

Budgets

Budgeting as a group provides an opportunity for everyone to be involved in decisions about what to spend money on. This is really important for ensuring that everyone supports the financial decisions that are being made. Budgeting is a crucial way to stop your group running out of money unexpectedly, or ending up in debt.

Budgeting and financial planning is also essential for fundraising. See our Funding fact sheet.

What is a budget?

- A budget tells the story, in money terms, of what your group plans to do over the coming year.
- It is an estimate of how much money you need – proper budgeting will help ensure that you don't run out of money or face unexpected costs during the year ahead.
- It will help you make financial decisions and keep control during the year.
- A budget for a funding bid may not be the same as your group's annual budget. If you are applying for a specific project (rather than a grant towards your overall work), the funder may ask for an outline budget only.
- A budget is always an internal document for your own group's use. You will not be held to it by a funder or some other outside body.

Preparing a budget

There is nothing mysterious about writing a budget. It is like writing a shopping list, together with the cost of each item. You must then work out where you will get the money to pay for it all.

Writing a budget should be part of the process of planning your group's work. In order to write a realistic budget, you must have a fairly clear idea of your group's activities in the year ahead. The best way is to hold a meeting and discuss what you want to do. Your treasurer or other people will then be in a position to write a draft budget for the group to look at. The time to do all this is before the start of your group's financial year.

Step one – items of expenditure

Write a list of all the items which you are likely to need to pay for, known as expenditure headings.

It is important to list all the 'hidden' costs of your activities – the overheads. For example, taking a group of children on an adventure weekend will involve costs such as

travel, volunteer's expenses, insurance and refreshments for the journeys as well as the fees of the adventure provider.

You should show capital items and revenue items separately.

- o Capital items are expected to have some resale value for at least 2 years; they include equipment, buildings or work to improve buildings and land. Small pieces of equipment are not counted as capital items. Groups usually set a threshold, such as £500, above which equipment counts as capital.
- o Revenue items are all the day-to-day items sometimes referred to as running costs. These include rent, postage and refreshments.

If you plan to run an event where you will have both costs and income, you should show the event as both an item of expenditure and an item of income – do not include the net figure alone. A typical event of this type would be a fun day or coach outing.

Step two – costs

Estimate the cost of each item of expenditure and be as realistic as you can. In the first year, it can be difficult to work out costs, but don't just guess. It will help to talk to people in similar groups and look in shops or suppliers' catalogues. For larger pieces of equipment, ring 2 or 3 firms and ask for quotes. Think through your activities carefully – what will you have to pay for when you hold a meeting or organise an outing? That way you are less likely to forget something important.

When your group has been going for a year or more, it is easier to write a budget. You can base your running costs on the expenditure of previous years – but remember to increase them in line with inflation. You should still think carefully when writing a later budget to make sure that it reflects what you plan to do. A group's activities are not identical from year to year, so don't just copy your budget!

Important: keep notes of how you arrive at your figures. For example, note down that 'hall hire' is a known cost based on 26 weeks or that the figure for 'telephone' is a rough estimate based on another group's bills. That way you will be able to explain your figures to the group or easily check them.

Employing staff

- You could link pay to local government pay rates – speak to the City Council's Voluntary Sector Unit or to the local Unison branch.
- You could look at job adverts in the local papers to see what wages are paid by comparable jobs.
- Remember to budget for annual pay rises – if pay is linked to local government rates, 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)?
- Don't forget to include pensions.
- Remember to include Employers' National Insurance.

Step three – income

Make a list of all the likely sources of money and estimate realistically how much you will get from each of them. Again, keep notes of how you arrive at your figures. It is particularly important to note the date when grants (and other large sums of money) are expected – unless you plan well, you may not have enough money at a particular moment if the grant has not yet come, even though your budget shows enough income for the year.

If you are waiting to hear the result of a grant application, you can show the grant in the budget, but you should mark it 'unconfirmed'. However if you have little hope of getting the grant, do not show it in the budget. Make a note of any grant application which is not included.

Sometimes you will plan to use money which you already have in the bank. For example, you may have received a grant before the start of the budget year (a grant in advance) or a grant may spread across two of your financial years. Or, you may have been deliberately building up reserves in order to fund work in the budget year. All you need to do is to include the amount in your budget, just like any other income item, headed 'Grant in advance from (name of funder)' or 'Drawn from reserves'.

Step four – balancing the budget

Show your estimates to other people in your group to try and ensure that they are accurate and nothing is missing.

If you are fortunate, you will have a balanced budget – your estimated income will be the same as your planned expenditure.

If you are even more fortunate, you will be anticipating more income than you need – a surplus. If this is the case, you can include an expenditure item 'Surplus transferred to reserves' in order to balance the budget.

Unfortunately, all too often, groups find that they just do not know where they will get all the money which they need – a deficit. When this happens, you should at this stage show the deficit in your draft budget.

Step five – approving the budget

Take the budget to a meeting of your group or its management committee for their comments and alterations. Make sure you draw their attention to unconfirmed grants – the group will need to assess whether you are likely to get the grants.

If you have a deficit budget, the group will have to decide whether to scale down the activities or whether more fundraising is realistic. You should not balance the budget by writing in 'Other fundraising' unless you genuinely believe you can raise the money. It is far better to start the year with a realistic budget and plan of activities. If you manage to raise more than you first expected, you can always increase your activities during the year. But if you start the year spending unrealistically, you will soon be in trouble.

The budget must be formally approved by the group. If the group suggest only minor changes to the draft budget, the meeting can approve it there and then. However, if the group asks for lots of minor changes or a really major one, you may need to rewrite the budget and take it to a later meeting for approval. The budget which you finally approve must balance.