



# Working out a Budget

## What is a Budget?

A budget is a financial plan that outlines income and expenditure for all your organisation's proposed activities.

## Why should you prepare a Budget?

Ideally, your organisation should be aiming to develop a 3-5 year strategy out of which you will agree your annual budgets.

Budgets are important management tools that will help you to:

- identify and target specific sources of income to meet operational costs;
- monitor the effectiveness of long-term financial plans (forecasts);
- manage your income and expenditure by highlighting any over or under spend; and
- monitor 'value for money', in terms of what you achieve for the money you spend.

## Some good practice tips

- Consider every type of expenditure that is relevant to developing and running the organisation and delivering its services / activities.
- Remember to include costs for Employer's NI (National Insurance), annual pay rises, annual salary increments and pension contributions (where applicable).
- Research what the 'going rates' are for particular jobs. Check what other voluntary organisations and/or your local authority are paying. This can be particularly useful when justifying expenditure on funding applications.
- Consultants may seem like a luxury but think about when you might need one, for example to assist with Management Committee / Board development; or to provide specialist support like clinical supervision for staff dealing with certain client groups.
- Plan well ahead – get at least three estimates for everything and check for any increases (some are cyclical). If you do have to estimate costs – BE REALISTIC.
- Find out if there are any price increases likely for the everyday things you use.
- Talk to other people about their budgeting experience.
- Identify different (viable) options and back-up plans.

- Get the budget approved by the Management Committee / Board.

## Income

Your income can come from a variety of sources:

- grants
- subscription fees (newsletters / periodicals)
- volunteer time / expertise
- in kind or match funding (resources)
- loans
- consultancy fees
- legacy
- donations
- membership fees (access to resources / advice).

Expenditure cycles can be monthly, quarterly, half yearly and annual. There is no guarantee that your income will be allocated on the same timetable. Your budget therefore needs to accommodate the potential gaps between expenditure and income.

## Typical headings included in Budgets

Funding is mainly divided into Capital and Revenue (though not all funders offer capital funding).

CAPITAL funding refers to money for physical resources like buildings, construction, major repairs and equipment e.g. computers.

REVENUE funding is the money an organisation needs to function and covers items like salaries, rent, stationery and travel.

### Capital examples

- rent / premises
- equipment:
- computer hardware
- computer software
- furniture
- photocopier

### Revenue examples

- staff wages, NI, pay rise, etc
- utilities – heat, light
- insurance
- maintenance contracts
- telephone, fax & internet
- stationery / postage
- accounting
- staff development / training
- volunteer expenses
- First Aid / Health & Safety

## Planning your effective Budget

1. Set goals	Look at your Mission statement and strategic plan. What is it you have to achieve in a given timescale?
2. Set Objectives	What activities do you have to carry out in order to meet your goals?
3. Develop projects / programmes	Develop your activities into discreet but complementary projects that meet the organisation's aims.

4. Identify budget headings	Research all relevant capital and revenue costs for running the organisation and service delivery.  Agree budget and match funding needs to funding available.
5. Monitor progress	Plan regular reports to compare the budget to the actual spend.

**An example budget:****CORE COSTS****IT EXPENSES**

Maintenance 4945

Hardware 7960

Software 770

**COMMUNICATIONS** 4000**OFFICE EXPENSES**

Stationery 1400

**PRINTING & COPYING**

Newsletters &amp; Mailing 8940

Publications 7110

**LIBRARY** 2100**GOVERNANCE** 500**VOLUNTEERS** 12600**MEMBERSHIP SERVICES** 2650**MEMBERSHIP MARKETING** 4000**PROJECTS****TRAINING & EVENTS** 2500

Exactly what you put in your budget will depend on the projects and services you run. You might find it easier to break down the main headings into subheadings to itemise exactly what you plan on spending in the coming year. For instance, in the example above, Library costs could be broken down into Books, Magazines/Subscriptions, Publicity and so on.

**Preparing a budget**

When you prepare a budget will depend on when your financial year starts and how far in advance you plan. Most organisations have a budget that starts in April and covers everything through to the end of the following March. Before you can do a budget, you have to know what your plans are. At the Women's Resource Centre, we have an annual planning process that allows us to review what we've done in the previous year and plan for the future. This planning process goes something like this:

October

Survey members – what have we done well, what other services would you like, where can we do better?

November

collate information from members' survey, evaluation forms from events and training and any other surveys such staff surveys.

December

Review evaluation information and decide what services to provide in the coming year.

Review work plans for organisation

Review strategic plan and check work plans and plans for services fit in.

Review ICT needs based on plans

January

Develop draft budget based on plans

February

Present plans and budget to the board for approval

Unknown costs....and unknown income

There will always been unforeseen costs (and foreseen costs that are higher than planned!). How you deal with these depends on your organisation: a small organisation may need to cut costs in one area if another has overspent; a larger organisation may be able to 'swallow' the over-spend.

Similarly, when planning your budget, you may not know about all sources of income. You might be applying for funding and not know whether you will succeed.

So a budget is always a work in progress. You should try to be as accurate as you can, getting quotes and basing figures on previous years, but your budget will never be 100% right. That's what financial reports are for – to highlight when things have changed.

### **Full-cost recovery**

You need to have a clear idea about how much it costs to run your organisation. You have to account for everything. If you aren't sure how much things cost in total, how can you effectively fundraise? So, if you buy a computer, what other costs are there? Software, support, electricity, maybe a printer, a desk.....If you take on a new member of staff, it's not just their salary that you have to take into account. There's National Insurance and pension contributions, a desk, phone and computer for them, supervision time from their line-manager, and so on.

### **Summary**

1. Plan for the future
2. Base your budget on those plans
3. Be as accurate as you can and include all the hidden costs
4. Check your progress against budget once a month as they year goes by.

### **Resources**

These books are available in WRC's library. Contact us to make an appointment to come in and use them.

The Good Financial Management Guide – Published NCVO Publications

Full Cost Recovery: A Guide and Toolkit on Cost Allocation – Published Aveco & New

Philanthropy Capital

A Practical Guide to Financial Mangement for Charities and Voluntary Organisations – DSC