
Chapter 1

What Is a Budget: And Where Does One Come From?

**For it is impossible for any one to begin to learn
what he thinks that he already knows.**

Epictetus, circa A.D. 60

In this chapter we present several simple concepts that are fundamental to grant project budgets. Our goal is to construct a firm foundation on which to build a solid budget structure, as described in the succeeding chapters. To do that, we provide the first draft of several definitions. As the chapters proceed, more specificity and detail are added to these basic, easy-to-understand definitions. Next we deal with the possibly delicate subject of project budgets and accountants. We answer the question: Is your accountant the person to whom you should turn to develop the project budget?

This chapter includes sections that deal with the twin facts that what is submitted on a budget form is not a budget, but rather a summary of the budget, and that a project budget and a grant request are not the same thing. These topics bring us to one of the major problems encountered when communicating about budgets, careless use of terms. Getting clear on the meaning of a few key terms as early as possible simplifies further discussion.

Finally, this chapter highlights the key question, for which everyone wants a clear, simple, and easy answer: Where does a budget come from? While the answer is clear, simple, and easy, its application is not. It takes the rest of the book to explain how to apply the simple answer to this key question.

Define Project Budget

The English word “budget” derives from the Middle French *bougette*, which is the diminutive of *bouge*, a leather bag. At its most basic, therefore, a

What Is a Budget: And Where Does One Come From?

budget is a small leather bag. During the Middle Ages in England, letters of particulars about taxes and spending were brought before Parliament by putting them in a small leather bag (a bougette), which was placed on a table before the assembly. As centuries passed, the word came to be applied to the contents as well as to the bag itself, though originally only in the sense of a group of things. Such a use is found in the title of August De Morgan's observations on mathematics, mathematicians, and divinity, *A Budget of Paradoxes* (1672).

In current usage, several closely related meanings emerge that approach much closer to our day-to-day understanding. Here are a few examples of usage that are familiar, but do not quite fit our purposes. "The departmental budget was submitted to corporate headquarters" (an itemized summary of estimated or intended expenditures for a given period along with proposals for financing them). "This project has a budget of two million dollars" (the total sum of money allocated for a particular purpose or period of time). And returning to an older usage, "He quickly expended his budget of understanding" (a stock or collection with definite limits). Unless otherwise noted, all standard definitions are from *The American Heritage Dictionary of the English Language*, Third Edition (Boston: Houghton Mifflin, 1992).

The standard (dictionary) definition that approaches closest to what we mean by a project budget is "a statement of the financial position of an administration for a definite period of time based on estimates of expenditures during the period" (*Merriam-Webster's Collegiate Dictionary*, Springfield, MA: Merriam-Webster, 1996).

Several features of this definition make it a useful starting point. The definition points out that a budget is a statement, as in a report of facts or opinions. The definition adds that a budget concerns financial matters: It relates to money. It states that a budget covers a defined period of time. And, perhaps most importantly, the definition introduces the concept that a budget contains estimates of expenditures; the amounts are calculated approximately. Many would go further and classify the amounts in a project budget as guesstimates. Experience has taught us, however, that when a budget is developed using our methodology, the resulting figures will be amazingly close to reality.

The particular type of budget in which we are interested is for a project to be funded by a grant. Therefore an excellent source of guidance will be a grant maker itself. The Public Health Service of the U.S. Department of Health and Human Services defines a budget as

the financial expenditure plan.

A new concept is introduced here, that of the budget as a plan: a program, or method, worked out beforehand for the accomplishment of an objective. In our case, it is a plan for spending money.

In Colorado, educators and librarians will find in *Resources in Grant Writing for Colorado Schools & Libraries* that a budget is

a plan for anticipated expenditures, activities, and accomplishments stated primarily in fiscal terms.

This is an interesting and useful slant. Activities and accomplishments take center stage. A budget, in this view, explains activities and accomplishments in terms of spending money. We revisit this concept at length in later chapters.

Bringing higher education into the discussion, the Research Administration of University of California at Los Angeles (UCLA) defines a budget as

the detailed statement outlining estimated project costs to support work under a grant or contract.

By now, we're familiar with several of the elements and can identify them quickly: a statement or plan, costs that are estimated, and costs that relate (support) the work (activities) that will be done. This definition suggests two additional characteristics of a budget. The first characteristic is that a budget is detailed; it is thorough and characterized by abundant use of particulars. Second, this definition suggests, through the use of the plural phrase "project costs," that several distinct amounts be provided, not just a single, total amount.

The characteristics uncovered so far lead to the conclusion that a project budget will:

- Concern project activities.
- Explain activities from the standpoint of spending money.
- Concern a defined length of time.
- Be a plan.
- Be detailed.
- Contain estimated expenditures.
- Contain various amounts calculated for various purposes.
- Include all expenditures from all sources.
- Include project revenue.
- Include appropriate subtotals and totals.

Putting these attributes together yields the following working definition.

What Is a Budget: And Where Does One Come From?

Grant Project Budget

A grant project budget is the project plan from a financial view. It contains detailed itemized estimates of all expenditures and contributions from all sources, project revenue, subtotals and totals, and the amount and distribution of funds needed to perform the project activities over their allotted time spans.

Each of the eight characteristics embodied in this definition will prove to be significant and important as we move forward. We may seem to belabor an insignificant point, but as Plato admonished in *The Republic*, in the fifth century B.C., "The beginning is the most important part of the work." It is only now that we can get off on the right foot. As the chapters roll by, the characteristics embedded in the definition will become second nature, but now we need to look with new eyes and listen with new ears. We need to look again at what we think we know and approach our subject with as few preconceptions and assumptions as possible.

Before leaving this section and moving to the next topic, review the following eight characteristics of a project budget. Much of the material in chapters to come flows logically and naturally from the concepts in the definition:

1. Project activities (tasks, jobs, work, accomplishments, etc.) serve as the source material for calculating budget amounts and therefore are the fundamental material on which the budget is based.
2. Project activities are explained from a financial standpoint.
3. Project activities are explained and finances are calculated for defined periods of time.
4. Taken as a whole, a project budget is a restatement of the project plan from the viewpoint of finances.
5. A project budget is developed with sufficient detail to illustrate and explain fully and clearly the calculation and derivation of amounts.
6. Expenditures are estimates, as accurate as practically possible.
7. A project budget contains amounts for a variety of expenses, as many as are necessary to fully document the plan to accomplish the project activities.
8. A project budget contains the appropriate financial totals.

The characteristics are couched in general terms. Purposefully so, this is the beginning, and beginnings are often broad and ambiguous. Certainty and specificity comes with time and experience gained, in our case, over the span of this book's chapters.

Here's a final thought about the definition. Did you notice that somewhere along the way we stopped using the word "budget" and started using the phrase "project budget"? "Budget" all by itself is a slippery word, prone to mean different things to different people. The budget for a project, or project budget, on the other hand, conveys a relatively clear intent. It is also what grant makers mean when they ask for a budget. They want you to provide a budget for your proposed project—a project budget.

Project Budget Creation and Accountants

Just about everybody has some level of discomfort with budgets. Very few of us truly feel at ease putting all those figures down on paper, knowing that any serious mistake will come back to haunt us. Maybe we forget to include funds for insurance or travel or supplies and our organization must dig into its already insufficient funds to pay for items that should have been covered by the grant. To lighten the burden, we look for someone familiar with money and budgets.

This leads us inexorably to our accountant. It makes good sense. Our accountant messes about with figures, money, and budgets all the time. After all, it is what they do. As a result, accountants everywhere inherit the task of developing grant project budgets.

The process usually goes something like this. First, the accountant attends a meeting with the people who are developing the project and writing the proposal. At the meeting, they explain the project to the accountant, who then is given the budget forms for the application and asked to develop the budget. The accountant goes away now, labors mightily for a time, bringing forth finally a budget that is delivered back to the people putting together the application package. What happens next is easily predicted. The project budget doesn't align with the expectations of the people developing the proposal. It's not the accountant's fault. It is the fault of the people who asked the accountant to take the task off their hands. Two important concepts are at work here.

First, the training accountants receive does not necessarily equip them to develop a project budget any better than most of the rest of us. Their familiarity with financial terms and concepts gives them certain advantages, but they are slight in the long run. An accountant's main purpose is to take the myriad figures generated by financial transactions

What Is a Budget: And Where Does One Come From?

and produce coherent reports that accurately reflect the financial condition of an organization. This highly specialized and technical work is essential to the operation of every organization.

This is not to say that accountants cannot develop budgets. Many accountants can do a better job than most of the rest of us. But, when they do a good job, it is because they have learned how to do so, not because their accountant's training prepared them for the task.

Second, the project budget cannot be developed effectively at a distance or apart from the project itself. The project and its budget are inextricably intertwined and cannot be separated. The best people to develop the project budget are the same people who initially put together the project.

Special training in finance is not needed to develop a project budget. What is needed is common sense, a willingness to work, the ability to follow directions, and the consistent application of a logical process that captures all the necessary information. Accountants automatically meet all the criteria. Unless, however, your accountant is an integral part of your project development team throughout the process, he or she is not the best choice for budget development. The project development team is the proper choice. We are going to show you how. That is the purpose of this book.

Project Budget as Summary

Visualizing a budget generally brings to mind the image of a form, perhaps one required by a grant maker or used by your organization. Such a form usually has various labels naming rows and columns of blocks or cells into which numbers are placed. The form can be large or small, simple or complex. It can occupy several pages or only part of a single page. It may be on paper or exist as a computer file.

All such forms possess several characteristics in common. They are laid out in horizontal rows and vertical columns. Empty spaces are provided to enter amounts. Rows and columns are labeled to identify the values entered onto the empty spaces.

Exhibit 1.1 illustrates a budget form, probably similar to what most of us visualize when we think of a budget. This form looks relatively simple and might easily imply that the grant program using it is a small one. That impression would be wrong. This budget form was used for several years by a federal agency in its application package for a multiyear program in which awards averaged \$1.25 million a year.

The budget form illustrated in Exhibit 1.1 serves as an excellent example of the main point of this section; what is commonly identified as the "budget" (what we now know is actually the project budget) is only a

EXHIBIT 1.1

Example Budget Form

Project Year One		
	Requested	Support from Other Sources
A. Direct Costs		
1. Salaries (professional and clerical)		
2. Employee Benefits		
3. Employee Travel		
4. Equipment (purchase)		
5. Materials and Supplies		
6. Consultants and Contracts		
7. Other (equip. rental, printing, etc.)		
8. Total Direct Costs		
B. Indirect Costs		
C. TOTALS		

summary of that budget. When the form shown in Exhibit 1.1 is completed, it will *not* be the project budget, but will be a summary of it.

With the expected exceptions of line items A2, A8, B, and C, the amounts on the budget form represent the sum of the expenses of an unknown number of items. Descriptions of the items are also unknown, except that they fit into a general category. To illustrate the point, line item A3, Employee Travel, is shown, completed, in Exhibit 1.2. The grant request for Employee Travel is \$20,740. The support from other sources for Employee Travel is \$14,875. Total project cost for Employee travel is then \$35,615.

EXHIBIT 1.2

Example Completed Employee Travel Cost Line Item

Project Year One		
	Requested	Support from Other Sources
A. Direct Costs		
3. Employee Travel	\$20,740	\$14,875
	Total	\$35,615

What Is a Budget: And Where Does One Come From?

The pertinent questions are easy to formulate. How did the applicant know to use those particular amounts? On what are the amounts based? How are the amounts calculated? Because, if the applicant cannot explain the basis, the sources, and the methods, then the amounts are not calculations, they are guesses. Using guesses as the basis for budget requests is a sure formula for fiscal problems during project implementation.

A collection of amounts such as those shown in Exhibit 1.2 are not a budget. They are the summary of a budget. The amounts shown for Employee Travel were calculated after computing the cost of the travel as illustrated in Exhibit 1.3.

Exhibit 1.3 does not show a complete itemization, only subtotals. Each of the travel cost subtotals shown in Exhibit 1.3 is itself the sum of individual costs of travel, a few of which are airline tickets, ground transportation, lodging, and meals. These are not all the costs that can be incurred during travel. A full discussion of the complex subject of travel and computing its cost is found in Chapter 8.

A completed grant application budget form does not contain the project budget. It contains the summary of the project budget. Grasp firmly this simple concept. It, together with the definition of a project budget, is the starting point from which everything else in the book flows.

Project Budget and Grant Request

The explanation for another helpful fundamental concept begins like this. The grant request is not the same as the project budget. Using a more

EXHIBIT 1.3

Total Employee Travel Costs Partial Itemization

National Project Leadership Conference 3 staff attend 1 meeting (three-night stay)	\$ 5,440.00
Regional Project Leadership Conferences 3 staff attend 2 meetings (two-night stays)	8,920.00
Project Director local travel 12,000 miles @ 27¢ per mile	3,240.00
NAASP National Conference 2 staff attend (two-night stay)	3,140.00
Total Employee Travel	\$20,740.00

precise but less interesting wording, the amount of the grant being requested is not the same amount as the project budget total.

The amount expended on a grant project cannot possibly be less than the amount of the grant, unless a bit of the grant disappears before getting to the project. This is commonly called theft or fraud, depending on how it's done, and is frowned on by everyone from the grant maker to the judicial system.

To start this topic, we hypothesized that the grant request and the project budget total are never the same. The only remaining alternative, therefore, is that the project budget total is always larger than the grant request. We are cautioned to beware of absolutes such as always and never. An anonymous wit put it this way. "Always be careful to never use always and never." In this case, however, never and always are exactly appropriate.

Phrased differently, the project budget is always larger than the grant request. Or, the grant request is always less than the project budget total. The simplest way to illustrate this concept is to imagine how the grant request could possibly be exactly the same as the grant request. For this to be true, your organization would not spend a single penny in any fashion on the project.

No staff time could be used, none of your facilities could be used, not a sheet of paper from your supplies, no pencils or pens, no heat or air conditioning, no volunteer time, no partner time. Nothing of any kind could be used toward the project without payment from the grant. A moment's thought makes it clear that no such thing is possible. For example, what happens when your organization first receives the check from the grant maker? Someone deposits it in a bank account, right? How much salary and overhead did your organization expend for staff to accomplish that task? Not much, it's true, but it is something and it's just the start.

Are you going to purchase things with the grant, such as equipment, supplies, and materials? How much time of how many staff members will it take to accomplish the activities involved in the purchases? How much is that staff time worth? You might not know exactly, but you know it's worth something. And it goes on and on.

As a result, a project budget total is always larger than a grant request. This is not to say that a grant maker always cares enough to ask you to show what share of the project budget is absorbed by you and your project partners. Many grant makers do not require such information. Many others do. A look at Exhibit 1.1 shows that this grant maker does care and does want to know the amount of support from sources other than itself.

Careless Use of Terms

Almost every field or area of interest one can imagine has its own language. Sailors have decks and galleys. Printers have galleys and slugs. Physicists have quarks and strings. Violinists have strings and bows. Archers have bows and quivers. The specialized or technical language of a group—jargon—enables group members to communicate clearly, easily, and without confusion. An outsider, on the other hand, can find it difficult to penetrate specialized jargon.

Grant seeking does not have a universal jargon for all members of the “group.” While jargon abounds, asking what a term or phrase means will garner different answers based on whom you ask. The range of backgrounds of the people seeking grants makes agreement on a common set of terms highly unlikely. It hasn’t happened yet.

Educators at the college and university level (higher education) and educators at the elementary and secondary level (K-12) use different terms for similar concepts. Municipal and county governments use terms differently than educators. The field of healthcare has a language all its own. Museums talk differently than police departments. Small social service nonprofits speak a language unlike that of national or international service organizations. To round out the problem, jargon can differ depending on what part of the country you happen to choose. Throw into the mix that different grant makers also use different language and the problem goes from bad to worse.

We make no attempt here to provide a unified language or jargon for grant seeking. We attempt only to be understood in this book. For that purpose, we set up specific meanings for terms, and then make every effort to use those terms consistently. The following terms and their definitions are not necessarily universal, though some of them are. They apply in the context of this book and its topic:

- A *grant* is money. One simply cannot be a grant writer, just as one cannot “write a grant,” because a grant is the money. The U.S. Department of the Treasury takes a dim view of people who “write money.” Also, one cannot apply to a grant. A grant cannot read the proposal. One can apply for a grant, but not to a grant.
- A *grant maker*, also known as a *grantor*, is the organization that makes or awards grants. Grant makers can be categorized into four types: federal agencies, foundations, corporations, and state and local governments. The different types of grant makers require different approaches and use different jargon.

- For our purposes, a grant is awarded as a result of a competition. Grants are made in other ways, but this book is concerned with *competitive* grant programs. Specifically, the book is about how to put together an effective budget for entry into the competition for a grant.
- A grant maker creates and funds a *grant program* for specific purposes, such as reducing domestic violence, increasing literacy, or eliminating cancer. A grant program follows a time line of announcement of a competition and publication of the application guidelines, deadline for application submission, evaluation of submitted applications, award of grants, administration of projects, preparation of application guidelines for the next granting cycle, and then coming full circle, announcement of another competition.
- The *grant request* is the amount of money solicited from the grant maker. This amount, combined with expenditures by the applicant, volunteers, and partners will be sufficient to accomplish all the planned activities of the project.
- The *project budget total* is the sum of the expenditures from all sources necessary to accomplish the project. The grant request is a part of the project budget total.
- The *budget summary* is what one usually finds on the budget form that is either supplied by the grant maker or created by the applicant. The budget summary usually condenses the project budget into a line item format.
- The *project budget* is the project plan from the financial viewpoint. A project budget is time limited, detailed, itemized, and includes all expenditures from all sources. In this book, you will seldom find the word “budget” standing alone, because the word has too many meanings to too many different people. When it is used alone, budget means project budget.

We do not suggest that you necessarily adopt these terms for your organization. What we do highly recommend is that your grant-seeking team recognize that communicating clearly saves time, frustration, and money, leading ultimately to more successful grant proposals. The best way to communicate clearly is to agree on a set of labels for the items with which you will be working. As artificial as it may seem at first, using consistent language contributes greatly to communication. It will decrease the amount of time spent straightening out misunderstandings, and increase the amount of time spent getting grants to solve real problems for your target population.

What Is a Budget: And Where Does One Come From?

Where Does a Budget Come From?

By now, the answer to this question has become obvious. The budget comes from the project. One of the most common questions we get asked is, "How much money should I ask for?" Our answer is always the same, "As much as you need to run the project." Though it is correct, this answer does not satisfy people very well. The reason, we suspect, is that the motivation behind the question is a search for the magic shortcut, that mythical secret way to get the project budget figures down on paper without work. We have no shortcuts. We know of no way to develop a project budget without work. What we have is a step-by-step process. The rest of the book explains the process.

Saying that the project budget comes from the project has the ring to it of circular reasoning, as many simple but true concepts do. To explain the concept, focus on one simple task or action instead of thinking about the project as a whole. Ask yourself what resources will be needed to accomplish that task. Next, ask yourself how much these resources will cost. Once you have done this for every task and activity in the project, you will have gathered the raw data for developing a project budget.

The amount of money you need is driven directly by the activities you plan to accomplish. It is easy to see that some activities are expensive while others are cheap. Choices made during project development determine budget figures.

A common occurrence is to settle beforehand on the size of the grant request and then develop a project budget that fits the preordained figure. Perhaps there are times when this strategy is necessary, but in general, it is a poor substitute for letting the project drive the budget.

Wise Guy and Wise Lady



Wise Guy

Hey, I'm not a financial manager—so how can I do the budget? Don't I need a CPA or some financial guru? This is going to be too complicated for me. I have trouble balancing my own checkbook. I hate numbers. And besides, can't we just put down some good guesstimates and let it go? After all, all I want is \$25,000. I am going to be the project manager and I'll spend the money the way I see fit.



Wise Lady

Oh my. We're starting where we left off in the *Grant Winner's Toolkit!* Let's put it this way. What if you were investing, say \$25,000 of your money with a brokerage firm. When you ask what the firm is doing with your money, the broker says, "Just trust me. I am putting some here and some there. Just give me your money and trust me." Would you buy that? I know you well enough now to know you most certainly would not. Neither will the grant maker. You have to specifically tell them what you are going to do with the money. If you receive the grant, your proposal, including the budget, is a legal and binding contract. And if you are a good project manager, you have to know what resources are needed to run your project. Right? Well all those resources cost something. Nothing is for free. As a project manager, you are the person who should determine resources and put together the budget. It's a natural.

Conclusion

In this chapter, we introduce a number of terms and concepts for the purpose of setting the stage or preparing the way for the remainder of the book. We go into detail to define what we mean by "project budget." We determine that a complete definition contains a number of characteristics. The result is shown in the following Key Definition.

Key Definition

Grant Project Budget

A grant project budget is the project plan from a financial view. It contains detailed itemized estimates of all expenditures and contributions from all sources, project revenue, subtotals and totals, and the amount and distribution of funds needed to perform the project activities over their allotted time spans.

We introduce several key concepts. One important idea not in the following list is that the people in the best position to develop a project budget

What Is a Budget: And Where Does One Come From?

are the people who put together the project in the first place. Using the process detailed in this book, anyone with desire and motivation can develop project budgets that will meet and exceed grant makers' expectations and contribute to winning grant applications.

Key Concepts

- A grant project budget is the project plan from a financial view.
- Special training in finances is not necessary to develop project budgets.
- A completed grant application budget form is not the project budget; it is the summary of the budget.
- The project budget is always larger than the grant request.
- Defining terms and using them consistently contributes to success.
- The budget comes from the project.

The last key concept is that the budget comes from the project. The logic of this is fairly obvious. If we serve steak, the bill will be one amount. If we serve hot dogs, the bill will be a different amount. The next logical question becomes then, what is this thing we call a project and where does it come from? This is the topic of Chapter 2.