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**"CPA for NGO"**  
**social responsibility programme**  
**Planning, Budgeting and Forecasting**



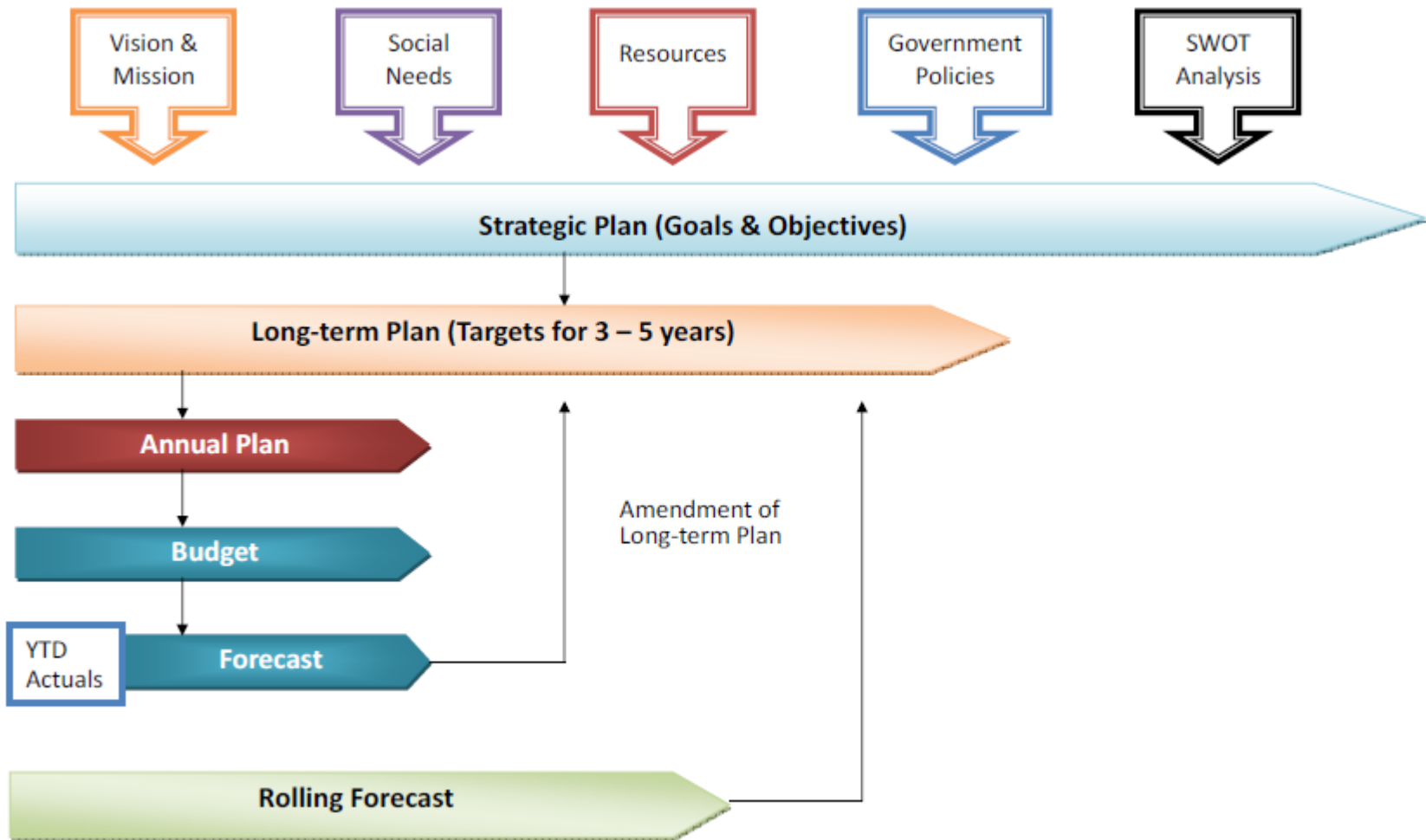
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# Relationship between Planning, Budgeting and Forecasting



# Relationship between Planning, Budgeting and Forecasting

- Each organization has its own Vision & Mission.
- Vision & mission, social needs, resources, Government policies and results from SWOT analysis shape up the strategic plan of an organization.
- Long-term plans and annual plan are derived from strategic plan of the organization.
- Budget is the annual plan expressed in figures.



# Relationship between Planning, Budgeting and Forecasting

- By incorporate the year-to-date actual results to the budget figures generate a more realistic estimation for the year.
- Rolling forecast –
  - Continuously updated the forecast by adding a further accounting period when the earliest accounting period has expired.
- Results from forecast or rolling forecast may initiate amendments to the long-term plan.



# Planning

## ➤ Strategic Plan

- Overall long-range goals and objectives of the organization
- Direction and financial objectives
- Both qualitative and quantitative
- e.g. operate youth centers in Hong Kong, Kowloon & New Territories



# Planning

## ➤ Long-term Plan

- From 3 to 5 years, sometimes up to 10 years.
- Derive from strategic plan
- Attainable targets for a specific time period
- Need to revise if internal and/or external conditions changed.
- e.g. start up youth centers in Kowloon East district



# Planning

## ➤ Annual Plan

- 1<sup>st</sup> year of the long-term plan
- More detailed plans for different services, units and departments.
- Both operational and financial plans
- Fulfill requirements of Government & donors





# Planning

## ➤ Annual Plan

- Look for different resources, including financial, human resource, technical, etc.
- Review and monitoring



# Budgeting

## ➤ Objectives:

- Quantify operational plans & targets
- Provide expected outcomes

## ➤ Functions:

- Planning
- Co-ordination
- Communication
- Control & evaluation



# Budgeting

## ➤ Functions – Planning

- Define targets at different levels
- Provides specific deadlines for service units/departments to achieve their objectives
- Expected outcomes of units/departments contribute towards an organization's overall objectives



# Budgeting

## ➤ Functions – Co-ordination

- Identify the strengths and weaknesses of the organization
- Set priorities for organization's objectives
- Better resources allocation to various units/departments
- Restrain the empire-building situation



# Budgeting

## ➤ Functions – Communication

- All staff at different levels should be informed about the objectives, targets, programmes and timelines.
- I/Cs and managers should be informed of the resources available to achieve their targets.



# Budgeting

## ➤ Functions – Control & evaluation

- During budget preparation, units submit estimates as they require, should include justifications of their needs.
- After budgets have been reviewed (amended if necessary) and approved by the Board, the final budgets become targets of all units.



# Budgeting

## ➤ Functions – Control & evaluation

- A comparison of actual and budget results should be prepared periodically for performance evaluation.
- Deviations from budget ought to be identified as soon as possible, reasons of deviations should also be identified.



# Budgeting

## ➤ Functions – Control & evaluation

- Rectification actions should be carried out in order to bring the operations back to the right track.
- Budgets are the basis of performance evaluation as they are the realistic estimates of expected performance.





# Budgeting

## ➤ Top-down approach

- Top management prepares the budget and passes it on to the service units/departments for implementation.
- Top management may take inputs from units/departments for the preparation of budget.



# Budgeting

## ➤ Top-down approach

- Top management is expected to realize the current social needs, the history and the strength of the organization.
- Service units/departments have less or no participation in the budgeting process.



# Budgeting

## ➤ Bottom-up approach

- Service units/departments prepared their budgets according to allocated resources, e.g. SWD LSG subvented units.
- Service units/departments prepared their budgets according to their operational plans, e.g. Self-financed restaurant.



# Budgeting

## ➤ Bottom-up approach

- All service units/departments submit their budgets to Finance Department for the compilation the entire budget.
- HR Department may required to verify the staff cost of the units/departments.



# Budgeting

## ➤ Bottom-up approach

- Finance Department submit the entire budget to CEO/Budget Committee for comments.
- If CEO/Budget Committee has queries, units/departments require to provide further information.



# Budgeting

## ➤ Bottom-up approach

- The entire budget then submitted to Board for approval.
- Service units/departments should be more committed to the budget as they have participated in the budgeting process.



# Discussion question 1

What are the pros and cons of

(1) Top-down approach budgeting?

(2) Bottom-up approach budgeting?



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# Budgeting

## ➤ Incremental Budgeting

- Assume all income and expense items exist in the budget year.
- Use current year's amount as foundation, add incremental % or amount to the budget period.





# Budgeting

## ➤ Incremental Budgeting

For each income/expense item:

Current year actual amount	\$	x
+ inflation		a
+/- other factors		<u>b</u>
Next year budget amount		<u><u>y</u></u>

Other factors examples:-

Income > ↓ student numbers, ↑ sales volume

Expenses > ↓ staff numbers, ↑ rates concession



# Budgeting

## ➤ Zero-based Budgeting (ZBB)

- All items reset to zero for the budget year, no reference to past years data.
- All income and expense items in the budget must supported by justification.
- Require more effort to analyze and prioritize activities and expenditures.



# Budgeting

## ➤ Zero-based Budgeting (ZBB)

- Avoid automatic budget increases (usually for expense items).
- Eliminate un-necessary cost, better allocation of resources.



# Budgeting

## ➤ Activity-based Budgeting (ABB)

- Require to identify cost drivers of the activities
- Variable cost vs Fixed cost
- Usually adopted in sales or production budgets
- More focus on cost savings



# Budgeting

## ➤ Rolling Budget

- During the year, the actual income and expenses amount of each month will be inserted to the budget template (replace the budget amount) after the month end process completed.
- Expect to provide more accurate estimation.



# Budgeting

## ➤ Rolling Budget

- Estimation would be accurate only if the organization prepare the monthly account using accrual basis.



# Budgeting

## Basic steps of budgeting process

- 1) Define objectives and targets of the budget year, breakdown in service and unit level if necessary.
- 2) Construct the budget calendar
  - Allow sufficient time for service units/departments to collect data and prepare the budget.



# Budgeting

## Basic steps of budgeting process

### 2) Construct the budget calendar

- Allow sufficient time for management to review the combined budget.
- The combined budget should be approved by the Board before the budget year start.





# Budgeting

## Basic steps of budgeting process

### 3) Update budget assumptions

- Inflation rate, % increment of utilities, salary increment

### 4) Update available funding/subsidies amount to concerned service units/departments.

e.g. LSG subvention, Community Chest funding, Lotteries Fund income, etc.



# Budgeting

## Basic steps of budgeting process

- 5) Service units/departments prepare their budgets.
- 6) Service units/departments submit their budgets to Finance Department for compilation of the 1<sup>st</sup> draft combined budget.
- 7) CE review the 1<sup>st</sup> draft combined budget and discuss with top management.



# Budgeting

## Basic steps of budgeting process

- 8) Service units/departments revise their budgets if necessary, then re-submit their budgets to Finance Department for compilation of the final combined budget.
- 9) Final combined budget submit to the Board for discussion and approval.



# Budgeting

## ➤ Budgetary control

- Prepare actual vs budget comparison reports periodically for management review.
- Any deviations should be rectified as soon as possible.
- If significant events occur, management may consider to revise the budgets to reflect the more realistic situation.



# Budgeting

## ➤ Limitation of Budgeting

- Budgeting, like planning, is based on assumptions and estimation, may not be 100% accurate.
- Success and fulfillment of budgets depend on the co-operation and participation of staff of all levels.



# Budgeting

## ➤ Limitation of Budgeting

- Budget is a means to provide detailed information, convert objectives into figures which may help in achieving the organization's objectives.
- Budget is only a tool, does not take over the position and functions of management.



# Budgeting

## ➤ Limitation of Budgeting

- Excessive emphasis on budgeting may cause lower level management and staff to provide inaccurate estimation on future income and expenses.
- Staff who have not involve in the budgeting process may not have ownership, may feel de-motivated.



# Discussion question 2

Share with your group members of your agency's annual budgeting process.



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# Forecasting

## ➤ Functions of Forecasting

- More accurate financial estimation based on recent changes of internal and/or external factors/requirements.  
e.g. change in government policies,  
change in donor's requirements.
- Assists management to take immediate actions when conditions change



# Forecasting

## ➤ Budget vs Forecast

Budget – operational plans and targets expressed in monetary terms for the coming year

- “what is expected”



# Forecasting

## ➤ Budget vs Forecast

Forecast – use actual operating results and current conditions to project the remaining periods’ performance for the year

- “what will happen”



<b>BASIS FOR COMPARISON</b>	<b>BUDGET</b>	<b>FORECAST</b>
Meaning	A budget is a financial plan expressed in quantitative terms, prepared by the management in advance for forthcoming period.	Forecast means estimation of future trends and outcomes, based on the past and present data.
What is it?	It is the financial expression of a business plan or target.	It is the prediction of upcoming events or trends in business, on the basis of present business conditions.
Target	Budget sets target.	There are no targets.
Updation	Annual basis	At regular intervals
Estimates	What business wants to achieve	What business will achieve
Variance Analysis	Yes	No

Source: <https://keydifferences.com/difference-between-budget-and-forecast.html>



# Board's Roles in Budgeting Process

## **SWD LSG Manual (2016 Oct. version) (extract)**

3.20 NGOs are advised to have annual financial budgeting at the beginning of each financial year. If they anticipate financial difficulty, their Board should have thorough deliberation and inform SWD in advance, so that remedial measures can be taken as appropriate before the NGOs exhaust their reserves.



# Board's Roles in Budgeting Process

## **SWD LSG Manual (2016 Oct. version) (extract)**

### Role of NGO Boards/Management Committees

5.4 NGOs Boards and Management Committees are responsible for the governance of the NGO.....

In general, NGO Boards/Management Committees are tasked to:

- (a) set the mission and goals of the NGO
- (b) determine service delivery modes which meet the changing needs of the community;



# Board's Roles in Budgeting Process

## **SWD LSG Manual (2016 Oct. version) (extract)**

### Role of NGO Boards/Management Committees (con'd)

5.4 (d) assume responsibility for programme planning and budgeting, as well as for human resources management; .....



# Board's Roles in Budgeting Process

## Efficiency Unit “Guide to Corporate Governance for Subvented Organisations” (2015 June) (extract)

### Chapter 2 – Board Structure and Composition

#### BEST PRACTICES - Matters reserved for the board

##### Business strategy

- Approval of strategy objectives and strategic plan
- Approval of proposals for major expansion or closures
- Approval of budgets
- Approval of priorities and performance indicators/ measures





# Board's Roles in Budgeting Process

## **ICAC “Governance and Internal Control in Non-Governmental Organisations” (extract)**

### Chapter 2 – Financial Management

#### 3.3 Budgeting

Produce at the beginning of each financial year a programme of activities and the budget for approval by the Board (or the Finance Committee, if one is established) and, if required, for information/endorsement by the Government bureau or department concerned.



# Reference materials

## **Efficiency Unit “Guide to Corporate Governance for Subvented Organisations” (2015 June)**

<http://www.effo.gov.hk/en/reference/publication.html>

## **ICAC “Governance and Internal Control in Non-Governmental Organisations”**

<http://www.icac.org.hk/en/resource/publications-and-videos/nse/index.html>



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## PLANNING

A top-down strategic plan that defines the strategic aims of the enterprise and high level activities required to achieve the goals of the organisation



## BUDGETING

A budget that enables resource allocation to be aligned to strategic goals and targets set across the entire organisation



## FORECASTING

A forecast that tracks the expected performance of the business, so that timely decisions can be taken to address shortfalls against target, or maximise an emerging opportunity

A fully integrated performance management framework is essential to provide corporate visibility of the activities that directly deliver growth, and provide a clear framework for determining how to continuously allocate resources to support the strategy.

Source: Planning, Budgeting and Forecasting-An eye on the future (KPMG)



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Thank you !



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