



**'Building the capacity of the Third Sector to engage in commissioning and tendering'**

## Costing and Budgeting

### What is it?

**Costing** is a formal method of identifying and valuing all the materials, resources, component parts and activities required to complete a task or product.

**Budgeting** is a process of identifying how planned expenditure is to be committed and the allocation of financial resources. A budget will normally be for a year but can be longer and resources are usually allocated by months of the year.

### Is it for my organisation?

Costing and budgeting is essential for anyone planning or running a service and particularly for those considering tendering for contracts.

### What does it do?

Costing provides information on the total cost of completing a product or activity. It does not include or account for any profit required from that activity but does provide a basis for deciding the amount of profit required or expected. You cannot properly budget without costing first.

Budgeting allows the financial resources allocated to a task to be monitored and measured. This is done on both a monthly and progressive basis to ensure expenditure is in line with plans and expectations.

### What are the benefits?

Costing and budgeting helps ensure that plans are delivered inline with what is known and accepted before the investment decision is made. It also allows expenditure to be monitored throughout the life of the investment and enables organisations to react to unforeseen problems before they develop into major issues.

### Who does it apply to?

It should apply to any organisation or service planning or preparing a venture that is unknown in terms of total and

precise cost. It may also apply to those who need to keep control of expenditure and keep it within the approved funding allocation.

### How will it affect me?

If you are in a position of responsibility for strategic change in an organisation it will help you to know; what an activity or product is likely to cost, that everything is accounted for and that there is a process in place to manage the finances should the activity proceed. If you are preparing a tender bid it will help you to establish whether it is affordable and potentially profitable.

### Why is it important?

Costing is vitally important in ensuring that the amount of investment being made is accurate and reliable. It is also important as it is the basis for sound budgeting which, keeps you informed of the financial performance. Without costing and budgeting it is likely that you may either under or over allocate funds, make a loss on an activity and the budget may not be reliable due to inaccurate costings.

### When?

Costing is usually undertaken well in advance of the time when the actual investment is required. This is to allow time to go through any approval process, make changes and finally to allow the funding to be secured. Budgets can be set as soon as costing is approved, this should take place well before the activity starts.

### What else can I do?

Make sure that you understand how to cost and budget and attend any suitable training courses on these subjects.

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