

Putting Together a Budget

What is a budget?

A budget is your group's plans for the coming year set out in money terms. It helps you ensure that you have the money to do what you want to do, and it enables you to make financial decisions and keep control on a concrete set of figures rather than relying on pure guesswork about where you are.

Why is a budget important?

- it is part of overall management, not a separate activity, and is a key tool in financial planning
- it ensures the organisation has the resources to carry out its objectives
- it is a way of being accountable
- it enables you to do a cashflow projection.

Whose responsibility is budgeting?

Producing the budget for an organisation is the responsibility of the management committee. They may delegate the nuts and bolts work of putting the budget together to the Treasurer or member of staff, but the committee must agree the final budget.

When should we start?

New groups should start now. Existing groups should start halfway through their financial year. Don't underestimate the time it will take to do the work needed to get accurate figures. It may take three months to get all the figures together and agreed by the group. Start work as soon as you can on the budget, don't wait for grant application forms as you may well have to fill them in quickly.

How do we begin?

Start off by thinking about what your group's aims are. What finances will you need to achieve those aims? Ask yourselves "What will the organisation be doing next year?" You may be doing the same as this year but it's likely there will be some changes - maybe new services, perhaps an expansion of some activity. So the first stage of drawing up the budget is planning and making decisions about what your group will do next year. Once you've thought about what you want to do, you can write down all the likely categories of expenditure and income - your budget headings.

Budget headings

Your budget is divided into two halves: income - the money you expect to come in; and expenditure the money you will spend on running the organisation, all its activities and services.

Expenditure

The expenditure budget may be further divided into capital and revenue budgets. The Capital budget is the financial plan for buying new fixed assets - medium to long-term. The Revenue budget is the working budget of the organisation which relates to its daily activities, its running costs and project

costs, for example:

- the basic costs that nearly every group has - such as postage, stationery and perhaps rent, heat and electricity
- expenditure particular to the work a group does - such as transport or catering. There is a checklist at the end which may help ensure you've covered everything.

Income

In many organisations income is more sensitive and subject to change than expenditure. You should record the assumptions on which your decisions are based - why do we think we will get this amount from this source? Try and be clear, for each source of income, whether that income is:

- confirmed
- probable
- possible

Step-by-step

- Work out how much you need under each heading.
- Visit other groups similar to yours and be prepared to learn from their experience.
- If you are in a building with other groups, find out what their heating bills are like - DON'T GUESS - there is no need, and you may get it wrong and find yourselves with a shortfall that could have been prevented.
- If you can find out the precise cost of something - do! DON'T GUESS the price of a photocopier or other equipment, get quotes from a few different suppliers or use catalogues to get prices.
- If you employ workers tie them in to relevant local authority pay scales, making sure you have an up-to-date copy of the scales. Don't forget to include costs of Employer's National Insurance, pension contributions, salary increments, annual pay rises.
- If you're planning expenditure for next year you need to take into account price rises so don't forget to add on inflation at the current rate.
- Keep notes on how you reach your figures, so that you can explain them if asked.
- Repeat the process for the Income side of the budget, look at all the possible sources of money and estimate realistically how much you will get from each.
- Now look again at the figures. Have you left anything out?
- Is there an income shortfall - that is, are you going to spend more than you are expecting to get in? If so how are you going to meet the shortfall? Make sure that the income budget is linked to a fundraising plan. This may be the point at which you set your fundraising targets for the next year.

Using the budget

Budgets aren't simply there to get a grant. They are your guide to whether you are spending your money as you had planned. They can warn of overspend, underspend, or spending in unexpected areas. If you have this information, you can act on it.

Every month or so compare your expenditure to the budget. If you are not spending your funds as originally planned, you must find out why. Does it mean that you are not operating as you want to, or does it mean that your budget should be revised?

Future budgets

About nine months in to the financial year, you should start working on next year's budget. You will, by then, have a clear idea of how your expenditure and the budget match up, and what adjustments you will need to make for the next year. You will also have time to do the work involved before the new year starts. If you are making changes in the way you operate (eg. increasing the number of sessions you run) or if you have decided that equipment needs replacing, make sure that you cost the changes accurately into the new budget.

Suggested budget heading check list

INCOME	EXPENDITURE	
Grants	<u>Revenue</u>	<u>Capital</u>
- from local authorities	Staff wages, National Insurance and recruitment	Office Equipment
- from other statutory bodies	Rent	Computer Equipment
- from charitable trusts and foundations	Heat and light	Minibuses etc
- from companies	Cleaning	Building
Legacies	Training	
Other gifts	Postage, printing, stationery	
Membership subscriptions	Telephone	
Sales of publications etc.	Insurance	
Fundraising events	Transport and travel	
Fees for services	Repairs and renewals	
Bank interest	Maintenance of equipment	
	Volunteer/committee expenses	
	Accountancy/audit	

Useful websites

<http://www.ncvo.org.uk/practical-support/financial-management>

<http://www.cash-online.org.uk/>