

# BUDGETS AND MONTHLY FINANCIAL REPORTS

## What are they?

Budgets, cash flow forecasts and monthly financial reports are used to plan and monitor the financial position of a House.

These important financial tools can be prepared manually or much more commonly are prepared through a computer software package. However, regardless of how they are prepared, the principles to consider when preparing them are the same.

## Budgets

A budget is a way of thinking ahead financially. It predicts the expenses you expect to incur and the income you plan to bring in. Budgeting is simply the process of planning your House's finances for a specific period, usually 12 months. It is intended to minimise the risk of being faced with nasty surprises and to provide a baseline for financing your activities.

Tips for the development of a budget:

- It's important that the process of preparing the House's budget involves everybody who's going to be affected by it.
- Make sure that the program staff work closely with the administrative staff and the Coordinator right from the beginning of the budget cycle.
- Begin by reviewing your previous year's budget in comparison with your actual results in that year as per your financial statements.
- What can you learn from how your estimates for last year's operations went?
- Did your running costs drift up?
- Did you have any surprise costs that you hadn't budgeted for in the previous year?
- Check your strategic plan and business plan against the reality of your budget.
- Did the budget allow you to achieve your objectives comfortably? Was there scope for savings? Are there any changes that could have reduced costs?
- Now look at this year's plans. Do they include any new activities that you expect will result in increased costs?
- Go over each item. What was it last year? Have there been any external changes that would alter this - new tax laws, rising prices, changed practices?

## Laying out the budget

In designing your budget framework, you need to ask:

1. How do you bring money into the House? (Income)

The standard major income items are:

Grants, donations, charges for services, and memberships. Add your own special categories to these.

## 2. What are the things you spend your money on? (Expenditure)

The standard major expenditure items are:

Salaries, equipment, rent, electricity/gas, telephone, stationery, photocopying/printing, insurance, advertising, travel, sundries (anything that doesn't fit under the other headings). Put in separate line items where they represent significant sums.

A surplus or deficit represents the difference between projected income and expenditure. If the income is greater than the expenditure for a given period, the difference is a **surplus**. If the expenditure is greater than the income for that period, the difference is a **deficit**.

### Example of a budget build-up

<b>Income</b>	Last year	This year	Next year (budget)
Grants			
Membership subscriptions			
Interest on investments			
Sales			
Donations			
Fundraising			
<b>Subtotal Income</b>			
<b>Expenditure</b>			
Salaries and wages			
Rent			
Client support services			
Telephone			
Computer expenses			
Postage			
<b>Subtotal Expenditure</b>			
Projected surplus (deficit)			

You can have one budget for the whole organisation, with headings like the ones given above, or you can have separate budgets for each section or each project and a combined budget to sum them up. Combined budgets are simpler to run, but you can overlook trouble developing in a particular area if the actual financial results are spread across the whole organisation. If you have project funding, it is best to have a separate budget for each project.

### Cash flow forecasts

Cash flow forecasts help you plan the likely timing of your receipts and payments over the year. Once this information is projected, you will then be able to compare your actual receipts and payments with these forecasts and it will help you to ensure you have enough money to pay the bills. These bills include the day-to-day running expenses, such as salaries and superannuation, as well as large sums predicted and planned for in your annual budget.

A cash flow forecast usually has the following characteristics:

- It is a picture of your predicted flow of funds for a particular period, usually month by month for the year ahead.
- It allows you to predict what cash you think will come in and go out, as well as the timing of those receipts and payments.
- It is an extension of your budget and you should prepare it as soon as your budget for the year has been finalised and approved.

The easiest way to develop a cash flow forecast is to start with previous budgets and actual cash receipts and payments as per your cash books. Your cash flow forecast must also include estimated bank balances for easy comparison with your actual bank balances. The closing balance for each period is the opening balance for the next period.

Common elements of a cash-flow forecast are:

- Cash in – grants, sale of goods and services, subscriptions, return on investments, donations, fund raising activities, sale of assets and tax refunds.
- Cash out – operating activities, such as staff salaries and on-costs, telephone bills, power bills, rental, travel, stationery, printing and copying, postage, tax, equipment and special project costs.

### Example of a month by month cash flow forecast

Estimated income	Total budget	Month		
		January	February	March - December
Grants	120,000	30,000		
Membership subscriptions	1,000	-	200	200
Interest on investments	1,000	100	100	100
Sales	5,000	500	200	300
Donations	1,000	-	100	100
Fundraising	1,000			
<b>Total income</b>	<b>129,000</b>	<b>30,600</b>	<b>600</b>	<b>700</b>
Estimated expenses				
Salaries and wages	96,000	8,000	8,000	8,000
Rent	12,000	1,000	1,000	1,000
Client support services	11,000	1,200	2,000	1,000
Telephone	4,000	200	300	400
Computer expenses	3,000	500	200	500
Postage	2,500	200	150	300
<b>Total expenses</b>	<b>128,500</b>	<b>11,100</b>	<b>11,650</b>	<b>11,200</b>
Surplus/(Deficit)	500	29,500	(11,050)	(10,500)
Opening balance (Bank a/c)	12,500	13,000	42,500	31,450
Closing balance (Bank a/c)	13,000	42,500	31,450	20,950

## Financial reports

The Treasurer of the House should present the monthly financial reports to the Management Committee each month. It is good practice to provide these reports to at least the President/Chairperson prior to the meeting to allow him or her to read and understand them before they are presented to the rest of the Committee.

The report provides a snapshot of the House's actual financial position in comparison to what was budgeted at that particular point in time. The Treasurer needs to highlight any significant matters (variances or differences between actual and budget) to draw the Management Committee's attention to these issues.

The financial report should include the budgeted and actual income and expenditure for the particular month and any variances between the actual and budgeted figures. You may wish to indicate with the letter "u" if the variance is unfavourable or "f" if the variance is favourable.

Although the financial reports are usually combined for the whole service/organisation, in some cases the House may wish to present separate reports for specific program areas funded from different funding bodies. Following is an example of a monthly financial report.

### Financial Report for Month Ending

Budget for year		This month		Year to date		
		Actual	Budget	Actual	Budget	Variance
	<b>Income</b>					
	Grants					
	Membership subscriptions					
	Interest on investments					
	Sales					
	Donations					
	Fundraising					
	Subtotal income					
	<b>Expenditure</b>					
	Salaries and wages					
	Rent					
	Client support services					
	Telephone					
	Computer expenses					
	Postage					
	Subtotal Expenditure					
	Surplus/(Deficit)					

derived from <http://communitydoor.org.au/voice>