**A Guide to Planning Your HR Budget for 2022**

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**HR budget planning helps HR departments prepare for the future and effectively manage their resources to work in a productive way. How can you plan your HR budget for 2022?**

With things slowly returning back to normal in many organizations, now is the ideal time to start your 2022 HR budget planning process. Creating a budget to cover the expenses of recruitment, hiring, training, salaries, benefits, and more is in your company’s best interests. This helps prevent any surprises that can take away your ability to build a strong workforce. If your organization is still facing some uncertainty, it’s an even better reason to establish an HR budget plan with flexibility in mind.

**What is an HR budget?**

If you are new to the concept or just need a refresher, an HR budget provides funds that are allocated specifically to all human resource processes across an organization. Since the most important asset of a business is its people, this budget must be carefully planned out, communicated to, and approved by the leadership team.

There are two types of HR budgets organizations generally use. The type you choose depends on several factors, including available funds, projected expenses, and profits.

**Incremental HR budget** – Using the data from the previous years’ HR expenses, it’s possible to make adjustments to the numbers for the upcoming year. If there are funds leftover, you can factor them into the budget as well. The new budget includes increases (or decreases) from the previous year based on HR objectives—for example, increased costs for benefit premiums.

**Zero-based HR budget** – This is for the new HR budget or one that needs a complete overhaul. Start with a clean report with just the new year in mind. Begin by allocating where the budget needs the most support. 2022 may be heavy on the recruitment focus. Therefore, your budget will require plenty of funds for recruitment marketing, administrative aspects of interviewing and screening candidates and improving onboarding efforts. An [example of a company using a zero-based budgeting system](https://acasestudy.com/zero-base-budgeting/) is the Florida Power and Light Company (US), which has been highly effective at controlling costs. This budgeting method has been successful because it’s forward-thinking.

In either case, planning the HR budget is a systematic process that involves a close look at previous years’ expenses, current year costs, projected number of employees, and other future predictions so that HR functions are not shortchanged.

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**What does an HR budget include?**

There are many areas that human resources encompass, so how can you be sure to include everything in an HR budget? Even a small business can underestimate the costs of recruitment, hiring, training, and other measures to provide a great experience for employees. It is also an area that can throw an organization into turmoil from both internal and external sources nearly overnight, as we saw during the pandemic.

With shifting priorities, all organizations need to reevaluate their HR budgeting strategy to ensure effective HR management throughout the year.

Having an HR budget template can assist with the process of planning a reasonable budget for the coming year. Here are the components of the typical HR budget:

Talent acquisition & recruitment

For most organizations, this is a high priority..with a high price tag. Planning for new hires requires having an HR budget that can support everything from job advertising to [onboarding](https://www.aihr.com/blog/employee-onboarding/). The competition is expected to increase; therefore, you need to allocate a large portion of your budget here. You should budget for:

* Advertising open positions
* Interviewing and screening candidates
* Background checks
* Onboarding new hires
* Agency fees
* Employee relocation or remote office setup
* Recruitment marketing
* Reducing turnover

Learning and development

A [2021 Gartner survey](https://www.gartner.com/smarterwithgartner/gartner-top-3-priorities-for-hr-leaders-in-2021) indicated 68% of HR leaders say they will be building critical skills and competencies in the coming year. Set up a reasonable amount for [learning and development](https://www.aihr.com/blog/learning-and-development/) efforts, which offer a positive return on investment. Consider:

* [Training new employees](https://www.aihr.com/blog/training-new-employees/)
* Addressing skills gaps
* Employee certifications
* Implementing learning systems
* E-learning transition

HR upskilling

HR has to address not only employee skills gaps but also their own. If you want your HR team to have a real impact on the organization, you need to ensure that the members of your department have the future-proof [HR competencies](https://www.aihr.com/blog/hr-competencies/) – [business acumen](https://www.aihr.com/blog/business-acumen-for-hr-professionals/), [digital proficiency](https://www.aihr.com/blog/digital-proficiency-for-hr-professionals/), [people advocacy](https://www.aihr.com/blog/people-advocacy-for-hr-professionals/), and [data literacy](https://www.aihr.com/blog/data-literacy-for-hr/) – that will help your business succeed. That’s why you need to include HR upskilling opportunities in your budget planning.

* A team or [enterprise licence for HR e-learning courses](https://www.aihr.com/corporate-solutions/)
* [HR certifications](https://www.aihr.com/human-resources-certifications/)
* Personal training budgets for HR employees
* Workshops
* College courses

Compensation and benefits

Comparing last year’s hires and the cost of employee [compensation and benefits](https://www.aihr.com/blog/compensation-and-benefits/), increase your HR budget by around 3-5% to ensure you have enough in 2022. Take into account:

* Employee salaries
* Health insurance
* Life insurance
* Retirement plans
* Paid time off
* Overtime pay
* Bonuses
* Other perks

Diversity, equity, and inclusion

The movement towards greater diversity equity and inclusion is projected to continue. Do your part by allocating a portion of your human resources budget to DEI education and cultural efforts:

* Increasing diversity of hiring
* Implementing [inclusive hiring practices](https://www.aihr.com/blog/inclusive-hiring/)
* DEI training and culture building
* Leadership DEI programs

Employee relations and talent management

Compensation and benefits are just the start when it comes to rewarding employees. And employees need to feel appreciated. Consider other ways to boost incentives and recognition for your best workers when planning the budget for this category of expenses.

* Engaging employees
* Creating a positive work environment
* Team building and coaching
* Accurate placement of candidates
* Management relationship building
* Labor relations

Employee safety and well-being

Providing a secure and safety-focused workplace is a legal responsibility of all employers. As part of your HR budget preparation, [audit](https://www.aihr.com/blog/hr-audit/) the policies and systems in place to determine the costs associated with improvements.

* Physical safety compliance
* Mental well-being
* Employee health
* Security at work

HR technology

With new products being offered all the time, it may be an excellent opportunity to upgrade your old HR systems and invest in something that streamlines human capital management.

* [HR Information Systems (HRIS)](https://www.aihr.com/blog/human-resources-information-system-hris/)
* Learning management technology
* Payroll and benefits systems
* Remote working tools

Administration of HR

Be sure to build room in your HR budget to cover the costs of running an HR department. Whether it’s for a department of one in a small business or a big team at a  large company or managing a large team of recruiters and HR specialists, all must feel supported as the working world continues to change.

* HR communications
* General HR administration

**Why do you need to plan your HR budget?**

Planning an HR budget is just as necessary as costing any other area of operations; in fact, it’s at the heart of why your organization thrives. The main reasons why you need to start thinking about your HR budget in advance is to:

* **Managing the costs of human capital**– Avoid overspending or, worse yet, not having enough to go around. A well-planned HR budget allows you to reallocate the resources when things change.
* **Ensuring HR operational efficiency** – You have an overview of where you can spend money and how much, which enables you to operate effectively and efficiently.
* **Achieving organizational success** – Through HR efficiency, organizations can get the best out of their personnel, be productive and reach their goals. This also prepares you for regulatory changes that impact various areas of HR.
* **Have a seat at the decision-making table** – With [60% more business leaders expecting HR to be partners](https://acasestudy.com/how-business-strategy-and-hr-strategy-are-or-should-be-linked-together/), being able to present a well-developed budget plan can elevate your value to the organization.

**How do you prepare an HR budget?**

There are some steps you can take and best practices you can apply which will make the planning of your HR budget more effective.

Step 1 – Define your business goals.

All HR planning must line up with business goals for 2022. Determine what the priorities are for business first, so your HR goals are aligned well, then move into lesser critical areas. A great example of a company that does this well is Apple, which encourages HR to be involved in all areas of corporate strategy.

Step 2 – Review past budgets.

Use this time to review past budgets, spending, and performance. Consider how you used budgets and what their outcomes were. Learn and improve.

Step 3 – Analyze and forecast your workforce needs.

Planning ahead for recruitment needs can put you in the driver’s seat in terms of budgeting. Get a good idea of your headcounts for every department as compared to turnover rates and project performance. Work in costs for hiring, training, compensation, and benefits.

Step 4 – Prepare your HR budget based on data.

As we’ve mentioned, your past performance, your growth plans and forecasts, and technology are all the fundamentals for precise HR budget planning. Use the most recent data to make decisions, which takes the guesswork out.

Step 5 – Plan for the best and worst-case scenarios.

If there is anything 2020-2021 taught us, it’s that all companies need to be ready to face difficult situations. Have a plan to cover the best and worst of what the job market throws at your company. For example, your annual employee turnover may be 5% on average. But what if it increases to 15% with the Great Resignation? Then you might need to increase your spending on recruitment because you will need to replace more people.

Step 6 – Consider investments as business builders.

Are you planning to launch a new HR tool or a new employee referral program? With all the great options available, now could be a good time to upgrade your HR systems and/or implement new technology. This is an investment in your HR department’s success. Just be sure to account for that in your budget, including what kind of ROI you expect.

Step 7 – Have realistic expectations.

Your HR department budget should be a realistic view of what 2022 will bring. Don’t overspend, but also don’t shortchange any critical areas. Prepare your budget in a clear report, using realistic numbers so that it is more likely to be accepted.

Step 8 – Get it approved.

Your final step before implementing your HR budget is to have it reviewed and approved by your organization’s management. Speak the language of business goals and illustrate how your proposed budget aligns with corporate goals. You’ll have a better chance of having it approved by leadership without too much fuss.

**A final word**

Accurately planning your HR budget requires a thorough understanding of all the costs and a variety of data. Make sure to dedicate enough time to your HR budget planning – that way, you can make sure that you’re putting the resources you have to the best use possible.

***Have you already planned your HR budget for 2022? How was that process for you? Leave us a comment right below!***