

Preparing a Budget

What is a budget?

If a group is managing its money well it means that it has accurate information about where money has come from and where it has gone over a period of time. This information can be used as a key tool for planning for the future (see **Managing your Group's Money** guide).

A budget is your group's plans for the coming year set out in terms of money – it describes the money that you anticipate or know will come into your group and what you plan to spend it on. It helps you ensure that you have the money to do what you want and need to do, and enables you to make informed decisions and keep good control of your finances.

Gathering the relevant information

It can take a while to gather all the information you need to prepare accurate budget figures. So allow plenty of time to get all the figures together and agreed by the management committee. Involve the whole committee in the overall budgeting process as far as possible. This will ensure that the budget produced will be meaningful to them and they will have a better understanding of it in relation to the group's actual activities.

Obviously, your budget needs to be linked to your plans for the next year (see the **Developing and Using a Plan** guide). What money will you need to achieve the aims in your plan? What are the cost implications of what you have said you will do?

Budgets are rarely totally accurate given that they are your best guess of what money you will need at the time of drawing up your action plan and events can obviously change during the year. However, the more time and energy you put into planning your budget, the more accurate it is likely to be.

Talk to other community groups and ask their advice. Try to gather information on a number of projects similar to your own which have been running for a longer period of time.

Budget headings

You need to decide what headings you will need to record the budget in an easily understandable format. (Wherever possible these headings should correspond with the ones you use in your cash books).

As an example, budget headings for a community centre might include:

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***Income** - room hire, catering, members' subscriptions, grants from companies, fundraising and donations, grants from trusts, photocopying, bank interest, other income.*

***Expenditure** – Revenue: insurance, rent, rates, heat and light, cleaning, repairs and renewals, telephone, postage and printing, stationery, photocopier costs, volunteers' expenses, training, professional fees. Capital: office equipment, computer equipment.*

Preparing the figures

- Work out how much money you will need under each of the headings. If you are not intending to significantly expand current activities in the coming year then you could start by looking at what you have spent in the current year and add on a % for inflation at the current rate. If however you are looking at making changes in the way you operate or need to invest in computer equipment etc. then you need to do some indepth fact finding.
- If you can find out the precise cost of a budget item then do. For items of equipment it is relatively straightforward to get quotes from a few different suppliers or use catalogues to find out prices.
- Keep your notes on how you have arrived at your figures, in case anyone asks you to explain them!
- Try and anticipate as realistically as possible what money you can expect to come in. Think about possible sources of money and estimate realistically how much you will get from each. Are there particular grants that you hope to apply for – make sure that where you have included these within income that there is a related figure in the expenditure section, detailing what you anticipate spending the money on.
- Once you have worked out both sides of budget add it up and look at it again. The amounts for income and expenditure should come to the same total. Is there anything you have left out? Are you going to spend more than you think you will get in? If this is the case, how are you going to meet the shortfall. Do you need to increase your fundraising targets for the year or cut back on your spending somewhere to make it balance?

Using your budget

- It is important that the management committee understands the budget and its purpose. People can be easily intimidated by rows of figures, but given that the management committee has overall responsibility for the group's finances it is essential that they understand the budget. Try and make the budget as clear as possible in terms of its presentation and attach a set of notes for any figures that need some explanation. Rather than just presenting it to committee members as a completed piece of work make sure that all of them have been involved in the process of arriving at the figures.
- As with your Action Plan, your budget is only going to be useful to you if it's used as a working document and you refer to it on a regular basis.

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- The budget is your guide to whether you are spending your money as you had planned. Budgets can alert you to areas of overspend, underspend, spending in unexpected areas and if you have this information it enables you to do something about it.
- Keep a regular check on the income side of your budget as you may need to revise your fundraising targets if money is not coming in as you expected.
- At every committee meeting compare what you have actually spent and what money has been received to the original budget. If you are not spending your funds as originally planned why is this? Does it mean that you are not doing what you wanted to or does it mean that your budget needs to be revised?

Voluntary Action can help community groups and small/medium organisations work on preparing and monitoring budgets. Please contact us if you would like some assistance.

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