

# 3

## Budgeting

Don't tell me where your priorities are. Show me where you spend your money and I'll tell you what they are.

**James W. Frick, politician**

The budget is really the biggest difference in Security policy from one property to another. We all want to protect our guests and we all want the best equipment and highest paid staff, so the only thing that usually separates us is the amount we spend. In this chapter, we will talk about how to prepare a budget and then look at some creative ways to save and get more money to do the job you would like to do.

### BUDGETING BASICS

Even if someone else does your annual budget, you should participate in this process. Budgeting alarms some of us who are more physical managers rather than administrators. Like anything else, once you understand it, budgeting is not so bad. The budget is your “forecast” or plan on how much you will be spending on what.

#### The Process

Almost every department in every company in the world budgets the same way: Take the prior year's income and expenses, multiply by how much you think those will go up or down, and you are finished. Security has little revenue (income) to speak of, so half of the job is out the window, and all we need to calculate is expenses.

#### Prior Year

Prior Year (sometimes called current year) refers to the fiscal year that is just before the fiscal year for which you are budgeting. (A fiscal year is the 12 months used by the company for its budget—often the anniversary of the day the company opened.) If your fiscal year begins May 1, you may be planning your budget around February. That means February,

March, and April have not yet occurred, so you have no expenses to compare for those months. For those months, you would have to estimate how they are going to turn out based on how the other nine months did that year.

### **New Year**

New Year is the year for which you are doing your budget. In the previous example, it is May through April.

### **Full-Time Equivalent (FTE)**

Full-Time Equivalent (FTE) is a common and useful term in budgeting your staff. It is simply the number of employee positions you have based on the hours worked. You may have 60 part-time employees who work a number of hours to equal 40 FTEs. This number is the total hours worked in a month divided by the number of work hours in the month (approximately 168). Since some departments have part-time employees and give extra days off, sick days, early-outs, and other variables, FTE allows you to compare wages evenly from year to year.

### **Expenses**

Expenses are divided into several categories. To complete the budget, take the prior year's expenses and add or subtract the amount you expect it to change. Following are common expenses and how to calculate them.

#### **Wages**

Wages, the largest part of most security budgets, is usually divided into hourly, salary, and overtime expenses. These amounts change year to year if your staffing numbers change or if your hourly wage changes. If you provide a cost-of-living increase of 3 percent each year, then you would add 3 percent to the hourly and salary amounts. If you downsize your department by six positions, you would subtract those six salaries from the budget. Overtime is usually not planned in a budget. The objective is to operate without overtime, so it is usually calculated into the hourly amount. In other words, use the sum of the prior year's hourly and overtime amounts to equal the hourly amount in the new year. Overtime would be forecast to be zero. Wages might be separated further into holiday, vacation, bonus, commission, and other amounts included on employee checks. They are budgeted in the same way.

#### **Benefits**

Benefits are a cost we often neglect. Your accounting department does not. These carry over to the next year consistently unless there is a significant change in benefit costs. Benefits include cost of health insurance, life insurance, retirement, etc.

#### **Operating Expenses**

Operating expenses in the Security Department include almost every other expense. (Revenue departments have cost of sales, food, goods sold, etc.) These may be separated

into such categories as equipment, office supplies, travel, and so on. You may have 20 or more line items that you may or may not use. These lines usually correspond with lines used by other departments. The concept for budgeting is the same as before. If you spent X on office supplies this year, then that is likely to be what you will spend next year. This holds true for each line unless you know of some significant change in spending habits. Significant changes include a change in vendors or some other addition or subtraction in the way you buy things.

### **Capital Expenses**

This is a separate budget and is addressed later in this chapter.

## **THE PAPERWORK**

Paperwork? I bet your hotel does not do this on paper. Imagine the full trashcans and worn out erasers. At a minimum, you probably use a program like Excel® or an accounting program designed just for budgeting. Don't be intimidated by their complexity. These programs do most of the work for you and you should only have to enter a few numbers as described previously. Some programs allow you to enter the number of employees you will have and the programs do the rest.

## **YOUR BUDGET**

You are responsible for this budget, so take ownership of it and follow it. Doing these calculations and forecasts will help you stay on track. You will see where your department is spending money and possibly even find ways to save money. When the boss tells you to cut your budget by 5 percent, you will have an idea where to start looking and what impact it will have.

## **CAPITAL EXPENSES**

Each year, the company takes a portion of its profits and invests it back into the property as improvements. This infusion of cash is called capital and may vary from year to year. This money is not spent on salaries or regular expenses because it is an investment intended to provide a return on investment (ROI). Remodeling rooms is a good example of a "CapEx" in a hotel. The hotel manager will generally have this money spent years in advance and is not looking for suggestions from Security. It is your job to make sure security improvements are considered in allocating capital. A new video system, an upgrade of guest-room door locks, or an employee access control system are popular examples of capital expenditures.

Requests for capital are usually made in writing and often decided in a special meeting. Creating this document is important and needs to be done right. Here are some suggestions and necessary elements of a request for capital.

*Collaboration.* Your request is more likely to be approved if it has the support of more than one department. Seek those persons or departments that share the need for the improvements and get their buy-in and assistance in justifying the expense. The hotel manager will share your need for a guest-room lock upgrade, the restaurant manager might support you on a new camera system for the nightclub, and the Human Resources Director wants an access control I.D. badge system for employees just as much as you do.

*Research.* You will be responsible for gathering all of the information necessary to make a decision. Don't say, "We need IP and HD video recording because everyone else has it" and expect a green light without making your case. You will need prices, references (who else uses it and what is their success), ROI (return on investment), and how it will improve or benefit the company or its guests.

*Pricing.* If possible, get more than one bid and be prepared to document why you selected the preferred bidder. Their work experience, their price, and prior relationship with the company might be reasons to select a certain vendor.

*ROI.* A capital improvement needs to show a potential to make money for the company, even if it is indirectly. For example, a new camera system does not generate profits, but you may be able to justify the cost by the amount saved on repairing the old system, lack of usable video the old way, and even potential losses recovered. Do not make this stuff up. Just like in eighth grade algebra, you need to show your work.

*Benefit to business.* Not every capital expense is backed with ROI. A new outdoor heater in valet does not increase profits, but it does increase comfort of the guests, which adds to their experience. It also brings the property up to what might be an industry standard for cold-weather hotels. If you cannot show an ROI or a benefit to business, don't even bother asking for the money.

*Preparing the request.* If you have ever written a business plan, you know how to write this request. You will include all the information that you gathered previously, putting it into an easy-to-read format, with photos of what it looks like, charts and graphs that support your findings, and an executive summary.

*Executive summary.* This is a short, maybe one page, summary of the entire request. Just the facts so the decision maker can decide if he or she wants to look into it deeper. Be prepared to answer questions even though they are answered in your written material.

*The pitch.* You may go through this entire process, and it may be approved on several different levels until it gets up to the grand executive president of all hotels. You may be called to the office to plead your case. The president will nod his or her head in agreement. The president will smile and take many notes. He or she may ask questions and enter numbers in a calculator. Then, after you are exhausted and exhilarated from your most brilliant performance ever, the president will say, "You're right. We need one of those gizmos. I agree 100 percent." Then, "But we can't buy one this year."

*The moral.* Don't expect to get to this level. There are many things they want to buy and many factors, besides security, that affect their decision. They may consider new televisions in the guest rooms or adding on a sports bar more urgent because it will increase profits. Without those profits, we may not make it through the year. However, they have validated your proposal and may put it on next year. Do not give up. Shelve it until next year and then try again.

## SECURITY REVENUE

Security is just a big business expense to most general managers. They don't like paying for it, but they know it is necessary. There is no reason why Security cannot contribute to the bottom line. You may already be pulling some of your own weight without realizing it. Not all of these ideas will work in all organizations, but at least you may be acknowledged for your efforts.

### Restitution

Your investigators can cover some of their expenses by recovering losses from employee thefts. In Chapter 11, we discuss the investigations process and loss recovery. Loss recovery should be tracked and reported to your boss and the controller each month or quarterly. This will show positive income being generated by the Security Department. Otherwise, it is deposited in some miscellaneous operating account and lost in the numbers.

Court restitution is a different matter entirely as it is actual revenue instead of savings. When you make an arrest for theft or vandalism, have a prepared document ready to include with the arrest report detailing the costs incurred by your department in making this arrest. The unrecoverable loss in a theft, the items broken, and the property damaged all have a value. Then there is the cost of the arrest itself. Two officers multiplied by two hours equal another amount. Then there are administrative costs associated with processing the arrest. Writing the report, copying it, and reading it all have value. Total this and you might have a couple of hundred dollars that you will submit to the court as restitution. The judge may or may not honor all or part of it and you may not ever get any of it, but whatever you get is more than you would have if you did nothing. You also may speak to your accounting department as to whether they can "write off" these amounts as unrecovered losses.

### Parking

Many hotels use an outside service to manage or at least enforce parking. They call a certain tow company to haul away a car and that company makes hundreds of dollars each time. Why not do it yourself? So, you don't have any tow trucks or a tow yard. That is okay. How about disabling the vehicle with a "boot"? A boot costs a few hundred dollars and keeps a vehicle from being moved. Then, your department charges the drivers when they return to their vehicles. This may not be advisable for your guests' cars, but it is perfect for employees of the office building next door or the nightclub down the street. If you have plenty of parking, maybe you need to think about charging for it per hour or per month.

### Special Events

Your Catering or Convention Departments may have certain events that require physical security. Look at how those departments address this with their clients. Either they allow them to hire their own contract security company or they assign you to provide this service. You need to assess the risk of having an outside company exposing you to liability

on your property. Can you vouch for their training? What if they use excessive force on an intruder? What if one with a criminal record is caught in the storeroom with the boss' daughter? Consider limiting the security presence at these events to your own personnel, or at least to a company that you contract. Either of these options puts revenue into your department and gives you some control over the risk on your property.

### **Lost and Found**

As we will discuss in Chapter 11, unclaimed merchandise can really pile up in a large hotel. There are numerous ways to earn money from these items. First, you can sell the items to the employees in a "rummage sale." Second, you can actually sell many of the items on eBay and get a higher price. Phone chargers, for example, are worth at least a couple of bucks on an auction site. Lastly, you can donate the items to charity and collect a write-off. Ask the controller if the write-off can be credited to Security because your department did all the work. This is, of course, after a certain period of time and after all efforts to find the original owner have been exhausted.

### **Back-Charging**

You may feel like the revenue-generating departments take advantage of having their own private security force to do things that they cannot or do not have the work force to do. Talk to your boss about charging these departments for these tasks. This will accomplish two things. First, it will add revenue to your bottom line. Second, because it adds expense to the other departments, they just might reduce their calls for service. Your department wins either way.

Please remember that some of these ideas have to be proposed in the right context or you might be thrown out of the boss's office. Think about it before you just hand a list to someone. I have been successful with all of the ideas presented here, but I presented them one at a time and sought buy-in from other departments beforehand.

## **JUSTIFYING SECURITY IN A DOWN MARKET**

We have probably all been in the meeting or received the memo to reduce our expenses by 5 percent. The hospitality industry seems to be the first to suffer when the economy is down and the last to recover when it rebounds. Unfortunately, a reduction in business volume or revenue does not necessarily mean a reduction in crime or the need for security. Also unfortunate is the fact that the boss may not see it the same way. He needs to see a cut across the bottom line and this means everyone—including you—must bite the bullet. It is your job to educate your boss on why you actually need more security during these slumps, not less. You may meet somewhere in the middle with no cuts and that is a good compromise.

### **Crime Rates**

You need to arm yourself with some facts: In a down economy, criminals have to work harder. Their hard-earned stolen money does not go as far, so they have to increase their

thefts. Financial desperation leads to new criminals. Those who may have just been scraping by may now be “forced” into stealing to make ends meet. Crimes of opportunity increase. Whereas before if someone left their keys in their car or their bag unattended, they were less likely to be a victim. Now, those opportunists are increasing in numbers and are more likely to take advantage of any opportunity given. We need to maintain a certain presence of uniforms and active security to prevent crime on and around our property.

### **Internal Crime**

In a down economy, chances are that hours have been reduced, wages are frozen, and people are being laid off. Employees become desperate and some even justify their crimes this way. “The hotel still has business; the bosses are probably getting their bonuses, so it is only fair if I take a little off the top.” They will become more creative, greedier, needier, and, if not stopped, will drive the business down even more. Cuts in security reduce the number of audits on these employees.

### **Guest Comfort Level**

Everyone can feel the crime increase, especially when traveling. Guests want to get away from troubles like those described previously. When crime is up, Security needs to ramp up equally to provide the same level of protection that it did before. Guests are not necessarily looking for security, but feel it when it is not there.

### **Terrorism**

Don’t forget about this threat that has been looming over us for decades. It has not gone away and is not likely to go away. Whether or not you see an increase in terrorism around you, realize you are not immune and you cannot let your guard down. One incident, no matter how small, even if it fails, can ruin everything. You may never recover from this loss of business and guest confidence. Reducing the staff that keeps this threat away is a huge mistake.

## **MAKING THOSE CUTS**

Before the boss starts cutting salaries and laying off security officers, let’s throw in some bones to keep him happy without hurting our operation.

### **Creative Scheduling**

I know you probably do this already, but take a hard look at your schedule. Do you need all those officers at all of those times? Maybe your patrol frequency ebbs and flows and you do not need three shifts with the same number of people. Look at staggering shifts so that different start times allow for staffing levels to rise and fall according to the need for security during those times. Look into four-day workweeks of 10-hour shifts. See if this

works just for your high volume shifts to give you an overlap while the nightclub is open. Depending on the type of business you have, perhaps you are fully loaded on day and swing and run a skeleton at night. You know your business. Just take a close look. Taking an inconvenient cut is better than a slash from the top.

### **Briefing**

If you pay your officers for a preshift briefing, consider using this time for the operational duties of the department. See if the briefing can be done through email, pass-down logs, or even on the radio. Put pertinent information on a bulletin board and require officers to read it before starting work. I like the camaraderie and consistent information flow of a preshift briefing, but I would rather lose that than officers from the hotel.

Several lawsuits have been filed over the years by security officers claiming they should be compensated for time spent preparing for shifts and attending preshift briefings. These lawsuits, some of them class actions, have been decided in favor of both sides. The consensus is that officers do not have to be compensated for time spent on minimal activities preparing for work, such as putting on uniforms, obtaining their firearms, etc. However, briefings have been perceived as a work-related meeting and therefore compensable.

Getting ready for work is not unique to security officers and not an activity that most courts consider part of payroll. It is generally not fair to require workers to attend a meeting and not pay them for it. Check with your HR Director or legal counsel to ensure that your policies do not violate labor laws.

### **Supervisors**

Look at the duties of your supervisors. If they are spending their entire shift in the office, there is something wrong. They need to be “on the floor” supplementing the shift. They can cover breaks, vacations, and delegate some of their duties to others.

### **Spending**

You should look at cutting your spending before someone else does. Look at that current year budget and see where all the money goes. Copier repairs? Really? Do we need all those copies? How about radio repairs? New radios now can be cheaper than the repair on the old ones. Prioritize your spending into needs and wants. Then make the cuts yourself. Even 5 percent will not hurt you, but it will please the boss.

### **Procedural Changes**

If you are still doing things the way you always have, there is a chance you can save some time and money by re-examining your procedures. Labor is the largest part of your

budget, so what are those officers doing all the time? For example, if you have two door hosts and two floor officers in a small nightclub, perhaps you can have one of each and a third that watches both. That is a 25-percent cut! You also can start the night with minimal staffing and ramp up to full strength at peak time.

### **Patrol Areas**

If officers have time to stand around talking, they are either goofing off or their patrol area is too small. Try increasing the area they have to cover. They should be on the move all the time, giving you good coverage. The boss will think you are over-staffed if he or she sees officers standing around talking while he or she is asking for cuts. In other chapters, we discussed how to set up patrol areas and whether to use physical patrol, video, gates, etc. Take a closer look and see if you really need that physical patrol in that area or if a camera can cover it as well.

### **Arrests/Reports**

Arrests should be the last option when dealing with any situation. An arrest not only opens you up to liability for false arrest, but there are also injury claims (from the suspect and the officer) and they take up a huge amount of time and resources. Make sure your supervisors know that an arrest is warranted only if nothing else works. Be unreasonably reasonable with irrational persons. Reports also take a lot of time. Determine why you are taking the report. Remember that you are not a police department and you have no obligation to take crime reports. Your reports are to protect you and they do nothing at all for the guest. Burglary from a vehicle in the parking lot: You probably deny those claims anyway, so why do the report? Damage in the hotel hallway: You have no suspect and you will not. The damage will be repaired whether or not you write a report. Think of all the incidents for which you write reports and ask yourself what they are for. Maybe a log entry will suffice to have a record that the incidents occurred.

There are many ways to save money in security staffing. It is much better if it comes from you rather than an arbitrary across-the-board cut. If you make these decisions now, you can cut staff through attrition (people leaving on their own) rather than having to lay off employees.

