Are You Ready for Your Next Budget Cycle?

Today's mining companies continue to face a vast range of complex financial reporting requirements, and ever-increasing scrutiny by auditors and stakeholders. Consolidation and reporting applications need to be flexible, and accurate with rapid reporting capabilities and integrate easily with any ERP system. Calls for increased collaboration and integration lead the way for streamlined process control - all the way from site to boardroom. It is time to move on from traditional budgeting tools and move into Enterprise Financial Solutions to deliver the next level of productivity needed.

Traditional budgeting tools can hinder the budgeting and planning cycle but there is a better way.

It's a Common Problem

Most organisations will look towards their forthcoming planning and budgeting cycles with dread. Not because of the end results these processes reveal, but purely because of the pain and effort involved in getting there. Sound familiar?

Typically, a budget will involve the collection and consolidation of a myriad of information – such as production, revenue and expense projections – from many sources across the organisation.

From a mining perspective, a budget will also include the collection of non-financial data – such as material movements (tonnes and volumes), product sales units, ore grade and headcount – to complement the financial planning and budgeting perspective.

All too often, the end-to-end process takes too long. Quarterly forecasts take three to five weeks to finalise. Budgets are often not finalised until well into the actual year to which they apply. Similarly, the time taken to produce each iteration of the forecast or budget is too long, frequently taking days and more often weeks to complete.

In today's environment, the impact of any change to the financials needs to be understood within the day or even the hour. Although issues with the existing forecasting

and budgeting process and systems are often well-known, it is important to fully understand these common issues in order to drive momentum for change (see Figure 1)
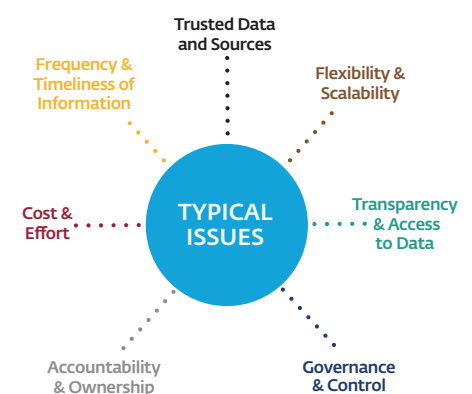
Figure 1

Let's explore some of these key issues:

Frequency & Timeliness

Annual forecasting and budgeting cannot keep pace with today's dynamic mining environment. With traditional toolsets, the information produced is often out-of date and irrelevant by the time it is produced. In addition, common tools such as desktop databases and Excel spreadsheets do not have driver based linkage back to the mine plan, so when the mine plan changes, the whole process needs to be repeated.

Managers need to be able to understand and respond quickly to the impact of competitive forces and rapid changes affecting their business. Yet most organisations fail to forecast the financial impact of these changes fast enough.

Be it the start of a new planning and budgeting cycle, end of month, end of quarter or end of year, organisations are often held ransom to providing massive human resources into gathering, consolidating and validating planning and budgeting information from multiple parts of the business. Rarely is there enough time for high value-add analysis and decision making activities.

Flexibility & Scalability

Most forecasting and budgeting processes and systems lack sufficient flexibility to accommodate the reorganisations, divestitures, mergers and acquisitions that have become the norm within the mining industry. In fact, some organisations still struggle with existing multi-site operations, and fail to accurately consolidate and benchmark across them.

These changes need to be modelled and reflected within forecasting and budgeting systems, both in the future and also retrospectively to ensure relevant prior-year comparisons. Without this flexibility, finance professionals spend significant time and effort trying to reassimilate and consolidate the budget.

Cost & Effort

The cost of existing forecasting and budgeting processes is significant and appears to be growing every year. Industry surveys have found that billion dollar companies can expend on average, 25,000 man-days to complete their budget.

By reducing this effort, companies can free up time to focus on other initiatives that drive greater value and high performance.

Accountability & Ownership

Often within the budget cycle, the finance department is seen as the owner of the budget process, rather than being the facilitator. As a result, business units that contribute to the overall process often claim "these are not my numbers" when operational management reviews the forecasts and budgets. This results in a complete lack of ownership and therefore trust in the numbers put forward.

Transparency & Access to Data

Lack of accountability also relates to the lack of transparency and access to information associated with disaggregated spreadsheets and databases, normally offered to operational management.

Operational managers work hard to produce the detailed "below the line" transactional information but may receive little or no feedback after the numbers are submitted and, thus, cannot easily view the forecast and budget information presented to Senior management. Often they are also unable to access the data for modelling or examination in a way that suits their specific mode of operation and cost/budget visualisation needs.

Equally, the corporate finance and management teams have little visibility into the process and methods used in budgeting for each operation – which often differ significantly from each other – leading to difficult and time consuming consolidation and evaluation of data.

As a result, the forecasting and budgeting process is an effort by the finance function to collate and aggregate bottom-up data, turning it into "just another management request for information".

Access to Trusted Data Sources

Most organisations use a patchwork of spreadsheet models to undertake their forecasting and budgeting, with multiple hand-offs and revisions throughout the process. Inaccuracies arise due to lack of version control, transposition of numbers, formula errors and unallocated numbers ("buckets") with aggregated data potentially not equalling the sum of their parts.

Around 93% of managers gather or analyse information in spreadsheets and 54% spend more or the same time gathering information than analysing it. While there is no denying that spreadsheets are powerful personal productivity tools, they suffer severe limitations. A recent report by KPMG indicated that up to 91% of spreadsheets contain undetected errors. The impact being significant. This leads to a lack of confidence in both the numbers and the ability of the finance function to deliver.

A Better Way Forward

Organisations who recognise the link between high performance and forecasting and budgeting excellence, are increasingly adopting more efficient and effective practices.

However, these practices do not necessarily mean discarding the past. Rather, it means applying tried and tested methodologies in new ways and with new tools that provide holistic, enterprise financial modelling systems and processes.

Technological advances make it possible for companies to implement capabilities that bring these practices (see Figure 2) and subsequent benefits into realisation. This gives mining professionals the confidence to make better economic mining decisions.

Figure 2

Driver Based Forecasting & Budgeting

Driver-based forecasting and budgeting enables the underlying business model to be encapsulated within a standardised and structured forecast and budget capability. The benefits can be significant and include:

- Releasing potentially hundreds of business users from building and maintaining individual, usually spreadsheet-based, forecast and budget models.

- Allowing greater control of underlying assumptions and common parameters, enabling trust in the data.

- Enabling efficient analysis of alternate operating scenarios that test the robustness of a plan and subsequent decisions.

- Ensuring transparency and providing Business Intelligence and modelling capabilities to Operational Managers.

- Providing management with the confidence that forecasts and budgets are derived from one common modelling methodology and set of algorithms.

Rolling Forecasts

Increasing the frequency, and accuracy of forecasting allows budgets to become more agile and better linked to strategic planning. In fact, the rolling forecast has emerged as one tool that most asset intensive industries – especially those in situations that operate in fast-changing environments – would most likely adopt if there were easy to implement technologies and methodologies available.

Technological solutions are now available. Offering fully integrated, highly scalable solutions for multiple operating sites and dispersed users.

As a result, the forecasting and budgeting capability can be placed in the hands of the business. The advantage of this is obvious – those who can produce the best projections of business activities are those who undertake and are responsible for those activities.

Leveraging Integrated Technologies & Solutions

System integration is a critical element for facilitating both process and functional improvements for budgets and forecasts. Utilising industry standard technologies to enable this integration is a core element of bringing the budgeting process into the enterprise framework.

System integration eliminates the manual handling of data transfers between the various point solution planning applications. In this way, an enterprise backbone is formed, enabling benefits such as sharing a data

model between mine planning, production, maintenance and finance departments, promoting consistency, and; eliminating manual interventions, manual data transfer and version control errors. Providing the often missing link between the physical mine plan and the budget.

From a model such as this, Business Intelligence (BI) tools are more easily enabled across multiple parts of the business. Breaking down traditional siloed environments and exposing valuable information for analysis and decision making.

Process Owner Analysis

"Part of the reason why budgeting practices are now able to evolve is because it has been supported by new technology which has changed the way data is collected and stored in organisations… Enterprise-wide systems have increased both the speed and the accuracy of budgets and forecasts."

(Better Budgeting: Institute of Chartered Account-ants, Faculty of Finance & Management 2014)

An enterprise backbone with integration to Business Intelligence tools, enable analysis and reporting capabilities – not just data collection – to be deployed to a larger and widely distributed base of operational end users.

In a mining example, a Fleet Manager, can look at multiple budget models then undertake "what-if" analysis to assess scenarios for deploying different fleet configurations to different activities, and analyse which scenarios are better for the overall production plan, and what the financial consequences are.

Speed, Visibility & Control

The benefits of adopting these new practices are many-fold. The speed and ease of reforecasting a driver-based budget on an integrated, enterprise backbone, means reforecasts can be much more frequent. Previously it may have taken 10-12 days to complete a reforecast, now entire organisations can complete the process in two or three working days – or even hours.

This allows rolling monthly reforecasts – that look many months into the future – to be produced using true driver based modelling. Something that has been simply too difficult in the past.

Frequent reforecasting is likely to unveil variances in the key assumptions and cost drivers underpinning the overall corporate strategy. At a time of increased uncertainty, organisations need to continually review long-range strategy and rolling reforecasts are likely to reveal anomalies that trigger such reviews and keep the company agile.

When responsibility centre managers are asked to reforecast a driver-based budget, there is no longer a need for them to work offline on spreadsheets because all the rules and assumptions they previously held in disparate spreadsheets can now be incorporated in the enterprise financial model. For the most part, they will now simply review and amend key operational drivers and assumptions which, typically takes a matter of minutes. This reduces the time and cost involved in planning and budgeting, giving Managers more time to focus on implementing actions suggested by the reforecast.

Today's mining organisations can no longer afford to be constrained by financial solutions rooted in old technologies that have been surpassed by innovation.

Contact RPMGlobal to learn more about how XERAS Enterprise can add value to your mining operation.
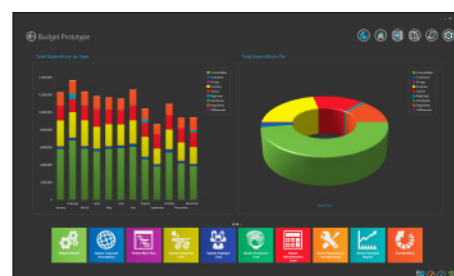
Conclusion

"Finance organisations that have successfully re-vamped their planning processes can today complete a forecast in two days or less and develop an annual budget in less than three months with three iterations or fewer. These organisations have reduced the time spent on lower value planning activities and benefited from having prospective information and plans available earlier in the cycle to impact business performance."

(Financial planning: Realising the value of budgeting and forecasting – PWC, 2013).

Planning and managing a budget via a driver-based philosophy is neither a new nor radical concept.

However, what is new, is the ability of modern enterprise planning and budgeting applications to integrate all this off-line modelling into a single dynamic model, and at the same time, allow collaboration between, production planning, operations, maintenance and finance departments to create a holistic approach.

These solutions provide an easier pathway to adopt strategies such as integrated planning and driver based budgeting – a much needed capability since line managers work with non-financial drivers every day. Typically, they have a sound insight into both their current performance and future trends, and can use such tools to reforecast driver-based forecasts rapidly.
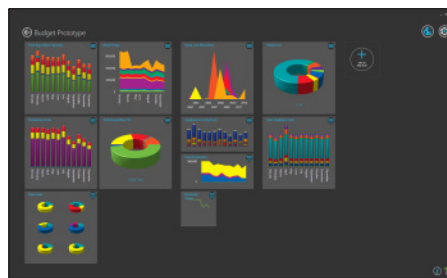
This leads to:

- Short budget cycles;
- More frequent reforecasts;
- Greater trust;
- Improved governance; and
- Better analysis and decision making.

There is a clear need for a complete enterprise financial modelling solution that specialises in the complexity and detail of the below-the-line operationally and economically focused requirements, and then integrates directly with the above-the-line corporate focussed systems.

NB: If you would like further information on this topic or to learn more about how RPM can help you and your organisation, please contact us on: **info@rpmglobal.com**

About RPMGlobal

RPMGlobal is the global leader in the digital transformation of mining. We provide data with context, transforming mining operations. Our Enterprise approach, built on open industry standards, delivers the leading digital platform that connects the systems and information and seamlessly, amplifying decision-making across the mining value chain.

RPMGlobal integrates the planning and scheduling, with maintenance and execution, with simulation and costings, on RPM's Enterprise Planning Framework, the mining industry's only digital platform that delivers insight and control across these core processes.

RPM's Advisory Team advise the global mining industry on their most critical issues and opportunities, from exploration to mine closure. Their deep domain expertise, combined with their culture of innovation, and global footprint, ensures our mining customers continue to lead.

RPM are the global leader in Enterprise mining software, Advisory services and Professional development who operate offices in 23 locations across 13 countries and have worked in over 118 countries.

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