

# PROJECT MANAGEMENT – BUDGETING & RESOURCING: Stage 3



Budgeting refers to the process of working out the cost to implement a project. It ranges from identifying how these costs will be funded, to demonstrating how to manage, monitor and adapt a budget over time.

## Why budget?

Budgeting is an essential part of the project design process. It is essential to understand the cost of a plan and how it will be funded in order to make a judgement about whether the project is feasible and if it is possible to fund it. Most community organisations and non-government organisations have limited resources to achieve their outcomes, particularly in competitive funding environments. It is therefore very important to estimate as accurately as possible the costs of projects. By costing your plans, identifying funding sources and closely monitoring your budgets over time, you will be able to make the best use of your resources available. Ambitious plans that are under-budgeted can fail to achieve their objectives or soak up resources that could have been used more effectively elsewhere; likewise, over-budgeted plans can result in resources not being made available to those plans which need them most.

## How to budget?

Good budgeting is about effectively costing what you intend to do. It requires the ability to research and estimate the real costs of your project (see full cost recovery methods - CASH) and requires ongoing monitoring and regular review as the project evolves.

When budgeting, we need to make a whole range of assumptions, such as “we will not experience very high inflation during the life of the project” or “we will be able to source the best value for money materials for the project”. It is important that you identify and document the key assumptions made during the budgeting process so that if you run over budget or under budget, these are easily explained and can be used as learning when planning your next budget.

## What to budget?

Through following the first two stages of the project management cycle, and by now you should have decided on a project to undertake and listed the activities and materials you will need. Your budget will be based on these activities, materials, human resources and management/administration costs that you will need to deliver the project (using a full cost recovery method). The initial budget is developed in the design phase. However it is also important to monitor budgets (income/expenditure variance) and revise them on a regular basis. (One Westminster’s Organisations Support team can provide useful budget monitoring tools and help you with this process). Project plan budgets also need to demonstrate how they will be resourced – i.e. from grants, donations or other forms of income.



## Income sources

Community organisations should have a combination of the types of funding below to maintain their financial sustainability

- **restricted funds:** e.g. grants from funders, commissioning contracts
- **unrestricted funds:** e.g. funds raised from trading or donations

The main distinction between these income sources is the degree of flexibility of their use and the contract management requirements. For example, grants and commissioners will have quite tight restrictions on what the money is used for (according to your budget/proposal and any negotiations you have with the funder/commissioner), whilst income from donations and trading will generally allow you to use the funds on what you would like, as long as the spending fulfils the aims and objectives of your organisation. Generally the more unrestricted funding you can raise, the fewer administration / management costs your project will need.

## Funding strategies<sup>1</sup>

When we develop a budget we need to work out how we will resource it. This is called the funding strategy. A funding strategy is when a programme plan sets out its priorities over a period and matches them up with expected and anticipated sources of income.

A programme funding strategy requires you to realistically identify a portfolio of secured and potentially available income sources to fund your project

*Key requirements for establishing a funding strategy:*

- you recognise the real costs of your project and ensure that you can get funding for it
- full advantage is taken of fundraising opportunities, to ensure that you are not dependent on any single income source
- your organisation has good relationships with funders and is able to demonstrate value for money
- your organisation's core values and aims are not undermined as a result of funder commitments
- available funds are used in a manner that maximises the amount of money for project work and minimizes your management and administration costs.

Once a funding strategy has been agreed and the budget approved, it is essential that it is continually managed and monitored. It is likely that the strategy will change over time as new and unanticipated sources of income become available and some anticipated income fails to materialise. The key components for ongoing management of a funding strategy are:

- continuous scanning to find alternative income sources for your project
- keeping tabs on both government and funder priorities

<sup>1</sup> See worksheet on fundraising strategies for more information



## Contract or Grant Funding

As detailed above, institutional funders generally have rigid requirements and processes for funding. If their guidelines are not followed, it is likely that a proposal will be rejected.

*Key issues to consider when preparing a funder proposal:*

- *Matching appropriate projects to funders.* Most contract or grant funders have a particular focus or set of priorities which may change over time. It pays to do some background research to ensure that the proposal fits in with the funder's priorities.
- *Ensure that the application is completed and that all requirements are met.* The application guidelines should always be checked to ensure that each criterion is met.
- *Budget templates.* Some contract and grant funders have set budget templates, so if a budget has already been prepared for a project, it may need to be modified to fit into the funder budget.
- *Keep budgets as simple as possible to give more flexibility.* Unless specified, it is not always necessary to provide a budget that shows the fine detail of the project. Some budget lines may be combined or grouped together. For example, instead of detailing travel costs for each staff or volunteer, this could be combined into one overall line for 'staff/volunteer travel'. This is useful as most funders require any budget variation of over 10% to be approved. If some areas are grouped together, there is a greater level of flexibility in how funds are spent. HOWEVER – this does not mean that you should not do a detailed budget for your own project – you will still need to know the real cost of your project, and doing the work and research before the proposal stage will result in a better planned project, that shows value for money, and a higher chance of being funded.
- *Submit the application on time.* Most funders will reject applications that are not submitted by the due date.



## Managing grants from funders/contracts for public service delivery

If you are successful in your funding bid, the work is only halfway done. You will need to manage this grant effectively to ensure that your organisation completes the project successfully and also maintains a good reputation with the funder.

*Key issues to be checked and negotiated and monitored when contracts or grant agreements are signed off:*

- **Contract details:** Check the details of the contract to ensure all are correct. In particular, check the reporting deadlines, reporting formats and that the final budget is included. Also ensure that all conditions included are acceptable your organisation. Contract details can often be negotiated with the funder, particularly in commissioning contracts, so contact them if you require any changes prior to signing.
- **Informing staff:** Ensure that all staff involved in managing or delivering the funded project are aware of the contract and its requirements. For example, some funders might have specific requirements for purchasing procedures, such as calling for three quotes when purchasing items over a certain value. There may be requirements to use the funders' logo. Ensure that all requirements are known to staff and that these are communicated to all new staff starting on the project.
- **Reporting:** Ensure reporting timelines are known by relevant staff and that adequate time is put aside to meet reporting requirements. If it looks like a report may be late, contact the funders as soon as possible. Funders will usually grant an extension to the reporting deadline if there is a good reason, but this must be requested in writing prior to the reporting deadline. Keep any written approvals of reporting extension on file. Ensure that funder reporting templates are used if this is stipulated in the contract/agreement.
- **Budget/activity amendments:** Most funders will insist on you getting written approval from them if you want to make significant changes to agreed project activities, timelines or budget expenditure. In most cases, these changes can be negotiated with the funder, but should be done as soon as possible and have a reasonable explanation of what has led to this. Most funders will require written approval for alterations of more than 10% to any budget line.

