Forecasting guidance in brief for UK Aid Direct grant holders

1. Financial reporting and claims principles overview

What is a budget?

A budget is:
• An important financial plan
• A control tool used to measure financial performance
• An important aid to forecasting future spending patterns
• An aid to predicting cashflow requirements
• A valuable learning tool.

Budgeting considerations

We want you to:
• Be realistic – not over ambitious
• Follow your project plan
• Profile your costs
• Research costs
• Talk to colleagues to ensure this is not prepared in isolation
• Gain consensus – let the budget owner own the budget.

Project expenditure

UK Aid Direct funding is provided to reimburse you for money spent in the delivery of your agreed project.

All Department for International Development (DFID) funded expenditure must be:
• Defrayed (a cash payment basis)
• Fully supported by documented evidence
• Paid during the claims period
• Relevant and reasonable.

The Department for International Development (DFID) will not fund items that are:
• Non-cash (for example, depreciation, accruals or provisions)
• Ineligible spend (for example, gratuities, severance pay or fines)
• Contingencies or speculative cash floats
• Non-project related.
Monitoring and comparing your spend

- The key to financial control is monitoring the actual project spend against the plan and understanding the reasons behind any variances
- Monitoring and reporting variances should be carried out on a monthly basis ideally
- Regularly comparing expenditure will allow you to identify trends and spending patterns (inflation, seasonality)
- Use graphs and/or charts to plot the actual spend to make this easier
- Understanding variances will give a more accurate spending prediction, enabling you to consider whether any of the differences will continue or whether action can be taken to realign the plan to reality.

2. Forecasting

Forecasting top tips

- A forecast is a prediction! Try not to use a crystal ball approach.
- Apply some science, logic and common sense
- Be realistic and not overly optimistic
- Remember the budget is just a plan that was set at a given point in time - it is not your forecast
- Underspends are acceptable
- No surprises please.

Project activities

- Spending should be in line with the current workplan, and profiled to occur when the activity takes place

Considerations

- Will there be a delay / has there already been a delay / will this happen again?
- Have the project activities changed?
- Will the weather / seasons affect the activities?
- Does activity tail off towards the end of the project?
- Will activity be slower during the start-up period of the project?

Capital Expenditure

- This is generally easy to predict. Most capital spend is required allow the project to begin.
- It usually takes place within three months of the project start date, but not in the first week!
- Financial assets (for example, microloans) are more complicated and must be robustly reported. Use the project activity approach to forecast when loan outlay will take place.
Staffing

- Staffing costs are expected to occur for most of the duration of the project
- It is important to monitor actual costs and identify any trends
- Forecast should be based on current salary / on costs and predicted time spent working on the project.

Considerations

- Has all recruitment taken place?
- Have pay rises been awarded?
- Are staff spending longer / less time on the project?
- Will on-costs increase (tax / benefits)
- Have staff roles changed?

Administration

- Administration costs should be based on actual spend relevant to your project
- Expected to occur for the duration of the project
- Generally semi-fixed costs.

Considerations

- When are the rent / utility bills paid (for example, quarterly?)
- Has inflation been taken into consideration?
- Are annual audit fees profiled?
- Are both UK and in-country admin costs included?

Monitoring and Evaluation

- Is usually comprised of three elements – baseline survey, regular monitoring and final evaluation
- Is relatively easy to correctly identify when spend will take occur.

Considerations

- Will external consultants be utilised?
- Have quotes been obtained?
- The who, how and when needs to be considered for monitoring visit cost forecasts
- Be clear about project expectations
- Be realistic about your predicted costs
- Underspends are acceptable and forecasting an underspend does not result in lost funding
- Invest time into understanding your costs - monitoring and forecasting will be easier
- Do not rush – adding an underspend to the next quarters budgeted spend is not a forecast!
3. **Budget revisions**

Remember that a budget is just a plan that was set at a given point in time. All plans change, and differences (variances) between a budget and reality is normal. However, the Department for International Development (DFID) have strict guidelines and variance tolerance thresholds:

- Variances at budget line level between the planned and actual expenditure of up to +/-10% of the value of the budget sub-heading are allowed
- Movement between budget sub-headings is not allowed
- For Small Charities Challenge Fund (SCCF) grants only, DFID will allow funds to be carried over from one year to the next.

**If it’s not going to plan...**

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**What can I do?**

- Contact your Performance and Risk Manager (PRM) if you are concerned. Talk to us, tell us the issues and discuss your forecast.
- Submit a budget revision – this will enable you to propose
  - Moving funds between sub-headings
  - Variances greater than +/-10% on budget line to be permitted
  - A re-alignment of the budget to accommodate any changes in project activity
- Budget revisions will be reviewed by both your PRM and the Fiduciary Risk Team (FRT) prior to feedback
- There is no limit to the number of budget revisions that can be proposed.