METRO MANILA AIR SHED
GOVERNING BOARD

# MODULE 5

# GUIDE FOR PROJECT PLANNING AND BUDGETING

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# Information Page

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# Section 1: Introduction

This document was especially prepared to serve as a guide for the MMASGB in preparing plans and corresponding budget for their projects and/or activities. This guide simply contains general concepts and principles of strategic planning and budgeting and tips on how to do the process such that the results are reliable and useful.

This Manual can be used in conjunction with the Handbook on Logical Framework Analysis (Annex A) and the Manual on Financial Management Systems and Procedures (Module 3). The Handbook on Logical Framework Analysis provides a more detailed tool for project designing and planning while Module 3 provides more detailed guidelines and procedures for financial management including budgeting.

# Section 2: The Planning Process

Planning is one of the most common sets of activities in management. Simply put, planning is setting the direction for a system and then guiding the system to follow the direction.  Just like any system, planning has inputs, processes, outputs and outcomes.  To illustrate, **inputs** include resources such as raw materials, money, technologies and people. These inputs undergo a **process** where they're aligned, moved along and carefully coordinated, for the purpose of achieving the goals set for the system. **Outputs** are tangible results produced as a result of processes in the system. **Outcomes** are also forms of results or benefits. Entire organization, or its departments, groups, processes, project, etc., are the ones referred to as systems.

There are many kinds of planning in organizations and projects. Common to these many kinds of planning are various phases of planning and guidelines for carrying them out as effectively as possible.  Whatever the system might be, the process of planning includes planners working backwards through the system. Usually, they start from the results (outcomes and outputs) and work backwards through the system to identify the processes needed to produce the results. Then they identify what inputs (or resources) are needed to carry out said processes.

# Section 3: What is Strategic Planning

Strategic planning is the “process by which the guiding members of an organization envision its future and develop the necessary policies and programs to achieve that future” (Roldan, 2006). Strategic planning determines where an organization or project is going over the next year or more, how it's going to get there and how it will know if it got there or not. The strategic plan usually focuses on the entire organization or the entire project for that matter. The business plan, on the other hand, focuses on a particular product, service or program.

A strategic plan is developed depending on the nature of the organization's (or the project’s) leadership, culture, complexity of the environment, size, expertise of planners, among others. A variety of perspectives, models and approaches used in strategic planning is currently available. Examples of these are goals-based, issues-based, organic, and scenario-planning, to name a few. The most common of these is goals-based planning which starts with (a) focusing on the organization's mission (and vision and/or values); (b) setting of goals to work toward the mission; (c) formulating strategies to achieve the goals, and action planning (who will do what and by when).

Issues-based strategic planning usually starts by examining issues facing the organization or project, strategies to address those issues, and action plans. On the other hand, organic strategic planning might start by articulating the organization's (or the project’s) vision and values and then action plans to achieve the vision while adhering to those values. Some planners prefer a particular approach to planning. Plans differ in scope - some are set to one year, many to three years, and some to five to ten years into the future. Some plans include only macro information and no action plans. Some plans are just five to eight pages long, while others can be much longer.

Oftentimes, the organization's strategic planners already know much of what will go into a strategic plan. However, the strategic planning process greatly helps to clarify the organization's (or the project’s) plans and ensure that key leaders are looking at the same "script". It should be noted that the strategic planning process is much more important than the strategic plan document itself.

# Section 3: What is Strategic Planning

## 3.1 Benefits of Strategic Planning

There are distinct advantages to organizations/projects that embark on doing strategic planning. Some of these are enumerated below:

1. Strategic planning clearly defines the purpose of the organization/project and establishes realistic goals and objectives consistent with that mission in a defined time frame within the organization's/project's capacity for implementation.
2. It is a means of communicating those goals and objectives to the organization's/project's constituents.
3. It fosters a sense of ownership of the plan.
4. It ensures the most effective use of the organization's/project's resources by focusing the resources on the key priorities.
5. It provides a benchmark from which progress can be measured and establish a mechanism for informed change when needed.
6. It brings together everyone's best efforts and contributes to building a consensus about where an organization/project is going.

## 3.2 When Should Strategic Planning Be Done

Deciding when to do strategic planning depends on the nature and needs of the organization/project and its immediate external environment. For example, planning should be carried out frequently in an organization/project whose products and services are in an industry that is changing rapidly. In situations like this, planning might be carried out once or even twice a year and done in a very comprehensive and detailed fashion (that is, with attention to mission, vision, values, environmental scan, issues, goals, strategies, objectives, responsibilities, time lines, budgets, etc). However, if the organization/project has been around for many years and is in a fairly stable marketplace, planning might be carried out once a year and only certain parts of the planning process, for example, action planning (objectives, responsibilities, time lines, budgets, etc) are updated each year.

There are several guidelines to be considered when deciding how often and when strategic planning should be undertaken. Some of these are:

1. Strategic planning should be done when an organization/project is just getting started. It should be noted that the strategic plan is usually part of an overall business plan, along with a marketing plan, financial plan and operational/management plan.
2. Strategic planning should also be done when preparing for a new major venture, for example, developing a new department, division, major new product or line of products, among others.
3. In order to be ready for the coming fiscal year, strategic planning should be conducted at least once a year. Usually, the financial management of an organization/project is usually based on a year-to-year, or fiscal year, basis. In this case, the timely conduct of strategic planning is a must to identify the organizational/project goals to be achieved at least over the coming fiscal year, resources needed to achieve those goals, and funded needed to obtain the resources. These funds and other forms of resources are included in budget planning for the coming fiscal year. However, it is not necessary to go through all phases of strategic planning on a yearly basis. It is sufficient that the full strategic planning process is conducted at least once every three years. An exception, though, is when the organization is experiencing tremendous change – then these activities should be undertaken in its entirety.
4. During implementation of the plan, the progress of the implementation should be reviewed at least on a quarterly basis by the Board. The frequency of review also depends on the extent of the rate of change in and around the organization/project.

# Section 4: An Overview of the Steps in a Typical Strategic Planning Process

The basic planning process typically includes similar nature of activities carried out in similar sequence. Over the years, terminologies for the various steps have changed but the nature of activities and the sequence that they are undertaken remains similar. Below are the typical phases in the planning process. Although these might not in any manner comprise the ideal planning process, they, however, illustrates the usual and practical manner of going through the process.

1.0 **Refer to the Overall Singular Purpose ("Mission") or Desired Result from System**

- During planning, planners have in mind (consciously or unconsciously) some overall purpose or result that the plan is to achieve. For example, during strategic planning, it's critical to refer to the mission, or overall purpose, of the organization/project.

2.0 **Stock-taking outside and inside the system**

- During strategic planning, it's important to conduct an environmental scan. This process involves considering various driving forces, or major influences, that might affect the organization/project.

3.0 **Situation Analysis**

- During strategic planning, planners usually conduct a "SWOT analysis". (SWOT is an acronym for looking at the organization's strengths and weaknesses, and the opportunities and threats faced by the organization.) During SWOT analysis, planners also can use a variety of assessments, or methods to "measure" the health of organizations/projects.

4.0 **Establish Goals**

- Based on the analysis and alignment to the overall mission of the organization/project, planners establish a set of goals that build on strengths to take advantage of opportunities, while building up weaknesses and warding off threats. They will get to identify which particular products, services or activities should be stopped, started or continued.

5.0 **Establish Strategies to Reach Goals**

- The particular strategies (or methods to reach the goals) chosen depend on matters of affordability, practicality and efficiency.

# Section 4: An Overview of the Steps in a Typical Strategic Planning Process

6.0 **Establish Objectives for Achieving Goals**

- Objectives are set to be timely and indicative of progress toward goals.

7.0 **Designate Tasking and Time Lines With Each Objective**

- Assign tasking, including for implementation of the plan, and for achieving various goals and objectives. Ideally, deadlines are set for meeting each task/responsibility.

8.0 **Write and Communicate a Plan Document**

- The above information is organized and written in a document which is distributed among implementers.

9.0 **Acknowledge Completion and Celebrate Success**

- The purpose of a plan is to address a current problem or pursue a development goal. While it seems superfluous to assert that there should be an acknowledgement if a problem was solved or the goal met, it should be pointed out that skipping this step can be unproductive. In fact, this step in the planning process is often ignored in lieu of moving on to the next problem to solve or goal to pursue. Skipping this step can cultivate apathy and skepticism and even cynicism in the organization/project.

# Section 5: Tips to Ensure Successful Planning and Implementation

It is not unusual for plans not to be implemented. Oftentimes, the plan sits collecting dust on a shelf. Thus, the following guidelines are intended to help ensure that the planning process is carried out completely and is implemented completely. Moreover, it recognizes that deviations from the intended plan are recognized and managed accordingly.

- ***Involve the Right People in the Planning Process***

  When planning, get input from everyone who will responsible to carry out parts of the plan, along with representative from groups who will be affected by the plan. Of course, these are the people who should also be involved in reviewing and authorizing the plan.

- ***Write Down the Planning Information and Communicate it Widely***

  It is important that documentation about the plans as well as the planning process is written down and communicated widely to all concerned. This will prevent time and resources wasted when tasks are not clearly communicated. Also, as plans change, it becomes increasingly difficult to remember who is supposed to be doing what and according to which version of the plan. Key stakeholders (employees, management, board members, funders, investor, customers, clients, etc.) may request copies of various types of plans. Thus, it is critical to write plans down and communicate them widely.

- ***Goals and Objectives Should be SMARTER***

  SMARTER is an acronym for Specific, Measurable, Acceptable, Realistic, Time Frame, Extending and Rewarding.

- ***There Should be Clear Accountability (Regularly Review Who's Doing What and By When?)***

  It should be emphasized that plans should specify who is responsible for achieving each result, including goals and objectives. Specific dates should also be set for completion of each result. It is also critical to identify the responsible parties who should be regularly reviewing the status of the plan. Make sure to have someone of authority approve the plan by affixing signature to indicate their concurrence and their support. Responsibilities should be included in policies, procedures, job descriptions, performance review processes, etc.

# Section 5: Tips to Ensure Successful Planning and Implementation

- ***When Deviations from the Plan are necessary, Note them and Revise Plan Accordingly***

  Plans should not be cast in stone but should be dynamic since it is operating within a certain context. When deviations are necessary, note them and sit down and revise the plan accordingly.

- ***Evaluate Planning Process and the Plan***

  Gather feedback regularly at all phases of the planning process***.*** During the planning process, regularly collect feedback from participants. Get on process check from time to time and ask the participants whether they are still in agreement with the process or whether they have any suggestion to improve it.

  Ask the following questions during regular reviews of the implementation of the plan: (a) are the goal being achieved or not; (b)if not, were the goals realistic?; (c) do responsible parties have the resources necessary to achieve the goals and objectives; (d) Should goals be changed; (e) Should more priority be placed on achieving the goals?; (e) What needs to be done?

  It will also help if the comments and suggestions on how the planning process could have been better are written down and collated. It will be a good reference the next time the planning process is conducted.

- ***Conduct of a Regular Planning Session is as Important as the Plan Document***

  Planners learn a lot from ongoing analysis, reflection, discussion, debates and dialogue around issues and goals in the project during the planning process. Thus, it should be emphasized that the planning process itself is as important as the planning document itself.

- ***Nature of the Process Should Be Compatible to Nature of Planners***

  A common example of this type of potential problem is when planners do not go for either the "top down" or "bottom up", "linear" type of planning (for example, going from general to specific along the process of an environmental scan, SWOT analysis, mission/vision/values, issues and goals, strategies, objectives, timelines, etc.) There are other ways to conduct planning, but the process and tools should be carefully selected so as to optimize benefits arising from it.

- ***Acknowledgement and Celebration of Results***

  When one does not stop to acknowledge and celebrate a task done, a problem solved, or a strategy completed, the process can seem like having to solve one problem after another. This could easily lead to morale fatigue and planners can become cynical about the whole process. So this is a critical step that should at least leave the planners cup filled for a while before moving on to the next task. Acknowledge and celebrate however small the accomplishment is for when these are put together, they constitute the whole of what the project has set to achieve.

# Section 6: What is a Budget

A budget can be defined as a financial plan of an entity relating to a period of time. It involves setting objectives to be achieved and the co-ordination of people and their organizational aspirations. The financial budget is a way of quantifying the resources needed to achieve these objectives.

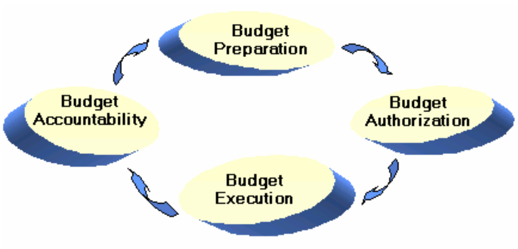
## 6.1 What are the Advantages of Using a Budget

Budgets for an organization or project are used to:

- Plan and implement objectives
- Calculate the estimated income and expenditure
- Co-ordinate activities.
- Communicate plans
- Motivate staff by setting clear targets
- Monitor and evaluate actual performance

## 6.2 The Philippine Government Budget Process

The Philippine National Government Budget Process consists of four (4) phases, namely




- Budget Preparation

  The process is a cycle which starts with the determination of the applicable expenditure, revenue and debt ceilings. Based on the economic projections contained in the socioeconomic development plan, these ceilings represent the maximum expenditures for current and capital expenditures, new revenue targets, and the upper limit on new borrowings.

  The issuance of a Budget Call follows which reminds the different government agencies to prepare their respective budgets in accordance with the approved overall budget ceilings

Then, DBM holds series of budget hearings/consultations with agencies for the purpose of setting indicative expenditure ceilings of departments and component agencies including attached corporations. The result is an overall budget (National Expenditure Program) that is presented to the Cabinet for deliberation and subsequent submission to the President for approval.

- Budget Legislation/Authorization

  Legislative authorization constitutes the second stage of the budget process. The legislature acts on the budget proposals of the President and formulates an Appropriations Act following the process established by the Constitution, which specifies that no money may be paid from the treasury except in accordance with an appropriation made by law. In accordance with the constitution, the Congress legislates the annual government budget based on the Senate Finance Committee and on the recommendations made by the Bicameral Appropriations Committee.

- Budget Execution

  Budget Execution, the third phase of the process, covers the various operational aspects of budgeting. The continuing work of budgeting includes the review of organization developments, the study of position classification and compensation plans, and generally, the function of ensuring that funds are available in support of agency activities, given the limitations of approved appropriations and available cash

- Budget Accountability.

  Budget Accountability, the fourth phase, refers to the evaluation of actual performance and initially approved work targets. Obligations incurred, personnel hired and work accomplished are compared with the targets set at the time agency budgets were approved.

The government is keen on the agencies strict adherence to Performance Budgeting which relates targeted work units, standard costs per unit of work, and the estimated expenditure level for each budgetary project. This phase completes the budget cycle by comparing actual expenditures and performance with the planned expenditure and performance level.

# Section 7: Project Budgeting

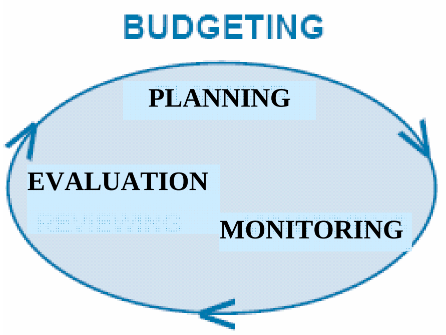
## 7.1 Who Should Be Involved In The Budget Process

Managers and any other staff who are responsible for the activity concerned prepare budgets. Finance staff is a technical resource and ensure that the budgeting process is completed professionally. Budgeting requires those responsible to have good interpersonal skills. It is important to be able to listen carefully and negotiate both when planning and monitoring a budget.

Managers or the heads of department/sections/units and members of the Governing Board and/or Technical Working Groups must participate in each phase of the budgeting process that affects the line items for which they will later be responsible. For too many non-profit organizations, planning and financial management are activities that divide rather than unite the organization.

Program planning is often viewed as the domain of the chairman or executive director, program directors, and the board. Fiscal management is assigned to the bookkeeper, accounting, finance director, and, perhaps, the board treasurer. Program planners and fiscal managers speak different languages and often have different priorities, and may or may not be aware of the importance of the other's approach to the budget process. Program planning decisions often are viewed as failing to reflect economic realities, while fiscal management decisions are often viewed as insensitive to the programmatic mission of the organization. For this reason, both program staff and financial staff should work with the chairman or executive director and board to develop budgets which truly reflect organizational priorities and act as a guide for spending and decision making

## 7.2 What is Involved in Project Budgeting



# Section 7: Project Budgeting

Budgets are usually managed in three stages:

- **PLANNING -** setting the objectives and deciding what this will mean in terms of income and expenditure, within the overall limitations of the project or organization.

- **MONITORING -** measuring how well the actual income and expenditure compares to the planned amounts. Regular statements identify the differences between budgeted and 'actual' figures. Any corrective action is taken on the basis of these statements.

- **EVALUATION -** evaluating through a general review how closely objectives have been achieved and identifying a new framework, if necessary, for the forthcoming period. This takes place towards the end of the budget cycle and may be the start of the following year's planning. It is an opportunity to see if the process of planning and monitoring the budget could be improved.

# Section 8: Planning and Budget

There are 6 simple stages to follow in order to construct an accurate budget:

**1. Identify Organizational or Project Objectives**

The first step in planning is a review of program and project achievements and fiscal performance over the year just ended. This includes but not limited to, reviewing objectives achieved, comparing budget to actual figures and analyzing cost per unit of service or output. Based on this review, new goals and objectives should be discussed and agreed upon in a preliminary way. These goals and objectives should fit into the organization's or project's strategic, long-range plan, and help you make progress towards your mission.

Involve a range of staff in this process.

**2. Decide What Is The 'Limiting Factor'**

The 'limiting factor' is what restricts the budget. It could be a lack of money, human or other resources and time required to implement a program. Remember this factor throughout the planning stage.

**3. Gather The Data**

Ensure all the information is available including:

- The previous year's information (if a continuing program
- Level of inflation
- Amount of salary increases and increments
- Estimates from suppliers - for example for materials, training or rent
- Level of income or grant support
- External factors influencing income and expenditure (e.g. exchange rate).

**4. Determine The Amount To Be Received**

Budget for income as well as expenses. Even though unpredictable events may influence fees and contributions, you can estimate revenues with some degree of accuracy based on past experience. As with any budgeting based on the past, it is important to make adjustments for future plans and changes when you have sufficient information to anticipate. Grants from foundations, corporations, and international donor agencies can be more difficult to predict. The financial officer, along with the fundraising committee (if any) of the board, have to make the most realistic assessment possible for budgeting purposes. It may also be useful to develop contingency budgets for more conservative or optimistic projections of revenue.

Be as realistic as possible in the estimation and show the status of any possible amounts as a note to the budget, e.g., unconfirmed funding.

**5. Determine The Amounts To Be Spent**

Estimate the costs required to achieve your objectives, including staff, supplies, and other resources. Break down the items into types by following existing budget headings. If the program is to be funded by an external donor, it is essential to ensure that the internal financial system will allow information to be recorded and presented in the same format as their budget headings. If a budget has been prepared in the previous year, this and the actual costs recorded against it, will be a guide to this year's required amount. However, check that the amounts also reflect the current year's objectives, inflationary increases and amounts for programme growth. Again, be as realistic as possible with the estimation.

**6. Construct The Budget**

List the budget item by item, ensuring that the totals of both income and expenditure are the same, and include notes of all calculations.

Prepare a preliminary budget. If revenue and expenses are not in the desired relationship, programs and activities must be reevaluated and adjustments made. When reviewing the revenue budget, it is important to avoid the temptation of raising the estimate without changing the plans for generating revenue. The budget should be based on reasonable assumptions you have some grounds for making.

If expenses need to be reduced, it is helpful to determine what each program and activity would cost at different service levels. A fixed percent cut across all expense lines is often not the most effective way to reduce expenses. For instance, do not assume that benefits and costs move together, with each additional peso spent resulting in an additional peso of results.

# Section 9: Monitoring a Budget

After the budget period has started, it is essential to monitor regularly how close the actual income and expenditure is to that predicted in the budget. This allows managers, members of governing bodies or others responsible to assess the organization's up to date financial situation. Any differences, or 'variances', must be examined and are a basis for corrective action.

The stages are as follows:

***1. PREPARE OR RECEIVE THE INFORMATION COMPARING THE BUDGET WITH 'ACTUAL'***

A comparison of the budget to 'actual' income and expenditure is normally prepared monthly or quarterly. It is sometimes called a budget and actual statement *(see Figure 1).*

Other names include 'budget report', 'management accounts' or 'variance report'. The information is usually prepared by finance staff and passed on to those responsible for the budget, as soon as possible after the end of the period.

***2. MONITOR THE INCOME AND EXPENDITURE REGULARLY***

Those responsible should identify any difference between each budget and actual income and expenditure items - the variance - and be able to explain the reason(s) for this. It is helpful to add notes to the figures to explain the variances.

***3. TAKE ACTION***

Based on the monitored information, action may be needed. These are the following possibilities:

- Take no action if the actual income or expenditure is temporarily incorrect, but will right itself in the next period. Ensure that it does.
- Predict what will happen if the current trend continues for the rest of the budget period.
- Take action to ensure that an income or expenditure item reverts to what was expected in the original budget. It might be necessary, for example, to reduce costs, to cut back on a planned programme, to increase fees and charges or to follow-up on an expected grant that has not been received.
- Consider obtaining permission to 'vire' for under/over budget items. This means that an under spending on one budget item, for example travel, is transferred to an overspending on another budget item, for example salaries, at some point during the year. If virement occurs it will simply 'tidy up' the budget and actual statement. Permission to do this is usually needed from a senior manager and/or donor. Virement will usually happen no more than once or twice a year.

- Inform people what action is needed in order to keep within the budget.
- Continue to monitor the budget and ensure that any action has been effective.

# Section 10: Reviewing Actual Performance vs. Budget

Comparing the budget and actual expenditure is an important way of measuring how an organization or project is progressing throughout the year. It is also valuable to compare the annual budget figure with financial statements (eg. the income and expenditure account) after the end of the year.

The advantage of the budget and actual comparison is that it can be examined quickly. The comparison of the budget and the financial statement is likely to take place some time after the year-end.

The financial statement's main advantage is that the figures will have been adjusted to show a complete 'like with like' comparison. This then provides 12 months' budget and 12 months' income and expenditure. The figures can also be compared with the following year's budget and previous year's accounting statements.

The statements produced by an organisation or a programme at the year-end are as follows:

1. ***INCOME AND EXPENDITURE ACCOUNT (EQUIVALENT TO A 'PROFIT AND LOSS ACCOUNT' IN A PROFIT-MAKING ORGANISATION)***
   An annual statement that is comparable with the budget. It is rather like a version of the budget and actual statement, adjusted to show a full twelve months' income and expenditure. It is likely to have been adjusted for items paid in arrears or in advance.

   These adjustments will be placed in the year, in which the transaction should have occurred, for the purposes of producing the account. Therefore a 'like with like' comparison can be made with the budget.

   The income and expenditure account may also have been adjusted for depreciation. Depreciation is a 'bookkeeping' entry charged to expenditure that estimates the value lost during the year on a long term item, such as a vehicle or furniture.

   Whenever depreciation is shown in the income and expenditure account, it will have also been shown in the budget.

***2. RECEIPTS AND PAYMENTS ACCOUNT***

A straightforward statement that shows the opening cash and bank balance, receipts or money coming in during the year, payments or money going out during the year, and the closing cash and bank balance.

No adjustments are made to the transactions to achieve a true comparison with the budget.

If, for example, only ten months' (rather than twelve months') rent had been paid during the year, the receipts and payments account would show just ten months. The comparison with the budget would be limited and would not then present a 'like with like' picture.