

PLANNING AND BUDGETING



. WHAT TO COVER

- Describes the planning process and how it links with financial management.
- Highlights different types of budgets and when to use them.
- Describes approaches to budgeting.
- Good practices in budgeting.
- Budget Justification

The Financial Planning Process

- ❑ Financial planning is both a **strategic** and **operational** process linked to the **achievement of objectives**.
- ❑ It involves building both **longer term funding strategies** and **shorter-term budgets and forecasts**.
- ❑ It lies at the heart of **effective financial Management**.

- Financial planning does not start with budgets and numbers.
- Effective budgets can only be produced as a result of good underlying plans.
- It is impossible to start a financial forecast without a clear idea about what it is you want to do and how you intend to do it.

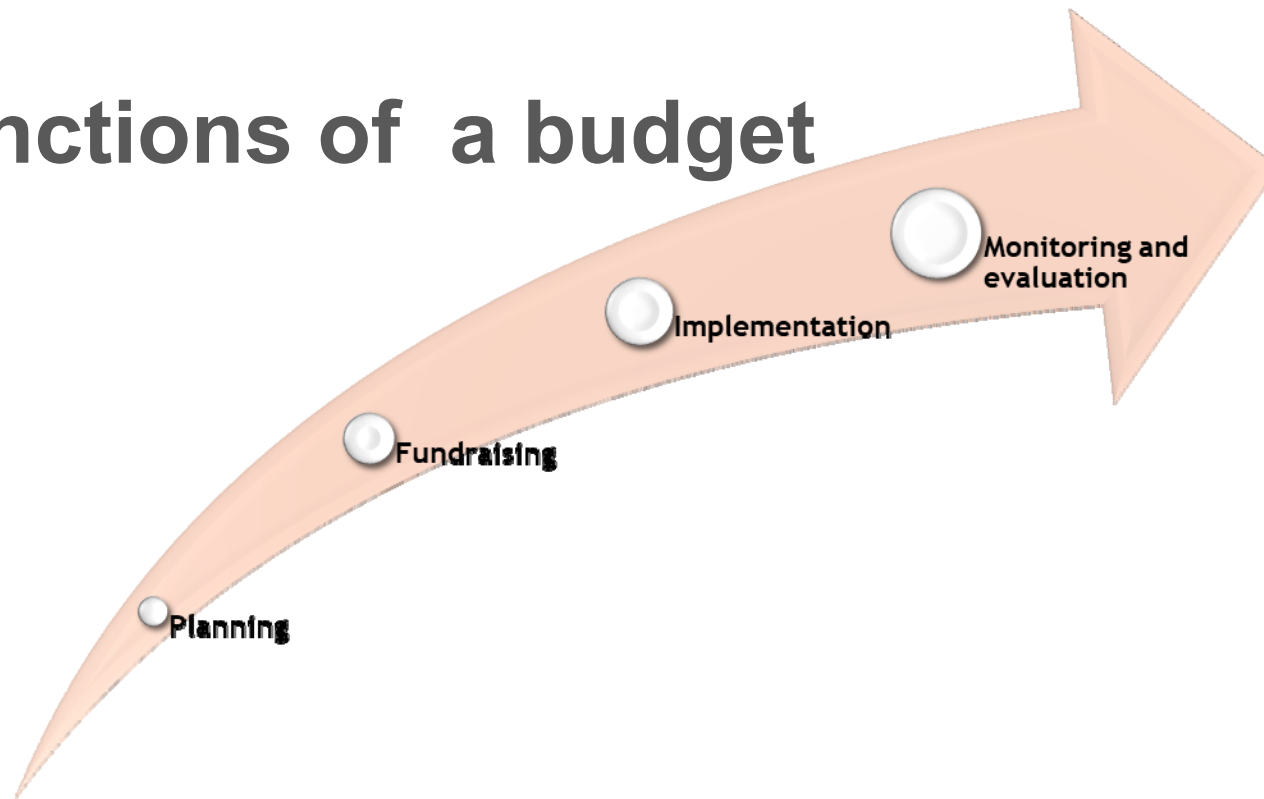


“If you don’t know where you are going then you are sure to end up somewhere else” Mark Twain

What is a Budget?

‘A budget describes an amount of money that an organisation plans to raise and spend for a set purpose over a given period of time.’

Functions of a budget



Who needs Budgets?



Types of Budget

Essentially, there are three main types of budget:

- The Income and Expenditure Budget**
- The Capital Budget**
- The Cashflow Forecast**

The Income and Expenditure Budget

- ❑ The income and expenditure budget sets out the anticipated running costs (also referred to as recurrent costs) of the organisation and shows where the funds will come from to cover the costs
- ❑ The annual income and expenditure budget is often broken down into shorter periods – quarterly, half yearly or even monthly – to assist with monitoring progress.

The Capital Budget

A capital budget lists the expenditure you intend to make for the coming years on **capital projects and one-off items of equipment that will form part of the organisation's Fixed Assets**. As these usually involve major **expenditure and non-recurrent costs**, it is better to list and monitor them separately.

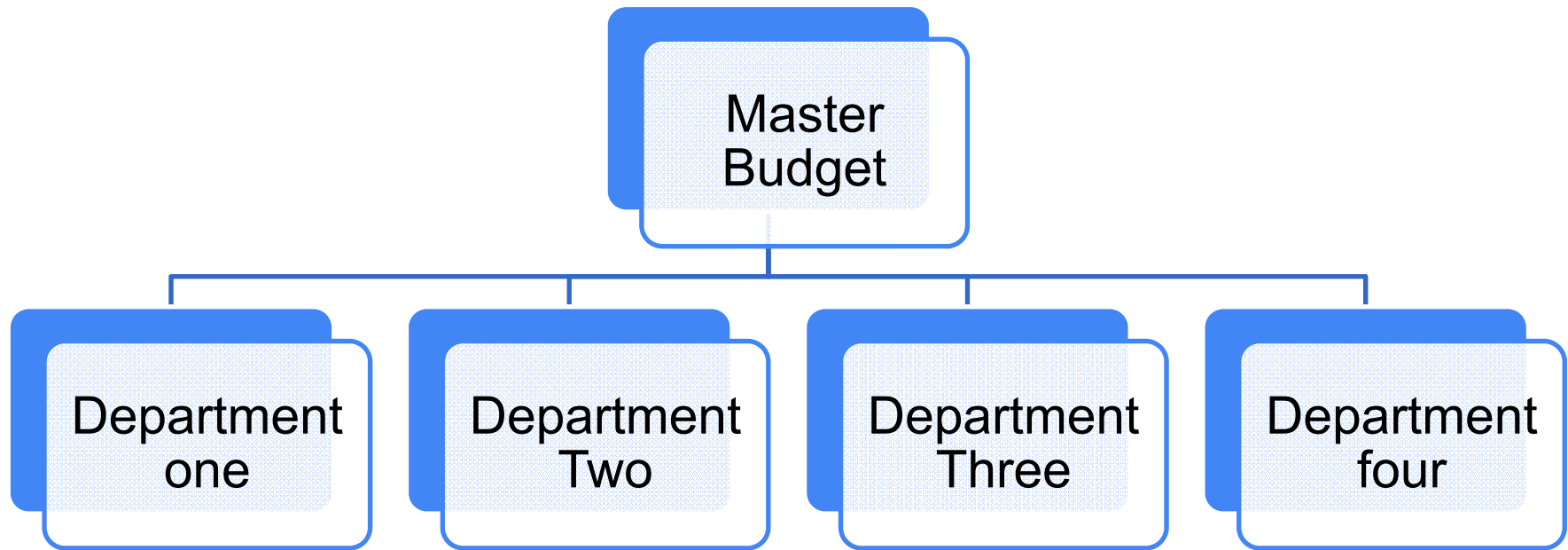
Examples of capital expenditure include:

- Vehicles
- Office furniture and equipment
- Computer equipment
- Building construction
- Major renovation works

Budget Structures

To facilitate planning and to enable control to be effective, many organisations try to ensure that the overall structures of their **budgets correspond closely to the organisation structure.**

It is possible to organise budgets at different levels, e.g. **by department, programme or project.**





Departmental budgets are in turn consolidated into one master budget

This structure allows budgets to be delegated and monitored at the project level, whilst maintaining an overview at department and association level.



Approaches to Budgeting

There are several different ways to build a budget and you should adopt an approach which **works best for you**, given the skills and time available.

Incremental budgeting

- ❑ This approach bases **any year's budget on the previous year's actual, or sometimes budgeted, figures** with an allowance for **inflation and known changes in activity levels**.
- ❑ It has the advantage of being fairly **simple and quick to implement**.
- ❑ It is most useful for organisations where **activity and resource levels change little from year to year**.
- ❑ **A frequent criticism of this approach is that it does not encourage fresh thinking and may perpetuate existing inefficiencies**.
- ❑ It also makes it difficult to justify the figures to investors since the original calculations may be long forgotten.

Zero-based budgeting

- ❑ An alternative approach is to start with a **clean sheet** – a **zero base**.
- ❑ Zero-base budgeting (or ZBB) ignores previous experience and starts with next year's **targets and activities**.
- ❑ ZBB requires a **manager** to justify all the **resource requirements**.
- ❑ This process may suit organisations going through a period of rapid change and those, like Fresher , whose income is activity-based.
- ❑ Zero-based budgets are said to be more accurate since they are based on the detail of **planned activities**.
- ❑ However, the approach does **impose a much greater workload on managers than incremental budgeting**.

Top Down or Bottom up?

- ❑ Since a budget is a **financial plan** that relates directly to the **activities of the organisation**, it is important that those who will be **responsible for project implementation** are **closely involved with writing the budget**.
- ❑ If this is not done, the budget will surely be less **accurate and the staff less likely to appreciate the need to spend within budget**.
- ❑ Where operations staff are involved in setting their budgets it is described as 'bottom up' budgeting – as opposed to 'top down' where budgets are imposed by senior managers.
- ❑ **Many organisations employ a mix of top down and bottom up approaches**.

The Budgeting Process

The process of preparing a meaningful and useful budget is best undertaken as **an organised and structured group exercise.**

The budget process involves asking a number of questions:

- What are the objectives of the project?**
- What activities will be involved in achieving these objectives?**
- What resources will be needed to perform these activities?**
- What will these resources cost?**
- Where will the funds come from?**
- Is the result realistic?**

Starting point in terms of grants writing: Seek clarity

Thoroughly review the RFA/FOA for budget guidelines on key aspects, such as:

- ❖ Mechanism of Support
- ❖ Funds Available i.e. budget cap
- ❖ Cost Sharing or Matching requirement
- ❖ Funding Restrictions. E.g no equipment
 - ❖ Project duration
 - ❖ Allowable/unallowable costs
 - ❖ Direct costs/Indirect costs
 - ❖ Subawards??

Some key points to remember....

- Don't budget for it, if you cant justify it!
- Requesting for lots of new equipment suggests an insufficient environment to do the work
- Research grants are NOT training programs, be careful how you budget and justify capacity building aims
- Unless required, plan for self reliance
- Keep in mind potential budget cuts by funder
- Consider inflationary costs if project period > 1 yr
- Exchange rate variations

Allowable and unallowable costs

- Four principles that dictate allowability:
 1. **Reasonableness**- The dollar amount is within limitations that a prudent person would pay for that good or service
 2. **Allocability**- Goods and services can be assigned directly to the grant
 3. **Consistency**- costs are routinely applied to the same category
 4. **Conformance**- grant costs must conform to the allowability of costs/ activities section of the RFA

Allowable costs

Allowable costs include:

1. Personnel costs
2. Consultant costs
3. Equipment
4. Travel
5. Patient care costs
6. Project materials and supplies
7. F&A
8. etc

Unallowable costs

1. Alcoholic beverages unless within the scope of the research
2. Bad debts
3. Building acquisition, construction
4. Entertainment
5. Fund raising
6. Honoraria
7. Fines and penalties
8. Payment of interest etc.....

Good Practice in Budgeting

Clarity

- ❑ Since many different people will need to use the budget for different purposes, they should be able to understand it (and adapt it, when necessary) without any additional explanation beyond what is written down.
- ❑ Clarity and accuracy is key so it is important to keep notes on budgeting assumptions and how calculations have been made.

Timetable

- ❑ There are several stages involved in constructing a budget before it can be submitted for approval to the governing body, so it is a good idea to prepare a budgeting timetable and commence the process early.
- ❑ This could be up to six months before the start of the financial year,

Budget Headings

- ❑ When setting a budget for the first time or when reviewing a budget, it is important to pay attention to the **Chart of Accounts**.
- ❑ This is because the budget line items also appear in the books of account and on management reports.
- ❑ If the budget items and accounting records are not consistent then it will be very difficult to produce monitoring reports once the project implementation stage is reached.

Estimating Costs

- ❑ It is important to be able to **justify calculations** when **estimating costs**.
- ❑ Even if you use the incremental method of budgeting, do not be tempted to simply take last year's budget and add a percentage amount on top for inflation.
- ❑ While last year's budget could be very helpful as a starting point, it could also be very misleading and contain historical inaccuracies.

Contingencies

- ❑ Try to avoid the practice of adding a 'bottom line' percentage for so-called '**contingencies**' on the overall budget.
- ❑ As a rule, investors do not like to see this and it is not a very accurate way of calculating a budget.
- ❑ It is better to calculate and include a contingency amount for relevant items in the budget – e.g. salaries, legal insurance, and fuel.
- ❑ **Every item in your budget must be justifiable – adding a percentage on the bottom is difficult to justify – and difficult to monitor.**



Forgotten costs

Here are some of the most often overlooked costs:

- ❑ Staff related costs (e.g. recruitment costs, training, benefits and statutory payments)
- ❑ Start-up costs (e.g. publicity)
- ❑ Overhead or core costs (e.g. rent, insurance, utilities)
- ❑ Vehicle running costs
- ❑ Equipment maintenance (e.g. for photocopiers and computers)
- ❑ Governance costs (e.g. board meetings, AGM)
- ❑ Audit fees

**Writing a budget Justification/
Budget Narrative**

Definition and Purpose

- This is an explanation of each of the components of the budget which justifies the cost in relation to the proposed work
- The purpose of a budget justification is to explain and justify all expenses required to achieve project aims and objectives
- Reviewers and Administrators use this to decide if you really need what you request
- Don't budget for it, if you cant justify it!

Qualities of a good justification

- Justifies the need for each budgeted item
- Explains how the costs are estimated
- Demonstrates that the cost is reasonable
- Explains assumptions made
- Shows a direct relationship between the cost and the proposed objectives
- Complies with sponsor requirements (format, number of pages etc)

Budget Justification: Key personnel

For each PI, Co-PI, or Project Director, list name, title, amount of time to be spent on the project and what s/he will accomplish.

Examples:

1. Dr. Robert will serve as principal investigator and will commit two summer months of effort to this project. She will primarily be responsible for xyz..

Key personnel...cont

1. Robert Sekitoleko. MBChB, MMed, MPH, is an associate professor in the Department of Paediatrics and Child Health at the University of Nairobi. She has directed a large USAID funded treatment program at the University of Nairobi and is a senior technical advisor to national HIV and TB pediatrics programs. She will dedicate time to oversee clinical care of study subjects at the research site at Kenyatta National hospital working closely with the project coordinator. We request 1.2 person months /cal yr (CY).

Budget Justification: *Benefits*

- Benefits should be calculated for any personnel proposed to be paid from the grant and must be consistent with the institutional policies and applied in a similar way to all grants

Example: Fringe benefits are calculated using current approved institutional rate of 15%, 10% for the mandatory NSSF and 5% for staff medical insurance.

Total Benefits: \$4,233

Budget Justification: *Travel*

- Explain the need for travel (how it will benefit the project's aims) and your calculations of travel costs. Break down by airfare, hotel, per diem, etc.

Example:

- Dr. Smith requests funds to attend the XYZ annual conference in Dubuque, Iowa, for the purpose of disseminating project results. Conference fee is \$1,500. Travel costs are estimated at \$750 for airfare, three nights' lodging at \$150/night, \$30 for local transportation, and \$46 per diem for three days.

Total Travel: \$4,236

Budget Justification: *Equipment*

- Equipment is an item of lasting value with a cost of over \$5,000.
- List the equipment you are requesting, including model name/number, and price quotes from a vendor. Explain the necessity of the equipment to the project.

Example:

In order to complete Aim #2, a high power microscopy lens is required. This lens will enable researchers to detect the presence of damaged protons. We request funds to purchase one XYZ Microscope, Model #123, at \$5,355.

Total Equipment: \$

Useful tips

- Ensure that the budget narrative follows the same order as the itemized budget.
- Be sure everything in the budget and budget justification is referenced in the proposal. Don't introduce new things
- Double check allowability of budgeted costs
- Check if numbers match
- Nothing is obvious, justify everything included in the budget

Conclusion

- The budget constitutes an important part of the grant application/ Your Institution
- Do not underestimate the importance of the budget justification.
- Give the budget and justification as much care as any other aspect of the proposal
- A good justification will give the reviewers reason to fund your proposal



Any Questions?



The End



Practical Budgeting process



Thank
you
