

# Forecasting guidance

## Financial reporting and claims principles overview

### What is a budget?

- 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

- 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 Match funding is provided to reimburse for money spent in the delivery of an 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 provision.
- Ineligible spend. For example, gratuities, severance pay or fines.
- Contingencies or speculative cash floats
- Non-project related.

## Monitoring and comparing spend

- The key to financial control is monitoring the actual project spend against the plan and understanding the reasons behind any variances
- Ideally, monitoring and reporting variances should be carried out on a monthly basis
- Regularly comparing expenditure will allow you to identify trends and spending patterns. Use graphs and 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 re-align the plan to reality.

## Forecasting

### Forecasting top tips

- A forecast is a prediction. Apply 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.

## 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 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?
- 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?
- 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. Do you need to revise your budget?

### **Budget revisions**

Remember that a budget is just a plan that was set at a given point in time. All plans change, and differences 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 UK Aid Match, DFID will allow funds to be carried over from one year to the next.

### **If it's not going to plan...**

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

### **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
- 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.