2021

MODULE 3

PROGRAMMING & SITE OPERATIONS

BUDGETING & COST BENEFIT ANALYSIS

CALA CONSTRUCTION
ACADEMY OF EXCELLENCE

keystone

BUDGETING

What is a budget?

A budget is simply the translation into money terms of management's operational plans for the organisation. It provides the organisation with the financial plans necessary to achieve those objectives and is a mechanism for allocating resources.

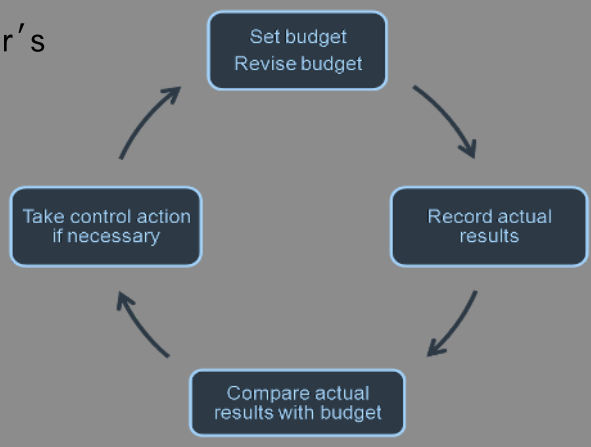
How long does it last?

A budget can be drawn up for any length of time: so that for a particular project, a three or six-month budget may be most suitable. In most UK organisations the budget is for a period of a year, although that budget is in the context of longer-term strategic finance planning.

Budget Terminology

Terminology that needs to be understood in following the financial processes that are in place exists. These terms include:

- A budget is the financial allocation of resources for a specific purpose for the current year.
- The profile is the assessment by the budget holder of the likely incidence of income and expenditure during the current year. It is the 'run rate' for an approved budget. It determines the monthly drawdown of resource to meet budgetary provision
- The forecast is an assessment of the full year implications of the current year's expenditure and income
- The estimate is the draft resource requirement for the following year.



The Budget Cycle

STEPS TO BUDGETING

7 Steps to Successful Budgeting

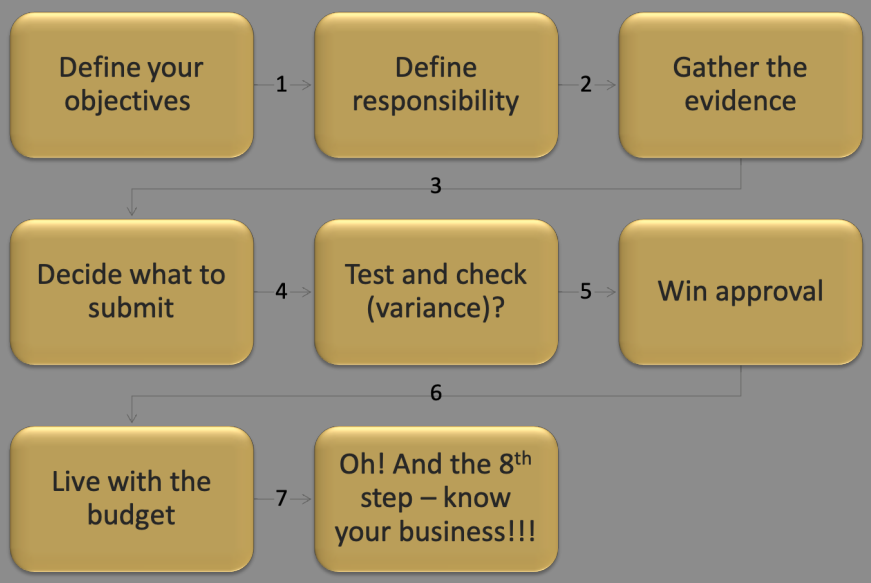
Define your objectives - within the context of the longer term departmental plan.

Define responsibility - the boundaries of your control, all the resources for which you are accountable and any changes.

Gather the evidence - establish sources of information and policy guidelines (e.g., activity levels, inflation assumptions) for the up-coming budget round. Start collecting the records required well before your planned time for "number- crunching".

Decide what to submit - keep a record of what facts/estimates your decisions were based on. Keep working papers and evidence used to establish accurate estimates and to share with Finance. Gather ideas and commitment from your managers, colleagues and direct reports where you can.

Test and check - do the overall totals stack up? What about the 'profiling' of individual income or expenditure lines? Are there other ways of meeting your objectives and responsibilities?



7 Steps to Successful Budgeting (cont...)

Win approval - use your research material to explain your budget submission to key stakeholders and approvers. Recognise the need for adjustment to be consistent with other budgets to achieve the right overall plan.

Live with the budget - when the budgets are set and finalised. At this point, there is limited likelihood of negotiating additional funds. You will need to adjust spending according to the finalised budget and to monitor actual spending against the budget continuously throughout the year. Note and explain significant variances as you go.

Cost Benefit Analysis (CBA)

CBA is a simple method used by managers to quickly assess the worthiness of a project financially. The manager needs to weigh up their costs (all expenditure anticipated for the project) and their benefits (all income and revenue expected as a result).

Costs

Managment
Hardware
Utilities
Installation
Labour

Benefits

Protection
Insurance
Disruption Reduced
Flexibility
Less Casualties

COST BENEFIT ANALYSIS

CBA Example

This example shows what happens when a manager divides the benefits (£18.7M) with the costs (£17.9m) of an idea. The CBA ratio is 1.04 which shows a healthy return on the investment over time. Anything higher than 1.0 is seen as a promising investment. Anything less than 1.0 needs careful consideration.

C15 =D7/D13

Benefit- Cost Ratio = Benefits available from the project / Total value of Costs

	A	B	C	D
1				
2		Option 2	Calculation	Total
3		**Benefits**		
4	A)	Income from Rentals	(20 * 5 * 3000)	300000.00
5	B)	Income from Sales	(80 * 200000)	16000000.00
6	C)	Income from the Sales After Rent Period	(20*120000)	2400000.00
7	D)	**Total Benefits (A + B + C)**		**18700000.00**
8				
9		**Costs**		
10	E)	Construction Cost	(100 *150000)	15000000.00
11	F)	Sales and Staff Cost	(2*450000)	900000.00
12	G)	Financing Cost	(2000000 *1)	2000000.00
13	H)	**Total Costs (E + F + G)**		**17900000.00**
14				
15		**Benefit Cost Ratio (D /H)**	**1.04**	
16				