

Why do we need to develop a budget?

Key Terms:

- **Budget:** a detailed breakdown of how much everything will cost. Includes income and expenditure, with evidence of costings based on quotes.
- **Income:** all the money that comes in to your organisation.
- **Expenditure:** all the costs involved in running your project / organisation – everything you spend.
- **Capital:** cost of larger items that have more than one year's useful life and could be sold in the future e.g. computers, land, furniture, equipment.
- **Revenue:** the running costs of your project / organisation on a 'day to day' basis e.g. salaries, telephone bills, rent, stationery.
- **In kind:** contributions towards project costs e.g. volunteer time.

What Groups tell us:

- "The treasurer's gone on holiday and no one else understands how she came up with the figures. Now the funder's asking questions!"
- "After we started the project we found we hadn't applied for enough, but the funder wouldn't give us any more."
- "I know I'm on the management committee, but I'm just not interested in money issues."

What Funders tell us:

- "We need evidence that there's a need for this project and that it will be cost effective."
- "Have all the necessary costs been included, or is there a risk that the project won't work?"
- "It looks like the budget has been left with one person and done in a rush. It doesn't fit in with the rest of the application."

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→ Are you ready for Funding?



- Working out all the money your group will need for its activities is called drawing up a budget. A budget sets out your group's plans in money terms and should relate to achieving your aims and objectives. If your organisation runs a number of projects, it is important to develop a budget for each of them. This will enable you to apply for enough funding to run each project effectively, and to keep track of how much each is costing you.
- It can take considerable time to gather accurate figures to inform your budget – possibly up to 3 months to find the figures and then get agreement from your group. Team work really helps here – shared around, the task will be much easier. Don't hang around waiting for grant application forms, as you may well have to fill them in quickly.
- Consult the person / people in your group with the most experience of this area of work. Someone in your group will need to have basic accounting skills, just like those that are needed to keep on top of your household finances – how will you bring in the money you need to meet your spending requirements; how much do you need to save; when will you need this money to be available to meet your spending patterns. Remember that all your committee members are responsible for the finances of your organisation. You may need to bring in a new committee / staff member to support them in this and to oversee your budget.

So, how do we put together a budget?

- In putting together your budget, make a list of everything you will need, and find out as accurately as you can what each item will cost. If you have a range of projects that you run, develop a budget for each project, and gradually build up to your organisation's overall budget.

Things to remember when developing accurate costs:

- If you're planning expenditure for more than one year you need to take into account price rises. Don't forget to add on inflation at the current rate. For example, in calculating salaries you will need to add in cost of living rises which are applied annually, and any increments due to staff, if your organisation pays them.

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→ Are you ready for Funding? (Continued)

- Every project involves direct costs and indirect costs. Direct costs are easy to identify with your project e.g. salary of project worker, equipment used for project. Indirect costs can be harder to pinpoint. They generally include items such as staff time for those not involved in the project on a day to day basis e.g. managers, administrative support, finance officer; or costs of the project taking place in your building e.g. insurance, post, phone bills, heating, lighting, stationery and other building costs. Don't forget to include a proportion of these costs in your project budget. This is called apportionment. Contact your local Community Accounting Service for advice on how to do this. (Contact details below).
- Repeat the process for the Income side of the budget. Look at all the possible sources of money and estimate realistically how much you will get from each. What resources are you going to be able to put into the project, including volunteer time etc?
- Now as a group, look again at the figures. Have you left anything out? Is there an income shortfall? Are you going to spend more than you are expecting to get in? If so, how are you going to meet the shortfall? You may want to bring someone independent in to look at your budget so they can help you spot if anything has been missed out. This may be the point at which you set your fundraising targets for the next year.
- Wherever possible, base your budget on facts, not guesses or promises. Get three quotes, and check they refer to the time when you will actually be spending the money. Keep notes on how you reach your figures, so that you can explain them if asked.
- If you are going for more than one Funder, do their different timetables for giving the money, and yours, fit together? Do you need to plan for cash-flow problems? A cash-flow is a way of predicting income and expenditure over a given period of time, say 12 months. So, you don't get any financial surprises!

For support with developing your budget, contact your local Community Accountancy Service: To contact your local Community Accountancy Service go to www.communityaccountancy.freeserve.co.uk/map.htm to find their details.