

Is budgeting important? What are the different types of budgets an organisation should prepare?

Speaker: Is budgeting important and why?

Budgeting has become an important aspect but it is the second step. What do you think is the first step?

Audience: Planning

Speaker: Without plans there cannot be any budgets. Planning in financial terms is what budget is all about. So first you make a plan, populate it with figures and that becomes the budget. How many types of budgets should an organization prepare?

Audience: Annual, midterm, project-wise, etc.

Speaker: Should there be an organizational budget?

Audience: Yes

Speaker: That is a bigger challenge. Though NGOs are perpetual entities and growing concerns, a lot of things are variable. Donors will not approve any project without a budget and hence there is a need for project-wise budget. How do we prepare an organizational budget?. What you need is two budgets – one, a small organizational overhead budget which will cover common costs and second, a total budget. You prepare both the budgets; have negotiations with all donors regarding salaries, office rent, etc and decide on the same. When more projects start coming, then the organizational costs will get further distributed. So in large and medium-sized organizations, project-wise project budgets and some common costs, common to all projects will constitute an organizational budget, which needs to be covered on an agreed upon basis by all the other projects.

Audience: what do you mean by common costs for all the budgets?

Speaker: Common costs are the costs that cannot be allocated to a particular project.

Audience: For example?

Speaker: Like an accountant's salary as he is doing the accounting for all the projects. Another example is an executive's salary or support staff salary. Office rent, water and electricity bills are also examples of common costs. These expenses are a part of the organizational budget which will get absorbed by various projects. The challenge you face here is that these projects might have different timelines. For e.g. project A might be for 3 years, project B for 1 year and project C might be for 2 years. Hence it is very essential to prepare an annual breakup. Even though you may have prepared a 3 year budget and got it approved by the donor, but for implementation purposes preparing annual budgets and annual overall forecasts with the common costs should be your framework.

Audience: So would you then recommend that for multiple projects over multiple time periods we have a formula where we go by the proportion of funding for the organizational budget.

Allocate expenses and run projects. We must break a 3 year project into implementable annual plans. If we do not make these calculations then the whole thing happens in a very haphazard manner. This is a very important exercise to be done in every organization and this will vary from organization to organization. It cannot be the same practice in every organization but the principle will be the same.