

# Insights Into Setting HR Budget Priorities In 2015



Human resources, by which we mean people, constitute a significant part of any organization's budget. For many organizations 30% or more their operating budget is assigned to the expenses associated with staffing. The largest costs, of course, are tied to compensation.

Over the past few years budgets for HR and staffing have grown very slowly, although they are growing again compared to a few years prior. According to the "World at Work 2014-2015 Salary Budget Survey" salary increase budgets this year rose from 2.9 to 3.0 percent.

Recent surveys of Canadian workers indicate that after years of marginal increases in salary and compensation employees are expecting more. According to the Morneau Shepell's survey of Canadian employers they are expecting salaries to rise by 2.8% in 2015. Mercer's 2014 Canada Compensation Planning Survey reports an expected increase of 3.0%. Budgets and expectations seem aligned to create a year of budget challenges ahead.

With marginal increases available in the budget HR is under pressure to find way to reward and retain employees and keep other costs in check. Managing salary costs is one aspect of HR budget priorities but by understanding the bigger picture you can position yourself to look at your budget as a whole and make effective budget decisions for the new year.

## **What information do you need to consider when planning your 2015 HR Budget?**

- Projected incremental cost of employee benefits and bonuses
- Number of employees receiving a salary increases
- Number of employees you expect to add or lose in the next year
- Plans for needed or expected new programs and new benefits
- Costs to comply with new legislative requirements
- Training needs and costs to obtain

- Real costs from the current year

## **Two Common Ways to Develop Your Budget**

Zero-based budgeting whereby every item in the budget must be justified before being included; this means essentially starting from zero and figuring it out, which can be pretty time consuming.

Incremental budgeting whereby you use the current budget to develop a new budget by making adjustments upwards or downwards to each item based upon projections.

## **Where Can HR Balance Their Budget?**

Balancing costs requires looking at all areas of the HR staffing budget across the board.

- Salary costs: Base Salary; Merit Bonus Budgets; Salary Structure Adjustments; Promotional Increases; Variable pay plans; Overtime
- Hiring costs: Recruitment, Onboarding
- Benefits: Health, Dental, Disability, Retirement
- Employee / Labour relations costs
- Health, Safety and Security
- Training and Development

## **Tips for Justifying your HR Budget to the Powers that Be**

**Calculate the ROI of your budget** – Compile data and present it well. Pull together information that demonstrates the ROI per employee and the costs of employee loss or the loss associated with improper training and supervision of employees. HR is a significant cost. Take your time and demonstrate any cost savings initiatives and the real cost when budget items are not allocated.

**Align HR expenses with the leadership priorities:** Leadership buy in comes better when you can position your needs to help support leadership priorities for the upcoming year and beyond. Include information that demonstrates how your budget items will fit with the changes expected over the next 1-2 years. Business profitability is ultimately what enables the ongoing availability of funds. Consider revenue generator and revenue costs and align your budget accordingly. Decide on your organizations budget philosophy and try to be as open and transparent on the details as you can be. Employees sometimes need to know where their money is going before they can ensure understanding, compliance and agreement around budget and spending costs.