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Forecasting guidance for UK Aid Match grant holders

What is a forecast?

For grant holder financial reporting purposes, a forecast is a prediction or estimate of project expenditure that is likely to be incurred over any given time period.

Forecasts are hugely important in helping organisations predict and plan for cash flow requirements as well as aiding resource planning. They are usually prepared on a rolling basis and will fluctuate and adapt based on changes to planned activities and to events that occur unexpectedly.

A forecast should not be confused with a budget which is an important control tool, set at a given point in time. Budgets are valuable learning tools and should be used to measure and monitor financial performance. Budget variances can be a useful aid when forecasting future spending patterns.

Why is forecasting important?

For grant holders: For you and your organisations, forecasts allow you to plan for both the short and longer-term futures. Forecasting is the process of estimating relevant future events, based on an analysis of what has happened in the past. Forecast should predict and reflect what is needed to allow you to be able to deliver everything you have planned to do.

For the Fund Manager: Every month, MannionDaniels is required to submit an updated forecast of planned expenditure for all UK Aid Direct and UK Aid Match grants to the Foreign, Commonwealth & Development Office (FCDO). The information you provide in your claims is reviewed and assessed by your performance and risk manager (PRM), before being amalgamated and further analysed by our finance team.

For the Foreign, Commonwealth & Development Office: Forecasting gives the FCDO an insight into the activity of the portfolio, ensures sufficient funds are available to meet the needs of Aid programmes and allows spending to be monitored and kept in line with the percentage Gross National Income (GNI) target.

The forecasting requirement

Quarterly financial reports are required to be submitted every quarter by all UK Aid Match grant holders. There are two windows to submit your report every quarter. The deadlines can be found on the UK Aid Match website.

The report should detail your actual expenditure for the prior three months and include a forecast of your predicted spend for the remainder of the financial year. The forecast section in each financial report is configured to automatically update to include your reported actual spend to date, leaving cells highlighted in blue to be completed with your predicted spend.

The summary tab of your financial reporting workbook also contains a record of all your submitted forecasts and compares these with the actual spend that you have reported. This allows you to quickly identify areas that may need to be looked at more carefully when considering future forecasts, highlighted in the Under/(over) spend columns.
If your forecast needs to be changed, make sure to contact your PRM immediately.

General guidance for forecasting

When considering your forecast, please bear in mind the basic funding principles that apply to FCDO funded projects:

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

All FCDO funded expenditure must be:

- Fully defrayed (reported on a cash payment basis)
- Reported in the correct period
- Relevant and reasonable
- Able to be fully supported by documented evidence
- Not be claimed on an accruals or provisions basis.

A key financial control for any grant holding organisation is to monitor the actual project spend against the budget and understand the reasons behind any variances. Ideally monitoring should be carried out on a monthly basis. Regularly comparing your expenditure will allow you to identify trends and spending patterns (inflation, seasonality, timings of regular payments). Using graphs or charts to plot the actual spend may make this easier.

Understanding variances against the budget will allow you to give a more realistic spending prediction and consider whether spending levels and trends will continue and when action needs to be taken.

Forecasting considerations

Project Activities

Your forecast spend for project activities should be in line with the current workplan and profiled to occur when the cost of activity will be paid for.

Considerations:
Will there be a delay?/Has there already been a delay - why?/Is this likely to happen again?
Will the weather /seasonality affect future planned activities?
Have the project activities changed?
Does activity tail off towards the end of the project?
What activity will happen during the start-up period of the project?

Capital Expenditure

Costs related to capital expenditure are generally the easiest to predict. Most capital spend is required in the early stages of implementation to allow the project to begin. There is generally no capital spend required following this time period.

The payments for capital expenditure usually take place within 3 to 4 months of the project start date.

Financial assets - for example, microloan capital - are more complicated and must be robustly reported, use the project activity approach to forecasting to consider when loan outlay will take place.

Staffing

Staffing costs are expected to occur, as a constant, for most of the duration of the project. It is important to monitor actual costs and identify any trends and try to understand the reasons for any variances against your budgeted plan. Your forecast for staff costs should be based on current salaries, plus on-costs and the predicted time spent working on the project.

Considerations:
Has all recruitment taken place?
Have pay rises been awarded?
Will on-costs increase (statutory taxes or cost of benefits)?
Are staff spending longer/less time on the project?
Have staff roles changed?

Administration

Direct administration costs should be based on actual spend relevant to your project. As with staff costs, these are expected to occur for the duration of the project. Some costs are semi-fixed costs and can be more easily forecast. NPAC costs are variable and should be forecast at the agreed percentage of direct project spend.

Considerations:
When are costs actually paid?
Is inflation causing costs to increase?
Is the forecast NPAC realistic?

Monitoring and evaluation

Costs related to monitoring and evaluation usually comprised of three main elements – baseline survey, regular monitoring throughout the project and the final evaluation. Generally, it is relatively easy to correctly identify when spend will occur.

Considerations:
Will external consultants be utilised?
Have quotes been obtained and the consultant contracted?
The 'who, how and when' needs to be considered for monitoring visits cost forecasts?
Has the baseline study been delayed, what were the findings?

Common errors

- Not completing the forecasting template correctly
- Overstating the total forecasted costs for the year
- Replicating the quarterly budget figures as the forecast
- Not taking over/underspends into consideration

- Unrealistic forecasts
- Unexplained, significant swings in forecasts.

Frequently asked questions

Q: Where an activity is delayed and deferred to the following financial year, how should this be reflected in current year forecast?
A: Whilst UKAM grant holders have the flexibility to move budgets between financial years, please ensure that, if an activity or other significant costs are to be moved to the following financial year, an explanation and estimate of the costs involved should be included in your narrative report, and the forecast for the current financial is reduced accordingly. A budget revision will be required.

Q: In regard to reporting on cash basis, should this be when the activities are paid for by our delivery partner, and not when we pay them to reimburse this cost?
A: Costs paid for by delivery partners should be forecasted and reported when they are paid for by the partner and not when the funds are transferred.

Q: Is a No Cost Extension request required for costs projected to be spent during project closure?
A: A No Cost Extension for the final evaluation costs is not required; however, no other costs should be incurred after the project end date. The only exception is monitoring and evaluation costs which often happen late in the project cycle. Invoices paid after the project end date can be claimed up to 3 months after the project has ended, providing they relate to expenditure incurred before the project end date.

Q: How do you advise grant holders to monitor budget and forecasts at a budget line level?
A: The expenditure reporting template should include the budget line heading, which will allow you to internally monitor the spend incurred against each budget line. We also provide annual financial reports with this level of detail.

Q: When you refer to the variance in actual expenditure, do you mean when compared to the initial budget, or the latest forecast?
A: Both should be reflected on. The quarterly narrative report (on Antelope) includes three sections to allow for explanations of variances to be reported. The first section focusses on the reasons for variances in the current claim against previous forecast, the other two sections focus on the forecast for the next quarter and the annual forecast. As a minimum all three of these narrative sections should be completed and, it would also be helpful if you could also include the explanations in Section 4 of the claim sheet.

Q: Can you please clarify the claims for overhead costs? We are required to report on actuals, what happens if the actual is more than the approved budget?
A: Approved NPAC is the only budget line that is not required to be reported as actual costs. The amount of NPAC included in your claims should be based on the approved NPAC percentage being applied to the direct costs actually incurred each quarter. All direct project administration costs

should be reported, and forecast based on actual costs. If these are persistently and significantly above the budgeted rates you should request a budget revision.