

How To Develop A Project Budget (155)

Your route is likely to implement projects fairly often to promote your area and members. These will usually cost money to implement, and so a budget will be necessary to ensure that the project is affordable and can be fully implemented with the available money. The project budget will need to be separate from the budget that you use to manage the route itself, so that you know how much can be spent and when.

This Guide explains how to prepare a budget for a specific project, considering what the project will involve (what tasks need to be carried out), how long it will last, and which project tasks need to be paid for from the project budget.

The central message here is that financial management is a key part of managing projects successfully. You will need to manage the funding for every project carefully, especially when the funding is from an outside donor with whom you want to build a longer-term relationship.

A number of other Guides may be useful on related topics, such as [How To Manage A Short-term Project](#) and [How To Develop And Manage A Route Budget](#).

Why is a project budget important?

For every project that is going to take money to implement, a budget is both necessary and important, for these reasons:

- In the early stages of the project, it helps to work out whether or not the project is affordable. Rushing into an activity before working out the costs is risky, since it may drain cash that was meant for other things, or the activity may simply fail because the money ran out

before it could be completed.

- Working out a budget in advance allows you to take the idea to outside funders as a proposal – to apply for a grant or sponsorship.
- A budget helps to structure the implementation of a project, forcing you to get accurate estimates from suppliers and clarifying your deadlines for procurement and delivery.
- By summarising all the costs in a budget, it is easier to see in advance whether a project is value-for-money, as you can more clearly compare the cost with the expected impact or return.

What is a project budget and how is it used?

A project budget is a week-by-week or month-by-month forecast of how much money is to be spent on which cost items. Usually, after a project is approved, a certain amount of money is made available (either from the route or a donor), and this forms the basis of the budget. All expenditure is then drawn from this amount, and the budget ensures that the spending does not exceed the available amount.

It therefore looks similar to a route's annual budget for operations, but will be focused on what needs to be done to complete the project.

Project plan

The project plan will outline what needs to be done, setting out which tasks need to be tackled first, which tasks must follow, and which tasks can be carried out at the same time. What the project budget does is to provide the costs of each of these tasks, activities or jobs – and indicate when the money will have to be paid out to get those tasks completed.

The simple project expenditure budget below illustrates how this could be done with a small building project that will last from January to June:

Project expenditure budget

Project to build a craft sales room	Jan	Feb	Mar	Apr	May	Jun
Design and planning	R 20,000					
Earthworks and foundations		R24,000				
Utilities and services		R15,000				
Bricklaying, door-frames and window frames			R34,000			
Roofing and flooring				R43,000		
Plastering and tiling					R 32,000	
Internal fixtures						R 38,000
Total payments	R 20,000	R 39,000	R 34,000	R 43,000	R 32,000	R 38,000
Consolidated payments	R 20,000	R 59,000	R 93,000	R 136,000	R 168,000	R 206,000

By adding another column called 'Actual' to record what is actually spent each month after the project starts, you can compare the budgeted figure to the actual figure and quickly see any overexpenditure or underexpenditure.

This is useful to get an early warning of overspending, so that the reasons can be investigated and the problem can hopefully be solved before it happens again. Below is the sample simple project budget with a column for actual figures (only January to March are shown here, so that the contents of the table are easier to see).

Table comparing Budgeted and Actual spending

	Jan		Feb		Mar	
	Budget	Actual	Budget	Actual	Budget	Actual
Design and planning	R 20,000	R21,000				
Earthworks and foundations			R24,000	R22,000		
Utilities and services			R15,000	R16,000		
Bricklaying, door-frames and window frames					R34,000	R34,000
Roofing and flooring						
Plastering and tiling						
Internal fixtures						
Total payments	R 20,000	R 21,000	R 39,000	R 38,000	R 34,000	R34,000
Variance	R 1,000		R 1,000		R 0	

Budgeting for income

Some projects may not be lucky enough to start off with a lump sum in the bank ready to be spent – the money may have to come in installments, with just part of the total required being available at the start and rest arriving later. In this case, the project budget must include an Income column, which will show how much money is available each month. The project schedule will then have to be planned according to what can be afforded each month.

Who is involved with the project budget?

With most projects, there must be a person who will take overall responsibility for planning what must be done, coordinating the input of everyone involved, and implementing the plan. This person – usually the project manager – will also be responsible for the project budget, although the route's financial manager will also need to be involved to help develop the budget and to sign off the final budget (on behalf of the Route Forum).

The project manager could also put together a budget team made up of the key people implementing the project (who may include contractors or other outside experts). Every week, the budget team can meet to confirm that they are sticking to their specific budgets, or to raise any concerns about the financial side of their particular aspect of the project.

How is a project budget used by the route?

Any project that a route wants to tackle will have to be discussed, investigated and passed by the Route Forum before it can go ahead. The Route Forum will also have to see the

project budget, to check that it is coherent, reasonable and affordable.

The Project Manager will need to present both the project and its budget to the Route Forum and to make any changes that are considered necessary. Again, the financial manager will usually be involved in helping research and write up the budget.

Practical tips

- Do the project plan first. This will give you a better idea of what needs to be done at every stage of the project, and the order in which the various tasks must be tackled. Then it is easier to see how much needs to be spent, and when it will be spent.
- Be clear on what the main costs will be. Research the rates that people will charge for their inputs, for instance, and speak to suppliers and consultants so that your estimates can be accurate.
- Be prepared to change the figures you have put into the budget. If the total cost is too high, you will need to trim costs somewhere and find other ways to get it done for less.
- It is likely that certain costs will occur that you did not expect, so allow for a reasonable contingency in the budget (an extra amount that you may or may not need).

Use of this Guide

This Guide can be used by the manager of a project and the financial manager of the Route Forum, to help ensure that the implementation of the project can be done with the resources that are available. Route members can also use this information in their own businesses, as most of them will have projects of their own to do from time to time.

Other Guides

Here are some other titles related to finance and budgeting:

- Guide: [How To Develop A Project Plan For A Short-term Project](#)
- Guide: [How To Manage a Short-term Project](#)
- Guide: [How To Develop And Manage A Route Budget](#)
- Guide: [How To Open A Route Bank Account](#)