

ACTIVITY BASED BUDGETING

Activity-Based Budgeting (ABB) is a budgeting method in which activities are identified, and costs are directly allocated to those activities.

ABB is budgeting by Activities rather than by Expenditure Types.

By budgeting according to activities, it can show where the project is providing value for money, and where potential costs are difficult to justify. This will lead to greater efficiency, enabling us to identify waste and lack of value, and to link the budget to project planning/implementation. It will also enable us to monitor the progress of the project, financially, by comparing planned against actual expenditures.

The standard FCO Project Bidding Form includes ABB in Annex A

Examples:

1. The following, more traditional, budget tells us little about the project we are being asked to assess. It is a budget based upon Expenditure Types. We do not know to which activities the costs are applicable, or whether we are spending unwisely on some elements of personnel, for example, or whether the capital costs, whatever they may be, are justifiable. We do not know what each of the project activities will cost. This type of budget is more akin to an advance invoice than a budget for activities to be undertaken.

Expenditure Category	Total Cost
Personnel	11075
Travel	9000
Accommodation & Subsistence	6000
Capital	20000
Monitoring and Evaluation	1600
Admin/Mgt	9425
Other	9800
	66900

2. The simple Activity-Based Budget, below, is far more informative. **We firstly break down the activities into work tasks (*this can be copied directly from the Activities box in A1 on the project bidding form to Annex A*)**. We can immediately see the comparative costs of activities, as well as a breakdown, and it tells us that Evaluation costs, at 7% of project costs, are high, and Project Management costs, at 11%, are higher than we might want. We can obtain a picture of how the money will be spent, and whether we are obtaining value for money. Through this simplified ABB, we can relate the purpose, outputs and activities of a project to the cost.

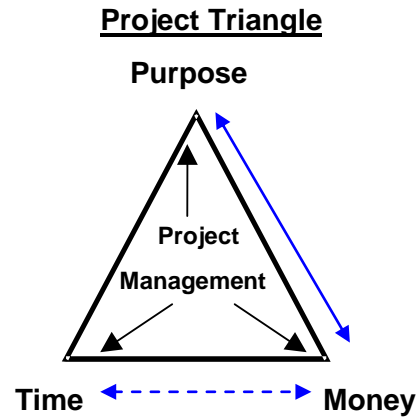
Note: In order to assess value for money we still need information by expenditure type but these are **detailed** against the key activities, as below.

Activity	Detail	Total Cost (£)	Sub-Totals (£)	%age
Visit to UK by Scientists	Flights	£7,200	£11,280	27%
	Subsistence	£1,200		
	Hotels	£2,880		
Develop written recommendations and methodology for local implementation, arising from visit	Scientists' Fees	£12,000	£12,400	30%
	Books, materials and printing	£400		
Training on the Recommendations arising from the Visit (4 x half-day training)	Venue and Catering	£5,000	£5,630	13%
	Trainer's Fees	£400		
	Materials	£230		
Follow-up Training – Review Action Plan Implementation (4 x one-day training)	Venue and Catering	£4,000	£5,030	12%
	Trainer's Fees	£800		
	Materials	£230		
Project Management	Project Manager	£3,500	£4,500	11%
	Secretary	£1,000		
Evaluation	Local consultant fees	£2,500	£2,850	7%
	Travel costs	£350		
TOTAL		£41,690	£41,690	100%

(The yellow column on the right hand side of this table shows a breakdown of the sub-totals into percentages of overall project value (£41,690). This is not included in the standard FCO form, but is a useful method, separately, for identifying where some activities are providing good value, and others are providing poor value. For example, the Evaluation costs, at 7% are too high, and the Project Management costs (11%) are higher than we would like. This sort of calculation can assist in determining Value for Money).

Project Relationships

However, whilst the above Activity Based Budget relates the Money to the Purpose of the project (via Activities, and therefore the anticipated Outputs from those Activities), it does not go far enough in relating the Money or Purpose to the Time of implementation.



We already know, from the ABB Example above, the use to which the money will be put. What we now need to know is:

When will the activities take place?

When will the money be needed?

After breaking down the activities into work tasks, we decide when each of the activities is due to take place, as shown in the example below.

Activity	May	June	July	August	September	October
Visit to UK by Scientists						
Develop written recommendations and methodology for local implementation, arising from visit						
Training on the Recommendations arising from the Visit (4 x half-day training)						
Follow-up Training – Review Action Plan Implementation (4 x one-day training)						
Project Management						
Evaluation						

Identifying who is responsible for managing each activity is also strongly advised. If nobody owns the tasks through direct responsibility for each, projects will drift, and deadlines will be missed. In most cases, the implementing agencies will be outside the FCO, and therefore will organise responsibility for each activity accordingly. So the need for this identification should only fall to FCO staff where they are directly involved in implementation.

It is then an easy matter to take the figures from the simplified activity based budget, above, and transfer the amounts into the relevant time periods for each activity, as below, remembering that some payments will arise before or after the activity is completed:

Activity	Details	April	May	June	July	August	September	October	November	Totals
Visit to UK by Scientists	Flights		£7,200							£11,280
	Subsistence		£1,200							
	Hotels		£2,880							
Develop written recommendations and methodology for local implementation, arising from visit	Scientists' Fees			£12,000						£12,400
	Books, mat. & printing			£400						
Training on the Recommendations arising from the Visit (4 x half-day training)	Venue & Catering				£5,000					£5,630
	Trainers' Fees				£400					
	Materials				£230					
Follow-up Training – Review Action Plan Implementation (4 x one-day training)	Venue & Catering						£4,000			£5,030
	Trainers' Fees						£800			
	Materials						£230			
Project Management	Project Manager		£700	£700	£700	£700	£700			£4,500
	Secretary		£200	£200	£200	£200	£200			
Evaluation	Local consultants' fees							£2,500		£2,850
	Travel costs							£350		
Totals		£0	£12,180	£13,300	£6,530	£900	£5,930	£2,850	£0	£41,690

This provides us with the level of detail we require to assess the value for money, per activity, on this project. It also enables us to:

- Assess the quality of project planning
- Budget for the activities and link value with programme strategy
- Identify waste and poor value in budgets, and deal with it
- Profile project spend by forecasting the timing of payments, and their worth
- Identify activity workload
- Receipt on Prism at the end of each month

By using Activity Based Budgets, value for money becomes the driver in the analysis of projects, and, through experience, can assist in the identification of benchmarks for guidance. If, for example, we know that good projects tend to keep Management Costs below 10%, when we are assessing future projects we can determine whether or not each project has realistic cost structures, or whether there is over-budgeting. Cascading this throughout the FCO, will therefore increase the value for money being obtained from discretionary programmes.

Assess the quality of project planning

ABB will enable us to assess the quality of project planning because the ABB will tell us whether the Bidder has, or has not, thought through the project and its implementation, and has, or has not, arrived at acceptable links between activities and expenditures at acceptable prices.

Budget for the activities and link project value with programme strategy

ABB not only enables us to link the budget to the activities, but also to determine whether the project will be delivered at satisfactory value. That will then enable us to review whether all projects within that strand or programme are being delivered at satisfactory value levels.

Identify waste and poor value in budgets, and deal with it

Through the determination of good value within an ABB, we can also identify poor value, particularly if benchmarks on good value have been ascertained. In spotting poor value, decisions can be made to eliminate potential waste, thus making the potential project more efficient and offering increased value for money. We can compare similar costs between projects to identify value for money. Likewise, activities offering poor value may offer a clue on the validity of the drivers behind the bid. For example, very high management costs may indicate that the project bid is driven more by the desire of the potential implementation agency to earn an income than by the wish to achieve the project purpose.

Profile project spend by forecasting the timing of payments, and their worth

ABB shows when the money is required, how much and for what. This provides an indicator for monitoring whether, during implementation, the project is on track or not. ***It is part of profiling***, to forecast expenditure timings, and to measure progress against that profile when the project is being implemented. It will assist in identifying problems more easily if, for example, an activity is delayed. That, in turn, would enable a re-profiling to take place, and improves the management of project underspend (or, indeed, overspend), so that cost savings or cancellations of expenditures can be returned for use elsewhere.

Identify activity workloads

In line with the timing of payments, we can identify activity workloads and determine whether those workloads are realistic, given the resources being applied to them.

Receipt on Prism at the end of each month

If the FCO operated on the basis of cash accounting (only receipting when the invoice has been presented and actual payments have been made), it would not be possible to monitor finances on a monthly basis to give us a true representation of activities which had taken place. With

resource accounting (accruals), we are able to identify which services have been delivered, for example, and for which we have a commitment to pay, without having to wait for the supplier to provide the invoice. At the end of each month, or at specified milestones throughout the project, we can receipt on Prism for those activities which have taken place, compare with the profile (forecast), and determine whether or not the project is on course.

An Activity Based Budget focuses upon the process, rather than the inputs.

ABB shows that required resources are a consequence of activities to be undertaken, and so justifies the allocation of resources.

ABB identifies the sequence of activities and enables the identification of milestones for monitoring.

ABB identifies what resources need to be budgeted to perform the activities.

ABB is not an end in itself. It becomes part of the process, and part of the project structure.

Filling in Section B2 is a requirement, and should be undertaken as outlined above. It is simple, logical and extremely productive. It will identify many strengths and weaknesses in the project structure before implementation, and will consequently strengthen or weaken the case.

Without an ABB, a project is fundamentally weakened and strongly indicates poor planning.

EXTRACT FROM THE STANDARD PROJECT BIDDING FORM

Annex A

1. How will you ensure that all procurement is fair and transparent and seeks value for money (VFM)?

2. Activity Based Budget

Please separate budget into activities and detail when costs are estimated to fall.

Example: If one element of your project is to run 3 workshops, please include the number of participants, and break costs down into key component parts on separate lines, e.g. Consultant Costs (including number and day rate); travel, room hire. Administration costs should not exceed 10% of the total project costs. Planned materials produced for the project, should include the quantity. Include independent evaluation costs.

Year 1

Activity	DETAIL	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March	Total Cost (£)
TOTAL														

MULTI YEAR PROJECTS (please add rows as necessary):

Activity	Q1	Q2	Q3	Q4	Total Cost
Year 2:					
Year 3:					