An Introduction to Budgets

What is a Budget?

A **Budget** is a plan of how you are going to spend your money. It allows you to see whether a project is likely to be worthwhile in money terms. It provides you with a yardstick against which you can monitor the actual spend once a project has started. The budget is like a financial map and is an integral part of planning and financial management processes. In the budget, the planned activities of the group are translated into financial terms.

If your planned expenditure is greater than your expected income then the project is not viable and you will need to have a rethink. If you are planning a budget for the whole organisation it may be easier to break it down into individual projects, or parts, of your activity. When preparing a budget, it is important to consult with the people who are going to be responsible for working within it. If people are involved in setting a budget they are more likely to stick to it.

Key steps to setting a budget:

The budgeting process involves several key steps:

- As part of the planning process, decide what the organisation intends to do during the next 1-3 years;
- Work out what resources are required to achieve this (e.g. staff, premises, equipment etc.);
- Determine how much the resources will cost;
- Balance these costs against existing funding to find out how much extra funding would need to be raised;
- Set a realistic budget for the period concerned;
- Take budget to Trustees for comments, alterations etc.;
- Trustees need to approve budget.

Arriving at Budget Figures:

Expenditure: Keep notes of how you arrive at your figures. For example, ‘hall hire’ might be a known cost which is based on 26 weeks or the figure for ‘telephone’ could be a rough estimate based on another group’s bills. That way you will be able to explain the figures to others or check them.

When working out wages/salary rates, you could link pay to local government rates – speak to a local Unison branch or Community Southwark. You could look at job adverts in the local papers to see what wages, government rates, and/or pay awards are agreed nationally. Will you pay staff annual increments (increments are for each year of service up to a maximum number of years, and are separate from pay rises)? Will you make contributions to a staff pension scheme? Remember to include Employers' National Insurance – CASH OnLine can provide this information.

Income: If you are waiting to hear the result of a grant application, you can show the grant in the budget but mark it 'unconfirmed'. But if you have little hope of getting the grant, don't show it in the budget. If you are using reserves to fund a project, mark it as 'Drawn from reserves'.

Apportioned costs: As well as including project expenditure it is important to include overhead/running costs expenditure. Some Government funders will only fund costs which relate directly to the project they are funding, therefore it's important to include in the budget an estimate of the proportion of overheads (e.g. rent, admin, IT, etc.) that the project absorbs These are 'Apportioned costs' (- see separate Community Southwark Fact Sheet on 'Full Cost Recovery'). Otherwise you will end up subsidising the project out of your general funds and could be forced to cut back on other activities.

When a group has been going for a year or more it is easier to write a budget and the budget headings are often the same as those used in the Annual Accounts. You can therefore base your running costs on the expenditure of previous years, but increase them in line with inflation; ensuring that they are still relevant headings, or amend them to reflect what you plan to do.

Setting out the Budget:

List all expected **Sources of Income**

- Grants
- Fees
- Membership
- Donations
- Bank Interest

And

List the **Expenditure (Costs)**

- Capital Costs (e.g. a building or building materials – organisations usually set a threshold, such as £500, above which equipment counts as capital).

Revenue Costs (running costs)

Wages and salaries

- Gross wages
- Pension costs
- Employer's National Insurance

Overheads

- Rent
- Rates
- Insurance
- Heating

- Lighting and water
- Training
- Publications and subscriptions
- Printing, stationery, postage and telephone
- Minor equipment (get several quotes)

You should then prepare a simple table which sets out all of this information clearly:

Sample Budget:

Expected income	**(A)**		
• Total Grant, Fees, Membership Fees, Donations • Bank Interest etc.		A)	£ 100,000
Expected expenditure	**(B)**		
• Wages and salaries			£ 70,000
• Overheads			£ 28,000
			£ 98,000
Balance of Budget =	**A minus B**	**=**	**£ 2,000**

The sum of the **expected income minus expected expenditure gives the predicted balance of the budget.** Ideally, the budget will be balanced – your estimated income will be the same as your planned expenditure; or you may anticipate more income than you need (a surplus).

The budget in the above example is £2000 in surplus.

If A minus B = a negative figure, your budget is in deficit. It is not viable and needs some more planning.

The Budget as a financial management tool:

The budget is not cast in stone. You may need to revise it if there is a chance that you may lose income. It needs to be incorporated into the organisation's financial recording and reporting system to produce useful management information for the committee. This will help you to work out how much you should be spending, how much you have already spent, and how much there is left to spend for any project and cost category. By monitoring the budget, your organisation will become aware if any category of spend will be underspent or overspent and consider options for either reducing spend or increasing income.

Good budgeting requires individual responsibility for different elements of the budget; a defined and timetabled system of reporting against budget (at team and organisational level), and 'variance analysis' to establish action that may need to be taken to address or prevent a deficit (see Community Southwark Factsheet on ‘Cashflow’).

The next stage will be to set out exactly WHEN over the next twelve months, the money will be coming in and going out. Funders often request this as they will want to see that you are able to avoid ‘cash flow’ issues and plan your income and expenditure. This is a predicted Cash flow statement (and is explained in the Community Southwark Factsheet on ‘Cashflow’). By identifying those months in which you know money will be going out (such as salaries, rent, electricity, gas); and income will be received, (grant allocations, predicted income from fundraising etc.) a framework can be established that will form the basis of financial planning.

If you would like further support on any of the issues raised here or any other matters, please contact the Development Team at Community Southwark at development@communitysouthwark.org.uk

Resources

- **The Charity Treasurer's Handbook** – by Gareth G Morgan – Directory of Social Change – https://www.dsc.org.uk/£9.95
- **A Practical Guide to Charity Accounting** – edited by Kate Sayer – https://www.dsc.org.uk/£18.95
- **A Practical Guide to Financial Management – For Charities & Voluntary Organisations** – by Kate Sayer www.dsc.org.uk £18.95
- **www.cash-online.org.uk**
- **Know How Non-Profit:** http://knowhownonprofit.org/organisation/operations/financial-management/management