

THE ULTIMATE GUIDE TO

FINANCIAL PLANNING AND FORECASTING



INTRODUCTION

Whether you're a contractor or you run your own business, getting fixated on the day-to-day problems that surround your work and neglecting the bigger picture can be all too easy to do. However, in order to be successful, formulating and tightly managing a financial plan and making use of sound financial forecasting is vitally important.

While many contractors and businesses look to carry out financial planning in certain areas - be that managing cash flow and profit, targeting potential areas of growth, controlling expenditure and/ or monitoring the actions of competitors - many lack a formal and cohesive plan that sets out specific goals and targets. This can make staying on track and achieving financial objectives more difficult.

Ensuring a well-structured financial plan has been put in place enables you to fully concentrate on doing what you love - running your business safe in the knowledge that your finances and accounts are all in hand.

This handy eBook shines a light on what good financial planning and forecasting looks like and why it's so important, as well as outlining the advantages of well-thought-out financial planning for contractors and what to do if you simply don't have the time to manage this yourself.



WHAT IS FINANCIAL PLANNING?

Financial planning refers to the process that businesses and individual contractors put in place to determine how best to use the financial resources available to them going forward. Designed to help achieve short and long-term objectives, as well as to secure the financial stability of the company or individual, this process involves considering what might occur over future weeks, months and years. This includes both internal (within a business or in a contractor's financial life) and external (the affairs of competitors and other industry developments) variables.



Typically, well-structured financial planning will not only comprise a detailed audit of all aspects of a contractor/business' financial resources - from cash assets and property to equipment and materials that are required to achieve objectives - but also the specific timeframes that have been put in place to help them meet individual goals and targets on the way to hitting overriding objectives. With this in mind, it may come as no surprise that the creation of a formal financial plan often represents the first time that corporate objectives - usually set out in a business plan - are properly scrutinised. This is simply because a plan of this type can test the financial validity of these objectives.

THE PROCESS OF FINANCIAL PLANNING

The process of financial planning will usually involve the following steps:



The actual physical output of financial planning typically takes the form of budgets. The process of projecting, directing and allocating resources to meet strategic objectives, in this context, is referred to as financial forecasting. This aspect of financial planning can make use of sales forecasts, production forecasts and other estimates in support of a contractor or business' financial plan to create what is sometimes called a 'master budget'. It is this that can help a contractor or business predict how they will perform in the future.

WHY IS IT IMPORTANT?

Provides a long-term perspective

As a contractor, concentrating on the regular problems and issues that you have to deal with on a day-to-day basis can lead to financial short-sightedness. If you're not spending a good amount of time planning what needs to be done in order to prepare for the future (or simply live the life you want to lead as a career contractor), your business is much more likely to fail and you may find yourself in financial difficulty.

Improves cash flow management

Poor cash flow management is a major cause of businesses failing and self-employed contractors finding themselves in financial difficulty. With weekly, monthly or seasonal variations in revenues a common occurrence for many, periods of income shortages as well as income excesses need accounting for. Failing to prepare for these variations using sound financial planning and forecasting can result in negative consequences such as not being able to pay staff, creditors or even yourself. A solid financial plan based on accurate forecasting will allow you to put a cash cushion in place to help you through any tough financial situation.



Highlights spending priorities

One of the most important impacts that well-structured financial planning and forecasting can have on a business or individual contractor's working life is installing a process of spending prioritisation. This process involves identifying your most important expenditures - those that are crucial in facilitating your business' daily operations and those that bring about improvements in efficiency, market penetration and/or productivity. These can then be compared with, and ultimately held above, less important areas of spending - those that do not have a direct impact on output and can be postponed until money is more readily available. This aspect of financial planning and forecasting helps to promote responsible spending and can reduce the possibility of future financial difficulty.

Creates a method of measuring progress

One of the most difficult aspects of managing a business - or indeed operating as a self-employed contractor - is determining whether or not financial progress is being made. Being able to compare actual financial performance against forecasts made as part of a financial plan allows you to assess, with the aid of hard data, whether or not your business (or career as a contractor) is financially viable going forward.

HOW OFTEN SHOULD YOU REVISE A FINANCIAL FORECAST?

When it comes to the implementation of a financial plan using forecasting, a common question that tends to arise is just how often forecasts need to be revised and how regularly a financial plan needs to be updated over the course of a year. This is a tough question to answer and will likely depend on the volume of work you take on or the specific circumstances you face as a self-employed contractor such as different daily rates per contract.

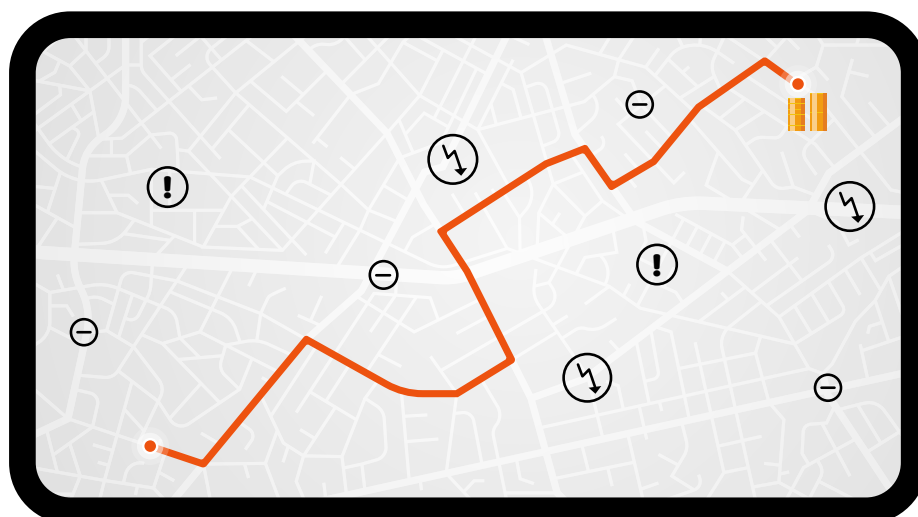
There are a number of different ways to approach financial forecasting, each that require different levels of revision in order to be successful. From rolling forecasts (in which revisions can be made on a weekly or even daily basis) to quarterly deep dive forecasts and annual revisions, finding a forecasting model that suits you really depends on the nature of your work as a contractor and/or the size and ambitions of your business.

Regardless of your ambitions and the nature of your work however, the biggest problem when it comes to implementing a process of regularly revised financial forecasting concerns the significant time and resources this can involve. A rolling forecast, for example, would typically involve a full-time member of a business' finance team constantly doing the figures - this is clearly not a viable option for self-employed contractors or the majority of small to medium-sized businesses.

A realistic approach when it comes to revising financial forecasts - and subsequently updating financial planning processes - is to reassess and reevaluate financial forecasts when you begin a new contract or renew your contract with a different daily rate.

These revisions can be completed alongside budget evaluations and new strategy phases. By sticking to well-structured financial forecast planning - whether that be rolling, quarterly, annually or at the start of a new contract - revising financial forecasts to reflect actual performance and trends will not only help to manage progression, but also help to maximise the accuracy of future forecasts.

With this in mind, forecasting should be viewed as a contractor or business' financial sat nav. This is to say, when you set out on a journey without checking your sat nav, your path may be thrown off by unexpected road-blocks, traffic and pit-stops. However, the more you're able to check your sat nav, the less likely you are to make wrong turns or get stuck in avoidable traffic. In other words, when it comes to financial forecasting - providing you have the necessary resources available to you - the more time you can spend revising and reassessing the situation along the way, the more previously unforeseen problems and issues can be avoided and eliminated.



HELP WITH FINANCIAL PLANNING

While the concepts surrounding financial planning and forecasting are relatively straightforward, finding the time to give these processes the level of attention required to feel the benefits is not always easy. However, regardless of whether you're a contractor or you run your own business, there is plenty of help available when it comes to financial planning.

Finding a reputable accountant that can offer specialist accountancy services for limited companies and individual contractors can save you a significant amount of time, freeing you up to concentrate fully on the aspects of your work that you enjoy and do best, happy in the knowledge that your financial planning and forecasting is all in hand.

Brookson One, for example, assigns a dedicated accountant to each client they work with. This accounting specialist will use their expertise to efficiently and effectively relate your personal goals and objectives to your chosen way of working. Providing practical and easy-to-understand advice to help plan for, mitigate and avoid any potential financial risks while maximising any opportunities, your short, medium and long-term objectives can be monitored and managed while you concentrate on what matters to you most.

Brookson One can go above and beyond the typical accountancy service that a regular contractor accountant can provide. By signing up to Brookson One's all-inclusive limited company accountancy service, you as a contractor will get access to free financial advice, which gives you exclusive rates on mortgages, protection and wealth services through Brookson Financial. Here at Brookson, we also make the whole process easier through the use of our dedicated Online Portal.

Mortgages: Whether you're a contractor or self-employed, you might worry when it comes to buying your first house or re-mortgaging, especially if you're new to contracting. We specialise in this area by supporting those who find it difficult to meet the criteria set out by lenders - drawing on our extensive market experience and reach to find excellent deals with competitive rates no matter what your financial situation is.

Protection Services: With no sick pay, private medical insurance or death in service to fall back on when you're a contractor or self-employed, you need to plan with the worst case in mind. A specialist provider like Brookson can source and manage the business, life, home and income protection policies that suit you.

Wealth Services: Operating outside conventional payroll systems, contractors, freelancers and self-employed business owners need more flexibility when it comes to their finances. Brookson can help set up and manage everything from ISAs and pensions to investment portfolios and mortgages.

Online Portal: Brookson Connect is a unique online portal that gives contractors, freelancers and self-employed business owners more control, flexibility and peace of mind of their finances, giving them access to all the information they need from any device, just when you need them.

Ultimately, while financial planning and forecasting can be self-implemented, a specialist accountant will provide the support needed to put a comprehensive and tailored plan in place, helping to secure the financial future of a business/contractor in a simple, quick and stress-free manner.

So, there you have it! Whether you run your own business or you're a self-employed contractor, we hope this handy guide has inspired you to put a well-structured process of financial planning in place - be that with the help of specialist accountancy services or by yourself.

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