

# Preparing a Budget

A budget is a way of thinking ahead financially. Accounting looks backward, at what income you have received and the amount you have actually spent. Budgeting looks forward. It predicts the expenses you expect to incur and the income you hope to bring in. It is intended to minimise the risk of being faced with nasty surprises and to provide a floor for your program planning.

## Equipment

Accounting can, at a pinch, be done with pencil and paper. Budgeting really does need a computer and a spreadsheet program. Most spreadsheet programs are very user-friendly with straightforward pull-and-drop commands that can serve your needs in an uncomplicated way.

## The budget calendar

Budget years are generally aligned with tax years, beginning in July. The work of drawing up a budget must begin well in advance. Count back from July; how long will it take to collect the necessary information about planned programs, staffing changes, new equipment needed to be purchased, grant applications? How long will it take to have the management committee finally sign off on the budget document?

If all this pushes you back too far into the beginning of the year, you may have a problem with the speed and responsiveness of your systems.

It's important that the process of preparing the organisation's budget involves everybody who's going to be affected by it. Make sure that the program staff work closely with the administrative staff right from the beginning of the budget cycle.

Begin by reviewing your previous year's budget. What can you learn from how your estimates for last year's operations went? Did your running costs drift up? Did your costs per client go up or down?

Check your strategic plan and business plan against the reality of your accounts. 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. 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)

## 2. How do you bring money into the organisation? (Income)

The standard major income items are:

- Grants
- Donations
- Charges for services
- Sales
- Memberships

Add your own special categories to these. Put in sub-headings where they represent significant sums (and check your formulas to make sure you're not double counting them).

Now you have to estimate what the figures will be in each category. Remember, you're not costing what you did last year, or even what you're doing now; you want to know what it will cost to deliver the objectives set out in your strategic plan.

In making this estimate you can draw on all the available information - what the figures were like last year, what grant applications you have in at the moment and what the demand for your services is presently like - but at some point you will always have to make the best guess possible.

You can't know whether this year for the first time in living memory it will rain on the day of the fete - but you can't wait till the day of the fete to find out, either. A sound rule is to be conservative about estimating income and expansive about estimating expenditure. If you're genuinely unable to come to a conclusion, draw up two budgets, one optimistic and one less so, so that you're prepared when you eventually find out.

Personnel costs will probably be the most important component of the operating budget. Work these out on a separate spreadsheet. Include salary (including tax) and on-costs - holiday loadings, payroll tax (if any), and superannuation. Are you going to have to

make any other entries in the budget under advertising for new staff or training costs for new staff?

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 outcomes are spread across the whole organisation.

## **Budget balancing**

You can then move to stage three, which is to subtract expenditure from income to determine whether you're going to be ahead or behind. This gives you a preliminary summary.

You can decide to run a deficit, or a surplus, if you want, as long as you have a long-term plan in place - there's nothing that says you have to balance the accounts every year, particularly if you have special programs or if you ran a surplus last year.

If you come out ahead, go back and check your mathematics. Then check your assumptions.

If you're still ahead, you have some room to take a proposal to the management committee for expanded services. If you think things are going to get harder next year you can put some money aside.

If you come out behind, check everything again. Is there any scope for increased income? Do not just say, "We'll try harder". Do not just go back to the "donations" entry and raise it until the problem goes away. This is a very short-term solution indeed. Do you have any money in your accounts to cover it? Is there any scope for cutting costs while still achieving the objectives? If so, what (or who) are you going to drop? If you cut programs, how much will this reduce costs? If any positions are involved, discuss it with the people. If you can't achieve your goals on that money, which of your goals are you going to compromise? Again, you'll have to take it to the management committee.

## **Budget monitoring**

In your accounting framework include a month-by-month comparison with the budget. This is only an indication, as month-to-month variation can be just random fluctuation. In particular, look at the pattern of income and expenditure in previous years.

Don't necessarily just divide the year's budget into twelve equal parts. Does money go in or out at any particular times every year? For example, do membership fees come especially at the beginning of the year, or do donations come in before the end of the financial year? This can throw off your calculations, and could at worst catch you up in

cash flow problems. Information from budget monitoring must be made available to the Coordinator and the management committee.

Do not get complacent just because your budget seems to be working out. Even a good budget does not answer all your financial questions or cover you against all hazards.

Remember that a budget only records money changing hands. Your budget can be encouragingly in surplus even when you are in big trouble. If, for example, you have contracted to deliver services over two years, received all the money in the first year, and spent most of it. You then enter the second year with a small surplus and no extra expenditure - but in fact all your staff may be committed to undertake work for which you will earn no extra income.

Finally, remember a budget is important, but it is only one of a range of management tools.