

HOW TO BUDGET EFFECTIVELY IN CHANGING TIMES

A guide to creating a **strategy-driven budget** for your ministry.



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Foreword

Creating an effective budget for your ministry can be difficult even in typical times, and our current times are anything but typical.

As President of [ECFA](#), I see first-hand both the blessings and challenges ministries face. The environment we operate in has been changing rapidly for years. Now ministries are left to grapple with uncertainty accelerated and amplified by the COVID-19 pandemic and other factors. With so much unknown, planning for the future can feel like a nearly impossible task.

In August 2020, I hosted an ECFA webinar on budgeting with Rob Faulk, Partner and Church and Denomination Services Director at CapinCrouse. Rob has a unique perspective because he's served as Executive Pastor and CFO at several large churches in addition to holding financial leadership roles at both for-profit and nonprofit organizations.

The insight Rob shared during the ECFA webinar provided the foundation for this e-book. You'll learn how to frame the right approach to budgeting during uncertain times, starting with filtering every decision through your strategic plan. You'll also gain practical strategies to help your ministry set priorities, challenge your assumptions, and develop and revisit your budget.

As Rob notes, "New challenges bring new opportunities." It's my hope that this e-book not only assists your ministry in budgeting effectively during the current uncertainty, but helps you do so in a way that allows your ministry to maximize new opportunities and thrive in your mission long after we've emerged from our current challenges.

Michael Martin, President
ECFA

“You'll learn how to frame the right approach to budgeting during uncertain times.”

Introduction

The current situation has created quite a challenge for any ministry. The operative word for what we're going through is *uncertainty*.

Uncertainty about the global pandemic and its long-term effects. Uncertainty about the economic fallout. And uncertainty created by ongoing cultural changes.

What will the effect be on your ministry's future revenues, expenses, and opportunities? How can you best manage continually shifting priorities, strategies, and tactics? What new challenges lie ahead?

How can you budget effectively when so much is unknown?



AN UNPRECEDENTED OPPORTUNITY

It's time to explore **new ways** to serve.

An Unprecedented Opportunity

While the current circumstances are difficult, they also provide a tremendous opportunity to rethink ministry. New and creative ways to serve others are popping up.

Look at how churches have flourished with online services. Many people who wouldn't normally set foot in a church have logged on and heard the gospel for the first time.

Because of new needs, new people have been reached with benevolence. Emergency responders and frontline workers have been ministered to and thanked for their selfless work.

What new opportunities are available for your ministry? What inefficient or ineffective ministries or practices that have been off-limits in the past can you reassess now?

Consider how you can leverage this situation to create — or re-create — opportunities.

This is not just a chance to re-envision your ministry and revisit your budget. It's imperative that you do so. Eventually, the pandemic will end. But things will not go back to the way they were before. Now is the time to think about the changes your ministry can make to position itself for the new future we face.

There will be new opportunities and new ways to serve. New methods of fundraising. New ways and places for your employees to work. It's necessary to start considering these changes. Your ministry's resilience and ability to pivot now will determine your impact in the future.



The human race built most nobly when limitations were greatest.

– Frank Lloyd Wright



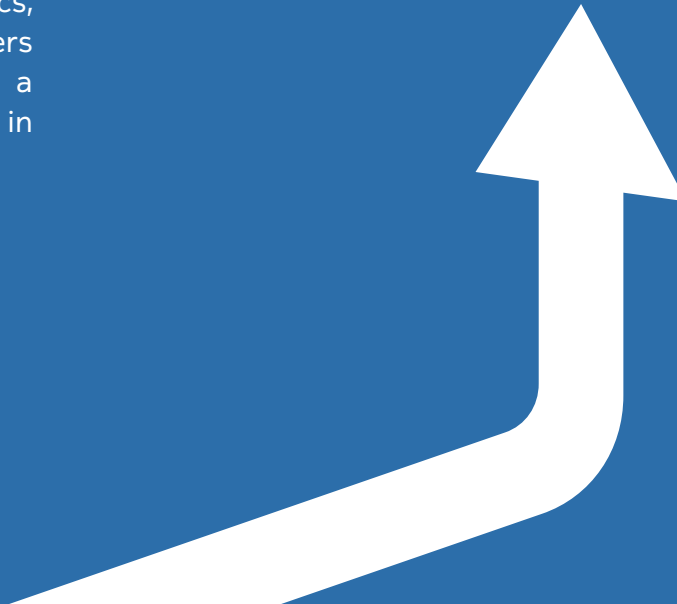
An Unprecedented Opportunity

One of my favorite movies is *Moneyball*, the story of how the general manager of the Oakland A's, Billy Beane, changed the way baseball executives built their teams. For years, teams relied solely on scouts and their instincts about which players would excel. The scouts believed there were many intangibles analytics couldn't assess. They incorrectly believed that only baseball people could assess talent.

Beane used a different method that relied on analytics, algorithms, and other new tools to determine how players would perform. During one famous scene in the movie, a veteran scout tells Beane he is making a huge mistake in relying on analytics. "Adapt or die," Beane responds.

Likewise, ministries need to adapt to our rapidly changing environment to survive. COVID-19 has altered everything, but it won't be the last major change we see during our lifetime. Your ministry must be adaptable and able to pivot quickly to the new and ever-evolving realities.

Budgeting is just one area where ministries need to be resilient and flexible — **but it may be the most important one.**



COVID-19 won't be the last major change we see during our lifetime.





KEY CONSIDERATIONS AND FIRST STEPS

Focus on your **strategic plan** and
be prepared to adjust.

Key Considerations and First Steps

1 Focus on your strategic plan.

What is your ministry trying to accomplish? This should be the filter through which you make budget decisions.

While ministries used to have one-, three- and five-year strategic plans, the current pace of change makes forecasting two years out a more realistic goal.

Keep in mind that as the strategic plan shifts you may also need to make adjustments to the annual operating plan, including financial goals. Changes have a cascading effect.

2 Apply the Nonprofit Administration Model®.

I developed this strategic model to show the cycle of how ministries should be planning, budgeting, and executing. Everything is driven by your vision, mission, and values, which determine your strategic plans, operating plans, and ministry goals.

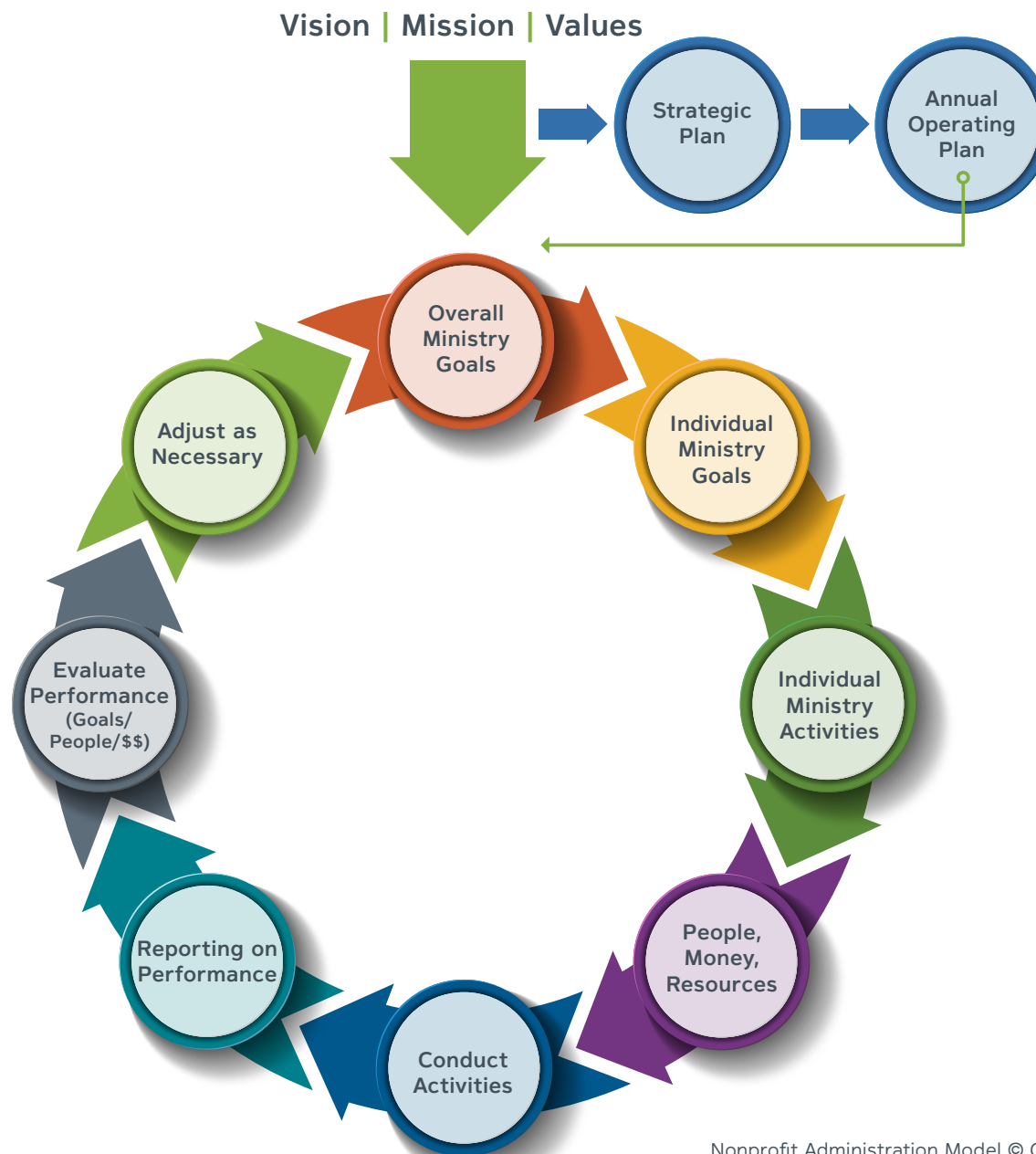
You can then use the ministry goals to determine what activities you need to undertake to achieve those goals, and what resources will be required to accomplish those activities.

As you revisit your strategic plan to reflect the changing times, it's important to think through this model so your operating plans, goals, and budget remain tied to your strategy and you stay focused on your ministry's mission and goals. This is an ongoing, iterative process.

You should continue to revisit it as circumstances change.

Key Considerations and First Steps

Nonprofit Administration Model



Key Considerations and First Steps

3 Don't let ambiguity lead to inaction.

You can't predict all the challenges coming your way. But you *can* act on what you *do* know and can reasonably anticipate, and then remain informed and vigilant so you can respond effectively as circumstances change.

Early in my career, I worked for an aircraft company that was designing and building a new type of turboprop aircraft. I asked the CEO, who was new to the industry, how he knew what to do.

"I don't know exactly what to do," he said. "But I do know the general direction we're heading, and we'll refine as we go." You might not know exactly which steps to take, but you probably do know the general direction you need to head. Get started by understanding the changes you're encountering and how they affect ministry activities. As you consider your budget, ask:



What activities are stopping?
What are the related costs?



What activities are starting?
What are the related costs?



What new infrastructure is required?

Then monitor and refine as you go.



You might not know exactly which steps to take, but you probably do know the general direction you need to head.



Key Considerations and First Steps

4 Update your cash flow forecast and be as granular as needed.

While your budget may look at monthly cash flow, in this environment you may need to analyze weekly or even daily cash flows. It's vital to continually monitor cash flow. Jesus is King with a capital "K," but cash is king with a small "k."

5 Choose your budget approach.

There are two basic choices for budgeting. With **top-down budgeting**, management determines the budget. While this is the fastest approach, it can create a lack of ownership by others within your ministry.

In the **bottom-up approach**, staff members closest to the activities of the ministry are asked to develop the budget based on those activities. This creates more buy-in from employees and generally will be more realistic because these staff members have first-hand knowledge of what's needed for each activity. However, this approach takes more time and it is difficult to administer, especially when employees are working remotely.

If your ministry chooses this approach, streamline the process by determining which employee levels you want to get feedback from, such as those at the director or manager level and above. Involving too many people in the process can bog it down. Then set deadlines and be clear about why it is important to meet them.

We're seeing more ministries use the top-down budget approach because it allows them to act quickly.

6 Set priorities.

Remember what the budget is for: meeting your priorities. An effective budget isn't meant to restrict. It's a tool to help keep your resources focused on your priorities.

As those priorities change, modify the budget to ensure you allocate adequate resources to the activities that will help your ministry achieve its **goals, mission, and vision**.



ASK WHAT HAS CHANGED

Identify **key assumptions or drivers**
that have changed or that you
anticipate will change.

Ask What Has Changed

Consider how COVID-19 and the resulting uncertainty have affected your strategic plan, annual operating plan, and overall ministry goals.

A strategic plan is developed around a ministry's vision, mission, and values. And at most ministries, it was probably developed under a set of assumptions and expectations that have been disrupted by COVID-19 and perhaps other significant changes.

That's why it's important to revisit your strategic plan, operating plan, goals, and related budgets, and keep reassessing them as circumstances change.

Any budgeting, whether it's your typical annual process or re-budgeting in response to current events, is more than just a spreadsheet exercise to get everything to come out even and ensure expenses don't exceed revenues. As noted above, your budget should derive from the strategic plan, support the achievement of that plan, and be adjusted as the plan changes.

The first step is to identify what key assumptions or drivers have changed or that you anticipate will change. For example, if you are a contribution-driven ministry, think about what has changed in your donor base. Compare the months since the start of the pandemic to the similar period last year and even the year before.

How did the pandemic affect overall contributions?

What factors outside of the pandemic have affected contributions?

Are contributions flat?

Have they increased or decreased and by what percentage?

Ask What Has Changed

Consider how COVID-19 may have affected income areas such as:

- Recurring givers and major donors. Reach out to understand their situation — not by asking how much they will continue to give, but to see how you can pray for them or come alongside them in some manner.
- Any contracts or grants you were expecting
- Other revenue sources

Also assess your expenses, which include changes to:

- Personnel, including staff reductions or reallocations
- Travel
- Technology needs

This requires making some assumptions about revenues and expenses.



Given the circumstances, every decision will be made in pencil and every sentence will end in *for now*.



– Unknown



CHALLENGE YOUR ASSUMPTIONS

Preparing for change leads to
strategic decisions.

Challenge Your Assumptions

Challenge your assumptions, old and new. The assumptions you make today may not be valid tomorrow or next month.

For example, expenses are broken out into three categories:

- Fixed expenses, such as mortgage and debt payments
- Semi-fixed expenses, such as personnel and employee benefits
- Variable expenses, including ministry-related expenditures such as missions

Are the **fixed expenses** (mortgage or rent) really fixed, or is there room to negotiate, defer, or even eliminate these expenses? With the move to remote work, many ministries are reconsidering their office space needs. That may give you some negotiating power. Can you defer some payments if finances are tight? Don't let traditional categories limit your thought process.

Look at **semi-fixed expenses** such as personnel and employee benefits. Those are areas where changes can — and sometimes must — be made. Consider the impact and long-range implications, and tie any decisions back to the strategy.

Variable expenses are the easiest to reduce. Evaluate those that you have a lot of control and discretion over.

Remember to challenge your assumptions on an ongoing basis.





WHAT NOT TO DO

Actions have **implications** and sometimes, **unintended consequences**.

What Not to Do

Avoid these common pitfalls:

Don't ignore cash reserves.

Your ministry saved cash for a rainy day and now is the time to consider how to *wisely* use those cash resources. Plan out how much you will use before you make more changes or modifications to your budget.



Don't make unrealistic income forecasts.

Ministry leaders tend to be optimists, but it's dangerous to be unrealistic in your income forecast and potentially delay necessary cuts until it's too late. Balance a "faith" budget with what's prudent. Pray and seek wise counsel from your elders or directors and those you trust before you make a faith income forecast.

Don't make across-the-board cuts.

If your ministry gets into a financial pinch, it's tempting to reduce every department's budget by a set, consistent percentage. But while across-the-board cuts may work for a short period, they also can have long-term effects that may hurt your ministry more than the extra expense did. These types of cuts don't address inefficient and ineffective areas or non-strategic activities. They also can discourage departments or ministries that are performing well.

What Not to Do

Don't fail to inform your donors or congregants about your current situation.

They have a vested interest in your ministry and care about its success. Let them know about the opportunities and challenges facing the ministry. Tell them what steps you've taken and what you anticipate for the foreseeable future. Communicate with them about specific needs. I have talked to major donors who say that they don't contribute to a particular ministry because they haven't been asked. Make that ask!

Don't let emotions drive your difficult decisions.

This can be challenging, especially when it comes to making decisions about people.

Make decisions based on your strategic and operating plans. The more closely decisions are tied to strategy, the less emotions will influence those difficult decisions.

Focus on strategy and outcomes.





WHAT TO DO

Being open to **new ideas** can keep
your ministry nimble.

What to Do

Now that we've discussed what not to do, let's look at steps your ministry should take:

Communicate with your stakeholders clearly and often.

In an environment like this, it's almost impossible to over-communicate.

Solicit input from across your ministry.

Good ideas aren't limited to those in leadership. For example, a client with cash flow issues explained the situation to all employees. In response, employees at all levels of the organization found new ways to save money, use volunteers, and implement new activities that resulted in significant savings.

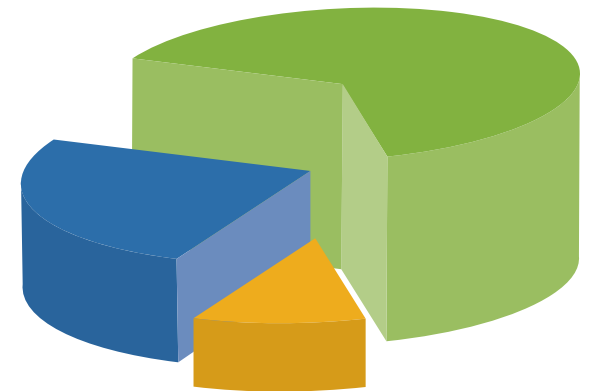
Create multiple budgets.

Make a baseline budget based on the most likely scenario. Then plan what would happen if giving is higher than anticipated by 10%, 20%, or more. What expenses and costs could you add? What new activities could you take on?

Next, plan for scenarios that are below the baseline. What happens if giving is lower than anticipated by 10%, 20%, or more? Determine in advance the triggers for cuts — and which cuts to make — so you don't have to make strategic decisions during stressful or emotional times.

Compare actual results against the budget regularly.

As noted earlier, it's important to monitor your cash flow frequently, even daily, so you can make informed decisions.





REVISITING THE REVISED BUDGET

Keep refining your strategic plan,
the goals you set, and **your plan**
for achieving them.

Revisiting the Revised Budget

Once you have a revised budget, it's important to keep revisiting it. What if the revised budget shows an unsustainable loss, for example? Remember, a budget is a projection of financial results based on what may happen. But what if actual circumstances are different than the projected circumstances the revised budget was developed around? Work through the previous steps to reassess your analysis and challenge your assumptions. Keep refining your strategic plan, the goals you set, and your plan for achieving them.

Now, what happens if you've updated all revenues and expenses and the bottom line still shows an unsustainable loss? Then you must cut some costs or generate new revenue streams.



- ✓ Go department by department to look for ways to reduce expenses.
- ✓ End inefficient processes or practices.
- ✓ Reconsider non-strategic ministries.
- ✓ Think about the order you would build your ministry in if you were starting from scratch.
- ✓ Consider personnel who are underperforming or in non-strategic positions.

Determining Which Costs to Cut — and How to Cut Them

Follow these steps to review your expenses:

1 Go department by department to look for ways to reduce expenses.

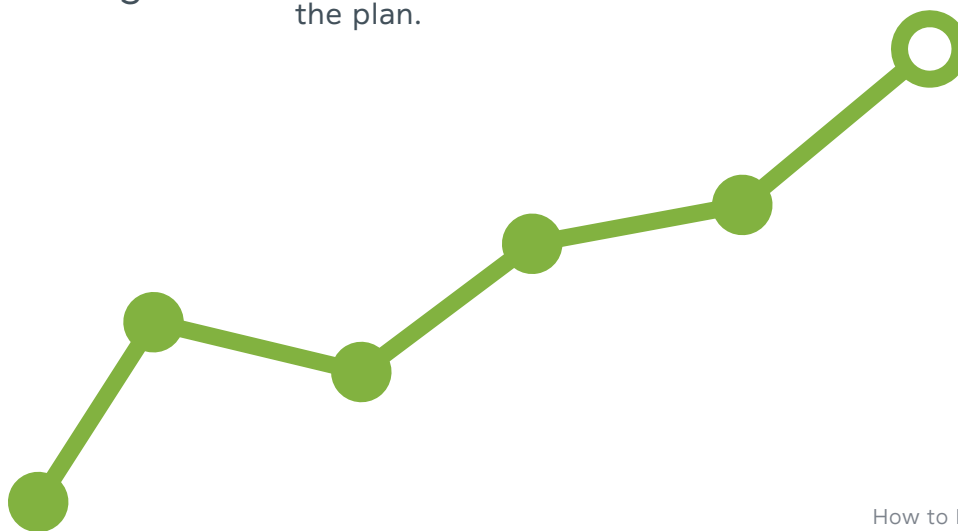
Start with ineffective or outdated ministries. Don't overlook those that were previously considered off-limits.

2 End inefficient processes or practices.

For example, a client in a continual cash flow crunch due to rapid increases in the minimum wage implemented technology that allowed them to reduce their staffing needs and, as a bonus, broaden their reach.

3 Reconsider non-strategic ministries.

Go back to your strategic plan and eliminate the activities that don't support the plan.



4 Think about the order you would build your ministry in if you were starting from scratch.

For instance, when a church plants, it typically builds in this sequence:

- Worship
- Children
- Students
- Adults
- Operations and finance



To reduce expenses, go in the reverse order of how you would build your ministry. Caution is required here, however. You need experienced people capable of analyzing and interpreting financial information. So don't just eliminate the highest-paid people in the finance area, but consider what skills and experience you will need to implement your strategic plan. You also need a core of facility personnel to maintain your building. But with careful consideration, you may be able to reduce expenses in those areas without significantly affecting strategic initiatives.

5 Consider personnel who are underperforming or in non-strategic positions.

These are difficult conversations. But now is the time to have them because you are not only looking at your survival — you are positioning your ministry to flourish long-term.

Note that if you decide to reduce staff, it's important to review your personnel manual first to ensure you comply with your internal policies and procedures as well as any legal requirements at the federal, state, or local level. Consult your legal counsel if necessary.

Revisiting the Revised Budget

Maintain Perspective and Ask for Input

COVID-19 won't last forever. While you need to make budget and strategic plan adjustments that allow your ministry to survive this challenging time, you also need to position your ministry strategically for the long-term. New challenges bring new opportunities.

Remember that your employees and stakeholders may feel uncertainty and stress. Communicate often and ask for input. Don't sugarcoat the situation, but don't catastrophize it, either. This is a difficult time, but remind them of the good things happening in your ministry, too.



ADDITIONAL CONSIDERATIONS

Rolling Budgets, Building or
Rebuilding Cash Reserves, and
Debt-reduction Strategies

Additional Considerations

Rolling Budgets

Some ministries, especially larger ones, don't create an annual budget but instead maintain a rolling budget that is updated every quarter to account for what's happening in the economy or community, new strategies, new initiatives, or other changes.

With a rolling budget, you are typically forecasting out 12 months. When a quarter is done, you look at the nine months already budgeted, make any changes, and forecast for the three months beyond that.

While this takes more effort, it requires you to continually examine the assumptions you've made and helps to keep your budget current and relevant.

Seasonal ministries can also benefit from having time to respond to and adjust for issues further out, rather than finding themselves in an unexpected situation and having to react quickly.

Building or Rebuilding Cash Reserves

You may have used some cash reserves during this time, and you may need to use more going forward. Think about how you can rebuild those reserves when we come out of the pandemic. For most ministries, three to six months of cash reserves is a good target.

If you didn't have cash reserves to begin with, evaluate why. A new ministry focused on initial growth might not have had time to build reserves yet. Other ministries may feel they should spend on ministry and rely on God to provide. Or you may have faced other circumstances.

The key is to determine how to keep the ministry moving forward in a prudent way. If you're in a place where you can't build cash reserves right now, create a strategy for how you will build reserves when circumstances improve.

Debt-reduction Strategies

It's also important to think about debt-reduction strategies. You can plan now, even if you can't implement the strategies yet.



LOOKING AHEAD

Changing times call for
creativity and **innovation**.

Looking Ahead

Imagine and reimagine... and then reimagine again. Creativity counts during this time.

Creativity in strategies, in tactics, in the goals you are setting. Creativity in how you budget to achieve those strategies and goals.

Look for those operational improvements. Look for how you can become more efficient not just in the back office but in delivering ministry to your constituents. Look for how you can improve your ministry.

We are living in unprecedented times. So ask, "What is the unprecedented future that makes sacrificing for this ministry worthwhile, and how do we get to that future?" Now is the time to start thinking about and planning for that.

Additional Resources

[Planning Your Budgeting Process](#)

[Responding to Financial Realities](#)

[Ten Steps to Finalizing
Your Annual Budget](#)

[Should Your Church Change
Its Fiscal Year-End?](#)

About the Author

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Rob has more than 40 years of financial leadership experience in serving both for-profit and nonprofit entities, as well as more than eight years of direct ministry experience as Executive Pastor and CFO of large churches. He serves some of the largest churches in the United States as well as colleges, universities and seminaries, rescue missions, and other nonprofits. Rob holds an MA in Ministry Management from Azusa Pacific University Graduate School of Theology and is a frequent conference speaker and author of articles on nonprofit financial matters.



About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. Since 1972, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.



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