HUMANITARIAN ACADEMY · HUMANITAIRES JOBS

Mini MBA Finance and Grants: managing donor money and financial health

Course handout · Week 4 : Managing budgets: variances, forecasts at completion and decisions

A programme of exactly 3 months (12 weeks, 144 hours) to manage the finances of a humanitarian organisation and donor funds: NGO accounting and restricted funds, budgets and shared costs, cash and foreign exchange, budget monitoring and forecasts, eligibility rules, the grant cycle, partner funding, audits and fraud, financial health, full cost, reserves and diversification, governance and turnaround. Corrected numerical exercises, three monthly exams with case studies, and a verifiable diploma from the Humanitarian Academy.

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Week 4 : Managing budgets: variances, forecasts at completion and decisions

Objectives

- Produce and read a budget monitoring report (budget versus actuals) line by line and by period.
- Build a realistic end-of-project forecast and draw decisions from it: accelerate, reallocate, revise or extend.
- Organise a useful monthly budget review between programmes and finance, with alert thresholds.

The budget versus actuals report

The **budget versus actuals report** (BvA) is the basic tool for a project's financial management. For each budget line, it shows: the total budget, the budget planned to date (according to the spending plan, not a straight line), cumulative actual expenditure, commitments (orders placed but not yet paid), the variance and the burn rate.

Reading a BvA means asking three questions for each significant variance: **why** (activity delay, different prices, coding error, unbudgeted expense); **is it temporary or lasting** (a delay that will be caught up or a real saving); **what decision** (nothing, acceleration, reallocation, revision).

Example. "Hygiene kits" line: total budget 120,000 USD, budget to date 80,000, actual 30,000, commitments 45,000. The gross burn rate (30 / 80 = 38%) is worrying; taking orders placed into account, execution is (30 + 45) / 80 = 94%. Commitments completely change the reading: never analyse a BvA without them.

> Usual analysis threshold: any variance of more than 10% and more than a set amount (for example 5,000 USD) on a line must be explained in writing every month.

Price variances, quantity variances

A variance on an activity line can be broken down into two parts, which tells you whom to ask:

- **Quantity variance** = (actual quantity − planned quantity) × planned price. It is a programme matter: more or less was distributed than planned.
- **Price variance** = (actual price − planned price) × actual quantity. It is a procurement and market matter: the kits cost more or less.

Example. Planned: 2,000 kits at 45 USD = 90,000 USD. Actual: 1,800 kits at 52 USD = 93,600 USD. Total variance: +3,600 USD (overspend). Quantity variance: (1,800 − 2,000) × 45 = −9,000 USD (an apparent saving, because less was distributed). Price variance: (52 − 45) × 1,800 = +12,600 USD (extra cost). Check: −9,000 + 12,600 = +3,600. The real problem is not

a 4% overspend: it is a price 15.6% higher than planned and 200 kits not distributed. If the remaining 200 kits are distributed at the new price, the line will be overspent by 14,000 USD.

The same logic applies to staff (headcount variance versus salary variance) and to cash transfers (variance in number of households versus variance in transfer value).

The end-of-project forecast

The BvA tells you where you are; the **forecast at completion** tells you where you are heading. For each line: actual expenditure + commitments + estimate of what remains to be spent until the end, based on the updated workplan (not the initial budget). The forecast is compared with the total budget.

Example of a 12-month project, end of month 7.

Line	Budget	Actual + committed	Estimated remaining spend	Forecast	Variance
Staff	300,000	182,000	130,000	312,000	+12,000
Transfers	500,000	210,000	220,000	430,000	−70,000
Vehicles and transport	80,000	61,000	34,000	95,000	+15,000
Total	880,000	453,000	384,000	837,000	−43,000

Reading: the project will underspend by 43,000 USD overall, but two lines are overspent. Possible decisions: request a reallocation from transfers to staff and transport within the contract's flexibility; use the transfer balance to reach more households (which serves the objective); or propose a no-cost extension if delays prevent useful spending.

Reallocations, revisions and flexibility

Each contract sets the **budget flexibility**: the percentage that may be transferred between lines or headings without prior approval (often 10 to 20% of a heading or of the total), protected lines (for example salaries or equipment, which always require approval), and the procedure for larger changes (amendment, budget revision).

Flexibility calculation. A contract with 15% flexibility between headings, calculated on the amount of the receiving heading. "Transport" heading: budget 80,000 USD. Up to 12,000 USD can be transferred to it without approval. In the previous example, 15,000 USD is missing: the 3,000 USD beyond the flexibility requires a formal request.

Good practice:

- Request revisions **early** (as soon as the forecast at completion shows a lasting variance), with a justification linked to activities and results, not just to figures.
- Never spend first and ask afterwards: an unauthorised overspend beyond the flexibility becomes an ineligible cost.

- Keep a written record of every donor approval, including by email, in the grant file.
- Update the reference budget in the accounting system after each approved revision, so that subsequent reports compare against the right budget.

The monthly budget review

The **monthly budget review** (BvA meeting) brings together, for each project, the project manager, the finance manager and often the logistics manager. Duration: 30 to 60 minutes per project. Agenda:

- Significant variances and their explanations.
- Coding errors to be corrected (an expense of one project charged to another).
- Updated forecast at completion and decisions.
- Upcoming commitments (large orders, recruitments).
- Eligibility: unusual or risky expenditure to be checked before the report.
- Dates of the next financial reports and documents to be prepared.

The minutes record the decisions, who is responsible and the deadline. Recurring variances are escalated to country management, which consolidates the situation of all projects: total underspend, overspends, pre-financing, and the shared cost gap.

> A budget review in which the project manager discovers the figures during the meeting is a wasted review. The report is sent three days in advance, and everyone comes with their explanations.

Country portfolio indicators

At country or organisational level, management tracks a few portfolio indicators:

- **Execution rate** of each project against plan, and projects underspent by more than 20% less than six months before the end.
- **Project end dates** within six months, with their effect on funding for staff and shared costs (the "funding cliff").
- **Shared cost coverage**: amount recovered by projects against the office's actual costs.
- **Pre-financing** and receivables from donors by age.
- **Costs at risk**: expenditure whose eligibility is doubtful, provided for.

Funding cliff example. An office has 40 employees, 70% funded by two projects ending in June. If no new funding is signed by March, a staff reduction will have to be prepared in April, with the indemnities required by law and notice. Good management anticipates these dates six to nine months ahead.

Exercise: analysing a line and deciding

Situation. "Cash transfers" line of a 10-month project, end of month 6: planned 1,500 households × 6 months × 90 USD = 810,000 USD; actual 1,300 households × 6 months × 100 USD = 780,000 USD (the transfer value was raised by the cash working group). Total budget of the line: 1,350,000 USD. The contract provides 10% flexibility per heading.

Tasks. 1) Calculate the total variance, the quantity variance and the price variance. 2) Forecast the end of the line if 1,500 households receive 100 USD for the remaining 4 months. 3) What decision?

Answer. Total variance: 780,000 − 810,000 = −30,000 USD. Quantity: (1,300 − 1,500) × 6 × 90 = −108,000 USD. Price: (100 − 90) × 1,300 × 6 = +78,000 USD. Check: −108,000 + 78,000 = −30,000. Forecast: 780,000 + 1,500 × 4 × 100 = 1,380,000 USD, i.e. an overspend of 30,000 USD (2.2%), within the 10% flexibility if another line in the heading has a balance. Decision: document the increase in transfer value (cash working group decision), inform the donor, reallocate within the flexibility, and check why 200 households were not enrolled in the first six months.

Key takeaways

- A budget versus actuals report without commitments gives a false picture of execution.
- Quantity variance = (Qa − Qp) × Pp; price variance = (Pa − Pp) × Qa.
- Forecast at completion = actual + committed + estimated remaining spend based on the updated workplan.
- Beyond the contract's flexibility, the donor's written approval is mandatory before spending.
- Anticipate project end dates six to nine months ahead to avoid the funding cliff.

Quiz

1. Budget to date 100,000 USD, actual 40,000, committed 50,000. Real execution is:
   A. 40%
   B. 90%
   C. 50%
   D. 10%

2. Planned 1,000 units at 20 USD; actual 1,200 units at 18 USD. The price variance is:
   A. −2,400 USD
   B. +4,000 USD
   C. +1,600 USD
   D. −2,000 USD

3. Same case. The quantity variance is:
   A. +4,000 USD
   B. +3,600 USD
   C. −2,400 USD
   D. +1,600 USD

4. A 50,000 USD heading with 15% flexibility can receive without approval:
   A. 7,500 USD
   B. 15,000 USD
   C. 5,000 USD
   D. No amount

5. Two projects funding 70% of staff end in 5 months with no follow-on funding. The priority is:
   A. Wait
   B. Prepare scenarios now: new funding, orderly staff reduction with notice and indemnities
   C. Lay everyone off tomorrow
   D. Extend contracts without funding

Quiz answers : 1. B · 2. A · 3. A · 4. A · 5. B