

## Budgets

### What is a budget?

A budget is your group's plans for the coming year set out in money terms. It helps to make sure that you have the money to do what you want to do. It also allows you to make financial decisions and keep control of your finances using an agreed set of figures rather than using guesswork. To help the budget setting process the committee should have a plan for the year. This should set out the overall objectives of the organisation and the specific goals for the year.

### Drawing up the budget

A budget normally starts as a draft drawn up by one person or a small number of people, which is later approved by a management committee. A draft budget allows an organisation the opportunity to consider its proposed activities for the next year in detail. This is a democratic process, which gives people the chance to determine how, and to what purpose, the organisation is working.

Writing budgets should be fairly easy, it involves common sense, a logical approach and simple mathematical skills like addition and multiplication.

### Six steps to producing a successful budget

#### Step one – producing the budget

Start by making a list of all the expenditure headings (items) you can think of that may be needed by your organisation or project based on what you want to do for the year. It is a bit like writing a shopping list.

Think about special start up one off costs like recruitment adverts and capital costs such as furniture and computers. Capital items (known as fixed assets) would normally last more than a year and should cost over a certain amount such as £100. This will avoid small items such as staplers and hole punches being included in capital costs.

Also think about running costs, also known as revenue costs. These are expenses of a recurring nature such as rent, rates, salaries, electricity, postage, stationery and telephones. Similar items like salaries and employer's national insurance should be grouped together under the same heading. Keep running cost headings separate from capital cost headings. There's a list of suggested headings on page five to give you some ideas

Now make a list of all likely income headings such as membership, subscriptions, fundraising events, grants and donations.

## Step two – filling in the figures

Estimate the cost of each item of expenditure as realistically as you can. Talk to people in similar organisations, shop staff, equipment suppliers, builders and local trade unions for salary scales. Catalogues from stationers, office equipment suppliers and companies like Argos (for the office fridge and kettle!) are very useful.

Make a clear note of how you arrived at each figure and on any items you were not sure about. Without the notes you will look back at the figures in a few days and not remember the assumptions you made!

Now do the same with each item of income - estimate the likely amounts of income from each source. Talk to funders and other organisations. Make notes on how each figure was arrived at. If it is a guess or broad estimate say so. See page three for more on income.

### Types of costs and income

It may help you to look at items of income and expenditure as fixed, variable and mixed

- fixed – things likely to remain the same throughout the year such as rent and rates and salaries
- variable – things likely to change depending on levels of activity such as income from hall lettings, staff training, postage and volunteers' expenses
- mixed – call charges on phones will vary, but the rental remains the same

## Step three – revising the figures

Show the draft budget to people inside the organisation – workers, volunteers, and management committee members. Make sure you talk to those responsible for delivering specific parts of the service. To help develop a strong accurate budget these people need to help you answer several key questions.

Has anything been left out? Are extra headings needed? Missing out a heading is the same as giving that item a budget of £0. It is better to guess than leave something out altogether. At the same time would the budget be simpler if several headings were grouped together? Check on the items you were not sure about. Is more information needed to improve the accuracy of the estimated figures? When is the funding likely to be received and when are the activities likely to start? Will inflation affect the budget? It may vary from one heading to another.

Revise the notes. Make sure there is a note explaining how each figure was arrived at. The notes are an important part of the democracy of the organisation. People should understand where all the figures have come from, rather than just trust you with the finances.

### Step four – options and contingencies

At this stage you should look at the budget as a whole, rather than the income and expenditure separately.

You should first look at whether the income you expect will cover the amount you plan to spend. If the income is less than the expenditure, what is the organisation going to do about it? Will you try and increase your income through another grant or

fundraising activities such as raffles, tombolas or race nights. Or will you reduce your expenditure to balance with the income. The route you choose will depend upon your own organisation and the service you provide.

You should then look at the security of your expected income. What if your fundraising is not completely successful and you have a short fall of income? Can activities be scaled down? Would you cancel or postpone the project? What will happen if some income is late? Should you plan for other unexpected circumstances?

### **Step five – approval**

The budget should be presented to the management committee for their comments, alterations and approval.

### **Step six – monitoring and reporting**

The budget process doesn't suddenly stop when you agree the budget as it is an important tool for financial management. You should prepare a report for the committee at least every three months comparing your budget with actual figures.

You may find out that income has not been as high as expected or activities may have cost less than you thought. Any overspend or underspend should be analysed to find out why it has happened, and the committee should spend time deciding what to do about it. You may have to reduce your activities if there's an overspend or if there's an underspend you could spend it on other activities or start to build up reserves.

### **First year budgets**

The first year's budget is the most difficult because a lot of guesses have to be made as there is no historic information. As a starting point you

should ask similar organisations about their costs, but remember no two groups are the same, for example rent could vary considerably between two organisations. Be realistic about costs and be prepared not to start a project, or delay it, rather than finance it badly.

### **Budgets after the first year**

Putting together these budgets should be easier. The best time to start is when you have actual figures for the first nine months. This gives you accurate figures for most of the year and you will be in a good position to estimate your spend for the last three months. You should use these figures to predict what will happen next year. Starting at this time will give you three months to go through the budget process before the next financial year starts.

You should look at each heading in turn and decide what adjustments need to be made. This could be because of changes in levels of activity, new activities and inflation or price rises. Some headings may not need changing for example if you have a fixed lease agreement your rent will not change.

### **Income**

#### **Forecasting income**

You will need to forecast your income when you put a budget together. You will often start the year with some income that's been approved (you're in year two of a three-year grant) and non-approved income such as funding applications that you're waiting to hear from and applications you plan to make during the year.

There is always an issue as to whether to include non-approved income in the budget. This involves some judgement

because including it can be very risky, giving the committee a false sense of security. One option is to not include it if you're not fairly certain that a grant will be approved. Another is to include it but to highlight it in the notes with suggestions of what you'll need to do if you don't get it.

### **Restricted and unrestricted income; grants, contracts and service level agreements**

Income can be restricted, which means it can only be spent on what the funder has stated. Unrestricted income can be spent on whatever the trustees decide as long as it falls within the aims set out in your constitution.

Funding can also be in the form of grants, service agreements or contracts

- **grants** – a grant is a gift and it is very difficult to attach penalties for non-performance. However, if it is a restricted grant it must be spent as the funder intended. For example, if you had a restricted grant to run a fun day and after reasonable efforts very few children turned up, there would be no penalty
- **contracts** – a contract normally stipulates a minimum level of service in return for funding. For example, your contract may state that at least 50 children have to attend your fun day, and if they don't you may have to repay some or all of the funding
- **service level agreements** - in law there is no such thing as a service agreement – it is either a contract or a grant. A contract that is called a service level agreement may use different language to a formal contract to make it seem more friendly. You must still check the terms and conditions you sign up to

You should state in the notes to the budget if income is restricted or unrestricted and if it is a grant, service level agreement or contract.

### **Self generated income**

Income that you generate from charging for your services, ie training courses, is usually unrestricted, and is, therefore a very valuable source of income. This income should be included in your budget, but you need to be careful about estimating it.

### **Fundraising budgets**

Funders need budgets to check whether your proposal is viable. Voluntary organisations tend to be funded from a range of different sources. Depending on what you are applying for some funders will want to see your budget for the whole organisation. Others will want to see a budget for the specific activity or purchase they are funding.

An application to a local authority seeking funding for core costs or a key worker's salary will probably require a full budget as they'd be interested in finding out about all the activities of the group and what other funding you are applying for. An application to run a small project will probably only need a budget for that project. Unforeseen expenditure normally outweighs unforeseen savings, so add a contingency (extra bit) to some of the figures for the unexpected.

When applying to several funders for several projects you'll probably have to produce a different budget for each funder. In each project budget you should include a contribution to the overheads of the whole organisation. This is because the project will consume resources from the main part

of the organisation such as electricity and management support, and they should pay for what they use.

Many funders will want you to write your budget into the headings on their form. Frequently the headings are different from yours and you have to group items together as best you can. Make sure you squeeze everything you need into their headings.

### **Three-year budgets**

If funding is ongoing over three years it is quite likely that funders will want a budget covering the three years. This should be quite easy to do providing that you have plans covering the three years. You would approach it in the same way as you'd approach a one-year budget – will the level of activity change each year, will you introduce a new activity and do you need to include adjustments for inflation and price rises.

### **Budget headings checklist**

This checklist gives you headings that could be included in a budget, and should stop you leaving something important out!

#### **Setting up an office**

- Letterhead, design, DTP, printing
- Compliment slips
- Business cards
- Identification badges/photos for staff
- Envelopes, invoices, photocopy paper, note pads, biros, tipex, paper clips, staples, toner
- Minor equipment – cash box, staplers, first aid tin, post scales, franking machine (large volumes only)
- Telephones – consider future needs over three to five years, hand sets,

switch board, line connection, ISDN line, fax line, internet subscription

- Photocopiers – purchase or lease costs, and maintenance

### **Computers**

- Set-up costs – software, computers, printer, scanner, monitors, modem, additional telephone lines and rental, security devices, anti-glare shields, mouse, keyboard, zip drive or other back-up system
- Ongoing costs – discs, printer cartridges, paper, internet subscriptions, telephone charges, staff training, maintenance and repair, depreciation

### **Vehicles**

- Fixed costs - lease payments or purchase price, insurance, road tax, MOT, basic maintenance, subscription to recovery organisation, garaging, salary and training
- Variable costs – petrol, cleaning, parking, additional maintenance, payments to casual drivers

### **Property costs**

- Legal cost (for both sides)
- Rent, service charges, mortgages and loans
- Heat ,light
- Insurance
- Rates, water and sewerage, refuse collection
- Cleaning
- Building works (including architects and surveyors) and adaptations, access issues and compliance with fire regulations and health and safety, environmental health, building and planning controls,

Factories Act, Office shops and Railway Premises Act

- Decoration, costs of compliance with the lease including redecoration on vacation, carpets, blinds, upgrade of security such as shutters, locks and burglar alarms

### **Furniture and decoration**

- How many parts of the building might need furnishing?
- New, donated or secondhand? Is it all needed straight away or can it be phased in? Would trusts fund parts of the capital expenditure?
- Entrance and hallway – signs, lights, ramps, entryphone
- Reception – carpets, chairs, noticeboard, receptionist desk and chair, staff/department pigeon holes
- Office – desks, filing cabinets, chairs, noticeboards, room dividers, curtains/blinds, tables, desk lamps, tea/coffee making and storage/ fridge, noticeboards, coat hanging, shredder and bins
- Other work spaces – floor covering, work benches/equipment tables, seating, lighting, ventilation, cleaning materials/equipment and work equipment
- Training/meeting rooms – curtains/blinds, carpets, chairs, tables, flip charts, white boards, OHP, video and TV, kettles, cups, sufficient toilets for large meetings
- Play areas/crèche – carpet, children's tables and chairs, play equipment, water supply, wet area, sink, fridge, children's toilets
- Storage – stationery, other supplies and stocks, safe, equipment, library, archives

### **Staff and volunteer costs**

- Recruitment – advertising, photocopying, postage, panel expenses, applicant expenses, refreshments and venue
- Salaries – use recognised salary scales such as NJC, National Insurance, pension, increments and inflation in future years
- Staff training, external supervisors/consultants
- Travel expenses
- Volunteers – recruitment, insurance, training, travel and meal costs.

### **Insurance**

- Public liability
- Employer's liability
- Personal accident or injury to staff, volunteers and management committee members
- Loss or damage to assets either on specified premise (contents) or anywhere else (all risk)
- Building insurance – essential if you own one, or check lease to see who is responsible
- Increased cost of working – relates to costs following a fire or other crisis to pay for temporary office rent and equipment hire
- Motor vehicle insurance for volunteer drivers using their vehicles as well as your vehicles
- Professional indemnity – giving poor or wrong advice that the organisation might be sued over
- Money insurance – is there a lot of cash being handled?
- Fidelity bond - insuring for dishonest staff

## Office costs

- Book-keeping/payroll
- Bank charges
- Photocopying and postage
- Print and stationery
- Telephone and fax
- Hospitality
- Professional fees/consultancy
- Depreciation or equipment

## Compliance costs/management and administration

- Audit or independent examination
- AGM and annual report

## Fundraising

- Staff, marketing, leaflets

## Direct costs of the service

- Specialist equipment
- Recruitment and training
- Publicity and marketing
- Subscriptions, memberships and publications
- Wages/salaries and employers NI pension contribution, volunteer expenses
- Insurances
- Materials
- Travel
- Clothing
- Cover for sickness/maternity
- Telephone and communications
- Translation
- Property costs - rent, heat/light

## For more information

### Community Accounting Self Help

1 Thorpe Close, London W10 5XL  
Voice 020 8969 0747  
Fax 020 8969 5936  
services@cash-online.org.uk  
www.cash-online.org.uk

### Community Accounting Plus

1st Floor, 32-36 Pelham Street,  
Nottingham NG1 2EG  
Voice 0115 947 0839  
Fax 0115 958 8779  
caplus@communityaccounting.co.uk  
www.communityaccounting.co.uk

## For one-to-one practical support and advice on book keeping and financial management contact

① **Julie Eastlake**  
Finance Officer at VODA on  
Voice 0191 200 8559 or  
julie.eastlake@voda.org.uk

## Training

VODA runs a range of training through the *Training the Voluntary Sector (TVS)* programme or tailor-made training to meet the specific needs of your organisation.

For more information contact

① **North Tyneside VODA**  
Voice 0191 200 8555  
training@voda.org.uk

This information sheet is based on the CASH fact sheet *Writing budgets*. Thanks to CASH for letting VODA use their information. See above for CASH's contact details.

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