

Presentation at SRRF 3-day Capacity Building Workshop

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# **ALL ABOUT BUDGETING**

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PROJECT BUDGETING MANAGEMENT by Subhash Mittal at PCM Workshop at IIC, New Delhi  
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# Tool for Management

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- ❑ It is the process of preparing a financial plan for implementing policies of the organisation.
- ❑ Budget helps in achieving targets, formulating of expenditure policies, allocation of resources and ensuring operational efficiency and performance issues.
- ❑ Character of budget would depend upon size and scope of the management / program objectives
- ❑ Can be a tool in preparing Strategic Plan for a longer period (3-5 years)
- ❑ Gaps in resources helps organisation set-up plans for raising additional resources.
- ❑ Can be used to enhance accountability.
- ❑ Can help management achieve intended targets by using it a tool for taking corrective actions.
- ❑ Budget-making in commercial organisations is more complex, since they are larger, have more complicated operations, tax impact further complicates the budget-making.
- ❑ Software are available for budget-making, but NGOs generally use spreadsheets.

# Financial Risks / Mitigating Measures

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- ❑ Kingfisher airlines liquidity crunch, how come no one saw it coming – were their cashflow projections really accurate ?
- ❑ As per a CAG report, Air India made a purchase of a large number of new air-crafts, however we all know huge loss of market by Air India – thus decisions taken based on some incorrect data.
- ❑ There is a big lull in Indian economy with high inflation, what are the risks that original projections & estimated costs are likely to remain valid.
- ❑ How proactively budgets are being monitored. Recently Infosys asked their employees to come on two Saturdays to meet budget targets.

## Financial Risks/Mitigating Measures....*cont'd*

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- ❑ Are risks measured while budgeting processes are on ?
- ❑ Often CFOs ask that while preparing budgets their should be flexibility in financial assumptions.
- ❑ Budget preparations should not be treated as Finance Dept.'s domain, but should involve all major Depts.
- ❑ While senior management should provide direction in strategy planning, operational teams need to be involved in drawing execution plans, since they have the real information about market dynamics, numbers and risks.

# Types of costs

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## **Direct Costs**

- ❑ These can be charged directly to projects
- ❑ Ensure proper documentation – examples, vehicle hiring costs, mess, (raise bills)

## **Indirect or Common Costs**

- ❑ Identify which budgets allow such costs
- ❑ Decide a policy for allocation of common costs
- ❑ Ensure transparency in the policy and its implementation
- ❑ Follow most logical basis and follow it consistently.
- ❑ Examples : No. of employees, Budget, Actual exp.

# Initial preparation

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- ❑ Ascertain purpose & scope of the Budget
- ❑ Identify major likely cost components
- ❑ If budget to be prepared for an agency then understand the guidelines of the concerned agency
- ❑ Overall finance limits prescribed by the agency
- ❑ Identify if costs are likely to increase the financial limits imposed by the agency, if any.
- ❑ Is agency prepared for joint funding of the project?
- ❑ Undertake necessary research to obtain unit costs for different components. (Lack of this information is the biggest constraint in budget-making)
- ❑ Wherever sufficient information is not available, make likely assumptions. However state such assumptions clearly.
- ❑ Ascertain participation level in the budget and formulate policies accordingly.

# Essential Elements of Budgeting

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- ❑ Have written policies for budget making.
- ❑ Have detailed written instructions prepared for the budget making.
- ❑ There are three basic elements of actual budget making : Program / Project Budgets, Core Cost Budget. Last two budgets would include capital costs.
- ❑ Resources Budget would be prepared by the Resource Mobilisation Dept. – This would provide important information of funds likely to be generated to fund programmes.
- ❑ Care has to be taken to ensure that resources budget is not understated.
- ❑ If there is a Resource Gap, the Dept. must commit to raise resources for the same.
- ❑ Core Costs Budget would identify resources required for fixed costs. These would include costs of CEO, Senior Program Managers, Accounts & Admin Staff, Establishment costs, AGM costs, etc.

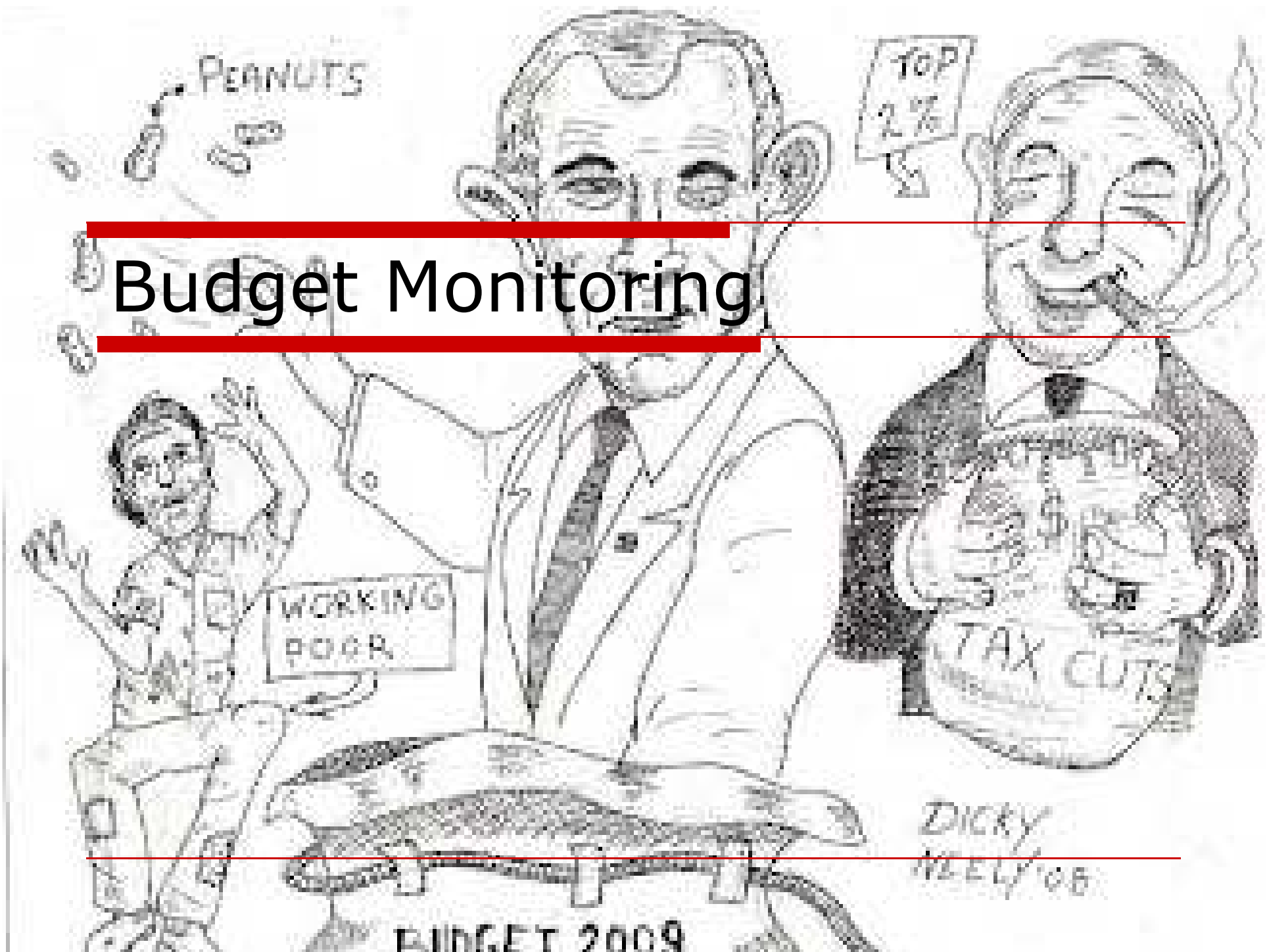
## Essential Elements of Budgeting.....*cont'd*

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- ❑ Separate budget of Core costs help an organisation understand minimum funding requirements which is essential for its survival as well as minimum activities.
- ❑ Often programme budgets would be linked to individual donors. In fact several items of the core cost budgets would be financed from the program budgets only, however it is important to understand the same.
- ❑ Generally project budgets would be prepared in consultation with the donors and often even unit costs, etc. could be finalised only after discussion with the donors.
- ❑ Challenge comes if the donor agencies do not finalise the budget till quite late.
- ❑ Cash budget (or cash-flow projections) is to ascertain availability of cash to implement the project.



# Budget Monitoring



# Budget / Actual Monitoring

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- ❑ This is one of the most important mechanism and management must ensure its effectiveness.
- ❑ Formats of the monitoring must be kept simple, so that these can be easily prepared.
- ❑ Monitoring mechanism must ensure participation of senior persons who are authorised to take corrective actions.
- ❑ Combining financial and programme monitoring will improve the monitoring process even more.
- ❑ Proper written reasons should be given for all significant variances in the Variance Report.

# Types of Budgets

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- ❑ Zero Based Budgeting : Each program / cost centre has to be justified.
- ❑ Goals & Objectives should be measurable preferably quantitatively.
- ❑ Zero-based budgeting has been carried out in govt.
- ❑ Some people consider that such a process can be undertaken only after a few years and not on annual basis.
- ❑ In India mostly budgeting has been followed on Incremental basis.



# Costs Chargeable to Projects

QUICK! GIVE THEM  
WHAT THEY WANT

# Issues with charging of costs

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## Accountability & Transparency Issues

- ❑ Gives rise to conflict of interest situations
- ❑ Donors often discourage such transactions
- ❑ Auditors generally do not have sufficient evidence to establish that all services were procured at an arm's length.

## Lack of policy among donor community

- ❑ No consistency among donor community on basis of support / implementation costs (varies from donor to donor)
- ❑ Need to recognize needs of implementation costs

## Charging by implementers

- ❑ Common costs charged in an adhoc manner resulting in lack of transparency

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# Thank You.

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-*bibliography*

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