ACTIVITY BASED BUDGETING

Activity-Based Budgeting (ABB) is a financial management tool that profiles the component costs of project activities against a timeline. By planning activities in this way an ABB can be used to assess

* when activities will take place and the FCO becomes liable for payment
* whether all component costs of an activity have been considered
* what the total outcome cost of an activity is likely to be
* whether activities are affordable and good value for money

The ABB is also a useful tool for

* planning and monitoring the financial performance and actual progress of a project
* assessing the impact on a project if adjustments are made to any of the three key project implementation factors (Purpose, Money and Time)

**Please note that an ABB must be provided for each project proposal, attached as a separate annex**

**Examples**

**Example 1:** The following table is not an ABB. It provides little useful information about how the proposed project budget will be spent. There is no breakdown of costs within each Expenditure Category and no timeline to show when costs will be incurred or which particular activity they are assigned to. As such it is not possible to assess the cost of individual activities or whether the budget is realistic, justifiable or value for money.

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

**Example 2:**

The following table is better. Although lacking any time-based considerations it does provide some insights into the component parts of each activity, namely, what they are and how much they will cost. It shows individual and comparative costs for each activity, allowing Project Teams to assess whether funds are being appropriately assigned. It can be used as a stepping stone towards a fully developed ABB.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Activity | **Components** | **Total Cost (£)** | **Sub-Totals (£)** |  | **%age** |
| **Visit to UK by 8 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%** |

*(Please note: The yellow column on the right hand side of this table shows a breakdown of the sub-totals into percentages of the overall project cost (£41,690). This is not included in the standard FCO form, but it is a useful method for identifying whether activities are providing good or poor value for money. For example, Evaluation costs at 7% and Project Management costs at 11% would be considered too high. This sort of calculation can help assess Value for Money).*

Point to consider: Project Relationships

Although the Activity Based Budget in Example 2 links Money to the Project Purpose (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.

**Figure 2.1**

**Key Project Factors - “The Project Triangle”**

# Purpose

Ac

##### Project

##### Management

Activity Based Budget

# Time

# Money

What we now need to know is

* When will activities take place (in order to achieve the project outputs and purpose)?
* When will the FCO become liable for payment (so project / programme expenditure can be profiled / tracked efficiently)?

The following examples illustrate how these questions can be answered using simple a GANNT chart.**Example 3**:

Activities can now be assigned a date along a timeline to show when they will occur using a simple GANNT chart.

Example 3 identifies blocks of activities against particular months. This can be further broken down to show more detail e.g. more rows can be added under each activity in order to list all key tasks needed to achieve that activity, and more columns can be added to break down months into weeks and even days for tasks and activities that are time critical. The amount of detail shown depends on the timeline and complexity of the project and activities.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Activity | **May** | **June** | **July** | **August** | **September** | **October** |
| **Visit to UK by 8 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** |  |  |  |  |  |  |

Figures from Example 2 can now be transferred into Example 3, adding additional rows and columns as necessary.

**Due to Resource Accounting principles, the FCO is liable for payment once an activity has taken place. Therefore, activity costs listed in a GANNT chart need to reflect the timing of the activity, not when payment will be made (actual payments may occur before or after the activity itself is completed).**

See **Example 4** below for a complete ABB.

**Example 4: An Activity Based Budget**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Activity | **Details** | April | **May** | **June** | **July** | **August** | **September** | **October** | **November** | **Totals** |
| **Visit to UK by 8 Scientists** | Flights-Economy |  | **£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 Example provides the minimum level of detail needed for Programme Teams to assess value for money, per activity, for this project.

**Benefits of an ABB**

A well drafted ABB can be used to:

Assess the quality of project planning, e.g. (list not exhaustive)...

* Has the implementer included the right range of activities that will achieve the project Outputs?
* Does the timeline meet overall project and programme schedule requirements? Is it realistic and achievable?
* Has the implementer considered the 3 key project management factors of Purpose, Money and Time?

Evaluate the costs of activities, linking value with the Project Outputs and Purpose and the wider strategic objectives of the Programme...

* Have the activities been properly costed?
* Are they necessary to achieve the Outputs and Purpose?
* Are they good value for money?

Identify waste and poor value in budgets, and respond to it...

* Are component costs realistic? Have any costs been duplicated or inflated?
* Are any component costs unnecessary?
* Might there be opportunities to reduce costs through synergies with other activities?

Profile the timing and value of project spend...

* Is the payment schedule correct / realistic?
* When will payments be made?
* When and how much funding is required to make those payments?

Identify activity workload and any pressure points...

* Is the implementer being under/over ambitious with its proposed range/timing of activities?
* Does the implementer have enough / the right resources to deliver the activities?
* Should activities be scheduled differently to e.g. avoid overload and work within an implementers available resources?

Correctly receipt activity on PRISM...

* Following FCO Resource Accounting principles, when should activities be receipted on PRISM? (Activities should be receipted on PRISM once they have taken place. Do not wait for the implementer to submit an invoice).

**The ABB as a Project Management tool**

An ABB is also an effective Project Management tool. For example, it can be used to

* Assess actual progress of a project against the forecast time line and costs
* Set milestones, identify project-critical events (i.e. those events that are essential for a project to proceed to the next stage) and agree key dates with an implementer and the Programme Teams for reviewing progress and submitting reports
* Highlight risks (allowing for early mitigation of those risks), as well as possibly indicate potential fraud (refer to separate guidance on Fraud and Programme Budgets on the SPF SharePoint site)
* Help clarify the range and level of interest of project stakeholders
* Manage and assess a project against the three key factors of Purpose, Money and Time (see Figure 2.1), including early indications of over / under spends (to aid decisions about requesting additional funds or returning unused funds)

**An ABB is a key project management tool and a good investment of time.**

**Value for Money (VFM)**

**Always consider VFM when assessing and monitoring ABBs (refer to separate VFM guidance on the SPF SharePoint site).**

**In particular...**

* Flight Costs - look carefully at proposed flight costs, in particular at class of travel which should at the very least be commensurate with FCO travel policies (i.e. no business class travel for flights under 10 hours)
* Per Diems – these should not be paid as an advance payment. Subsistence costs should be paid on an “actual” basis on production of receipts for actual costs incurred and for amounts not exceeding those set out in Post’s Geographical Expenditure Guidelines (GEG)
* Administration / Management Fees – (refer to separate Administration Costs Guidance on the SPF SharePoint site). Have these been set out in the ABB as separate charges? If so, are they reasonable / realistic? Or is the implementer “double charging” for Admin/Management fees? For example
  + Is the implementer making a separate (i.e. additional) charge for office rent and utilities which is already covered elsewhere, e.g. in their hourly charge-out rate?
  + Is the implementer assigning all of its admin/management costs to this project even though it is also running other (non-FCO) projects? If so, why is the FCO being charged for all these costs?
  + Is the admin / management charge proportionate to the size of the project and range of activities? Is part/all of it covered by other project donors?
* Equipment – (refer to separate guidance on Equipment Costs on the SPF SharePoint site). Programme funds should not be used to buy equipment that the implementer is reasonably expected to provide themselves

Programme Office

December 2014