

KPI OF THE MONTH

% Budget variance

Profile

Definition

Measures the deviation between the actual costs and the planned (budgeted) costs for the same period. It can be applied at organizational, team, project or individual level.

Calculation

Subordinate metrics

A = \$ Realized budget
B = \$ Planned budget

Calculation formula

$[(A-B)/B]*100$

Desired trend

Within range

Data profile

Data capture period

Spot

Data collection method

Financial Records summarize business transactions and should be a reliable data source for this indicator. For accurate financial reporting, it is also important to analyze the cash flow and the spending strategy of the organization.

Targets

The acceptable level of variance should be set according to the internal procedures and standards. In the case of projects with large budgets, a deviation of +/- (5-10%) can be a large amount of money, so a +/- (3-5%) target is more appropriate.

Focus

Purpose

To indicate the financial discipline in executing budgets. Can be used as a tool for cost control.

BSC perspective

Financial

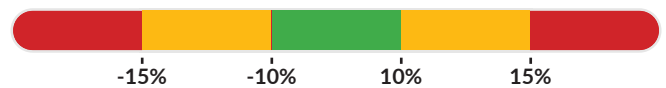
Objective measured

Ensure financial discipline

Reporting frequency

Monthly

Thresholds



In Practice Recommendations

% Budget variance is an important indicator, since it helps to ensure a better financial control over businesses. During the variance analysis, the trends and the cause of the possible shifts should be highlighted. % Budget variance can be either positive or negative (Figure 1).

Favourable variance: When the expenses are less than the budget. It is indicated by negative results (*such as -6%*)

Unfavourable variance: When the expenses exceed the budget. It is indicated by positive results (*such as +8%*)

The main causes of the budget variance could be:

- ✔ Macro environmental change (e.g., the restricted movement of goods during the pandemic leads to increased costs)
- ✔ Poor planning or poor budget control
- ✔ Management decisions based on inaccurate data.

Possible corrective actions to reduce budget variance include:

- ✔ Preparing an accurate planning of future revenues and expenses
- ✔ Establishing a streamlined process for budgeting
- ✔ Developing the budget under various scenarios: optimist, negative, realist.

