

Basic notes - Budgeting

Introduction

Many organisations do not appreciate the importance and usefulness of Budgets. They tend to be done only when a potential funder asks for one. In fact, the Budget is the cornerstone of any financial system. It enables the Committee to carry out its duty of good financial management. It is the key element in establishing Internal Controls and making sure the organisation does what it should. Budgets can be used to plan, to communicate, to control, to motivate and to monitor.

The Budget is simply the plans of the organisation expressed in terms of money. There are many different ways of doing Budgets. You can simply take last year and add a bit or you could start from scratch. In these notes, we set out a simple process that should suit almost all groups. You may have different Funds within the organisation. If so, each Fund may require its own Budget that can be put together to form the Master Budget. We assume the Budget is for 12 months, but, of course, it could be for any length of time. It really can be quite simple and, once you have done it a few times, you may even look forward to it - although we don't want to get too carried away!

Timing

The best time to prepare a Budget is when figures for the first three quarters of the previous year are available. If, for example, your organisation has a financial year-end of 31st March, you should be producing your third Quarterly Financial Reports at the end of December. (If you don't do these Reports you can still do a Budget, but you really should think about Reports). The Committee must also agree in advance who will draw up the Budget. This could be the Treasurer plus the senior staff, or there may even be a Sub-committee established.

To Balance or Not

The Committee should set out the overall objective of the Budget at the start. It is not always necessary to have 'balanced' Budget. For example, if the organisation has very low General Reserves, the aim might be to run a 'surplus' for a year or so in order to build up Reserves. Conversely, if Reserves are higher than the level required, it may be acceptable to run a deficit Budget (ie., spend more than you get). Where there are different Projects or Funds, it may be acceptable for one to have a budgeted deficit while another runs a surplus so that overall the total Budget balances. Of course, you must be careful of any Restrictions on the use of Funds.

Expenditure

The first question to ask is 'what does the organisation want to do next year?' The answer may be, 'the same as last year', or there may be plans for developments of new activities or expansion. This question should form the basis for discussion by the Committee. The aim is

to be clear about the overall (strategic) objectives of the organisation and the specific goals for the next 12 months.

The next step is to put a cost on these activities. This should follow the format of the Accounts, beginning, for example, with all staff costs, then premises costs, then administration costs and then activities. List out all the 'cost headings', taking time to make sure you haven't missed anything, then consider the following:-

- The projected actual figures for the last year (built up from the actual figures for the first three quarters).
- The estimated cost of inflation and any pay increases.
- Any factors that are known precisely, eg, rent.

Considering these factors you can then work out the desired Expenditure of the organisation. The aim is to be as accurate as possible, do not cut corners at this stage.

Income

Begin by listing out all current and potential sources of Income, beginning with the most secure and important. Some may be new if new activities are planned and some may be dependent on successful grant applications. Other income may be more secure and predictable.

To put the actual figures down you will need to consider the following:-

- The projected actual figures for the last year (built up from the actual figures for the first three quarters).
- The estimated cost of inflation.
- Any factors that are known precisely.

Considering these factors you can then work out the estimated Income for the year. Again, be as accurate as possible and do not be too optimistic.

Matching

The next step is to put the two together to see if they match up. If the figures do not match up, even after they have been checked, the task of re-thinking begins. The aim is NOT to simply manipulate the figures until they balance. If the first two steps have been done correctly the task is now to reconsider the individual factors within Income and Expenditure.

Assuming there is no room for changes on the Income side, the question simply becomes one of reducing the Expenditure to an acceptable level. This may be as much as to have a 'balanced' Budget, or you may feel happy running a small deficit on the year. However, this depends on you having sufficient 'reserves' and sufficient cash in the bank to cover the deficit. This is not a good policy in the long-term for obvious reasons.

The business of making cuts is always painful and difficult. One of the reasons for doing the Budget early is so that you can cut 'plans' rather than things already in place. The first step is to prioritise, eg., your rent may be fixed by a Lease. It is easier to cut items which have not

yet taken place. For example, you may have planned to take on a new worker half way through the year. However, cutting this may also have a corresponding cut in Income. Also, you have to consider the basic aims of your organisation. It may be that this development is really crucial to you and so it may have a higher priority than some existing activities.

The Proposal and Decision

If the proposals include changes from the original plans agreed by the Committee, the reasons should be given. When people disagree, they should be asked to give an alternative suggestion. It is likely that other Committee Members may have ideas that have not been considered.

As it is the Committee who are responsible for the financial viability of the organisation they must make the final decision. They may ask to consult Funders once more to get a second opinion, but the setting of the Budget should not be delayed too long. Ideally it would be agreed before the financial year begins.

How to Use the Budget

Once you have drawn up a Budget, do not simply put it away in a filing cabinet. We strongly recommend that every three months, a Report is prepared for the Committee where the actual results of the activities are compared to the Budget. At CA Plus we prepare a two page report for the Trustees. Page one shows the Budget for the period for each heading and in total, the actual results and the difference between the two. Page two is a written explanation of the main differences and general comment on whether things are proceeding as planned or not.

When combined with information about activities, the report gives a chance for the Trustees to see whether the plans for the organisation are being put into action,