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FORECASTING & PROJECTING

Differences & Tips

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Introduction

This guide is designed to help finance staff understand the key differences between a budget forecast and a budget projection. Clear definitions, practical tips, and straightforward examples will be explained further in developing these essential financial concepts.

What is a Budget Forecast?

A budget forecast is an estimate of future financial outcomes based on current and historical data. It is a prediction that helps in planning and decision-making by projecting revenue, expenses, and other financial aspects over a specific period.

KEY CHARACTERISTICS

- Based on historical data and trends.
- Covers short to medium-term periods (usually 1-3 years).
- Updated regularly to reflect changes in spending trends, economic conditions or initiatives.
- Helps in setting financial targets and identifying potential financial challenges (surplus/deficits).

EXAMPLES

If historical data shows that revenue has been increasing/decreasing by 5% annually/monthly, a budget forecast will project this trend into the future, adjusting for known changes like new funding or economic spending.

What is a Budget Projection?

A budget projection is a detailed financial plan that outlines expected revenues, expenses, and other financial elements based on specific assumptions for a future period. It is more detailed and often used for longer-term planning.

KEY CHARACTERISTICS

- Based on specific assumptions about future events or conditions.
- Typically covers longer periods (3-5 years or more).
- Used for strategic planning and assessing long-term financial sustainability (what-if scenarios).
- Less frequently updated compared to forecasts, often revised annually or semi-annually.

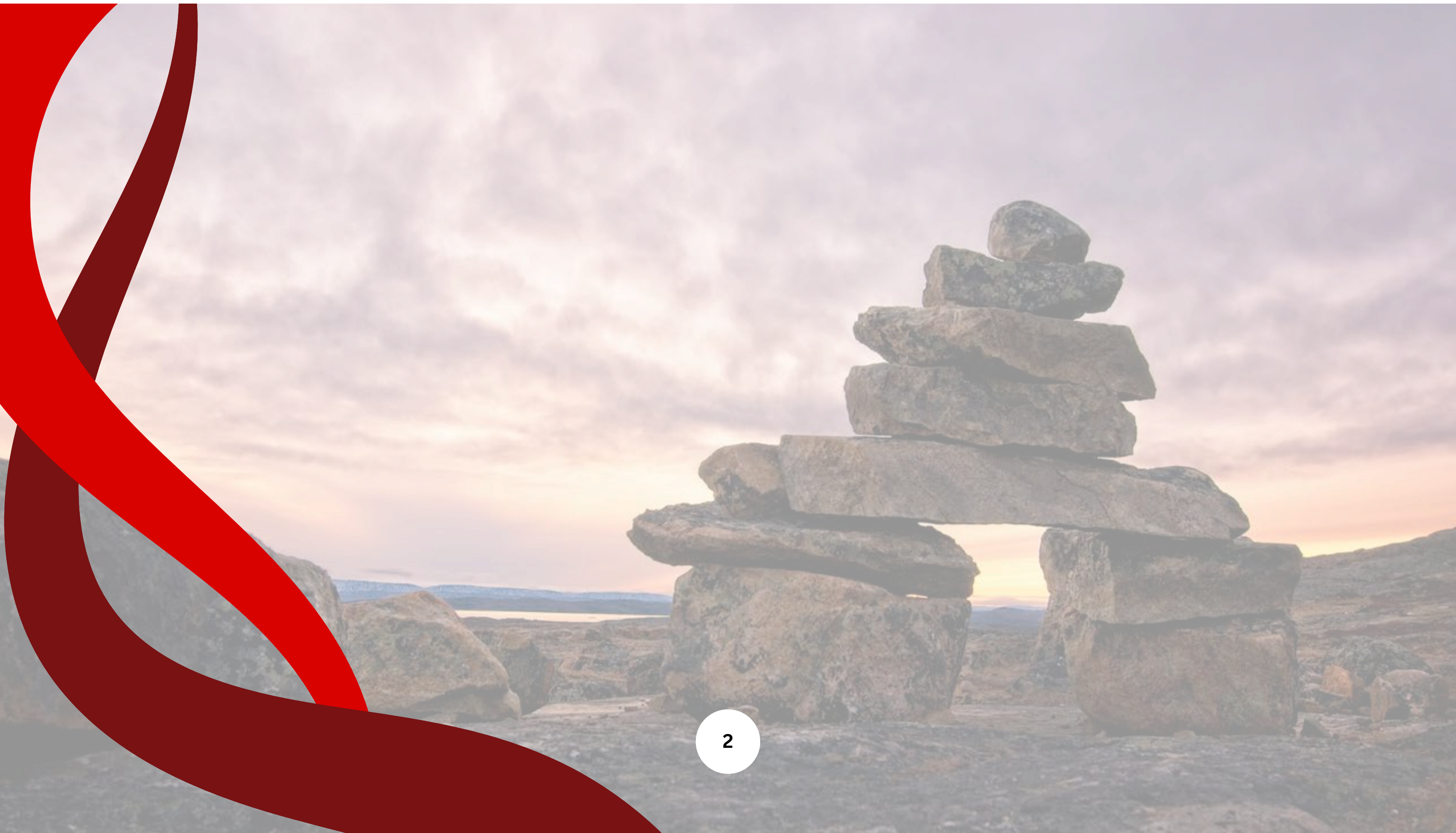
EXAMPLES

A budget projection might assume that a new community development project will increase operational costs by 10% over the next five years. This projection will incorporate these assumptions into a detailed financial plan.

Differences

Between a Budget Forecast & a Budget Projection

ASPECT	BUDGET FORECAST	BUDGET PROJECTION
Time Frame	Short to medium-term (1-3 years)	Long-term (3-5 years of more)
Basis	Historical data and current trends	Specific assumptions about future events
Frequency of Updates	Regularly (monthly, quarterly)	Less frequently (annually, semi-annually)
Purpose	Short-term planning and decision making	Long-term strategic planning, what if scenarios
Detail Level	Less detailed	Highly detailed, listing of all assumptions



Steps to Create

A Budget Forecast

1 COLLECT HISTORICAL DATA
- Gather financial statements, reports, and records from the past months, quarters, and prior years.
- Ensure the data is accurate and comprehensive for analysis.

2 ANALYZE TRENDS
- Identify patterns in revenue and expenses (increases/decreases YoY, one-time increases/decreases)
- Look for seasonal variations, growth rates, and any anomalies.

3 MAKE ASSUMPTIONS
- Based on the trends, make reasonable assumptions about future performance.
- Consider external factors like economic conditions, market trends, and changes in funding.

4 PREPARE THE FORECAST
- Use Excel spreadsheets to create your forecast (formulas based on prior period data).
- Project revenues, expenses, and other financial elements based on your assumptions.

5 REVIEW AND ADJUST
- Regularly update the forecast to reflect new data and changing circumstances.
- Adjust your assumptions and projections as needed.

TIPS AND TRICKS FOR EFFICIENCY

- **Automate Data Collection:** Use accounting software to automate the gathering and analysis of historical data.
- **Use Templates:** Develop standardized templates in Excel for your forecasts to save time and ensure consistency (financial resiliency templates).
- **Regular Reviews:** Schedule regular reviews (e.g., quarterly) to keep the forecast up-to-date.

Steps to Create

A Budget Projection

1 DEFINE OBJECTIVES

- Clearly outline the goals and objectives of the projection (why).
- Determine the time frame and scope (long-term, or what-if scenario).

2 GATHER INFORMATION

- Collect all relevant data, including current financial statements, project plans, and funding agreements.
- Engage with stakeholders to understand future plans and initiatives (funders, partners, management).

3 MAKE ASSUMPTIONS

- Develop detailed assumptions about future events, such as new projects, funding changes, and economic conditions.
- Document these assumptions clearly.

4 DEVELOP THE PROJECTION

- Create a detailed financial spreadsheet that incorporates your assumptions.
- Use Excel to project revenues, expenses, and other financial elements over the chosen time frame.

5 REVIEW AND VALIDATE

- Review the projection with key stakeholders to ensure accuracy and feasibility.
- Validate the assumptions and adjust if necessary (ask if things are missing, does it make sense).

6 UPDATE PERIODICALLY

- Revisit and update the projection annually or semi-annually to reflect new information and changes in assumptions.

TIPS AND TRICKS FOR EFFICIENCY

- **Scenario Planning:** Develop multiple scenarios (best-case, worst-case, and most likely) to prepare for different outcomes (sensitivity analysis).
- **Stakeholder Engagement:** Regularly communicate with stakeholders to gather insights and validate assumptions.
- **Tools & Templates:** Utilize templates and Excel software to streamline the development and updating of projections (financial resiliency).

Practical Application

Scenario

The finance team is tasked with preparing a financial plan for the next fiscal year.

Start with a budget forecast using the previous three years' financial data. Look at trends in revenue and expenses.

- **Tip:** Use accounting software to gather data collection and use Excel to determine trend analysis.

Create a budget projection for the next five years, incorporating known factors such as new projects, changes in funding, and economic forecasts.

- **Tip:** Engage with project managers and community leaders to gather detailed information about future initiatives.

Update the budget forecast quarterly to reflect any new information or changes in assumptions.

- **Tip:** Schedule regular check-ins to review and adjust the forecast as needed.

Annually review and adjust the budget projection to ensure it remains aligned with long-term goals.

- **Tip:** Conduct an annual strategic review with key stakeholders to validate and adjust long-term assumptions.

CONCLUSION

Understanding the differences between budget forecasts and budget projections is crucial for effective fiscal planning and management. Use this guide to help you create accurate, reliable financial plans that support the sustainable growth and development of your organization.

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