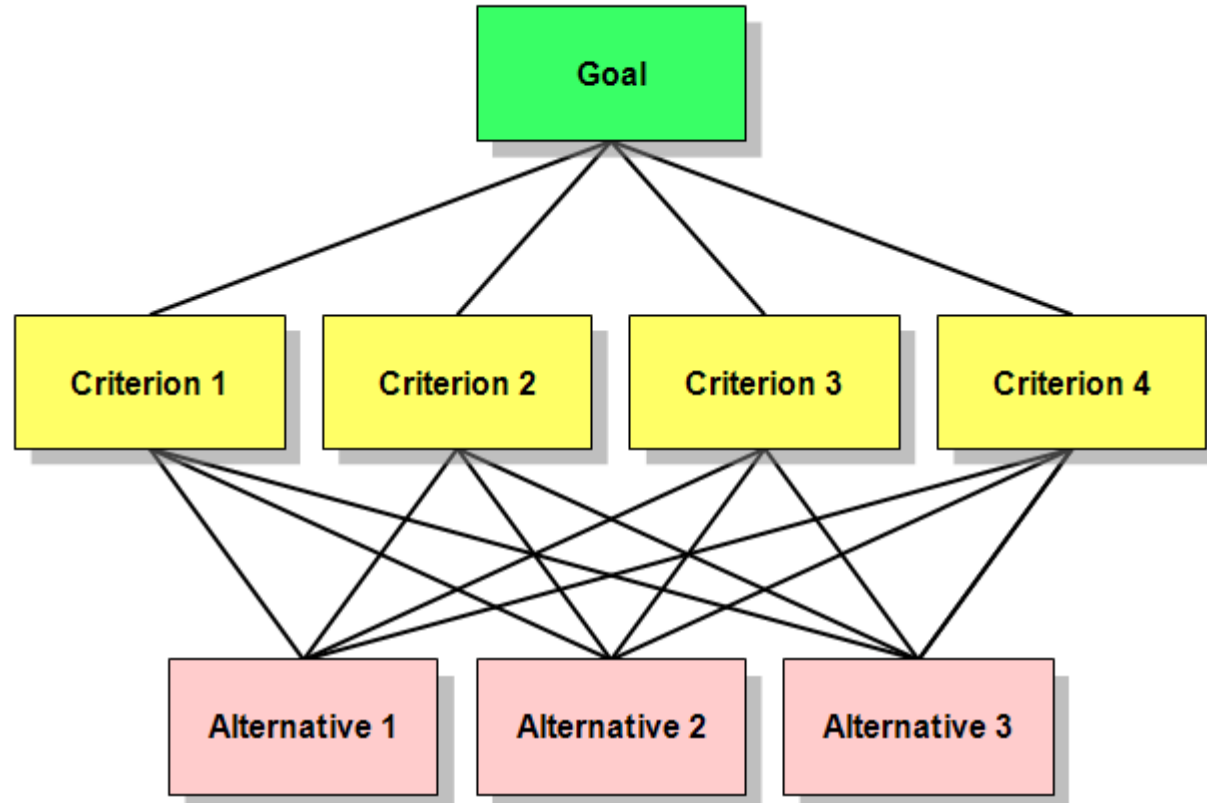
ZBB limitations

- 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



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!!
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