Hotel Budgeting and Forecasting in Practice

Practical Guide

> *Building, connecting, approving, and forecasting the hotel budget*
>
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Preface

A hotel budget is often treated as an annual file: a large workbook assembled under pressure, presented for approval, and then left behind when the operating year begins. That approach misses the real purpose of a budget. A useful budget is an agreement about how the hotel will operate, what evidence supports the plan, who owns each assumption, what decisions remain open, and how management will respond when conditions change.

This book was developed around that practical problem. It follows the sequence in which a hotel's financial story should be built. The opening chapters establish context, architecture, timing, evidence, ownership, and approval. The revenue chapters then convert market and commercial choices into Rooms, F&B, events, MICE, and other operated revenue. The departmental chapters connect those choices to workload, labour, service productivity, and operating expense. The undistributed and GOP chapters complete the hotel operating model before the book moves below GOP into capital, owner charges, cash, working capital, funding, and the balance sheet.

The final part closes the loop. Owner dashboards turn the connected model into a decision story. Rolling forecasting refreshes the outlook without rewriting the approved baseline. Pre-opening planning applies the same discipline to a hotel that does not yet have a mature operating base. The three-to-five-year strategic plan extends the annual budget into an asset, financing, and owner-return roadmap.

The sequence matters because a later number should have a visible upstream source. Rooms assumptions should inform workload. Workload should inform labour. Labour and departmental cost should flow into GOP. Capital projects should have a classification, funding, cash timing, ready-for-use date, and depreciation handoff. Cash should not be treated as a residual of profit, and owner returns should not be calculated from an undefined earnings base.

Each chapter therefore uses a consistent learning pattern: a management problem, controlled concepts, hotel examples, decision rules, common mistakes, scenario or forecast implications, a digital companion workflow, verification, and a reader task. The examples are deliberately synthetic so the reader can replace them with property evidence rather than mistake a teaching number for a universal benchmark.

The companion reference, Hotel Financial Reporting in Practice, is used where the budgeting decision depends on reporting purpose, KPI definitions, owner cash, fixed charges, asset returns, balance-sheet interpretation, or management commentary. The two books should be read together when the reader needs both the budget build and the reporting interpretation; neither should be used to override the property's approved policy, contract, or professional advice.

The intended reader is the hotel finance leader, financial controller, general manager, department head, owner representative, operator, consultant, educator, or hospitality student who wants the budget to remain useful after approval. The goal is not to produce a more elaborate spreadsheet. The goal is to produce a clearer operating agreement, a more traceable financial plan, and better decisions when the hotel's actual year begins.

How to use this book

- Read Parts 1–6 in sequence the first time so that each handoff is understood before the next schedule is built.

- Read each part's introduction before its first chapter and its closeout after its last chapter — the introductions frame why the part exists and what each chapter teaches, and the closeouts provide an integrated worked case, a self-understanding checklist, and a portfolio task before moving on.
- Use the digital companion for controlled inputs, source dates, owners, scenarios, verification, and action tracking; replace all synthetic rows with property evidence.
- Keep the approved budget baseline separate from the latest estimate, rolling forecast, downside case, upside case, and owner challenge case.
- When a later schedule changes, return to the named upstream driver rather than changing a downstream total by hand.
- Use the HFR cross-references to clarify reporting purpose and KPI definitions; use current licensed guidance and property policy for final accounting treatment.
- Before operational use, review the author and imprint information, confirm all source and rights records, and test every digital companion link and file.

Digital companion and source note

The digital companions are controlled reader templates, not property ledgers or statutory accounting systems. They contain instructional structures and, where identified, synthetic examples. A completed workbook should show its source, date, owner, assumption status, scenario treatment, control totals, and reviewer. A workbook that calculates is not necessarily a workbook that is approved. Digital companions for this book are available at book.ehotelmanagementschool.com. Purchasers may request access by submitting acceptable proof of purchase of the paperback, hardcover, or Kindle edition. Current access instructions and support terms are stated on the website.

AI PRACTICE LAYER

How to Use the AI Workspace Companion

Create or customize hotel budget templates, review completed hotel budgets, and connect every AI-assisted output to evidence, verification, and human approval.

> ***PURPOSE** The print book teaches the complete budgeting method. The standard digital companion turns that method into practical work through the web edition and ready-made Excel companions. The optional AI Workspace Companion adds two detailed prompts for every Part and chapter, together with video guidance for creating and reviewing a hotel budget.*

Three connected learning layers

1. The print book — durable method

Use Hotel Budgeting and Forecasting in Practice for the full explanations, hotel examples, decision rules, calculations, controls, common mistakes, and handoffs from one budget process to the next.

2. The web edition and ready-made Excel companions

Verified purchasers of the print or eligible digital edition can follow the current access instructions at book.ehotelmanagementschool.com. The portal may request proof of purchase. Mask payment details, home addresses, and other unnecessary personal information before uploading any proof. Once access is approved, readers can use the full web chapters and the chapter-matched Excel companions without building every workbook from scratch.

3. The AI prompt library — guided practical execution

The AI Workspace Companion is an optional paid companion. Readers may purchase access at book.ehotelmanagementschool.com to use the complete prompt library and supporting video guides. Each process has two detailed prompts. Use them in an approved AI workspace with the relevant chapter, workbook, hotel template, and source evidence. Upload only what is needed for the current process.

Two prompt modes

- Create / Template: use the book companion, adapt the hotel's existing workbook, or design a new hotel-specific template before populating the budget.
- Review / Challenge: upload a budget already prepared by the hotel and independently test its structure, formulas, sources, assumptions, operational logic, reconciliations, scenarios, and readiness for approval.

> ***COMPANION ACCESS** book.ehotelmanagementschool.com | Book purchasers can follow the purchase-verification instructions for the web edition and Excel companions. AI Workspace Companion prompts and video guides are available under the separate purchase terms shown on the portal.*

The recommended AI workflow

1. Create one approved AI workspace for one hotel or one budget cycle. Add the supplied Project Instructions once.
2. Open a separate chat for the current chapter or process. Upload only the relevant chapter prompt, companion or hotel template, approved source files, and a short data dictionary.
3. Remove or mask unnecessary guest, employee, payment, contract, owner, and commercially sensitive information in line with the hotel's data policy.
4. Run the Create / Template prompt to build a controlled working copy. Never overwrite the original hotel file.
5. Run the Review / Challenge prompt independently. Require exact locations for findings and distinguish tests performed from tests still required.
6. Assign a named human owner to every exception, assumption, decision, action, and due date.
7. Approve and retain the final version, source pack, change log, exception register, decision log, and first forecast-review date.

What AI may — and may not — do

AI may

- organize approved evidence, draft or adapt a template, explain formulas, test internal consistency, prepare scenarios, identify exceptions, and draft management questions;
- help users learn the process even when they choose to build their own hotel-specific workbook.

AI must not

- invent hotel facts, market evidence, contract terms, accounting policy, legal or tax conclusions, staffing standards, approvals, causes, benchmarks, or targets;
- replace the source system, the controlled Excel companion, professional advice, or accountable human approval.

Reusable pointer for every chapter

> ***AI PRACTICE Use Prompt Cxx-A to create or customize this chapter's budget and template. Use Prompt Cxx-B to review an existing hotel submission. The full chapter, current prompt files, ready-made Excel companion, and supporting video guide are available through the web companion according to the applicable access and purchase terms shown on the portal.***

Final human approval rule: a workbook that calculates is not necessarily a workbook that is supported, operationally credible, or approved. Management remains responsible for every material source, assumption, formula, classification, action, and decision.

About the author

CA Manish Gupta is a hospitality finance executive, Chartered Accountant, teacher, and practitioner-author with more than two decades of finance leadership experience across hotels, mixed-use assets, real-estate-linked portfolios, and multi-entity operating groups in Asia, Africa, and India.

His work has included group CFO and senior finance leadership roles, owner-side hotel review, strategic planning, budgeting, forecasting, working-capital control, ERP implementation, shared services, IFRS compliance, board reporting, hotel profit review, and operating-decision support. He has led finance within multi-property hospitality portfolios and worked in branded hotel environments, including Shangri-La.

He writes and teaches from the working room of hotel finance rather than from a purely theoretical accounting lens. His focus is the point at which a hotel number becomes a decision: how market evidence becomes an operating assumption, how revenue and workload connect to labour and cost, how capital and funding affect cash, and how a budget remains useful through forecasting and owner review.

He is the founder of eHotel Management School (eHMS) and publishes professional hospitality-learning resources through eHMS Press.

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PART I

Context

Building the Budget as a Management Agreement

Build the budget as a management agreement: define the architecture, ownership, timing, evidence, approval, and forecast handoff.

Why Part I Opens the Book

Most hotel budgets fail for a reason that has nothing to do with arithmetic. The workbook balances, the totals tie, and the file is approved on schedule — and the budget still stops being useful the week the operating year begins, because no one can say where a number came from, who owns it, or what should happen when performance moves away from it. Part I exists to fix that before a single revenue or cost line is built. It establishes the test a budget line must pass to be decision-ready, the architecture that holds the whole model together, and the calendar discipline that turns a once-a-year file into a rolling management habit.

The Part I Decision Chain

The three chapters build on each other in a fixed order. Chapter 1 supplies the judgment test — source, assumption, owner, action, and review trigger — that every material number in the rest of the book must be able to pass. Chapter 2 supplies the structure that test lives inside: the eight architecture components that connect revenue, cost, capital, cash, and the balance sheet into one traceable model instead of twenty-nine disconnected worksheets. Chapter 3 supplies the calendar: when the budget season starts, who owns which pass, and how the approved budget becomes the rolling forecast that Chapter 27 later governs. A reader who skips Part I can still build a budget. A reader who completes it builds one that survives contact with the actual year.

What Each Chapter Teaches

Chapter 1 — Why Hotel Budgets Fail and How to Make Them Useful

Introduces the Budget Agreement Test and the five-question control — source, assumption, owner, action, review trigger — that separates a budget line that is ready for approval from one that is a placeholder. Uses Azure City Resort to show how the same test applies whether the line is rooms revenue, payroll, a marketing campaign, or a capital request.

Chapter 2 — Hotel Budget Architecture

Lays out the eight architecture components that hold the operational and financial budget together, and explains why finance coordinates the architecture while operators own the assumptions inside it. This is the chapter that keeps later parts of the book — revenue, departmental expense, undistributed expense, capital, and cash — from becoming twenty-nine unrelated spreadsheets.

Chapter 3 — Budget Process Architecture

Turns architecture into a calendar: when to start, who owns each of the five controlled build passes, and how the approved budget hands off into the rolling forecast that Chapter 27 governs later in the book. Establishes the timing discipline every later chapter's forecast-handoff section assumes.

How to Use This Part

Read all three chapters before building any revenue or expense schedule, even if the immediate task is narrower — the five-question test from Chapter 1 and the architecture map from Chapter 2 are referenced throughout the rest of the book without being re-explained. Use the DC-01, DC-02, and DC-03 companions to record your own property's assumption owners, architecture components, and build calendar before moving into Part II.

CHAPTER 1

Why Hotel Budgets Fail and How to Make Them Useful

From Annual File to Management Agreement

> *This chapter reframes the hotel budget from a file to complete into an agreement to manage. It explains why many budgets fail before the year begins and introduces a five-question control for deciding whether a material number is ready for approval, operating use, and forecast review.*

EXECUTIVE TAKEAWAY

A hotel budget fails when it records a hope instead of managing an agreement. A useful budget translates strategy into operating targets, makes assumptions visible, assigns ownership, and creates a reference point for management action. The test is not whether the budget was approved. The test is whether it changed how the hotel was managed.

Learning outcomes

- Separate a budget, a forecast, and a management decision.
- Apply the Budget Agreement Test to a material revenue or expense assumption.
- Identify why budgets become finance-owned paper exercises.
- Distinguish source ownership, assumption ownership, action ownership, review, and approval.
- Connect the approved budget to operating schedules, management action, and the forecast rhythm.

New in this chapter: budget, forecast, rolling forecast, GOP, assumption, owner, action owner, approval owner, and review trigger. Full definitions belong in the Master Glossary.

Three perspectives, one lesson

FIELD STORY — AUTHOR EXPERIENCE

Early in my career, I worked in finance at a large branded city hotel. Budgeting was structured and corporate-driven: departments submitted numbers, Finance consolidated them, the budget was reviewed, and the approved file was stored. The work felt finished when the file was approved.

Then the first-quarter results arrived. Occupancy was close to target, but rooms revenue was not. The total occupancy assumption had looked sensible, yet the mix behind it had changed: corporate accounts, OTA channels, group contracts, rate quality, and channel cost. The number was present; the operating story was not.

Later, in a multi-resort corporate office, I saw hotels submit two very different types of budget. Some teams submitted assumptions they understood and owned. Others submitted last year plus a percentage. When performance moved away from plan, the first group could explain the variance and act. The second group could only debate the total.

From an investor position with third-party operators, the same lesson became sharper. The budget was the record of what had been agreed, which assumptions had been accepted, and what performance management was expected to deliver. Across all three perspectives, budget quality proved to be a management problem, not only a finance problem.

The practical problem

Many hotels invest substantial effort in budgeting and gain limited management value from it. Finance collects prior-year numbers, applies percentages, requests department input, consolidates the result, and sends the approved version to ownership or head office. Everyone is tired by approval. Daily operations then continue as if the process has ended.

The weakness begins when the budget shows totals without the operating logic behind them. Total rooms revenue may be visible, but not the segment mix, channel cost, group base, rate discipline, or demand calendar. Labour cost may be visible, but not minimum coverage, flexible staffing rules, productivity, wage rates, or payroll load. Marketing spend may be visible, but not the demand periods, channel strategy, or return expected. Capex may be visible, but not the guest impact, asset risk, cash timing, or owner decision status.

Hotels are operational businesses. A small decision repeated across rooms, covers, shifts, invoices, and days becomes a material financial result. A housekeeping supervisor calling additional support is making a service and labour decision. A revenue manager accepting lower-rated business through a higher-cost channel is making a net-revenue decision. An engineer delaying a repair may protect cash this month and create a larger fault later. The budget does not make these decisions. It gives managers a disciplined reference point.

From annual file to management agreement

A budget becomes useful when the number and the operating commitment travel together. The approved total is only the visible end of a chain: evidence supports an assumption; the assumption creates an operating target; named managers own the delivery and the response; and a trigger tells the team when the assumption must be reopened.

This is why a technically correct workbook can still be a weak budget. It may calculate every subtotal, reconcile to the target GOP, and pass a formal approval meeting while leaving the hotel unable to answer a basic management question: what will we do differently if the assumption does not occur?

The control introduced in this chapter is deliberately compact. It does not replace the detailed rooms, food and beverage, labour, departmental cost, capex, cash, or forecast schedules developed later. It tests whether a material number is ready to enter those schedules and to be used for management.

The Budget Agreement Test

A material budget number is ready for approval only when the team can answer five questions. These questions are the entry gate to a decision-ready budget. They are not a substitute for a detailed model; they determine whether the model has a defensible operating basis.

The five questions work together. A source without an assumption is only history. An assumption without an owner cannot be defended. An owner without an action is merely a name. An action without a review trigger may arrive too late. If any element is missing, the number may still calculate correctly, but it is not yet ready for approval.

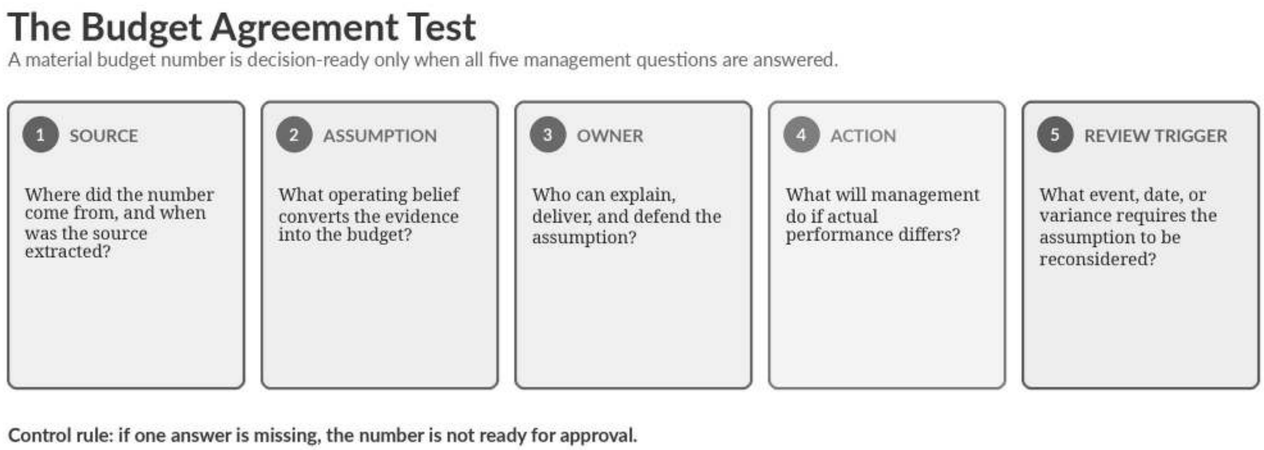

Figure 1.1 — The Budget Agreement Test.

COMMON MISTAKE

Do not approve a target because the total looks reasonable. Ask which source supports it, which operating assumption creates it, who owns it, what management will do if it fails, and what event will trigger review.

Control element	Management question	Minimum evidence	Failure prevented
Source	Where did the number come from, and when was the source extracted?	A named system, file, report, contract, market input, or approved management record; a date; and evidence that the source was reconciled where reconciliation is required.	History, market evidence, and operating records are converted into assumptions without checking whether they are current, complete, or comparable.
Assumption	What operating belief converts the evidence into the budget?	A specific driver statement that can be challenged: volume, rate, mix, productivity, price, timing, coverage, contract term, or another operating cause.	A percentage increase is entered without explaining the commercial or operating event expected to create it.
Owner	Who can explain, deliver, and defend the assumption?	A named operating assumption owner. Source, action, review, and approval owners may be different people and should be identified where material.	Finance becomes the silent owner of assumptions controlled by Revenue, Rooms, F&B, HR, Engineering, Sales, or ownership.
Action	What will management do if actual performance differs?	A practical response linked to the cause: reprice, change channel availability, flex labour, change purchasing, delay or accelerate spend, escalate a decision, or protect cash.	The variance is reported but no one changes the operation.
Review trigger	What event, date, or variance requires reconsideration?	A defined threshold, date, pace gap, contract event, cancellation, price movement, staffing event, or approval dependency.	The team discovers too late that the assumption became invalid weeks earlier.

How to distinguish the ownership roles

The word owner is often used too loosely. A material assumption can involve several ownership roles, and the same person does not need to hold all of them.

The source owner protects the availability, definition, date, and reconciliation of the evidence. The assumption owner explains the operating belief and is accountable for the driver. The action owner executes the response if the assumption moves. The review owner challenges the evidence and logic. The approval owner accepts the risk, return, cash, or service consequence within the hotel's governance structure.

Finance normally coordinates the model, reconciles sources, manages versions, and consolidates results. Finance should not silently own commercial, operational, staffing, or capital assumptions controlled by other managers. The General Manager owns the coherence of the total plan. Ownership or the asset manager owns the return, cash, capital, and final approval decisions defined by the management structure.

Role	Primary responsibility	Typical holder
Source owner	Protect the source, date, definition, access, and reconciliation.	Finance systems, PMS/POS owner, HR/payroll, Procurement, Engineering records
Assumption owner	Explain and defend the operating driver used in the budget.	Revenue Manager, department head, HR, Engineering, Sales & Marketing
Action owner	Carry out the response when performance or conditions differ.	Manager with authority to change price, staffing, purchasing, timing, or execution
Review owner	Challenge completeness, consistency, and consequence.	Finance, GM, regional/corporate reviewer, asset manager
Approval owner	Accept the plan and the associated risk, cash, service, and return consequence.	GM, owner, asset manager, head office, board—according to authority

Budget, forecast, and decision

Three words are often used interchangeably in hotel conversations. They should not be.

A budget is the approved plan and the baseline agreed for the period. A forecast is the latest management view of what is likely to happen based on actual results, booking pace, market conditions, cost changes, and updated assumptions. A decision is what management does with that information: price, staff, delay, accelerate, challenge, explain, approve, or escalate.

The sequence matters. The budget establishes the commitment. New evidence changes the forecast. The forecast supports a decision. The decision is assigned to an owner and followed to closure. If the budget and forecast do not lead to action, the process has stopped before the management work begins.

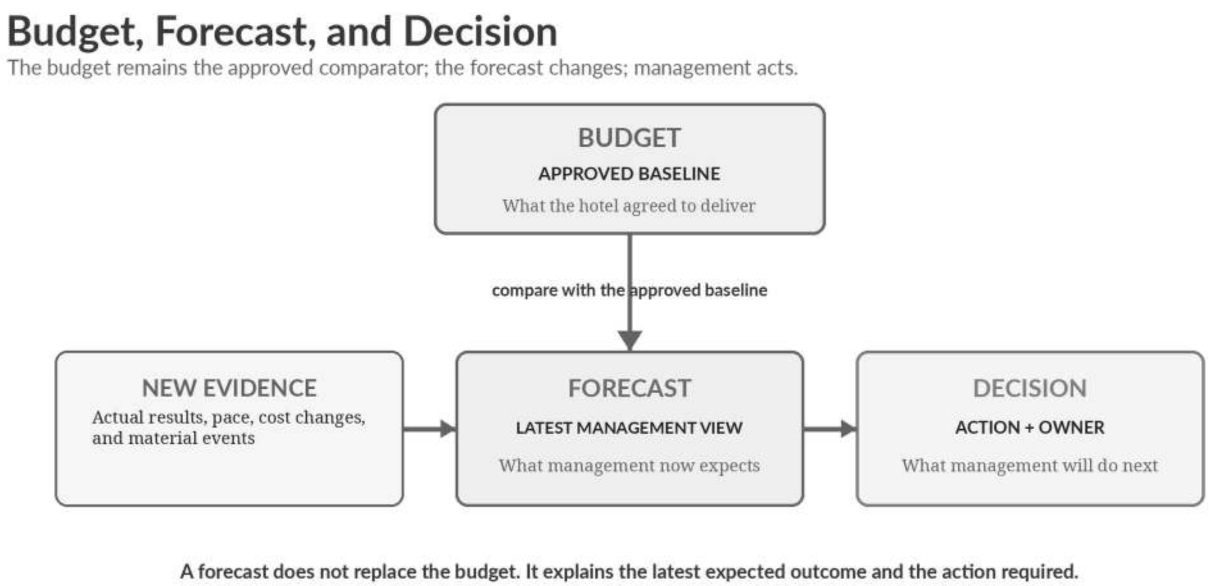

Figure 1.2 — Budget, forecast, and decision as a controlled management relationship.

Why budgets become paper exercises

A budget becomes a paper exercise when people complete the file but do not own the assumptions. Finance may build the model; department heads may accept targets they did not create; owners may challenge the final total without seeing the operating logic. The budgeting process then becomes a negotiation about numbers rather than a discussion about how the hotel will perform.

Every manager does not need to become a finance specialist. Each manager does need to understand the assumptions attached to the part of the operation they control. If the Revenue Manager cannot explain rooms demand, the F&B leader cannot explain covers and average check, or Engineering cannot explain why a project is capex rather than routine maintenance, the budget process is incomplete.

The objective is not to shift blame from Finance to operations. It is to make accountability usable. Finance protects the model and the evidence chain. Operations protects the operating logic. The GM protects coherence. Ownership protects the approved return and capital boundary.

Azure City Resort — turning a target into an agreement

Azure City Resort is the book's synthetic running case. The whole-book fictional case and data note in the front matter applies; the property is not reintroduced in every chapter.

Azure's prior-year result is a starting point, not a budget. The first task is to ask what created the result and whether the evidence is suitable for the next period.

Metric	Prior-year synthetic result	First management question
Available room nights	65,700	Were all 180 rooms available throughout the year?
Rooms sold / occupancy	44,019 / 67.0%	Which segment, weekday, weekend, and channel patterns

Metric	Prior-year synthetic result	First management question
		created the result?
ADR / RevPAR	$148 / $99.16	What supported pricing power, and where was discounting used?
Rooms revenue	$6,514,812	Does PMS production reconcile to accounting rooms revenue?
GOP before management fees	$3,070,000 / 29.3%	Which cost lines are fixed, flexible, contract-driven, or owner decisions?

The weak first-draft statement is: “Occupancy will rise to 71% because the market should improve.” It gives a target but no dated evidence, ownership, operating consequence, or response plan.

The decision-ready statement is more precise: “Azure will budget 71.0% occupancy, or 46,647 occupied room nights, based on reconciled PMS segment history through 31 August, signed corporate production, the washed group pipeline, and the dated demand calendar. The Revenue Manager owns room nights and ADR. Rooms, F&B, Engineering, HR, and Finance will refresh the workload and variable-cost handoffs. The team will review the assumption if first-quarter pace is more than 5% below the approved curve or a named group event is cancelled.”

At an ADR of $154, the assumption produces rooms revenue of $7,183,638. That is $668,826, or approximately 10.3%, above the synthetic prior-year result. The calculation is easy. The management work is deciding whether the source, mix, rate, owner, downstream capacity, and response are credible.

External benchmarks may challenge the reasonableness of Azure’s story, but they do not set Azure’s local target. A benchmark must match the intended geography, property type and class, segment, metric definition, reporting period, and access date. Use it to test the local assumption, not to replace it.

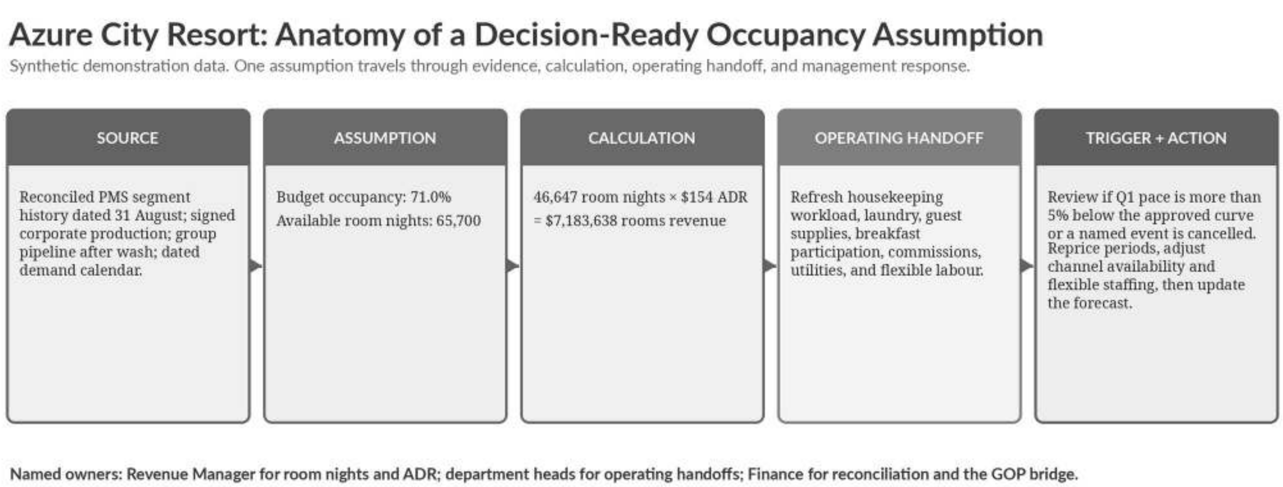

Figure 1.3 — Azure City Resort: anatomy of a decision-ready occupancy assumption (synthetic data).

Who owns the hotel budget

The most common budget failure is an ownership failure. Finance should coordinate the model, reconcile sources, manage versions, and consolidate results. Finance should not silently own the commercial, operating, staffing, or capital assumptions that other managers control.

The ownership table below is a starting point. The final assignment must follow the property's management agreement, organisation structure, approval authority, local labour arrangement, and operating model.

Role	Primary budget ownership	Typical evidence or KPI
Owner / asset manager	Financial direction, return expectation, capex parameters, cash boundary, and final approval.	GOP target, NOI, ROI, capex envelope, cash requirement
General Manager	Total operating coherence; challenges and defends the consolidated plan.	Total revenue, GOP, occupancy, ADR, RevPAR, service and cash implications
Finance Lead	Model control, consolidation, source reconciliation, versions, and reporting.	Budget integrity, variance reporting, cash, payroll load
Revenue Manager	Rooms demand, segment mix, channel mix, pricing, group base, and rate discipline.	Occupancy and ADR by segment/channel, RevPAR, net rooms value
Rooms Division Head	Rooms labour, laundry, supplies, OS&E, and service workload.	CPOR, labour productivity, supply cost per occupied room
F&B / Events leaders	Covers, average check, events, menu mix, cost of sales, and outlet margin.	Average check, capture ratio, food and beverage cost %, contribution per cover
Engineering Manager	Preventive maintenance, routine maintenance budget, asset risk, and capex support.	Maintenance cost per room, planned versus reactive work
Sales & Marketing	Demand calendar, account actions, campaign budget, and channel investment.	Lead conversion, campaign ROI, direct-booking %, acquisition cost

OWNER LENS

In a third-party operated hotel, ownership cannot observe every labour, channel, procurement, or maintenance decision in real time. The budget agreement gives the owner a clear basis for asking what was assumed, what changed, what it means for GOP and cash, and what management is doing next.

How the budget connects to operating decisions

Budgeting is the operating logic that connects strategy with daily management. A choice to protect ADR rather than chase volume must appear in the rooms budget, segment and channel mix, marketing plan, commissions, staffing workload, guest supplies, breakfast participation, utilities, and the forecast review.

A direct-booking campaign, corporate-account investment, F&B offer, outsourcing decision, or repair deferral must be tested for revenue, cost, service, cash, and margin consequences. The assumption owner does not need to build every schedule, but the handoff must be explicit.

This is where many budgets break. Revenue assumptions are approved in one meeting while labour and departmental expenses remain based on a different volume or mix. The total may still be forced to the target GOP, but the schedules are no longer describing the same hotel.

Material assumption	Schedules and decisions affected	Primary handoff
Rooms occupancy and segment mix	Housekeeping workload, laundry, guest supplies, breakfast participation, commissions, utilities, flexible labour	Revenue Manager → department heads and Finance
F&B covers and average check	Food and beverage purchases, kitchen and service labour, outlet hours, event supplies	F&B / Events → Procurement, HR, Finance
Wage rate or labour regulation	Payroll, benefits, service model, productivity expectations, cash	HR / Finance → every department and GM
Energy price or consumption	Energy, Water and Waste, maintenance, cash, guest-service controls	Engineering → Finance and GM
Capex timing	Cash, room availability, maintenance risk, revenue disruption, owner funding	Engineering / Finance / Owner

The approval decision: approve, condition, or return

The five-question test does not produce only a yes-or-no answer. A material assumption can be approved, approved conditionally, or returned.

Approve when the source, assumption, ownership, action, trigger, and downstream handoffs are complete enough for the decision. Approve conditionally when the logic is credible but a named dependency remains, such as a contract signature or owner capex decision, and the condition has an owner and expiry date. Return when the evidence is missing, the assumption is only a forced target, the operating owner is absent, or the risk cannot be understood.

Conditional approval must not become a storage place for unresolved work. Record the condition, decision owner, due date, and what happens if it is not resolved.

Rolling forecasting keeps the agreement alive

The annual budget is static; the hotel is not. After approval, the budget remains the locked benchmark while the rolling forecast shows management's latest view. When bookings rise, staffing, purchasing, pricing, and F&B preparation may need to change. When bookings fall, the hotel may flex labour, adjust cost timing, protect cash, and update the owner. Waiting until month-end is often too late.

Use a monthly near-term forecast, event-triggered updates for material changes, and a periodic full-year view. Every material variance should state the driver, financial impact, management action, owner, due date, and evidence that will confirm whether the response worked.

The forecast must not become a method for hiding poor performance by lowering the target each month. The budget remains the approved benchmark. The forecast shows what management now expects and whether it is learning and reacting quickly enough.

REALITY CHECK

The forecast must not become a method for hiding poor performance by lowering the target each month. The budget remains the approved benchmark. The forecast shows what management now expects and whether it is learning and reacting quickly enough.

AI Lens — assumption completeness review

AI may organise approved budget inputs into a review table showing the assumption, source and date, missing evidence, owner, downstream schedule, review trigger, and management action. It may flag contradictions, duplicate assumptions, arithmetic inconsistencies, stale dates, or missing handoffs.

Approved inputs may include the closed P&L, reconciled PMS or POS extracts, assumptions log, ownership map, department schedules, and budget draft. The expected output is a controlled exception list for human review.

AI must not invent market facts, approve assumptions, validate source data, or decide pricing, staffing, capex, service risk, or owner acceptance. Use appropriately protected data, verify every output against its source, and keep assumptions, approvals, and management decisions with named people.

COPY-READY AI PROMPT

Review the attached approved hotel budget inputs only. For each material assumption, return:
1. budget line or KPI;
2. source file or system and extraction date;
3. operating assumption;
4. assumption owner;
5. action owner and proposed response if performance differs;
6. review trigger;
7. downstream schedules affected;
8. missing evidence, contradiction, stale date, or arithmetic exception;
9. verification required before management use.

Do not invent market facts, causes, approvals, or property data. Mark unsupported items as "Evidence required." Mark unresolved ownership as "Owner required." Do not approve or reject the assumption; provide an exception list for named human review.

Questions that arise in practice

Should every budget line have the full five-question record? No. Apply the control proportionately. The full record is required for material or judgmental assumptions, major dependencies, and lines that can materially affect revenue, GOP, cash, service, capital, or owner decisions. Stable immaterial lines may follow an approved policy or recurring schedule.

Can Finance prepare the first draft of an operating assumption? Yes. Finance can structure the evidence and draft the question. The operating manager must review, correct, and own the assumption if it relates to work or commercial decisions under that manager's control.

What if the owner gives a target before the operating plan is built? Treat it as a challenge or return requirement, not as an unexplained budget assumption. Build the driver-based plan, identify the gap, and show which commercial, service, staffing, cost, capital, or risk choices would be required to close it.

What if the source becomes stale before approval? Refresh it or record the limitation and a dated conditional approval. A source that was valid at the first draft may no longer support the final decision.

When is a digital companion justified? Use it when several material assumptions, owners, dates, handoffs, triggers, and approvals must be controlled together or when a readiness score and exception register are useful. For one simple assumption, the five-question card in the chapter is sufficient.

Reader lab — approve it, condition it, or return it

Four budget lines arrive on the GM's desk one week before approval:

- Rooms revenue rises 10% "because the market is recovering," with no source date and no owner named.
- Housekeeping payroll is set at last year plus 4%, even though the operating model will add outsourced public-area cleaning and change the room mix.
- A direct-booking campaign shows a cost but no expected room-night effect, acquisition-cost test, or review trigger.
- A capex request for a chiller replacement identifies the asset risk and quotation but has no approved funding date or room-availability plan.

Judge each line against the Budget Agreement Test. Decide whether to approve, approve conditionally, or return it. State exactly what is missing. Then rewrite one line as a decision-ready assumption with a source, assumption, owner, action, review trigger, downstream handoff, and approval condition.

Digital companion decision

The chapter itself teaches the five-question judgment and shows a complete Azure example. The digital companion is justified only when the reader must control several material assumptions, owners, dates, approval states, handoffs, and triggers together.

DIGITAL COMPANION — DC-01 BUDGET AGREEMENT BUILDER

Use it for a live property, training case, or management workshop when a one-page chapter card is no longer sufficient.

Included modules: Start Here dashboard; Budget Failure Diagnostic; Assumption Agreement Log; Ownership and Approvals; Azure Worked Example; AI Prompt and Verification.

Not included in Chapter 1: a full rolling-forecast model or scenario engine. Those belong in later chapters where the calculations, variables, and decision rules are taught in full.

Verification check

#	Review question	Evidence / answer
1	Does each material line have a named, dated, and reconciled source?	
2	Is the operating assumption visible and specific enough to challenge?	

#	Review question	Evidence / answer
3	Is a manager outside Finance accountable for the operating logic where appropriate?	
4	Does the assumption state the action and downstream schedules affected?	
5	Is there a review trigger and a forecast handoff after approval?	
6	Are conditional approvals recorded with an owner, due date, and expiry consequence?	

Chapter close

Hotel budgets usually fail when the people closest to operating decisions do not own the assumptions they are expected to deliver. A useful budget converts strategy into measurable targets, makes the operating story visible, and creates a shared baseline for action.

The discipline is compact: every material number needs a source, an assumption, an owner, an action, and a review trigger. Those five elements turn a spreadsheet exercise into a management agreement that can be challenged before approval and managed after it.

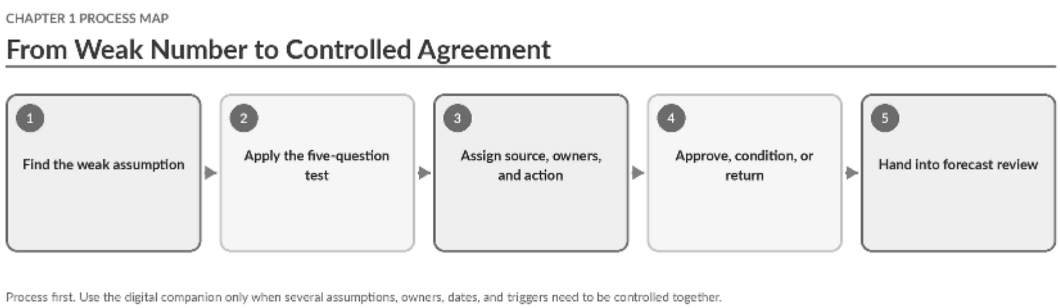

Figure 1.4 — Chapter 1 process map: from weak number to controlled agreement.

Action register

This week: test the budget, control the largest assumptions, assign owners, and define review triggers.

Action	Owner	Source / tool	Due date	Status / notes
Run the diagnostic on the current budget.		DC-01 / Diagnostic		
Record the five to eight largest assumptions and confirm source dates.		DC-01 / Agreement Log		
Assign source, assumption, action, review, and approval owners.		DC-01 / Ownership		
Define the review trigger and forecast handoff.		DC-01 / Agreement Log		

Next: Chapter 2 maps this discipline into the hotel budget architecture and its controlled handoffs.

Source note: Azure City Resort and all numerical illustrations are synthetic. Budgeting controls are educational examples and should be adapted to the property’s ownership, policy, and approval framework.