



Budgeting

OVERVIEW

Brief description

This toolkit provides guidelines on how to go about developing and monitoring a budget. It will help you with an overall organisational budget as well as with a budget for a specific project. It includes tools for estimating costs as well as tips for ensuring that your budgets meet the needs of your project or organisation. In the examples section we give actual examples of budgets and how they can be monitored.

Why have a toolkit on budgeting?

Budgeting is the key to financial management. The toolkit will help you plan, develop and use budgets effectively in your organisation. If you have a sound understanding of the principles of budgeting, you will be well on the way to sound financial management. If you use this toolkit in conjunction with other toolkits, as indicated, you will increase the capacity of your organisation to manage its finances effectively. You will also increase its ability to survive through foresight and planning.

Who should use this toolkit?

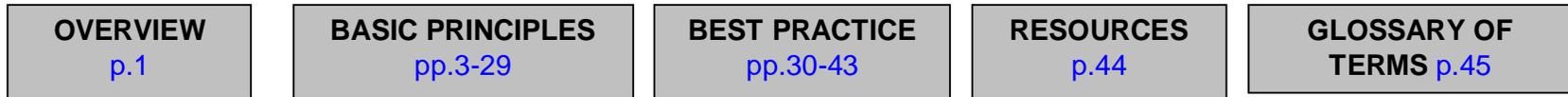
This toolkit is aimed specifically at people who have had little or no experience with budgeting. Perhaps you have not been involved in running an organisation, project or department before. Or perhaps you have not been involved in the financial management side of the work before. Now you are faced with the task of developing a budget, or budgets, and you are not quite sure where to start. If you are in a situation like this, then this toolkit will be useful for you.

When will this toolkit be useful?

- After you have done the strategic planning for your organisation, and your action planning (see toolkits on planning) and you need to know how much money you will require in order to do what you have planned.
- When you need to work out how much it will cost to run a particular project or department.
- When you want to ask a donor to support a particular aspect of your work.



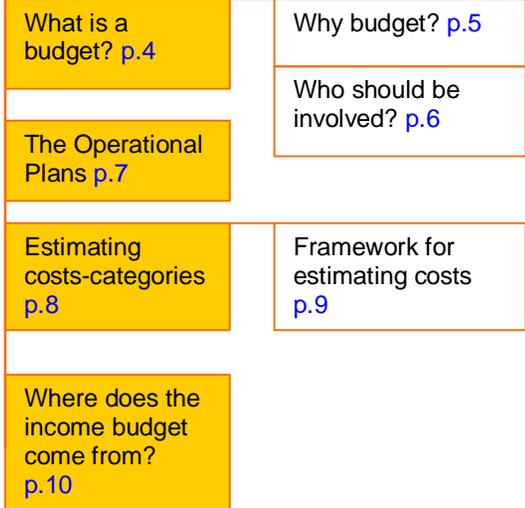
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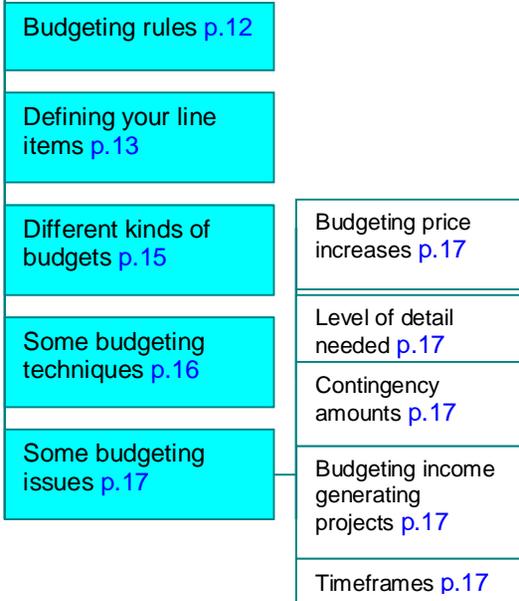
Examples



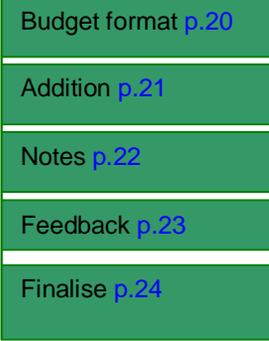
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BASIC PRINCIPLES

Before you develop the budget

Something you should **not** do when you are developing a budget is make it up as you go along". As with most good practice in managing an organisation, good practice in budgeting involves clarity of purpose, detailed planning and considerable thought.

Among the questions you should be asking yourselves throughout the preparatory budgeting stages, and while you are actually developing your budget, are:

- Could we have spent less last year and still achieved the same results, or better?
- Have we wasted money in the past? If so, can we avoid doing so in the future?

In this section of the toolkit, we look at:

- What is a budget, who should be involved in budgeting, and why do we budget?
- The operational plans
- Estimating costs
- Sources of finance.

These are all issues that you need to address before you begin developing your budget. They are an extension of the planning process on which all budgeting is based. (See also the toolkits on Overview of Planning; Strategic Planning; Action Planning)



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WHAT IS A BUDGET?

A budget is a document that translates plans into money - money that will need to be spent to get your planned activities done (expenditure) and money that will need to be generated to cover the costs of getting the work done (income). It is an estimate, or informed guess, about what you will need in monetary terms to do your work.

A budget is **not**:

- Written in stone – where necessary, a budget can be changed, so long as you take steps to deal with the implications of the changes. So, for example, if you have budgeted for ten new computers but discover that you really need a generator, you could buy fewer computers and purchase the generator.
- Simply a record of last year's expenditure, with an extra 15% added on to cover inflation. Every year is different. (See also the section on different budgeting techniques.) Organisations need to use the budgeting process to explore what is really needed to implement their plans.
- Just an administrative and financial requirement of donors. The budget should not be prepared as part of a funding proposal and then taken out and dusted when it is time to do a financial report for the donor. It is a living tool that must be consulted in day to day work, checked monthly, monitored constantly and used creatively.
- An optimistic and unrealistic picture of what things actually cost – don't underestimate what things really cost in the hopes that this will help you raise the money you need. It is better to return unspent money to donors than to beg for a "bit more" so you can complete the work.

Two key questions you should be able to answer about budgeting are:

- Why budget? and
- Who should be involved in budgeting?



Budgeting

Why budget?

Why is it important for an organisation, project or department to have a budget?

The budget is an essential management tool. Without a budget, you are like a pilot navigating in the dark without instruments.

- The budget tells you how much money you need to carry out your activities.
- The budget forces you to be rigorous in thinking through the implications of your activity planning. There are times when the realities of the budgeting process force you to rethink your action plans.
- Used properly, the budget tells you **when** you will need certain amounts of money to carry out your activities.
- The budget enables you to monitor your income and expenditure and identify any problems.
- The budget is a basis for financial accountability and transparency. When everyone can see how much should have been spent and received, they can ask informed questions about discrepancies.
- You cannot raise money from donors unless you have a budget. Donors use the budget as a basis for deciding whether what you are asking for is reasonable and well-planned.



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Who should be involved in budgeting?

Budgeting is a difficult and responsible job. Your organisation's ability to do what it has planned to do and to survive financially depends on the budgeting process. Whoever does the budgeting must:

- Understand the values, strategy and plans of the organisation or project;
- Understand what it means to be cost effective and cost efficient (see Glossary of Terms);
- Understand what is involved in generating and raising funds.

To ensure you have all these understandings, it is usually a good idea to have a small budgeting team. This may only mean that one person does a draft budget which is then discussed and commented on by the team.

Where staff is competent to take full responsibility for the financial side of the organisation or project, the following would normally be involved in the budgeting process:

- The Finance Manager and/or Bookkeeper;
- The Project Manager and/or Director of the organisation or department.

Where staff lack confidence to do the budgeting, then Board members can be brought in. Some Boards have a Finance Committee or a Budget Sub-Committee. It is a good idea to have someone on your Board with financial skills. S/he can then help the staff with budgeting.

The budget is the business of everyone in the organisation. At the very least, senior staff should understand the budget, how it has been drawn up, why it is important, and how to monitor it.

Where an organisation has branches and/or regions, or several departments, then each branch, region or department should draw up the budget for its own work. These budgets then need to be consolidated (put together) in an overall budget for the organisation. Each branch, region or department should be able to see how its budget fits into the overall budget, and should be able to monitor its budget on a monthly basis. Financial monitoring works best when those closest to the spending take responsibility for the budget.

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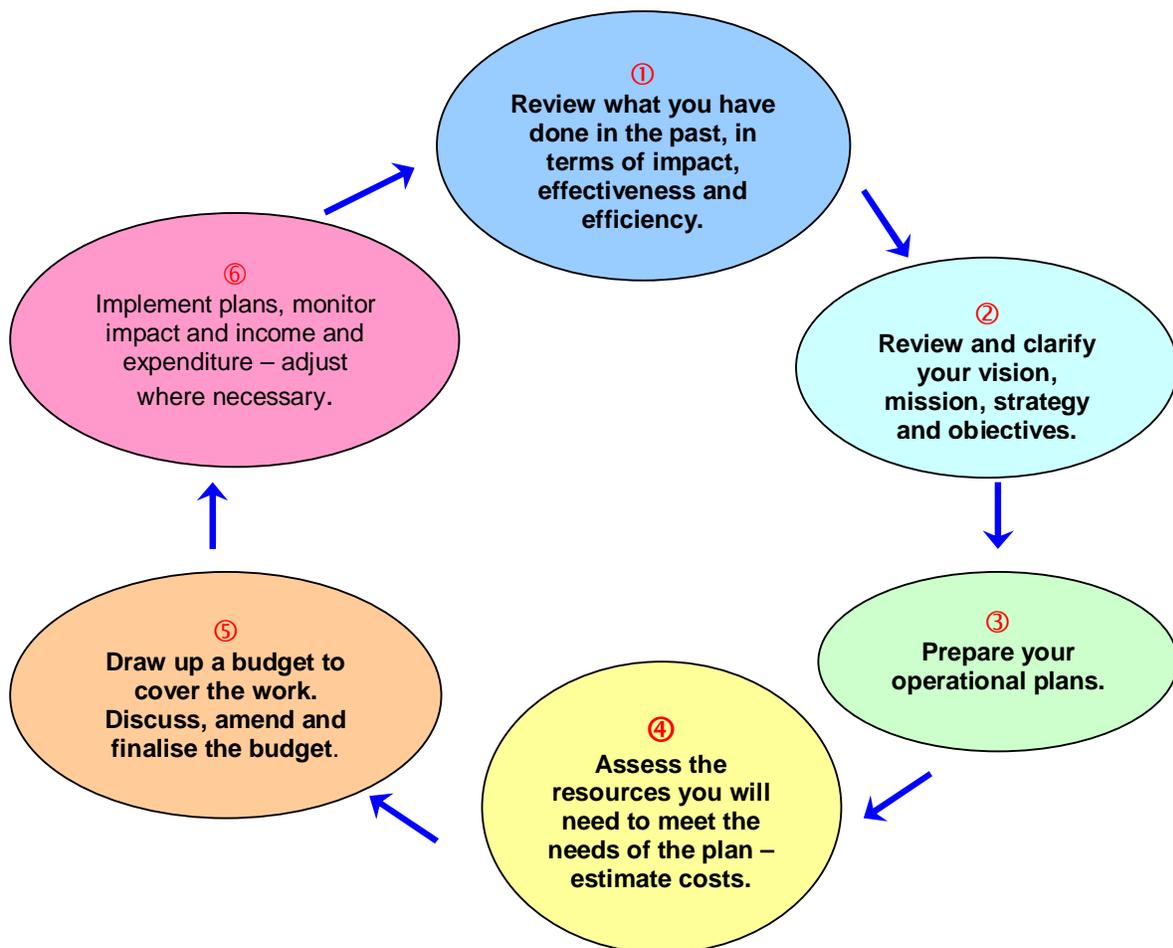
THE OPERATIONAL PLANS

Your operational plans are the plans for the actual work. They are also called action plans or business plans. In a normal planning cycle, the organisation or project will begin with a strategic planning process. Here you look at the problem that needs to be addressed and the specific role of your organisation or project in addressing it. This then is related to what actual activities need to be undertaken to achieve the planned impact. This is the operational plan and it is the operational plan that needs to be “costed.” You cannot prepare a budget until you know what it is you are planning to do. Operational costs will only be incurred when you do the actual work. They are also known as **direct costs**.

You may ask whether you can’t at least prepare a budget for the costs you know you will have anyway – like rent, telephone, stationery – before you get into strategic planning?

The answer is “no”. Your overhead costs should be dependent on what you intend to do. So for example, if you decide to focus your activities in the rural areas, you may decide you need much smaller offices in the urban area that has been your traditional work base. Your **overhead or core costs** are affected by your operational plans.

The planning cycle should look something like this:





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ESTIMATING COSTS - CATEGORIES

The cost estimate is what helps you determine realistically what it will cost to implement your operational plan.

When you carry out your plans you will probably need to make use of a wide range of inputs. Inputs include people, information, equipment, skills. Most of these inputs will have a cost attached to them. These are the costs you need to estimate in order to develop a budget. Careful cost estimation helps in the following ways:

- It helps you develop an accurate budget; and
- It helps you to monitor and control the actual costs of carrying out activities.

The costs you need to estimate fall into the following categories:

- **Operational costs** – the direct costs of doing the work e.g. the cost of hiring a venue, or of printing a publication, or of travelling to the sites where fieldwork needs to take place. Here you would include materials, equipment, transport and services.
- **Organisational costs** (also called core costs) – the costs of your organisational base, including management, administration, governance. Once you have decided on the best organisational set-up to support your operational plans, you will incur the organisational expenses on a regular basis – even if you do not carry out your plans or have activity levels as high as you had hoped. So, for example, if you hire premises for four projects but only manage to carry out two, you will still have to pay rent for the extra space. If you have hired a full-time receptionist on the same belief, you will still have to pay her salary, even if she is under-utilised.
- **Staffing costs** – these are the costs for your core staff – the people involved in management, the people doing work that cuts across projects. (These costs can be included as a category under “organisational costs”.) These costs include their salaries and any benefits such as medical aid or pension fund payments for which the organisation is responsible. You can “charge staff costs out” to the various projects on which the staff members work. So, for example, if your Publications Officer is going to spend half her time working on publications for a particular project, then you can include half her salary and benefits in your costing for the project. If your Director is going to spend 15% of her time providing management support to the head of the same project, then 15% of her time and benefits can also be charged to the project.
- **Capital costs** – these are costs for large “investments” which, while they may be necessary because of a project or projects, will remain organisational assets even after the projects are over. Vehicles and equipment such as computers and photocopiers fit here. They may be used by all projects, or they might only be required for a specific project. Depending on how you intend to use the equipment, you might budget for it under operational costs or under organisational costs.

Why does it matter which category you choose to estimate your costs under?

Because many donors prefer to fund operational costs (or, as they sometimes put it, direct project costs) rather than core organisational or staffing costs.

Look at the section on frameworks for estimating costs for more help.



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Frameworks for estimating costs

Note: Depending on the needs of your organisation or project, your headings may be a bit different. This should give you some guidelines.

Estimating operational costs:

Activity:			
	Unit cost	Quantity	Total cost of item
<ul style="list-style-type: none"> ▪ Materials ▪ Equipment ▪ Services ▪ Transport 	<p><i>The unit cost is the cost of a single item, or one unit.</i></p> <p><i>e.g. Cost per day, per kilometer, per person.</i></p>	<p><i>This is the number of units (how many) you will need for the activity. e.g. 200 training packs, 130 days of trainers' time.</i></p>	<p><i>Multiply the total number of units by the unit cost.</i></p>
Total cost for Activity			The sum of all the individual costs

Estimating organisational cost:

Once you have done your estimates here, you may decide to assign a percentage of the various items to specific departments or projects. This is acceptable practice.

	2003	2004	2005
Management:			
Salaries/benefits:			
Donor liaison:			
Governance liaison:			
Public relations:			
Fundraising:			
Human resourcing:			
Administration:			
Salaries/benefits:			
Equipment:			
Software:			
Stationery:			
Governance and organisational development:			
Board meetings:			
Organisational processes:			
Resource centre:			
Overheads:			
Office rental:			
Electricity and water:			
Insurance:			
Maintenance:			
Legal fees and audit fees:			
Annual totals:			
Total:			

(Our grateful thanks to Olive Publications for these frameworks and ideas. See also Resources.)



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WHERE DOES THE INCOME BUDGET COME FROM?

Where does the money come from?

In the toolkit on *Developing a Financing Strategy* there are many ideas about how an organisation can generate income. In the the toolkit on *Writing a Funding Proposal*, there are many ideas about how to relate to donors and how to prepare a funding proposal that does the job – raising money for your work.

Here we want to look at how you go about including income in your budget.

What sorts of categories should be included in your income budget?

This will depend on your usual, or planned, sources of income generation. Some possible broad categories are:

- Promised donations
- Probable donations
- Possible donations
- Income generated from sales
- Income generated from services
- Subscriptions
- Membership fees
- Special events
- Investments
- Campaigns.

In your budget you make reasonable estimates of the income you can expect to generate from each category specified. These will serve as targets for your income generation.



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BUDGETING GUIDELINES

While budgeting depends to a certain extent on the particulars of your organisation or project, there are certain guidelines which apply across projects and organisations.

BUDGETING RULES

These are not rules that are fixed for all time. They offer some guidelines that will help you deal with common situations.

- It is usual for long-term projects and organisations to prepare a budget which makes projections for several years at a time. While it is usually only the budget for the forthcoming year that is really quite accurate, the projections for the following years gives some indication of the levels of funding that are likely to be needed. Some allowance is usually made for inflation for subsequent years, as well as for the anticipated activities which may differ from the first year. A three-year budget should be based on a three-year plan.
- Contributions in kind (not money, but goods) should be included as a note to the budget (for more on notes see the consolidated budget in the examples). Although they are not part of the budget, they reduce budget costs and so should be indicated. This includes the contribution made by volunteers in the form of sweat equity (see Glossary of Terms).
- Some costs that need to be estimated but that often get forgotten:
 - Start-up costs – for a new organisation or project, such as large-scale recruitment, moving in, building alterations, launching the project or organisation.
 - Research and development – consultation, needs assessment, planning processes.
 - Democracy and governance – establishing the structures, recruiting for them, getting a constitution developed and accepted, training members of voluntary structures.
 - Marketing or public relations – building a professional image.
 - Replacement of capital goods.
 - Monitoring and evaluation costs for projects.
- Estimates are **informed** guesses, not just guesses. Do your homework, get quotes, phone around to arrive at a likely cost. Check any figures you have from previous years that may provide helpful information. Note down any price increases you already know about (e.g. a salary increase of 10% may have already been agreed.) Make notes of any unusual expenses that are likely to occur (e.g. moving your offices). A few dollars may not seem a big amount, but multiplied many times over this kind of discrepancy can make a big difference in your budget.
- Keep your notes! As you plan your budget and make decisions about how you will estimate costs, keep your notes handy so that you can go back and check where the amounts came from. You may, for example, work out your workshop costs on the basis of a certain amount for photocopying, based on an estimated per page cost. When, a year later, the costs are higher than anticipated, you should go back to your notes and



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see where the discrepancy comes in. Or, in another scenario, a donor may ask you to explain how you arrived at the cost per participant for workshops.

- For your own management purposes, break the budget for the forthcoming year into a monthly budget. This will help you when you are watching your cash flow (see section on watching your cash flow). It will also help you to pick up variances (see Glossary of Terms) quickly.



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DEFINING YOUR LINE ITEMS

Line items are the actual items listed in your budget. So, for example, under the category “training costs”, “stationery” might be a specific line item. Under the category “governance”, “training for Board members” may be a specific line item.

It is up to you to decide what your categories will be and to decide what the line items under each category will be. So, for example, one organisation may include “governance” under “management”, and “donor liaison” under “fundraising”, while another may have them as separate categories or line items.

How do you decide which categories and line items you should use in your expenditure budget?

- If this is the first time you have done a budget, begin by listing all the items that are going to cost the organisation or project money. Later on, you will have some idea of the categories and items that make sense for your organisation or project so you will be able to take short cuts when you list your line items.
- Once you have the list, group things into categories according to the emphasis you put on categories in your management practices. So, for example, if you, as management, think it is important to keep track of training costs, then “training costs” would be a category. Items such as stationery, venues, printing costs, food, accommodation, transport, trainers’ fees and so on would be line items under that category. However, perhaps your organisation does not do much training and only intends to run one training course as part of a bigger project. Then your category might be “Project X”, and “training course” might be one line item.
- Think in terms of **cost centres**. A cost centre is a grouping of activities that make a coherent financial unit. So, for example, each project within your programme might be a cost centre. You then budget both income and expenditure for that cost centre and keep your financial records in terms of cost centres. This enables you to assess each project, department or unit financially. If you opt for a cost centre approach, your cost centres will determine the main categories under which you list line items. If you go this route, then the “directorate” would be a cost centre and so, for example, would “training” or “publications” or “resource centre.”
- Sometimes it is possible to work out how much a category of expenses is costing even if that category has not been listed as such, and the item is reflected as a line item under a number of categories. So, for example, you may not have a category “transport”, but if you want to know how much transport is costing the project or organisation, you can add up the transport line item listed under several categories.
- If you plan to raise funds to cover a particular category, then, obviously, that category needs to be distinct in your budget. So, for example, if you want to raise money for capacity building in communities, then you need a category in the budget that is headed “Capacity building in communities”. Under it there might be line items such as “workshops”, “fieldworker salary”, “transport” and so on. Your budget notes would explain how you arrived at the “workshops” amount. (See budgeting rules and example – consolidated budget for more on budgeting notes.)



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How do you decide which categories and line items to include in your income budget?

Look at the section on where does the income budget come from? These are the possible categories you could have for your income budget. Under a category such as “sales” you might have line items such as “training”, “publications”, “craftwork”, depending on what you sell. Under “possible donations” you might have line items such as “tin collections”, “campaigns”, “direct mail appeals”, “donors” and so on. (See also the toolkit on *Developing a Financing Strategy*, strategic options for financing.)



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DIFFERENT KINDS OF BUDGETS

In addition to your main **working budget** – what you realistically expect to generate or raise, and how this will be spent – you can also have some “what if” budget options. “What if” budgets allow you to prepare for the unexpected – whether it is good or bad. Your “what if” budgets could include:

- A **survival budget**. This is the minimum required in order for the organisation or project to survive and do useful work.
- A **guaranteed budget**. This is based on the income guaranteed at the time the budget is planned. Usually the “guarantees” are in the form of promises from donors. However, unexpected situations, such as a donor grant coming through very late, may make it necessary to switch to your survival budget.
- An **optimal budget**. This covers what you would like to do if you can raise additional money. Once extra money comes in or is promised, it becomes part of your working budget.



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DIFFERENT BUDGETING TECHNIQUES

The two main techniques for budgeting are **incremental budgeting** and **zero based budgeting**.

- Incremental budgets are budgets in which the figures are based on those of the actual expenditure for the previous year, with a percentage added for an inflationary increase for the new year. This is an easy method that saves time but it is the “lazy” way and is often inaccurate. This budgeting technique is only suitable for organisations where each year is very similar to the previous one in terms of activities. Very few dynamic organisations or projects are so stable that this budgeting technique really works for them.
- In zero based budgets, past figures are not used as the starting point. The budgeting process starts from “scratch” with the proposed activities for the year. The result is a more detailed and accurate budget, but it takes more time and energy to prepare a budget in this way. This technique is essential for new organisations and projects, but it is also probably the best route to go in a dynamic organisation that is proactive in taking on new challenges.



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SOME BUDGETING ISSUES

In this section we address some of the questions that are often asked about budgeting under the following headings:

Budgeting price increases

How do you allow for price increases in your budgeting process?

Budgets are prepared in advance. There are likely to be price increases between the time of preparation and the time when the amount is spent or received. Take this into account when you do your budgeting by estimating what the costs or value will be when the expenditure is made or the income received.

If there is likely to be an increase in costs then make sure that you also estimate for an increase in what you charge in fees for services or in sales of products.

You need to keep your calculations for your budget because some donors may be willing to provide a supplementary grant if you can show clearly that your calculations were based on a smaller rate of inflation than actually proved to be the case.

The level of detail needed

How much detail do you need to include in your budget?

This is not a simple question to answer. On the one hand, the less detail you give, the more flexible you are. On the other hand, leaving the budget too open makes it less useful as a management tool. This does not mean that every single thought and detail should be included in the budget line items. So, for example, you could have a global amount for "training" under a project, provided that you have your own notes on how you arrived at the amount. In general, however, the detail, while it may restrict you in negotiations with donors, provides you with useful management information.

One way to deal with this is to have different versions of the budget for yourselves and for donors and potential donors. The donor version would be more flexible and less detailed, and the management version so less.

In general, your donor version should follow the guidelines provided by the donor agency for how it wants you to present your budget. If the agency does not have written guidelines, speak to the project or desk officer who deals with your area of work and asks for advice on how to prepare the budget.

Your management budget is translated into your bookkeeping system and, to the degree that the budget is detailed, your bookkeeping system will be detailed and will be able to provide you with valuable information about where and how you are spending your money or generating income.



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Contingency amounts

What is a contingency amount?

A contingency amount is an amount that you put aside to deal with unforeseen events. While budgets should be informed guesses, there is still an element of “guessing” in them. The future is uncertain and organisations and projects have to survive in uncertain times. Because of this, some organisations allow for a “contingency” line item in their budgets – usually about 10% of the overall annual budget.

However, many donor agencies do not like this and refuse to fund a “contingency” line item, possibly because they believe that organisations and projects should be more accurate in their budgeting. One way to deal with this, is to build contingency amounts into the major line items in your budget, allowing for an additional 10% over and above your calculations.

Budgeting income generating projects

How do you budget for a project that not only costs money but also generates income for the organisation?

An example might be a training course for which you charge and from which you expect to make a profit over time. (See also the toolkit on *Developing a Financing Strategy: Earned income*.)

In your overall budget for the project or organisation, you could include the costs in the line items reflecting expenditure, and the income in your line items reflecting income. However, for management purposes you will want to be able to monitor in greater detail than this, in order to establish at what stage a break-even point is reached. Your bookkeeping records should be set up in such a way as to make it easy (See Glossary of Terms) for management to access this information.

Timeframes

Organisational budgets (for the whole organisation) are usually calculated for a year at a time (based on the financial year of the organisation). This also applies to ongoing departmental budgets. Once you have an annual budget, it is best to break it down into months, for management purposes. A monthly breakdown facilitates monitoring (see the sections on budgeting for monitoring and watching your cash flow).

When you present a budget that covers several years, make sure that this budget is based on a medium-to long-term plan, and is not simply an uninformed guess.

Budgets for specific, timebound projects may be calculated for the whole life of the project. For monitoring purposes it is probably best to break this overall project budget into years (where the project runs over several years). You may then also decide to break it up into months.



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The budget

By now you should have done all your preparatory planning and be ready to draw up your budget. As you work through this section, you may want to refer to the budget given in the example – consolidated budget.

It is useful to think about the process of drawing up a budget in steps. By now you should have already gone through the first three steps as part of your preliminary work for developing the budget:

- 1 List the items on which you spend money. You will know what these are from your action planning process (see the toolkit on *Action Planning*). Group the items under headings or cost centres. (See the section on defining your line items.)
- 2 Estimate the unit cost of the line items and then the annual costs. (See the sections on Estimating costs – categories and framework for estimating costs.)
- 3 List your likely sources of income or revenue. Categorise them. This is the basis of your income budget. (See also, *Where does the income budget come from?*)

Now you are ready to begin putting your budget into a budget format. The remaining steps are:

- 4 Prepare your budget format.
- 5 Do your addition.
- 6 Add in notes to explain items that may not be clear.
- 7 Get feedback on your budget.
- 8 Finalise your budget.



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BUDGET FORMAT

Your budget can be prepared using an ordinary word-processing programme. If you have access to a spreadsheet programme such as Lotus 123 or Excel, and you know how to use them, this will make your task easier. But it is not essential.

Your budget format must make allowance for both the income and the expenditure to be reflected. Go to the example of a consolidated budget to see how this is done there.

The budget format should reflect the categories and line items you have decided are important for your organisation or project. (See the sections on Estimating Costs – categories, framework for estimating costs, and Defining your line items.)

Your budget format for an organisational budget should allow you to put in projected amounts for about three years, as in the example of the consolidated budget.

Your format must also allow for sub-totals and for a total expenditure and a total income amount.

Remember that the format you use for a donor may be different from the format you use for your own management purposes. (See the section on Level of detail needed.) In the example of the consolidated budget, you will find a management version, rather than a donor version. For most donors, you will be able to simplify to some extent. So, for example, you might put all “sales” under “income” into a global amount under the line item “sales”. We have done the more detailed budget because we believe that it is the management version that is most important.

The difference between your budgeted income and your budgeted expenditure shows you whether you are likely to have a deficit (too little money) or an excess (more than you need). If there is a large deficit, either you need to cut down on expenditure or to raise or generate more money. If you have a large excess then you probably need to adjust the amount that you are asking from donors. Donors are usually not keen to fund a surplus. However, if you are trying to establish a capital fund for investment, then you need to explain this to donors and ask them if they are prepared to make a contribution in the interests of long-term sustainability of the organisation. (See also the toolkit on Developing a Financing Strategy: investments.)



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ADDITION

It is now time to insert actual costs into your budget. If you have already done the preliminary estimating work this should not be difficult. (See the section on Framework for estimating costs.)

- Fill in the amounts you have estimated for each line item in the budget, across the three years. Use your estimates and be careful to get the amounts right. Be sure that your working notes will enable you to justify any amount if you are asked by a donor or a Board member to do so.
- Add up your sub-totals. Check them.
- Add up your overall totals. Check them.
- Calculate whether you have a surplus or an excess. Decide how you are going to handle this situation. (See the section on Budget Format.)



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NOTES

In your budget, you should include some notes. These should explain amounts or line items that may puzzle a donor or a board member or another member of your staff or management team. Anticipate questions that they may ask and use your notes to make explanations. You do not need to litter your budget with notes, but where something may well be puzzling, explain in a note. This will save you time responding to queries.

In the example of the consolidated budget you will see that the notes are given separately, but with a reference in the budget. So, for example, there is a note that explains why the cost of transport in “Training” goes down in Year 2. You could have a note explaining that a company or government agency was providing an in-kind donation (see the section on Budgeting Rules), hence a particular line item was less than one would normally expect. You could have a note referring to salary increases and organisational policy on these to explain the rise in salaries over the three year period.

The point of including notes is to make the budget clearer and more transparent, and to preempt questions. Read the budget as if you were a possible donor. This will help you identify where notes will be helpful.



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FEEDBACK

Once you have written the budget, checked your addition and put in the explanatory notes you think are necessary, it is time to get feedback.

From whom should you get feedback?

- From the people who worked with you on drawing up the budget.
- From others in the project or department.
- From your finance department, accountant or bookkeeper.
- From your Director (unless you are the Director).
- From your Board or the Finance Sub-Committee or Budgeting Sub-Committee of the Board.

What do you need feedback on?

- On the categories and line items – has everything that needs to be included been included?
- On the notes – do they explain everything that needs a special explanation?
- On the addition – is it right?



Budgeting

FINALISE

Once you have feedback, make necessary adjustments to the budget, check your calculations once again, and finalise the budget.

Finalising your budget does not mean filing it away and never looking at it again.

Once the budget is finalised, it is time to implement it – both in terms of generating the necessary income and carrying out the activities that incur expenses. The budget gives you a basis for monitoring your work financially and that is what is dealt with in the next section on monitoring the budget.



Budgeting

Monitoring the budget

The budget is the most important tool you have for monitoring the finances of your organisation, project or department. You use the budget to:

- monitor your income and expenditure to see whether or not you are on target;
- report how you are doing financially to your staff, board and donors;
- do cash flow projections;
- make financial decisions.

BUDGETING FOR MONITORING

Budget monitoring is used to measure how closely an organisation is meeting its objectives in terms of its finances. Comparisons of actual income and expenditure against the budgeted income and expenditure need to be done regularly. To do this, you need to be able to prepare a variance report (see Glossary of Terms and the example of a variance statement). This shows you, month by month, where you are over-spending, under-spending or on target. In order to be able to do a variance report and in order to be able to do cash flow projections, you need to break your overall budget up into a monthly budget.

The monthly breakdown is what gives you your management tool. For an example of a monthly breakdown of a budget, go to the example of a monthly breakdown.



Budgeting

REPORTING AGAINST BUDGET

The purpose of reporting against your budget is to show those to whom you are accountable, or those who are involved in your work, whether or not you are doing the work stipulated and whether or not you are going to have the resources you need to complete the work. When you report against your budget you are reporting on how close your financial planning has been to your actual financial performance.

The variance statement compares the expected income and expected expenditure with the actual income and expenditure. The variance statement gives you an overview of what has happened in the reporting period (one month, three months etc). It also gives you an overview of financial performance for the year thus far ("year-to-date"). A variance statement shows you whether there are any trends that are developing in financial performance about which you should be aware. It gives you the opportunity to take action to correct problems. So, for example, if the variance statement shows you that you are repeatedly spending too much on stationery each month, you could:

- keep a tighter control over the stationery;
- recognise that you have under-budgeted on stationery and either shift some money from somewhere else in the budget to stationery, or try to raise or generate more money to cover the anticipated shortfall.

The important thing is that you will be aware that all is not right and be able to take remedial action before the problem gets out of hand.

Spending too much is not the only problem. Sometimes when you spend too little you also have a problem. So, for example, an organisation that finds it is way under budget on training expenses may identify the problem as being too little activity in the Training Department. This may require re-planning for the rest of the year to ensure that targets are met.

When you report to your department, your superiors in the organisation and your board, you need to do so on the basis of a variance statement.

On the next page you will find a useful format for a variance statement. (See also the example of the variance statement.) Whenever you have a variance of 10% or more (either too much or too little), you need to look for an explanation and, if necessary, to take remedial action.



Budgeting

Variance statement format:

		This reporting period		Year-to-date	
		Budget	Actual	Budget	Actual
Inco me	Sales				
	Consulting				
	Cost recovery				
	Interest from investment				
	Donations				
	Total income				
Exp endi ture	Project 1				
	Project 2				
	Directorate				
	Operational costs				
	Organisational costs				
	Staffing costs				
Total expenditure					

(The actual line items should come from your own budget.)



Budgeting

WATCHING YOUR CASH FLOW

The cash flow forecast is a tool that allows you to anticipate the expected income and expenses on a monthly basis. It maps out how money will flow into and out of your bank account. By watching your cash flow, you can identify when you may not have enough money in your account and take remedial action. The “map” you need is your budget broken down into months, with extra rows at the end showing net inflow or outflow projections, and your opening and closing bank balances.

Totals	J	F	M	A	M	J	J	A	S	O	N	D
Net inflow/outflow												
Opening bank balance												
Closing bank balance												

These rows summarise what your financial situation (money in the bank) is likely to be at the end of each month.

The information on net inflow/net outflow will come from your budget broken up into months, and then subtracting your expected expenditure from your expected income. (See example of a monthly breakdown.)

Steps to take to make a cash flow projection:

- 1 Break your annual budget into a monthly budget, based on your expected income and expenditure for each month.
- 2 Total your monthly income and expenditure and subtract the one from the other to get a net inflow/outflow.
- 3 Add the money in the opening balance to any surplus, or subtract any deficit from the opening balance.
- 4 Now you will have your closing bank balance which tells you how much money you are likely to have in the bank at the end of each month.
- 5 Update this monthly from your actual figures.
- 6 Compare what your expected expenditure is for the following month with your balance from the end of the previous money.
- 7 When your expenditure exceeds the money you have available, then you need to take remedial action immediately.

What form can remedial action take?

Some suggestions:

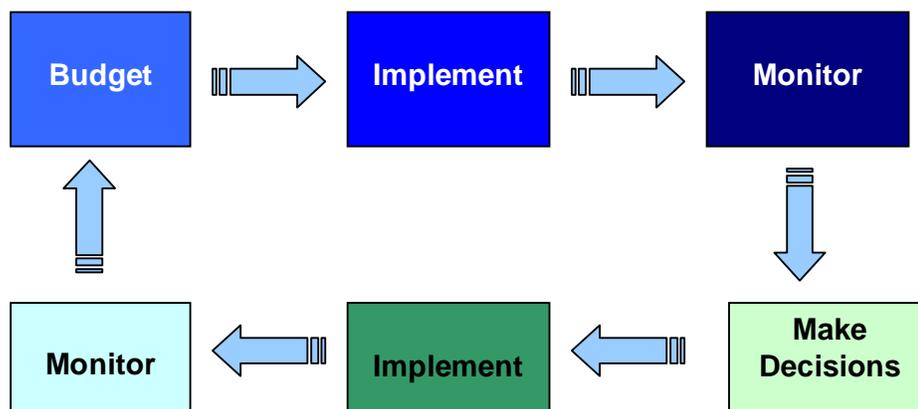
- Adjust your spending.
- Try to speed up donations or possible inflows.
- Ask the bank for an overdraft on the basis of promised income. (It is usually better to set up an overdraft facility with the bank before you need it – just in case! But don’t use it unless you are sure money is coming in).

Budgeting

MAKING DECISIONS

Monitoring the budget is not just something that you do so that you will know more about your financial performance as an organisation or a project. You need the information to be able to take decisions.

The cycle looks like this:



The success of the process is dependent on the ability of those with management responsibilities to make decisions and take action. The steps involved are:

- 1 Prepare your baseline information. (Budget, monthly break down)
- 2 Get information on financial performance.
- 3 Analyse the information and work out what it is telling you.
- 4 Look at the potential consequences to your financial strategy and plans.
- 5 Draw up a list of options for action.
- 6 Get consensus and a mandate to take action.
- 7 Share adjustments and plans with the rest of the organisation and, if necessary, your donors.
- 8 Implement.
- 9 Monitor.
- 10 Build your learnings into future budgeting processes.

CIVICUS: World Alliance for Citizen Participation is an international alliance established in 1993 to nurture the foundation, growth and protection of citizen action throughout the world, especially in areas where participatory democracy and citizens' freedom of association are threatened. CIVICUS envisions a worldwide community of informed, inspired, committed citizens in confronting the challenges facing humanity.



Budgeting

These CIVICUS Toolkits have been produced to assist civil society organisations build their capacity and achieve their goals. The topics range from budgeting, strategic planning and dealing with the media, to developing a financial strategy and writing an effective funding proposal. All are available on-line, in MS-Word and PDF format at www.civicus.org and on CD-ROM.

For further information about CIVICUS:
CIVICUS: World Alliance for Citizen Participation
24 Pim Street, corner Quinn Street
Newtown, Johannesburg 2001
South Africa
P.O. Box 933
Southdale, 2135
South Africa
Tel: +27 11 833 5959
Fax: +27 11 833 7997

1112 16th NW, Suite 540
Washington D.C. 20036
USA
Tel: +202 331-8518
Fax: +202 331-8774
E-mail: toolkits@civicus.org

Web: <http://www.civicus.org>

We wish to acknowledge GTZ for its support in translating these toolkits into French and Spanish.