

Budget and Strategic Planning

Sound financial management is another building block of a strong organization, and it begins with planning out your expenses in an organizational budget. It helps to eliminate potential risks, avoid corruption and mistakes of management, and ensure staff and volunteers know clearly where the funding comes from and where it will go. Moreover, a transparent budget can help gain trust among your donors and the community you serve.

Think of budgeting as a later stage of strategic planning. At Asia Catalyst, we complete budgeting *after* we finish our annual strategic plan, because the strategic plan helps us to create a roadmap for our activities and the expenses they will require.

Budgeting can be done on multiple levels, and in this chapter we will focus on two levels: the organizational “**Global Budget**” and individual “**Program Budgets**” that will form component pieces of the Global Budget (more on these later).

Before we get into the details of budgeting, it is important to think about the process, who should be involved in it, and challenges you may face in the process, and after the budget is written.

Budgeting and Inclusion

Earlier in this guide, we discussed the idea that “human rights begin at home.” Before change can be brought to society at large, we must first model the changes that we wish to see in ourselves and within our own organizations. The way your organization writes and shares budgets is an important part of this idea.

Transparency is a core value at Asia Catalyst and we believe essential for promoting the inclusion and meaningful participation of all members of your organization too. Budgets should be *transparent* and *open* to your staff, who should not only have a grasp on your financial status but must be active in monitoring appropriate expenditure of the funding

you take in. In many jurisdictions, an annual budget must be approved by the board of directors, with any significant changes also requiring approval by the board beforehand.

Because NGOs and nonprofit entities take in donations to carry out their work, we must be vigilant in safeguarding and managing those funds, ensuring that they are used for their intended purpose. Upholding budget transparency within your organization involves three key concepts:

Availability: Making your budgets available to your board of directors and all staff members is important so that they understand your organization's financial situation and can help monitor that funds are spent appropriately.

Clarity: Writing clear budgets that are understandable inside and outside of your organization is also important. Someone with little knowledge of your work should be able to pick up and understand your budget. At the very least, transparent budgets should contain the following three columns: *expense item*, *calculation*, and *total need*. A clear budget should be able to show what each expense item is and how you reached your final figures. Ask yourself this question when creating a budget: *will somebody from outside of the organization understand how each calculation works while reading your budget?*

Reality: Your budget calculations should be realistic, and rooted in either past experience, or research. It is important to look at past spending patterns as you build your budget. For example, if you have spent \$500 per year on office supplies for the past two years, that is a realistic budget amount unless you have had a significant change in your organization or your programming.

Challenges with Budgeting

Your budget is a key pillar of your organization. It is based on your strategic plan, and program timeline and serves as your roadmap for finding the resources needed to carry out your activities. Once you've taken in the resources to run your programming, the budget helps you track your expenses and make changes to your plans based on current realities.

Miscommunications may arise among your team, or between you and your donors if your budgets are not understood in the same way by all parties.

In program management, you might face challenges in any aspect of your budget, for example:

- What happens when the budget requirements of a program donor or a trustee party conflict with your organization's current policies?
- What do you do when faced with ambiguities or uncertainty in the budget?
- How will you keep track of your actual expenses?
- How do you deal with a situation where actual expenses exceed your budget?
- What elements do you need to take into consideration when creating a budget? (How do you project a budget into the future?)
- Does your budget take risk management expenses into account?
- Does your budget include monitoring, evaluation and reporting costs?
- Does your budget cover capacity building costs?
- Does your budget include the basis for quotes?
- What is the difference between budgeting and projecting costs?

Before writing your budget, we recommend that you brainstorm and share problems you have encountered with budgeting at work, and think as a group of how you overcame those problems, and what you might do differently this time.

The Global Budget vs. Program Budgets

Global Budget: Your organization's **Global Budget** evaluates and seeks to anticipate all of your organization's expenses over the period of time it covers, usually a year. A global budget is a comprehensive organization-level budget that covers everything that your organization does, and will spend money on. This will include your expenses such as staffing, rent, and utilities, as well as the costs to carry out your specific program activities. It is likely made up of one or more program level budgets along with other costs that don't fit neatly into just one program, but are shared by the organization's different programs.

Program Budgets: A program budget provides a view of just one of the organization's programs. When you apply for grant funds, your donors usually ask to see a budget for the program. Some may also ask to see your organizational or global budget. Since global budgets can become very large and cumbersome (especially as your organization grows), it is sometimes preferable to have separate program budgets to work with on a regular basis. Program budgets are also helpful for budget management: if different staff members are managing expenditures over different programs, it is helpful to clearly separate responsibility and funds.

This handout will show you how to create both.

Step-by-step

Setting up the Spreadsheet

Once you have finished the Strategic Plan (see **How To Create A Strategic Plan** and **Template| Logic Model**), you can fill in the organizational budget, putting your actions –that is, your activities for the coming year – under “Program Costs.” These costs should correspond to the actions in your Strategic Plan, as well as your Timeline.

You can create your budgets manually with pen and paper or you can use computer software. A spreadsheet program will help you keep things more organized, and reduce the possibility of calculation errors. Microsoft Excel is an excellent tool for simplifying your calculations. Alternatively, for a free spreadsheet program, visit www.openoffice.org.

We recommend you include the following columns when you build your budget:

- Expense Item:** List each item on a separate line.
- Calculation or Units & Cost per Unit:** Explain how you calculate each cost.
- Total Need:** the total amount needed for each line.

In a simple budget, your budget should include these columns at a minimum:

Expense Item	Calculation	Total Need
Rent	\$300/ months x 12 mo.	\$ 3,600
Office supplies	\$60/months x 12 mo.	\$ 720

Another, more precise way to do this is to break the calculation into two columns, so that you have only one set of numbers in each column. In this approach, instead of a “Calculation” column, you would have a “Units” column and a “Cost per Unit” column. Here's an example:

Expense Item	Units	Cost per Unit	Total Need
Rent	12 months	\$ 300/ month	\$ 3,600
Office supplies	12 months	\$ 60/ month	\$ 720

Whichever calculation column you use, it is important that the column lists exactly how you came up with each cost. It is very important to be specific. For instance, if you pay your rent each month, it is important to know how much you pay each month, and what you will need in total. In this case, the “calculations” column says “12 months x \$300/month” and the total amount we are budgeting for rent is thus \$3,600.

What if you know that your rent will go up when you renew your lease? Or if you need to move to a bigger office? It is important to capture this, and instead of keeping all 12 months of your year on one line, you might split them up over two lines. It is important to remember to include all 12 months if you are budgeting for a year (and not to include extra months!)

Expense Item	Units	Cost per Unit	Total Need
Rent	3 months	\$ 300/ month	\$ 900
Rent (new lease or new office)	9 months	\$ 400/ month	\$ 3,600

Sometimes, your spending may not break neatly into months, but you may have historical information to help you plan. If you spent about \$720 for office supplies over the last year, you can average the total over your twelve months to break it into units. Above, the “calculations” column says “\$60/month x 12 months.” This makes it easier to remember and update the number later, if we find out our calculations were not correct or the situation has changed. For those managing the budget, or donors that might review it, it also clarifies how we arrived at each amount.

The reason to spend the time going into such detail in the beginning is that later on, your estimates of what things cost may change. You want to make it as easy as possible to go back and remember how you came up with each number without having to recalculate it again each time you look at the budget – or worse, to constantly bug your colleagues with questions like, “what on earth were we thinking when we only allocated \$1,000 for hotel rooms?” If your budget is detailed enough in the beginning, you can easily see what you were thinking.

For each expenditure, you should take the time when you draft your budget to research what the likely cost will be, or to look at past spending. This may involve calling some companies and doing some research online. Your numbers will likely change from year to year based on your activities or changes in market costs, so think about any differences in this year’s activities if you are comparing to last year’s numbers.

If you are planning a conference or workshop, here are some costs you will need to include. Remember to include budget amounts for staff in each of these categories as well.

Travel for participants: Estimate the airfare. In the calculation column, put [the estimated airfare x number of participants].

Ground transportation: Each participant may need to take a taxi to get to and from the airport – especially if the airport is in another town. In the calculation column, put the [allowance per person x number of participants]. You may want to reimburse people based on how much they actually spend, but you can also just tell each participant what their ground transportation allowance is and give each person the same amount.

Accommodations: Estimate what a hotel room will cost for one night, how many people will stay in each room, and in the calculations column, put the [estimated cost of the room x number of rooms x number of nights]. If you do not know what a hotel will cost, look online or call a few hotels and ask them. Remember that people may need to arrive

a day early if your workshop starts in the morning. If participants want to stay longer than you have budgeted for them to stay, they will need to pay for those nights themselves.

Per diems: Anyone who is traveling for a program should get a per diem allowance, or be reimbursed for items such as meals, water, internet and taxis that they would only have to spend money on when traveling for your program. It is best if your organization has a policy on how much you pay for per diems, and pay everyone the same amount. At Asia Catalyst, we have a policy that all staff and program participants are given a per diem of a certain amount when traveling, regardless of who they are and where they are traveling. At Asia Catalyst, we divide the consumption standards into three tiers, for instances, in the most expensive cities like Hong Kong and Singapore, the per diems fall into the first tier (the highest); in cities like New York, we give the second tier (the medium) per diems; while all cities in China are included in the third tier (the lowest). Each organization can set its own per diem and accommodation costs policy according to your realistic standards. When you have that policy, put [amount x people participating in the program] in the Calculation column in your budget.

Additional things to include	Things NOT to include
<p>If you are running workshops:</p> <ul style="list-style-type: none"> <input checked="" type="checkbox"/> Visas <input checked="" type="checkbox"/> Meeting room fees <input checked="" type="checkbox"/> Group meals <input checked="" type="checkbox"/> Coffee/tea breaks <input checked="" type="checkbox"/> Cost of a projector <input checked="" type="checkbox"/> Interpreter’s hourly rates <p>If you are producing a research report:</p> <ul style="list-style-type: none"> <input checked="" type="checkbox"/> Design and layout <input checked="" type="checkbox"/> Editing <input checked="" type="checkbox"/> Translation (of drafts and final draft) <input checked="" type="checkbox"/> Printing <input checked="" type="checkbox"/> Shipping/postage (to send to donors, supporters, etc.) 	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Miscellaneous or unidentified expenses <i>There are often unexpected costs in a project, but you should try to plan for everything in detail when drafting a budget. Donors, bookkeepers, and auditors will never allow you to have a “miscellaneous” category because it’s a red light signaling possible fraud.</i> Bribes <i>Although this may be common practice in some countries, bribes are not a legitimate expense for NGOs.</i> <div style="background-color: #e0e0e0; padding: 5px; margin-top: 10px;"> <p>These items should not be in budgets and should not be in your financial management system at all.</p> </div>

Funding your Budget

Once you have built your budget, it is important to decide how you will fund the activities you have budgeted for. This will likely be a combination of funds already received (**secured funds**) from donors and current grants as well as new proposals that you will submit to fund your programming.

You can track these requests in your budget spreadsheet by adding additional columns to the right.

At Asia Catalyst, our global budget includes several additional columns with the costs for which we have **secured funding**. Beyond those columns, we also have columns for funds applied for in outstanding grant proposals. We format each of these columns in italics to remind us that this income is not yet confirmed. We do this so that if we are applying for multiple grants to support a single project, we can see which items still need funds, and in this way we also avoid raising more for a specific item than we need. Once the proposal is granted, we make any changes required by the donor to the budget and change the column from italics to normal formatting so that we can see we now have this money to spend. We check the budget every time we need to spend funds.

Expense Item	Units	Cost per Unit	Total Need	Secured Funds, Donor A	Remaining Balance	<i>Applied Funds, Donor B</i>
Rent	12 months	\$ 300/month	\$ 3,600	\$3,000	\$600	<i>\$600</i>
Office supplies	12 months	\$ 60/month	\$ 720	\$600	\$120	<i>\$120</i>

- Secured Funds:** you may need to have a separate column to show the funding that is secured.
- Remaining Balance:** this is the amount you still need to raise.
- Applied Funds:** these can be additional columns for proposals that you have submitted but not yet received an answer.

Expenditures Categories

When writing your budget, it is helpful to think about the type of expenses you will have, and group them into categories. This will help you remember to include all of the items you will need to spend money on throughout the year. After you've created your budget, these categories will also help you track your expenditures, and can guide your fundraising efforts.

Most organizations adopt a “**Chart of Accounts**” that serves as an internal list to break expenditure categories into smaller components – broad expense categories, and then individual expenditure subcategories that can be made more specific to meet your needs. For example:

Expense Category:	Staffing Costs
Subcategories:	Salaries Payroll taxes Benefits (such as health insurance)

Expense Category:	Office Costs
Subcategories:	Rent Utilities Cleaning services

Expense Category:	Travel Costs
Subcategories:	Airfares Ground transportation Accommodations Per diems

Expense Category:	Workshop & Training Costs
Subcategories:	Meeting room rental Workshop materials Group meals

Expense Category:	Health Services
Subcategories:	Condom distribution Travel for outreach HIV testing kits

The Chart of Accounts also ties into your accounting system and can help you track expenses by type as you go.

Do an internet search for a sample non-profit Chart of Accounts in your country. There are many templates available for free download, or if you are using an electronic accounting system, many come pre-loaded with a sample Chart of Accounts. You can and should personalize the accounts to your organization, but please consult an accountant for guidance, particularly about how you will need to use the accounts to generate data for governmental reporting or filings.

Expenditure Categories to leave out of your budget:

When writing your budget, it's also important to leave some things out. Here are a couple:

Miscellaneous expenses: Miscellaneous expenses should not be included in your budgets. Although there are often unexpected costs in a project, you should try to plan for those costs in detail when drafting your budget.

Money for bribes: Although this may be a common practice in some places, bribes are not a legitimate expense for NGOs, and offering a bribe is almost always illegal.

What is the difference between Direct Program Expenses and Indirect Expenses?

Of the expense categories above, many organizations choose to identify their expenses as “**Direct Program Expenses**” or “**Indirect Expenses.**”

Direct Program expenses: Direct program expenses are those spent to carry out your program activities – those listed as part of your annual strategic plan, and in accordance with your mission. These costs can be separated out by different programs and include staff time spent for each program, equipment and materials you buy for the program, travel for the program, and space you rent for program activities.

The largest expenditure in your program expenses may be the staff required to run it. Say, for example, that you are going to hire a program officer to work on the project. Her salary, health insurance, and any other benefits should go in the direct program section of your budget. If her supervisor is a program director who supervises other projects as well, then you should estimate the average number of hours a week that the program director will spend supervising this program officer. Perhaps the workload is going to be about one day per week (eight hours), except when there is a big meeting or workshop, when it will be forty hours. You can estimate about ten hours a week as an average. In that case, the program director is spending 25% of her time supervising this project, so 25% of her salary, health insurance, and social security should go into the program expenses section of your budget.

Indirect expenses: Your indirect costs, sometimes known as “administrative expenses” or “overhead costs,” are the costs of running the organization that cannot be directly attributed to any one program. These are often expenses that are shared across all of your programs, and some costs that are not for any specific program.

These costs are often mistakenly budgeted – which can pose problems for calculating the true costs to run your programs. In addition, costs not correctly allocated to your programs can create challenges in your fundraising efforts, as many donors have a cap on indirect /administrative/overhead expenses.

Many donors prefer to see administrative costs that are less than 20% – ideally 15% or so – of your total project budget, so it is important to budget costs accurately, and make sure that you budget costs that are directly for the program to the program costs expense categories. You should budget the costs that go directly to running the program to these categories as much as possible, including portions of salaries and rent based upon the organizational resources needed for that program.

Any cost that is a direct result of running your program is a direct cost, so remember to budget as such.

Indirect costs may include: staff time and salaries for non-program staff such as bookkeepers and office assistants, the cost of audits, telephone, internet, utilities, rental space, photocopies, technology expenses (that are not for direct program staff), etc.

In addition, you might have other costs that aren't directly linked to your programs, such as fundraising for new programs.

Identifying and understanding your indirect costs is very important when it comes time to fund your budgets. If you leave your indirect costs out of your proposals to donors and don't have another way to fund them, you will have difficulty running your programs.

When it comes time to understand the total cost of your programs and to seek funding for them, it is important to determine your indirect or administrative expenses for each project. In general terms, you should estimate what percentage of the organization's resources each project will require.

This is where it is helpful to have Program Budgets that come together to make up your Global Budget. **Imagine that we have four programs, with the following budgets:**

Program	Program Budget	Percentage of Programming Budgets
Program A	\$1,000	10%
Program B	\$2,500	25%
Program C	\$5,000	50%
Program D	\$1,500	15%
TOTAL	\$10,000	100%

Based on the program percentages above, we can distribute the cost of indirect items to the various programs in the same way. Program A would assume 10% of the indirect costs, Program B 50%, and so on.

Here's an example of some of the costs we mentioned earlier:

Item	Cost	Program A (10%)	Program B (25%)	Program C (50%)	Program D (15%)
Audit	\$1000	\$100	\$250	\$500	\$150
Telephone & Internet	\$100	\$10	\$25	\$50	\$15

Now, in our program budgets sent to donors, the calculations for these items may look like:

Program A:

Expense Item	Calculation	Total Need
Audit	\$1000 x 10%	\$ 100
Telephone & Internet	\$100 x 10%	\$ 10

Program B:

Expense Item	Calculation	Total Need
Audit	\$1000 x 25%	\$ 250
Telephone & Internet	\$100 x 25%	\$ 25

Staff salaries can be included in both administrative and program costs, but the same position should only appear in one section. How would you allocate salaries in both categories?

You should estimate what percentage of the organization's resources the project will require when calculating the percentage it takes in the administrative cost. **This is where having a strategic plan will make budgeting much, much easier!**

What about larger costs like staffing? Administrative staff, managers and bookkeepers, assistants and the executive director? How do you include these in the project budget?

Here's how we do it: Individual salaries are allocated based on the amount of time each individual will spend on the project (for our executive director, usually about 10%, unless she is heavily involved in implementing the program, and then that number would go up).

Sample Program Budget

Expenses	Calculation	Need	Generous Foundation	Request from Family Trust	Balance
Administrative expenses					
Executive director	\$5,000/month x 10% of time	\$500	0	\$500	0
Rent	12 mo. x \$500/month = \$6,000 x 25% of time	\$1,500	\$500	\$1,000	0
Subtotal Administrative	–	\$6,500	\$500	\$6,000	0
Program expenses					
Program officer	\$4,000/month x 100%	\$4,000	\$5,000	\$15,000	\$20,000
Report translation	\$5,000 flat fee	\$5,500	0	\$5,500	0
Report design	\$1,000 flat fee	\$1,000	\$1,000	0	0
Report printing	10 copies x \$5/each	\$5,000	0	\$2,500	\$2,500
Postage	10 copies x \$2/each	\$2,000	0	\$1,000	\$1,000
Subtotal Program	–	\$53,500	\$6,000	\$24,000	\$3,500
Total Budget		\$60,000	\$6,500	\$30,000	\$23,500

Analysis

- ✓ There is a clear division between administrative and program expenses;
- ✓ It includes funding received from a Generous Donor; though the Family Trust has not yet agreed to supply funding. It is good to show your potential donor that you have some grant funds raised already, and that even if you do not raise the balance still needed, you can proceed with the project with their grant;
- ✓ Based on the need and donor columns, the balance column shows the amount of money that still needs to be raised for the project;
- ✓ No money for bribes or miscellaneous expenses;
- ✓ Total administrative expenses are \$6,500, or less than 20% of the total project cost of \$60,000;
- ✓ The Calculation column makes clear how each expense was calculated, including the percentage of staff time devoted to the project.

Like a strategic plan, a budget is a living document. It is important to review your budget against your expenses on a regular basis. You should also adjust your budget based on the funding you have actually received. Always update staff about any changes you make to your budget to preserve transparency.

Very important: Before you send this off as part of a grant proposal, do some research and make sure to find out what your donor likes to see in a project budget. Unfortunately, each foundation has its own budget form. Larger foundations and government donors often have specific ways that they want you to break down costs, rules about things like per diems, and guidelines on how much you can spend on certain things. Some donors will not cover specific categories (such as travel expenses) at all.

There are more challenges that you are likely to encounter in the process of budgeting. You should make adjustments according to the individual circumstances of your organization. Scenarios may include:

- Expenses that cannot be calculated
- Inviting important government partners to dinner
- Preparing small gifts for training participants

For these questions, you have probably already come up with management strategies. For example, some organizations will connect some necessary expenses with the program. In the financial management system of an organization, there is a category for “unrestricted funding,” for example, individual donations or income from consulting for other individuals and organizations. This funding, if its destination is not specified, can all be included in the “unrestricted funding.” As its name suggests, an organization can spend this portion without restrictions. When necessary, you can use this unrestricted funding to cover the expenses towards which donors are not willing to give their funding.

Global Budget

So far, we have discussed budgeting for a specific program; the other budget is an organizational global budget that includes all of the expenses of an organization. A global budget has budgets for all programs and all administrative costs. The way to create global budget is similar to creating a program budget. Here is an example of a global budget:

Expenses	Calculation	Need	OSF	LSF	Gates Foundation	Balance
Program A: Training						
Salary: program manager	\$16,000/year	\$16,000	\$4,000	\$4,000	\$4,000	\$4,000
Ground Transportation	\$20/person/day x 2 days x 10 people	\$400	\$150	\$50	\$50	\$200
Rent	\$500/day x 2 days	\$1,000	\$500	\$300	\$200	0
Curriculum Print	10 copies x \$30/each	\$300	\$100	\$100	\$100	0
Tea breaks	\$50/day x 2 days	\$100	\$100	0	0	0

Subtotal: Program A		\$17,800	\$4,850	\$4,450	\$4,350	\$4,200
Program B: HIV/AIDS Outreach and Education						
Salary-program manager and assistant	\$15,000/year + \$12,000/ year	\$27,000	\$6,750	\$6,750	\$6,750	\$6,750
Consultant	3 months x \$800/mo.	\$2,400	\$600	\$600	\$600	\$600
Ground Transportation	\$20/day x 20 days	\$400	\$50	\$50	\$50	\$250
Handbook Printing	300 copies x \$1/each	\$300	\$150	\$150	0	0
Subtotal: Program B		\$30,100	\$7,550	\$7,550	\$7,400	\$7,600
Total: Programs		\$47,900	\$12,400	\$12,000	\$11,750	\$11,820
Administrative						
Salary: Executive Director	\$20,000/year	\$20,000	\$7,000	\$7,000	0	\$6,000
Salary: accountant	\$12,000/year	\$12,000	\$3,000	\$4,000	0	\$5,000
Office rental	12 months x \$870/mo.	\$10,440	\$2,610	\$2,610	\$2,610	\$2,610
Postage	\$40/month x 12 mo.	\$480	\$50	\$50	\$50	\$330
Phone and internet	12 months x \$47.50/mo.	\$570	\$150	\$150	\$120	\$150
Fundraising consultant	3 months x \$800/mo.	\$2,400	\$600	\$600	\$600	\$600
Annual report printing	250 copies x \$1/ each	\$250	\$125	\$125	0	0
Total administrative		\$46,140	\$13,535	\$14,535	\$3,380	\$14,690
Grand Total		\$94,040	\$25,935	\$26,535	\$15,130	\$26,150