HELPSHEET 5

Budgeting for treasurers

Budgeting is simply the process of planning your organisation's finances for a specified period, usually 12 months. It is made up of all the activities you plan to undertake in the next 12 months expressed in terms of money.

In other words, it is a statement of anticipated sales turnover, expenditure, profits and cash flows.

A budget is a key management tool, as many not-for-profits operate without capital or reserves, so operating losses can have a devastating impact. Your budgeting will tell you whether your income is likely to exceed your expenditure, and if so by how much.

The treasurer does not usually write the budget alone. It is prepared in consultation with the board and staff. It may be tempting to hand over the budget to your accountant, but unless they are on your management team, they may not be close enough to your organisation's goals and objectives to do a thorough job.

A common way of determining the budget is to refer to the past period as a baseline – then adjust the revenues and costs by applying a percentage increase for inflation or making alterations for expected changes in prices and volume. Budgets prepared this way are called incremental budgets.

This method has its disadvantages as it does not consider whether activities and costs are still appropriate and if a mistake is made one year, it is likely to be repeated the following year.

With zero-based budgeting, you start from scratch each year and justify spending on a cost-benefit basis. It is not usually practical to use zero-based budgeting for all your activities as it would be too time-consuming, but you should review your activities regularly to see if the costs are still relevant.

A practical approach is to use the incremental approach for fixed costs and a zero-based approach for special projects.

Do some 'what if?' scenarios. What if you need another staff member? What if a crucial board member resigns? What if you lose a grant?

Imagine the worst and the best that could happen financially, then look at how you would cope with it. It may seem odd to worry about the best case scenarios, but a sudden upsurge in demand for your services could place your organisation under financial stress.

Some budgets will be drawn up for the financial year of June to June and others will operate on a calendar year. Here are the eight steps that Organisation XYZ took to prepare its annual June to June budget:

1. Looked at last year's income
2. Looked at the timing of last year's income
3. Asked, 'What will happen this year?'
4. Worked out this year's overall figures
5. Drew up the income side of the budget month by month
6. Followed the same steps for expenditure
7. Discussed the options
8. Presented the budget for sign-off

The organisation reviewed past records of revenue and income (membership, sales, grants, fund-raising, consultancy, interest), looked at past records of expenditure (room hire, wages and telephone), assessed income and expenditure, predicted increases or decreases in the year ahead, studied timing, noticed when most income flowed in and when regular bills were paid, and lastly, looked at likely variations in the year ahead.

Step 1.
Last year's income

Last year's income

Government annual funding	Last year
Federal government	20,000
State government	40,000
Local government	2,000
Other grants	3,000
Total grants income	65,000
Other income	
Community events/festivals	20,000
Sponsorship	22,000
Consultancy	48,000
Donations	57,000
Fundraising	29,500
Interest	500
Investment	0
Sales	0
Total other income	177,000
Total income	242,000

Step 2.
Timing of last year's income

XYZ looked at when it received various income in the previous year.

Timing of last year's income

Government annual funding		
Federal government	20,000	5,000 a quarter
State government	40,000	Lump sum in January
Local government	2,000	1,000 upfront, 1,000 on finish
Other grants	3,000	1,000 three times a year
Total grants income	65,000	
Other income		
Community events/festivals	20,000	Festival in March
Consultancy	48,000	8,000 every two months
Donations	57,000	10,000 annual Christmas campaign; 47,000 from six large donors
Fundraising	29,500	June car raffle, $25,000; chocolates/ wine bottling/ stall through year, $4,500
Interest	500	Paid quarterly
Investments	0	
Sales	0	
Sponsorship	22,000	2,000 in July, 10,000 in January, 10,000 in March
Total other income	177,000	
Total income	242,000	

Step 3.
What will happen this year?

XYZ reviewed the organisation's plans for the year and factored in any changes in the pattern of activities from the previous year. It then estimated the effect of any likely changes in income sources or expenditure demands for the coming year.

What will happen this year

Government annual funding		
Federal government	20,000	Lost
State government	40,000	Same
Local government	2,000	Same
Other grants	3,000	Raised to 5,000
Total grants income	65,000	
Other income		
Community events/festivals	20,000	Expect extra 5,000
Consultancy	48,000	Same
Donations	57,000	Add 5,000 for midyear campaign
Fundraising	29,500	Same
Interest	500	Same
Investments	0	
Sales	0	
Sponsorship	22,000	Down to 18,000
Total other income	177,000	
Total income	242,000	

Step 4.
This year's figures

XYZ looked at the likely figures for the year ahead. The most significant factor was that XYZ will no longer receive a Federal government grant ($20,000). Even with increased fund-raising and raising more money from community events, XYZ will still have $12,000 less money this year.

XYZ's board will have to look at ways of dealing with this impact.

This year's figures

Government annual funding	Last year	This year
Federal government	20,000	0
State government	40,000	40,000
Local government	2,000	2,000
Other grants	3,000	5,000
Total grants income	65,000	47,000
Other income		
Community events/festivals	20,000	25,000
Consultancy	48,000	48,000
Donations	57,000	62,000
Fundraising	29,500	29,500
Interest	500	500
Investments	0	0
Sales	0	0
Sponsorship	22,000	18,000
Total other income	177,000	183,000
Total income	242,000	230,000

Step 5.
Month-by-month income budget

XYZ drew up the income side of its budget by predicting the timing of each income stream.

Step 6.
Month-by-month expenditure budget

XYZ followed the same steps for its predicted expenditure, analysing previous expenditure and asking themselves if future costs are likely to remain the same.

Step 7.
Discuss options

If your revenue declines or costs increase, options may be:

- Reduce programs or activities
- Reduce costs (you must be realistic)
- Run a deficit (can you do it? Is this sustainable?)
- Raise alternative funds

By having a realistic budget you will have a rational base to make decisions and to ensure you meet your obligations.

Month-by-month income budget

Sample annual budget

Budget for XYZ Community group 2003/4

Income	**July 03**	**Aug 03**	**Sept 03**	**Oct 03**
Government annual funding				
Federal government				
State government				
Local government				
Other grants				
Total grants income				
Other income				
Community events/festivals				
Consultancy				
Donations				
Fundraising				
Interest				
Investments				
Sales				

Sample Budget

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	Total
Government annual funding													
Federal government grants	0			0			0			0			0
State government grants							40,000						40,000
Local government	1,000										1,000		2,000
Other grants	1,500				1,500				2,000				5,000
Total grants income	2,500	0	0	0	1,500	0	40,000	0	2,000	0	1,000	0	47,000
Other income													
Community events/festivals									25,000				25,000
Consultancy		8,000		8,000		8,000		8,000		8,000		8,000	48,000
Donations						10,000					5,000	47,000	62,000
Fundraising							2,500		2,000			25,000	29,500
Interest			125			125			125			125	500
Investments	0	0											
Sales	0	0											
Sponsorship							9,000		9,000				18,000
Total other income	0	8,000	125	8,000	0	18,125	11,500	8,000	36,125	8,000	5,000	80,125	183,000
Total income	2,500	8,000	125	8,000	1,500	18,125	51,500	8,000	38,125	8,000	6,000	80,125	230,000
Expenditure													
Salaries & Wages (inc. Super)	16583	16583	16583	19083	19083	19083	19083	19083	19083	19083	19083	19083	221,496
Rent	0	0	0	0	0	0	0	0	0	0	0	0	0
Equipment						4000							4,000
Other expenses				700	700	700	700	700	700	700	700	700	6,300
Total expenses	16583	16583	16583	19783	19783	23783	19783	19783	19783	19783	19783	19783	231,796
Profit/loss	-14,083	-8,583	-16,458	-11,783	-18,283	-5,658	31,717	-11,783	18,342	-11,783	-13,783	60,342	-1,796

Step 8.
Get budget sign-off

Once you have prepared your budget, present it to the board for discussion and sign-off. Record the discussion and ask someone to move that the budget be accepted. Once it has been seconded, the board can vote to accept the budget. Once the board approves the budget, the treasurer is responsible for keeping track of how closely the actual figures match budget expectations.

Last year's income

Agenda Item 8 . Board approval for XYZ's budget

XYZ's budget for 2004/5 was tabled and discussed on 4 May 2004. Areas of concern included the loss of our state grant. We hope to make up some of this deficit by increased fundraising and will also decrease spending on one of our programs, which is now receiving more support from the local community. XXX as treasurer moved that the budget be accepted. YYY seconded the motion and the budget was accepted unanimously.

To prepare for your first budget planning session, you will need to study all your income sources and look at where your money goes.

Income sources may include:

Donations: Money from well-wishers will probably be among your top income sources. Your contact list of past donors and future prospects will become a valuable resource.

Special events: A significant proportion of many budgets comes from fund-raising. Many organisations run the same fund-raising events year-after-year, but you also need to watch for new opportunities as the success of your traditional fund-raising activities may vary from year to year.

Membership: Many not-for-profit organisations get a high proportion of their income from membership fees, so it is important to keep a close eye on when memberships fall due, so you can remind your members to renew promptly.

Grants: Many not-for-profit organisations receive grants from philanthropic bodies or from federal, state or local governments. These grants are usually in the form of a contract with agreed outcomes.

A key responsibility in managing contracts is to be aware of the milestones and the reporting and delivery conditions under the contract. Also read the fine print and be aware of the legal and financial implications if you do not meet the contract's specifications.

Be sure to factor into the project budget your own contributions – your administrative costs, the time of your volunteers, the management required from your staff.

It's human nature not to factor in all the little costs, such the time it takes to answer the phone, postage costs, and parking costs.

Remember when you are preparing a project budget for a grant, that unless you are careful your total costs may be larger than the grant request!

Bequests and investments: If your organisation has large bequests – money that needs to be invested, rather than just used in your annual budget – you will probably need to get advice on an investment strategy.

Other income which may need to be invested includes money from events, selling products or services, and sponsorship.

Expenditure sources are either fixed or variable:

- Fixed costs remain fairly constant and include items like rent, electricity, leases and wages.
- Variable costs may change from year to year and include items like publicity and advertising, and wages for special events.

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