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UNIT 1 PLANNING AND BUDGETING



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Introduction

- Welcome to the first unit of this module. In this unit we will focus on planning and budgeting for institutional development.
- Effective use of resources require proper planning and budgeting.
- We shall discuss the planning and budgeting processed in schools. We shall also learn about the national budgetary system.
- we shall also look at how budgeting is done in the education sector and specifically in schools.
- In addition, we shall look at funding for free education programs is done.



Expected learning outcomes

Upon completion of this unit, you will be able to:

a) Explain the concept of planning.

b) Describe the process of budgeting.

c) Analyse the national budgetary system.

d) Discuss the education budgetary system.

e) Apply the skills required to manage the Free Primary Education (FPE) and Free Day Secondary Education (FDSE) programs.



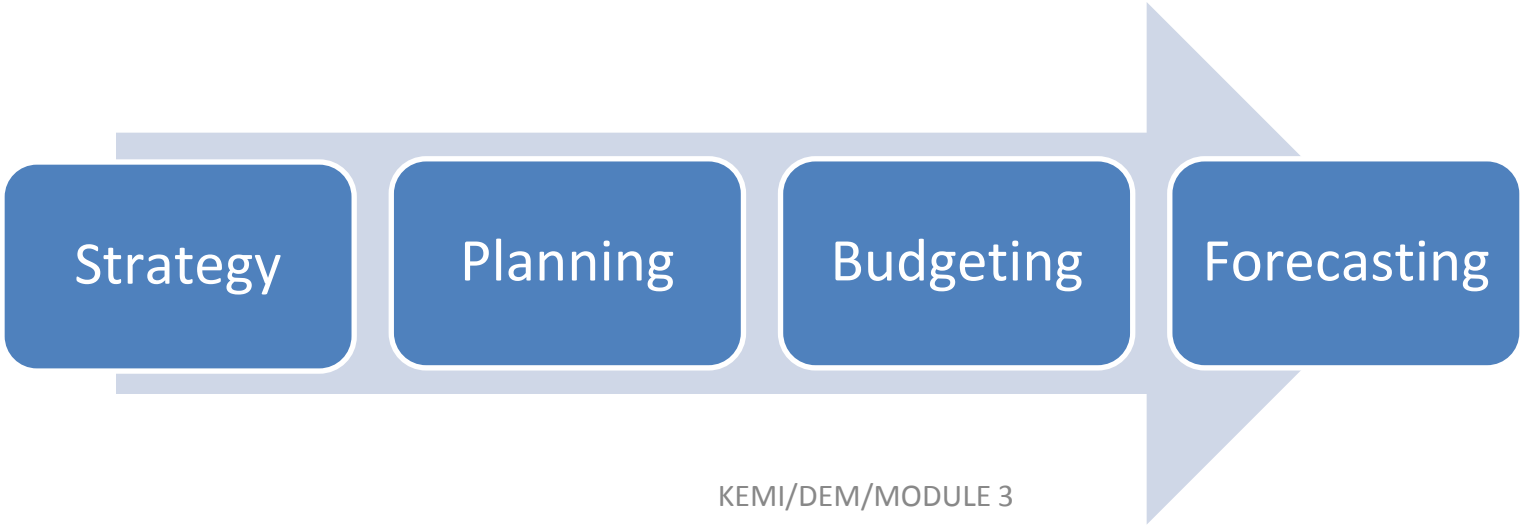
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Planning

- Planning is defined as the process for stating the direction and financial objectives of an institution.
- For any organization, failure to plan is planning to fail.
- Most institutions put together an annual plan that is part of the larger strategic plan of the institution.
- The overall planning picture is commonly comprised of two main components:
  - **Strategic Plan:** The strategic plan sets the overall long-range goals and objectives. These are both qualitative and quantitative in nature
  - **Annual Plan:** The annual plan provides the high level targets that guide the budget.

What is the linkage between planning, budgeting and forecasting?

- You must ensure that you link planning to the budgetary process.
- The linkage between planning, budgeting and forecasting is illustrated below:



	Item	Details
1	Strategy	What activities are we involved in? How will we compete? Which choices will generate more money?
2	Planning	How will we align resources with our strategy? How will we measure our progress? Planning outlines the institutions financial direction and expectations
3	Budgeting	How will we ensure accountability and encourage behaviors needed to execute the strategy? Budgeting documents show how the overall plan will be executed month to month, specifying expenditures.
4	Forecasting	How will we adjust to reflect changing conditions? Forecasting - uses accumulated historical data to predict financial outcomes for future months or years.



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Budgeting

- From the discussion so far, it is clear that budgeting is not an isolated activity. It is as much a component of planning.

(a). What is a budget

- For the purpose of this unit, budget is viewed as a financial plan quantified in monetary terms, prepared and approved prior to a defined period of time.
- Budgeting can also be viewed as a comprehensively thought out plan on various sources of income, with the estimated amount from each source and the anticipated expenditure categorized according to different vote heads. In simple terms a budget is a plan that lays out what you will do with your money.
- The budget is often called an operating plan.

Components of a budget

Budgets are made up of two parts, namely, the revenue and expenditure components:

(i). Revenue: This component is made up of sources of revenue. Source of revenue includes how much money you have or will receive.

(ii). Expenditure: The expenditure is subdivided into two parts, namely, recurrent and capital/development expenditure:

- **Recurrent expenditure:** This component consists of the day-today running expenses such as electricity, fuel, repair and maintenance and salaries.
- **Capital/Development expenditure:** This component refers to expenses on projects such as infrastructure development projects.



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In a school's situation the main expenditure falls under the following **vote heads:**

i. **Tuition:** These include exercise books, textbooks, stencils, duplicating papers, chalk dusters, chemicals for laboratory project work, materials for examination etc.

ii. **Boarding Equipment and Stores:** these include: foodstuff, cleaning material for the kitchen and dormitory, beds, mattresses, blankets and toilet paper.

iii. **Repairs, Maintenance and Improvements:** These include: The cost of the general and minor repairs to tuition and boarding equipment, to staff houses and school buildings, ground maintenance and social improvements.

iv. **Local Transport and Travel:** These include all travelling expenses of staff on official trips, claims of board members while travelling to school for official duties. Other transport expenses for non-teaching staff and support are also included. This category also includes; maintenance of school vehicles, inspection fees, replacement of tyres, expenditure on school trips, official tours and subsistence, fuel and oils for

v. **Electricity, Water and Conservancy:** these include Electricity and water bills, fuel for generator and water pump, maintenance of lighting equipment, sewage services, paraffin, gas and wood.

vi. **Activity:** these include costs associated with financing co-curricular activities such as the purchase of games equipment, trophies and awards, transport costs associated with co-curriculum, food for pupils undertaking co-curricular activities.

vii. **Medical;** these include the cost of generic drugs and medicines and pupil emergencies.

viii. **Personal Emoluments:** these include: payment of salaries for non-teaching and support staff, Board of Management, teachers and other workers employed by School Boards.

VOTE HEAD
Tuition fees
Repairs, maintenance and improvements (RMI)
Local travel and transport (LT &T)
Local travel and transport (LT & T)
Alectricity, water and conservancy
Activity fees
Personal emoluments (PE)
Medical fees
TOTAL



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Purpose of a budget:

The budget has several purposes as discussed below:

- It enables the institution to administer its activities.
- It helps decision making in the institution.
- It puts a ceiling on expenditures and cost control.
- It provides linkage between the institution's mission and the expenses.
- It prioritizes the institution's expenses to meet new demands, expectations, in context of utilizing scarce resources.

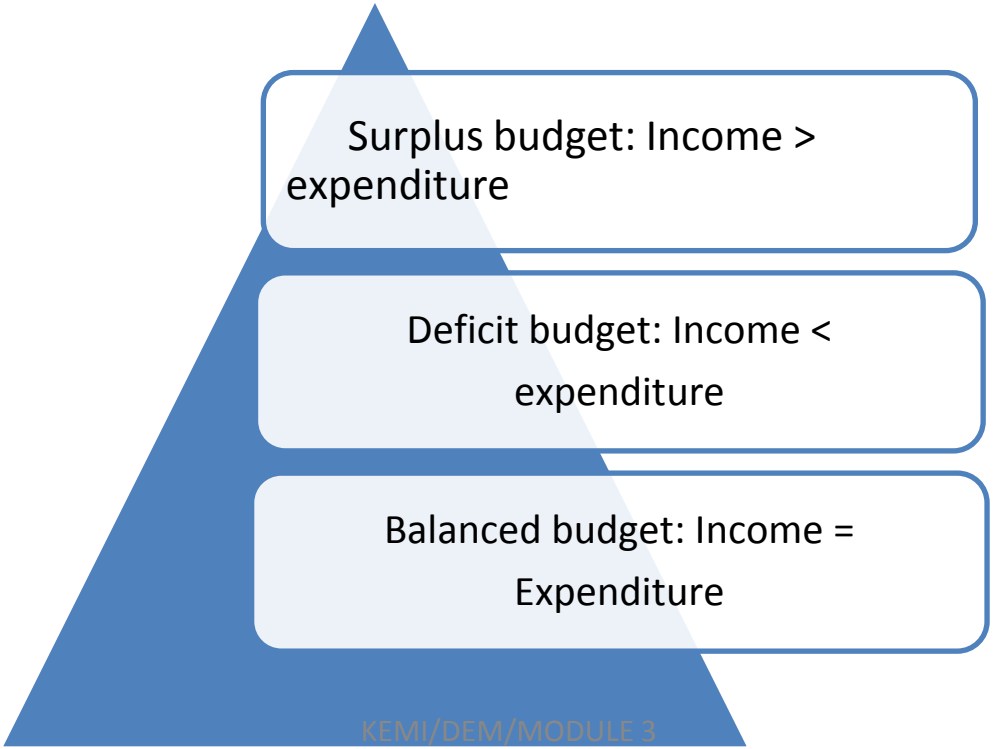
Benefits of a budget:

A budget has the following benefits for the institution:-

- **Planning:** the budget is used to plan expenditures and guide the institution through the upcoming fiscal year.
- **Achieve mission:** Every institution needs a budget in order to achieve its mission through identified activities.
- **Allocation of resources:** The budget is a powerful tool for allocating limited resources among competing priorities within the institution.
- **Program implementation**: A budget permits the institution to undertake its programs with effectiveness and efficiency.
- **Informative:** The budget provides information on the estimated level of revenue to be collected during the year, while also reflecting the types of activities on which revenue will be spent.
- **Growth:** A budget serves as a master plan for the future. It is a road map that can help you get from where you are now to a financial goal down the road.
- **Reporting:** The budget serves as the basis for your financial reporting.

Types of budgets

- Below are three types of budgets, namely, surplus budget, deficit budget and balanced budget.
- These budgets are illustrated diagrammatically below:





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i). Surplus budget: This budget shows that the projected income is more than the projected expenditure.

(ii). Deficit budget: This budget shows that the projected expenditure is more than the projected income.

- Can a deficit budget be changed to a balanced or surplus budget? The answer is yes. To change your budget from a negative balance to a positive balance means that you must increase your income or decrease how much you spend.

(iii). Balanced budget: This is where the projected income is equal to the projected expenditure.

Criteria for good budgets

- As you make your budget, there are important standards that the final document should satisfy.
- These are:
  - Accurate forecasting
  - Based on organizational goals
  - Information is timely and accurate
  - Formed with multilevel input
  - Regular reviews are built-in

A good budget should also be SMART:

S
- Specific: The budget should provide fine details of the sources of revenue and avenues of expenditure.

M
- Measurable: Budgeted activities should have precise goals and objectives. It should be backed up by quantifiable performance indicators. Examples of such indicators are a finished laboratory block etc.

A
- Achievable: The budget should be achievable using the available resources

R
- Realistic: The budget should be realistic; it should take into consideration the available resources

T
- Time bound: The budget should be realizable within the plan period

Budgeting Process

- Budget making process for an institution should focus on an institution's strategic objectives which imply a direct reference to the institution strategic plan.
- We need to note that the budgeting process is an all-inclusive exercise which includes all the departments of an institution.
- The budgeting and budgetary control processes involve:
- Preparation
  - Approval
  - Implementation
  - Reporting
  - Monitoring and evaluation



a) Preparation:

This stage involves the following activities:

i. **Formation of a Budget Committee: -** It ensures that there is enough resources to fund the budget and also ensures that the departmental budget proposals are in tandem with the institution's strategic objectives.

ii. **Reference to the strategic plan: -** The committee focuses its budgeting plan on the development interests of the institution.

iii. **Reference to the performance contract:** - The committee integrates the requirements of the Performance Contracts into the budgeting process.

iv. **Departmental proposals:** -Various Departments prepare their budgets which they submit to the Budgeting Committee. The committee checks the relevancy of the budget with the school's master plans and the irrelevant items are discarded.

v. **Formation of expenditure plan: -** Departmental Proposals are combined to form a temporary expenditure plan comprising vote head.

iv. **Identification of Revenue: -** The committee focuses its attention on the sources of revenue for the temporary expenditure plan above.

v. **Rationalization of the temporary Budget: -** The committee revisits the temporary expenditure intending to make it agree with the revenue plan for the institution. This process may result in a surplus or a balanced budget. But where a deficit occurs, rationalization is usually recommended.

vi. **Preparation of the Draft Budget: -** After reconciling the expenditure and revenue plans the committee prepares a summary of the two in the form of a draft budget.

b) Approval of the Budget: -

- The institution's budget should be discussed and approved by the BOM and the parents during the Annual General Meeting (AGM) and this process is recorded in minutes.
- The budget will then be submitted to the CEB for approval one month before the beginning of the financial year.
- Communicating the budget requirements to the MoE (where applicable) early enough so that it may be aware of how much is required for the year.





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c. Implementation: -

The Principal should co-ordinate and control the implementation of the budget by: -

- Ensuring timely and optimal procurement decisions.
- Checking that various activities take place as scheduled and within approved financial limits.
- Organizing monthly meetings with the staff and termly meetings with the school committee to review actual performance against budgets, using information from the commitment and contracts register.
- Ensuring timely investigation of budget variances and determination of their implications.
- Determining the most appropriate action in addressing unfavourable variances. For instance, there might be a shortfall in receipts, and funds from one vote head may need to be shifted to another (virement). This would need to be discussed and agreed on with the BOM.
- No virement from and to tuition account shall be allowed. The budget should be flexible enough to ensure high priority activities are effectively accomplished.

d. **Reporting: -**The education institution prepares termly and annual reports on the performance of the approved budget under implementation.

e. **Monitoring and Evaluation: -** An institution should conduct termly monitoring of the approved budget to determine the institution's ability to achieve its short-term objectives and carry out an evaluation to establish the end-year budget performance in terms of the attainment of the annual targets.



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Now that you understand the process of budgeting, it is helpful to understand the difference between traditional and contemporary budgeting as illustrated below:

	Traditional	Contemporary
1	Focus on control	Focus on policy/performance
2	Centralized	Decentralized
3	Private exercise of administration power	Public sharing of information
4	Line item format	Program format
5	Formulas	Priorities
6	Minimal flexibility for managers	Maximum flexibility for managers
7	Accountability for inputs	Accountability for outcomes

Budgetary approaches

- The approaches that you may use to prepare your institution‘s budget include the expenditure and income/revenue approaches:

i. Expenditure Approach:

- In this approach you list down both recurrent and non-recurrent expenditure.
- Recurrent expenditure includes personal emoluments, activity, electricity, water and conservancy etc.
- These are expenditures that you incur periodically. Non-recurrent expenditure could be construction of a laboratory, purchase of a school bus etc.
- Using the expenditure approach, you sum up the expenditures then find means of financing them.

ii. Income/Revenue Approach:

- This is the approach where you first listyour projected income.
- The projected income is then matched with the projected expenditure.
- This approach is preferred because it can result to surplus or a balanced budget.



Budget organization

The following is an illustration of how a budget should be organized:

- Clear introductory message.
- Overall graphic projection of anticipated income and expenses.
- Detailed estimate of receipts and itemized expenditures.
- Supporting documentation if needed to clarify any requests



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National Budgetary System

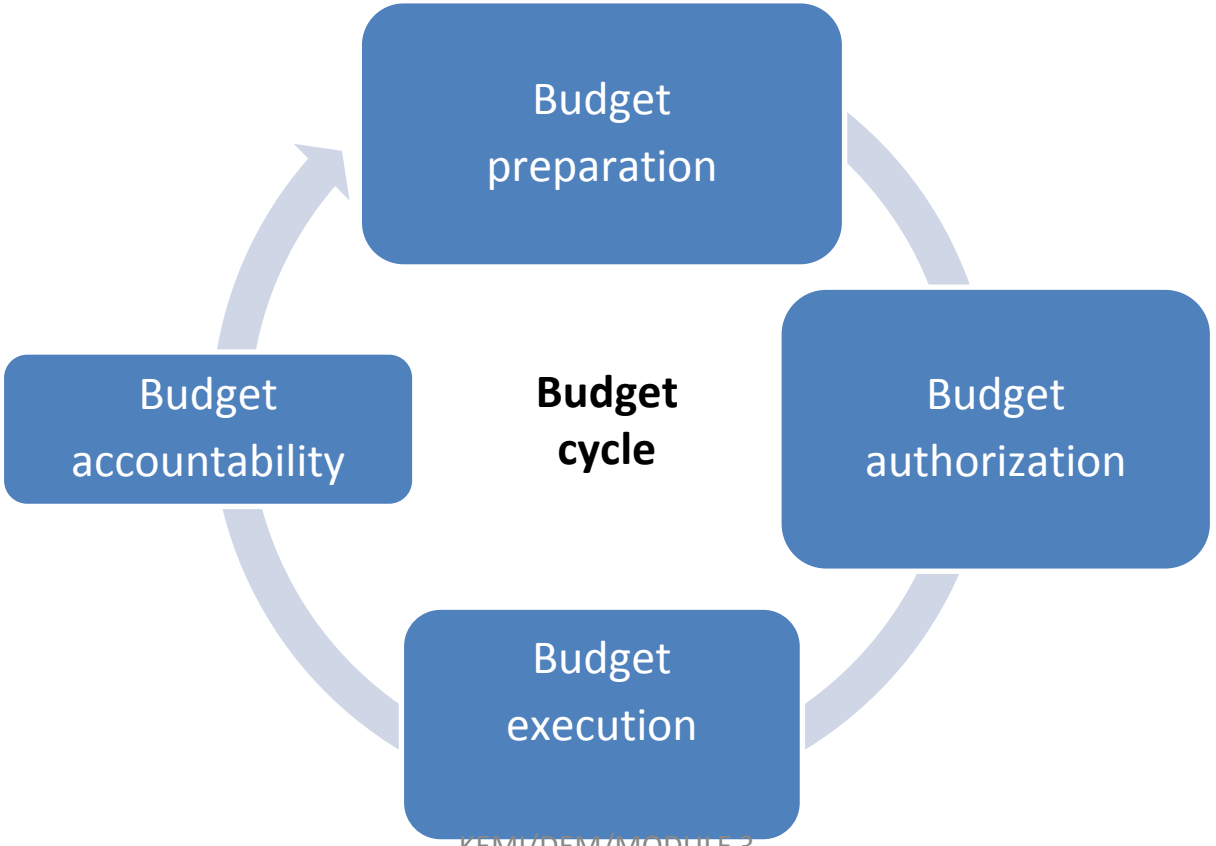
- As an education manager, you are expected to be familiar with the National budgetary system. This section covers the process of national budgeting.

(a). The national budget:

- This is an important tool that defines the direction of the national policy, the cost implications of national programs and the sources of revenues during the fiscal year.
- It outlines the broad economic policies of the government and estimates of revenue and expenditure.
- The aim of the national budget is to ensure economic stabilization, social order and harmony.
- It is also a means of government performance evaluation and accountability. Budgeting for the national government involves 4 distinct processes or phases: budget preparation, budget authorization/enactment, budget execution and accountability

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The general stages of the budget cycle





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Stages in the national budget process

The budget process for the national government in any financial year comprise the following stages:

i. Integrated development planning process which shall include both long term and medium term planning;

ii. Planning and determining financial and economic policies and priorities at the national level over the medium term;

iii. Preparing overall estimates in the form of the Budget Policy be current and to make informed decisions.

iv. Be the legal owner and custodian of all the school property for which it has been appointed by the minister of Education.

v. Be responsible for the management of the school capital development projects and other day-to-day expenses in liaison with PTA.

vi. Source for the school‘s income.

vii. Implement the agreed projects/activities such as construction of buildings and purchase of equipment and books and

viii. Control the use of funds so as to ensure that the limited funds are used economically as intended for the benefit of the school.

National Treasury:

The responsibilities of the National Treasury with respect to the Budget process include:

i. The National Treasury prepares the Budget Policy Statement for approval by Cabinet and approval by parliament by the 15th February in each year. In preparing the Budget Policy Statement, the National Treasury shall set out the broad strategic priorities and policy goals that will guide the national government and county governments in preparing their budgets both for the following financial year and over the medium term.

ii. The National Treasury prepares the Budget Review and OutlookPaper and submits it to Cabinet for approval, by the 30th September in each financial year.

A Budget Review and Outlook Paper includes the following:

- Actual fiscal performance in the previous financial year compared to the budget appropriation for that year;
- Updated macro-economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent Budget Policy Statement;
- Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest Budget Policy Statement; and
- The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.



The Cabinet Secretary/National Treasury:

The role of the Cabinet Secretary/ Ministry of National Treasury in the budgetary process includes:

- Not later than the 30th August in each year, the Cabinet Secretary issues to all national government entities a circular setting out guidelines on the budget process to be followed by them.
- The Cabinet Secretary, by regulations, prescribes procedures specifying how, when and where members of the public shall participate in the budget process at the national level.
- The Cabinet Secretary notifies the members of the Intergovernmental Budget and Economic Council of the ommencement of the budget process.
- The Cabinet Secretary submits to the Cabinet for approval—
  - The budget estimates and other documents supporting the budget; and
  - The draft Bills required to implement the national budget.
- The Cabinet Secretary submits to the National Assembly, by the 30th April in that year, the following documents:
  - The budget estimates excluding those for Parliament and the Judiciary;
  - Documents supporting the submitted estimates; and
  - Any other Bills required to implement the national government budget.



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The Education Budgetary System

The funds of the Ministry of Education consist of:–

i. Monies provided by Parliament for the purposes of the Department of education;
ii. Any funds provided by bilateral or multilateral donors, for the purpose of the basic education;
iii. Monies that may accrue to or vest in the in the course of the exercise of the education departments functions;
iv. Gifts, grants, donations or endowments as may be given to the Department of education;
v. Monies that may be borrowed by the Department of education for the discharge of the functions of the Department;
vi. Fees for services rendered to any designated institution in terms of a service agreement.

Education budget

- Before the commencement of each financial year, the Cabinet Secretary is required to prepare estimates of revenue and expenditure of the Department of Education.
- The annual estimates are then approved by Parliament before the commencement of the financial year.

Boards of Management:

The role of boards of management in the budgetary process include:

i. Cause preparation for the school‘s annual budget.

ii. Ensure all the funds of the school are properly managed and accounted for by the head teacher.

iii. Cause the school to submit to the relevant authorities such information, returns and audited accounts as may be required by the authorities from time to time.

v. Hold the head of the school responsible for the effective operation of the school and the provision of information to the board to enable it to be current and to make informed decisions.

vi. Be the legal owner and custodian of all the school property for which it has been appointed by the minister of Education.

vii. Be responsible for the management of the school capital development projects and other day-to-day expenses in liaison with PTA.

viii. Source for the school‘s income.

ix. Implement the agreed projects/activities such as construction of buildings and purchase of equipment and books and

x. Control the use of funds so as to ensure that the limited funds are used economically as intended for the benefit of the school.

FPE and FDSE programs

- One of the major roles that education managers in the public sector are required to play is that of managing the Free Primary Education (FPE) and Free Day Secondary Education (FDSE) funds.
- Education managers are expected to follow the FPE and FDSE guidelines stipulated by the Department of Basic Education.

Free Primary Education (FPE) program

- FPE was introduced in 2003 as an incentive to achieving Millennium Development Goals, and Kenyan Government commitment to Dakar (2000) World Education Forum recommendations.
- This forum together with Thailand World Education Conference held in 1990 recommended attainment of Universal Primary Education as a critical component of the National Development Strategy.

Key Objectives of FPE:

FPE was adopted in Kenya to achieve the following major objectives:

i. To enhance access, retention, quality and relevance at primary education level.

ii. To reverse the declining enrolment rates at primary school level.

iii. To improve participation, progression and completion rates at primary level.

iv. To reduce the burden of the cost of education previously borne by the parents in the provision of primary school education.

v. To implement sector policy goals including universally accepted conventions on the provision of education to which Kenya is a signatory.



Monitoring and tracking of FPE Program:

The key objectives of monitoring/tracking FPE funds are to:

- Ascertain whether funds have been received in accordance with correct enrolment.
- Determine if proper procurement procedures were followed in obtaining instructional materials.
- Ensure that purchased instructional materials are in school and are being used properly.
- Ensure that care and storage of books is being adhered to.



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Current limits of FPE funds and associated vote-heads:

- The level of capitation grant that was recommended and later implemented was Ksh.1, 020.00 per child in public primary schools, and Ksh.650 for non-formal schools that meet some set criteria.
- To receive the grant, a school is required to open and operate two accounts with a bank that has signed a Memorandum of understanding with the government.
- Signatories to the two accounts are the Head teacher, BOM Chairperson and an elected parent‘s representative.
- The funds and the respective vote-heads in the two accounts are summarized in the tables below:

Account 1 (SIMBA)

	Vote head	Amount allocated per pupil (Ksh.)
1	Textbooks and supplementary readers	xxxx
2	Textbook maintenance	7.52
3	Exercise books	71.38
4	Teachers guide and reference materials	xxxx
5	Stationery	9.56
6	Assessment and exams	11.54
	Total	100.00

Note: xxxxx represents what is retained by government.

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General Purpose Account (Account 2)

	Vote head	Amount allocated per pupil (Ksh
1	Support staff wages (SSW)	94.46
2	Renovation of classrooms, building of toilets, Repairs, Maintenance and Improvement (R.M.I) of physical facilities	52.77
3	Activity	38.98
4	Quality assurance (school-based examinations)	36.00
5	Local Transport And Travelling (LT & T)	22.18
6	Electricity, Water And Conservancy (EWC)	31.61
7	Telephone/box rental/postage	5.03
	Environmental and sanitation	26,22
8	Capacity building and meetings {BOM)	15.63
9	ICT Infrastructure materials	7.41
	Science and Applied Technology	10.74
10.	Contingencies (including sanitary towels)	8.07
	TOTAL	344.50

The SIMSC is charged with the following responsibilities:

- Carrying out a comprehensive stock taking in order to establish the needs and gaps. They then prioritize the school‘s needs on class/standard/grade basis.
- Choosing a supplier/book seller based on the criteria set by the ministry.
- Ordering of the materials is done on prescribed forms from Ministry of Education and the latest Orange book.
- All the procedures of receiving the materials must be strictly adhered to and relevant documentations signed and filed.

FPE Management Documents

The FPE management and accounting documents include:

- Primary School Instructional Materials: Governance and Management Handbook,
- Primary School Instructional Materials Training Manual
- National Textbook policy on publication, procurement and supply for primary schools;
- Primary Schools Order Forms,
- Primary Schools Stock Receipt/ Issue Register Orange Book (List of Approved Textbooks for Primary and Secondary Schools).
- Procurement Manual for Primary Schools
- Financial Management Handbook for Primary Schools Guidelines/circulars.



Free Day Secondary Education (FDSE) program

- Free Secondary Education funds (FSE) was introduced in Kenya in 2008, also in line with MDG goal of Education for all and under the country's constitution every child in Kenya has a right to free and compulsory basic Education . It is mandatory for any parent who is a Kenyan or whose child resides in the country to enroll them for primary and secondary education according to the Basic Education Act of 2013
- The value of grant per student in public secondary school is currently Ksh. Ksh. 22,244. .

Purpose of FDSE program:

- The main objective of the FDSE program was to promote pupil transition from primary to secondary schools, and retention and completion in secondary schools without discrimination.
- The FDSE program involves provision of government subsidy on tuition fees, teaching and learning materials for all secondary school students in public schools.
- The FDSE program is aimed at promoting spirit of cooperation between the Government, Parents and Sponsors with an aim of eradicating poverty.

- The cooperation implies that the parents and sponsors still have to meet the costs related to the following:
  - School meals for day-scholars
  - School uniforms
  - Boarding fees
  - Transport
  - Infrastructural development

Management of the FDSE funds:

- All schools are required to open and operate an account for FDSE funds.
- The decision to open a bank account in a particular bank and branch is discussed and ratified by the school board of management meeting and accurate minutes of this meeting maintained.
- The details of the bank account are then forwarded to the Ministry Headquarters through the respective Sub-County Education Officers

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Table 2: Fees Structure for Day Schools

Vote Heads	Parent	GOK
Teaching learning materials and exams		4,144.00
Maintenance and Improvement	0	5,000.00
*Other vote heads - (LT&T,Adm.,EWC,P.E)	0	9,400.00
Activity fee	0	1,500.00
Medical and Insurance	0	2,000.00
SMASSE	0	200.00
Total school fees	**0**	**22,244.00**

** Other vote heads: Local travel and transport, Administration, Electricity, Personnel emolument.*

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Fee structure for national schools

S/NO.	VOTE HEAD	G.O.K	PARENT	TOTAL
1	Teaching, Learning Materials & Exams	4,144.00	0	4,144.00
2	Boarding Equipment & Stores	0.00	30,385.00	30,385.00
3	Maintenance & Improvement	5,000.00	2,000.00	7,000.00
4	Other Vote Heads	9,400.00	20,371.00	29,771.00
5	Activity Fees	1,500.00	798.00	2,298.00
6	Medical & Insurance	2,000.00	0.00	2,000.00
7	SMASSE	200.00	0.00	200.00
8	Total School Fees	22,244.00	53,554.00	75,798.00



- In this unit we have looked at the process of planning and budgeting in schools.
- We have the different types of plans in education institutions and the relationship between planning and budgeting.
- We have also looked at the budgeting process in the education sector.
- In addition we have looked at the free education programs and how they are funded.
- We hope you are now in a better position to participate in the preparation of the budgeting and to monitor the use of free education funds.