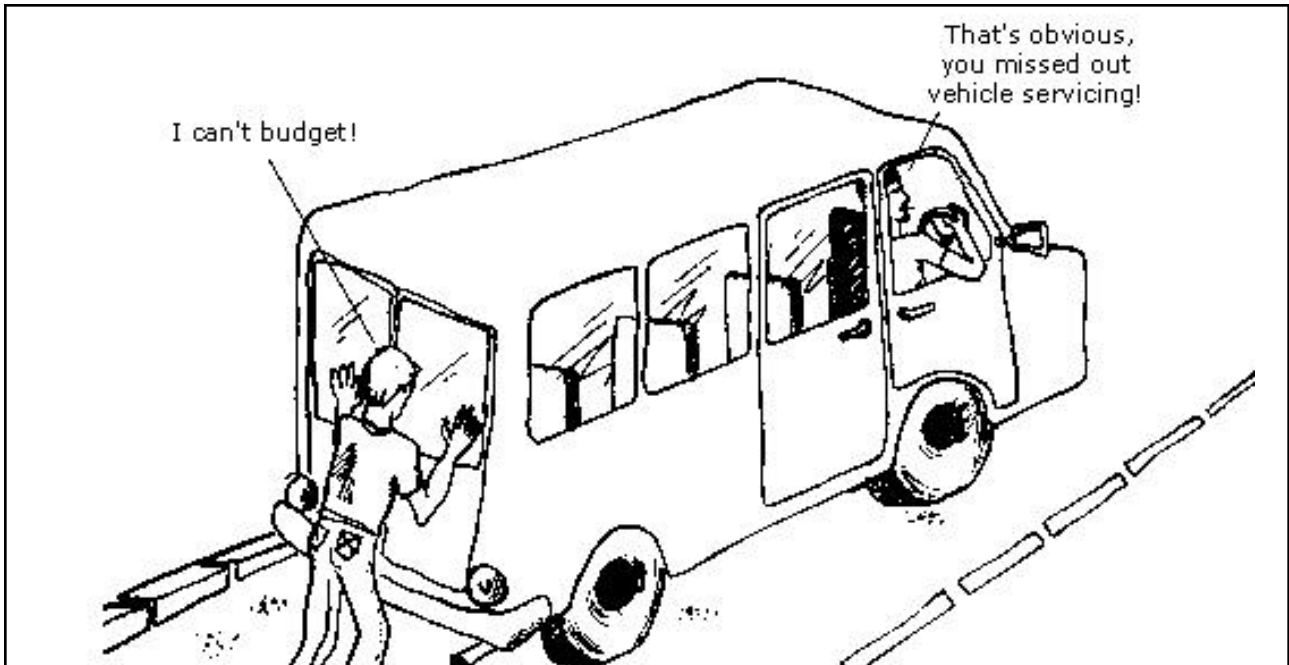


# CASHFACTS

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## Writing budgets

**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 is fairly easy, it involves common sense, a logical approach and simple mathematical skills like addition and multiplication. A basic £5 calculator helps.

Six steps to producing a successful budget

**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. It is a bit like writing a shopping list. Consider special start up costs like recruitment adverts and capital costs like furniture, computers, a minibus etc.

Capital items (known as fixed assets) would normally last more than a year. To avoid minor items like staplers being included one normally sets a threshold of £100 (or a similar amount up to £1000 depending on the size of the organisa-

tion) before an item is "capitalised".

Also think about running costs. These are expenses of a recurring nature such as rent, rates, salaries, electricity, postage, stationery, telephones etc.

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.

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

**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 etc. Catalogues from stationers, office equipment suppliers and companies like Argos (for the office fridge etc.) are very useful.

It is helpful to look at items of income and expenditure as Fixed, Variable and Mixed:

Fixed - things likely to remain the same throughout the year ie. rent and rates.

Variable - things likely to change depending on levels of activity ie. income from hall lettings.

Mixed - call charges on phones will vary, but the rental remains the same.

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 will 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.

**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.

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.

**Four: options and contingencies** | Is the income less than the expenditure? If so, what is the organisation going to do about it?

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? Or would you split it into different phases and just start the first phase?

What will happen if some income is late? Should you plan for other unexpected circumstances?

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

**Six: monitoring and revision** | The budget is a very important tool for financial management. Small organisations should compare projected with actual income and expenditure at least every three months. Remember that all unpaid bills including any outstanding taxes must be included in the figures. It may be that income has not been as high as forecast so savings will have to be made, or some activities have not happened leaving money available to be spent on other activities. The budget should only be revised to take account of major changes.

Fine detail

**First year** | The first year's budget is the most difficult. A lot of guesses have to be made because there is no historic information. It is sensible to ask similar organisations about their costs, but remember no two groups are the same. Rent could vary

considerably between two organisations. Its very important to include all the likely areas of expenditure. Missing something out is the same as budgeting no expenditure on that item. Be realistic about costs and be prepared not to start a project rather than finance it badly.

**Following years** | Look at the income and expenditure for the last year and forecast what will happen next year. Adjustments have to be made for changes in levels of activity and for new activities. Inflation may vary from one heading to another. Rent might not increase at all if there is a lease running over several years. Staff may be entitled to an incremental increase of about £500 to their salaries taking them up a point on the local government scale.

**Forecast out-turn** | Frequently one produces next years budget by estimating the years out-turn - total income and expenditure for the year during month 10. (see the out-turn chart at the end of this fact-sheet).

When preparing the figures above the treasurer has adjusted the nine month salaries to 12 months, added an increment of £500 and inflation of 3%. No more recruitment is expected before the end of the year, and none next year. No training has taken place, but some is expected in the last quarter and more next year.

**Budget outline** | The following guide gives a simple list of headings. Note that the main charitable activities have been grouped together as a project, but you may have several projects.

### **Staff costs**

- Salaries N.I. Pensions.
- Recruitment.
- Training.
- Volunteer expenses.

### **Office expenses**

- Book-keeping/pay-roll.
- Bank charges.
- Photocopying.
- Postage.
- Print & stationery.
- Telephone & fax.
- Insurance.
- Hospitality.
- Professional fees/consultancy.
- Depreciation of equipment.

### **Premises**

- Rent & Rates.
- Water & refuse.
- Heat and light.
- Cleaning.
- Repairs and maintenance.

### **Direct charitable expenditure**

- Travel.
- More staff costs.
- More volunteer costs.
- Materials.

- More training.
- More equipment.
- Membership subscriptions
- Publications.
- Marketing and leaflets.
- More property costs.

### **Fundraising**

- Staff, marketing, leaflets.

### **Management and administration**

- AGM and annual report.
- Audit/Independent Examination.

**Income forecast** | The budget contains a forecast of income. Typically, at the start of the year some income has been approved, applications have been made for other amounts and some applications will be made 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. If you are not fairly certain that the grant will be approved do not include it.

In the example in The Carrot (see below) some grants relating to equipment and the Summer Play Scheme have not been approved. The treasurer or finance worker has drawn attention to this and made suggestions about what should be done if these applications are rejected. Other applications outstanding have been excluded. There is no firm rule about this.

Income can be restricted - which means it can only be spent on what the funder has stated. A restricted grant for the Summer Play Scheme could not be spent on the term time activities of an after school club. Unrestricted grants can be spent on whatever the trustees decide so long as it falls within the charity's constitutional objectives.

Funding can also be in the form of grants, service agreements or contracts. (These are described in more detail in CASHFACTS : Fundraising). Briefly, 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. A contract normally stipulates a minimum level of service (maybe 200 children attending the Fun Day and a system for monitoring this). If this number of children do not attend the organisation could be asked to refund all or part of the contract fee. If the charity is not also a limited company the trustees may be personally liable. Curiously, you can normally apply any surplus (profit) from a contract to anything that falls within the charity's objectives.

In law there is no such thing as a service agreement: it is either a contract or a grant. But when they are contracts they tend to be a bit softer than formal contracts - however, check the wording.

It is worth pointing out to trustees what type of funding is being received. In the notes to The Carrot example mention is

made of whether the funding is restricted, unrestricted, grant, service agreement or contract.

**Sales Income** | Generally sales income is unrestricted. When this income is significant you should look at the trend over several years before forecasting next years sales.

Detailed charity cost headings checklist

**It's in the detail** | When drawing up budgets, it is easy to over look items of expenditure. Presented here is a detailed checklist to help you ensure that all items of expenditure are included.

### **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, computer(s), printer, scanner, monitors, modem, additional telephone lines and rental, security devices, anti-glare shields, mouse, keyboard, zip drive or other back-up system.
- Recurrent 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 fund license.
- 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 surveyors etc.) 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 - shutters, locks and burglar alarms.

### **Furniture: 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, notice-board, receptionist desk and chair, staff/department pigeon holes.
- Office. Desks, filing cabinets chairs, notice boards, 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 and meeting room(s). Curtains/blinds, carpets, chairs, tables, flip charts, white boards, OHP, video and TV, kettles, cups, sufficient toilets for large meetings.
- Play areas/creche. 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 costs**

- Recruitment. Advertising, photocopying, postage, panel expenses, applicant expenses, refreshments and venue.
- Salaries, National Insurance, pension, increments and inflation in future years.
- Staff training, external supervisors/consultants.
- Travel expenses.
- Volunteers. Recruitment, insurance, training, travel and meal costs.

### **Do staff grades look reasonable?**

The following provides a very rough outline. The guide book available from local

authority grants officers provides greater detail. The grade awarded depends on the ability of the person to organise their own work and undertake complex tasks:

- AP3/AP5 for admin staff.
- AP6/SO1/SO2 for development workers, advisers and technically qualified staff.
- SO2/PO1 for managers of 2 or 3 people with turnovers of up to £200,000 and overall responsibility for the whole organisation.
- PO2/3 for managers of 5 to 20 people with turnovers of £200,000 plus and overall responsibility for the organisation.
- PO4 for managers of £500,000 turnover. Also people with strong professional qualifications - Chartered Accountants, Solicitors etc.
- PO5 Director of organisations turning over £800,000.

The rates of pay linked to the scales change every year. Ask your local authority grants officer for an up-to-date copy. Staff can rise by one point (increment) a year in a band ie. SO1/SO2. This increase could be automatic or, more sensibly, dependent on good performance.

### **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).

### **Also consider your need for:**

- Building insurance. Essential if you own one, or check lease re: who is responsible?
- Increased cost of working. Relates to costs following a fire etc., i.e. temporary office rent hire, of equipment etc.
- Motor vehicle insurance for volunteer drivers using their vehicles as well as your vehicles.
- Professional indemnity. RRe: 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 type costs**

- Book-keeping/payroll.
- Bank charges.
- Photocopying.
- Postage.
- Print & stationery.
- Telephone & fax.
- Insurance.
- 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 N.I. pension contribution, volunteer expenses.
- Insurances.
- Materials.
- Travel.
- Clothing.
- Cover for sickness/maternity.
- Telephone communications.
- Translation.
- Property costs - rent, heat/light.

Is there enough supervision and quality control for the number of staff?

## Fundraising budgets

Different funders have different needs | Funders require 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.

In The Carrot example it is likely that the Council and Shot will have wanted to see a budget containing all the proposed activities. Because they are funding central costs like salaries and rent they will want to know what other funding is being attracted and whether the overall package is attractive. After all, no one wants to fund an empty building or a worker sitting at a desk. They want real outputs for the community - children attending a Supplementary School, young people in a Homework Club or a Summer Play Scheme.

Often this can only be paid for by a consortium of funders that the voluntary organisation puts together. Funders like Merlin TV Appeal - in the example - who are funding a specific activity, want to know what is going to be achieved with their money and are not interested with other activities like the Youth Scheme during term-time. They need a specific budget for the activity that they are funding. The expenditure under note 21 of the example could have been written as a budget and used to apply to Merlin TV Appeal or Joe Tiger Trust. Even though the Summer Scheme is a discrete activity, it is still possible to include some

of the central costs of the project. Note how a contribution to rent has been included.

When applying to several funders for different schemes one might produce different budgets for each funder. It is often the case that if all the budgets are put together the contribution to overheads will exceed the total of the overheads. However, it is unlikely that all the applications will be successful, and in the unlikely event that they are, it is much easier to return funding, or say less is needed, than it is to raise money when the bailiff is knocking at the door!

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 three years. This is quite easy to do, but a computerised spreadsheet makes it easier. You have to consider inflation for each year, changes in levels of activity, old projects finishing and new project starting each year. Either prepare a page for each year, or three columns next to each other - one for each year.

The Carrot Model budget and notes

**Draft Budget for 1998/9**

<b>Income</b>		Notes
Happy Borough Council	7,000	1
Lottery Charities Board	11,000	2
Nice Trust	5,000	3
Trust for Happy Town	3,000	3
The Laughing Amenity Trust	1,000	4
Joe Tiger Trust	4,000	5
Merlin West TV Appeal	5,000	6
SHOT - SRB	6,500	7
Supplementary School fees	1420	8
Summer Play Scheme fees	1560	9
	-----	
	<b>£45,480</b>	
 <b>Expenditure</b>		
Salaries N.I. Pension	11,430	10
Book-keeper	1,368	11
Training	1,000	12
Rent	6,000	13
Heat & light	400	14
Insurance	420	15
Stationary	600	14
Phone	480	14
Post	150	14
Hospitality	200	16
Independent exam. & AGM	700	17
Volunteer expenses	1,250	18
Supplementary school direct	3,170	19
Youth scheme	6,524	20
Summer play scheme	9,030	21
Equipment and repairs	2,000	22
	-----	
	<b>£44,731</b>	
 <b>Surplus</b>	 <b>£749</b>	

The Carrot is an educational project set-up to provide help with reading, writing, mathematics and black history for inner city children who are failing at state school. A part of its philosophy is to provide a summer scheme to act as a treat to the children who attend during term time. Hence the name Carrot. The project provides two hours of afternoon classes to children three evenings a week during term-time. The scheme has also introduced a homework club for teenagers with a budget for outings to act as a reward, increase horizons and improve social skills. Some of the funding is restricted to specific projects. Separate grants have been made for the Youth Scheme and Summer Play Scheme. In order to track expenditure these cost centres have been

given their own headings in the budget and Bank Analysis Book.

General comments from the Treasurer / Finance Worker

Overall the budget for the year looks OK, but Trustees should be aware that:

The application for £4,000 to the Joe Tiger Trust for the Summer Scheme is still outstanding. They will consider the application in April. Without this funding the Summer Scheme will have serious difficulties, but there is still time to apply elsewhere.

There could be a saving if the co-ordinator had a full time involvement in the Play Scheme as happened last year. This would save £500. In the worst scenarios the Play Scheme could be run for a shorter number of weeks, or with fewer staff and less children. Alternatively, if we ran the scheme without the JoeTiger grant and no other funding, the Carrot as a whole would have a deficit of about £3,000 for the year 1998/9 which we cannot afford.

We have applications outstanding to:

<b>Safer Cities</b>	<b>£2,000</b>	<b>For a burglar alarm and grills.</b>
<b>Tunnel Trust</b>	<b>£4,000</b>	<b>Supplementary School teaching time.</b>
<b>Health Authority</b>	<b>£800</b>	<b>Drugs Awareness week.</b>

Both income and expenditure associated with these grants has been excluded from the budget but will be added if the applications are successful.

### **Notes to 1998/9 Budget**

- 1. Happy Town Borough Council.** £11,000 Co-ordinators salary. Service Agreement Approved. They expect us to run the Summer Play Scheme and the supplementary school for one night a week.
- 2. Lotteries Charities Board.** For Supplementary School two nights a week in term time. Restricted Grant. Approved.
- 3. Grants towards Supplementary School costs.** Approved. Restricted.
- 4. Laughing Amenity Trust.** Two second hand computers and printer for Supplementary School and Youth scheme. Application outstanding.
- 5. Joe Tiger Trust. Grant for Summer Play Scheme.** Application outstanding.
- 6. Merlin TV Appeal.** Summer Play Scheme approved. Restricted Grant.
- 7. SHOT. South Happy Opportunities.** - S.R.B. Three year funding for Youth

Scheme. Approved. Contract. We must provide 60 nights of homework support a year with an average attendance of 10.

**8. Supplementary School fees.** 20 children x 50p x three nights a week x 13 weeks three terms = £1170 plus £250 contribution to electric, phone and stationery etc.

**9 Summer scheme fees.** 25 children x £2.50 x five days x five weeks. = £1560.

**10. Co-ordinators / teachers salary.** SO1 pt 29 - £22,992 plus 10% employer's National Insurance contribution. Adjusted to 15 hours a week. £11,430.

**11. Book-keeping.** One day a month @ £15 per hour - £1,260 plus pay roll administration £108.

**12. Training.** General provision for allocation by the committee.

**13. Rent.** As current lease £8,000 less contributions of £2,000 which appear in the subsidiary budgets for those projects.

**14. Estimates.** Based on last years costs plus 3% for inflation and 10% extra for extra activities - Youth Evenings.

**15. Insurance.** Public liability, employer's liability and contents up to £5,000. Based on last years invoice plus 3 per cent inflation. The Youth Evenings can be contained within the existing cover.

**16. Hospitality.** New heading. Office tea and coffee etc. £4.00 per week.

**17. Independent Examination.** £500, AGM £50, Annual Report £150, Total £700.

**18. Office volunteer.** One day per week, for 50 weeks @ £5 per day.

**19. Supplementary School.** Direct costs:

Volunteers expenses

Two volunteers, £3.20 per volunteer per session.

Two x £3.20 x three nights a week x 13 weeks x three terms = £750

Refreshments for children when they arrive at 4pm from state school. 50p x 26 children x three nights a week x 13 weeks x three terms = £1520

Materials: Paper, pencils etc. £400

Books: Additions top reading scheme £500 **Total £3170**

**20. Youth Scheme.** Membership 15 young people.

Open two evenings a week for 40 weeks a year.

Every four weeks there will be six homework evenings and two outings (evenings) for those who have attended five out of the six homework evenings.

<b>Youth worker</b>	<b>2400</b>	<b>a</b>
<b>Rent</b>	<b>1200</b>	<b>b</b>
<b>Admissions</b>	<b>1600</b>	<b>c</b>
<b>Equipment.</b>	<b>500</b>	<b>d</b>
<b>Volunteers</b>	<b>384</b>	<b>e</b>
	-----	
	<b>6384</b>	

a. Youth worker. £30 per evening.

b. 60 evenings £20 per evening no rent on evenings when there is an outing.

c. 17 x £5 x 20 outings Volunteer, youth worker and 15 young people.

d. Two games programmes and P180 chip.

e. £3.20 x three nights x 40 weeks.

Contract states an average of 10 young people must attend each session and there must be 60 sessions in the year.

## **21. Play scheme**

The Play Scheme takes up to 25 children and will run for five weeks.

The Scheme's Co-ordinator will be employed for seven weeks at £180 per week to cover the time setting up the Scheme and writing the report for funders. Two play leaders will be employed at £150 per week.

We hope to recruit three volunteers.

		Notes
<b>Wages</b>	<b>2760</b>	<b>a</b>
<b>Book keeper and payroll</b>	<b>180</b>	<b>b</b>
<b>Volunteers</b>	<b>375</b>	<b>c</b>
<b>Rent</b>	<b>800</b>	<b>d</b>
<b>Electric HLP</b>	<b>50</b>	<b>e</b>
<b>Insurance</b>	<b>0</b>	<b>f</b>
<b>Telephone</b>	<b>100</b>	<b>e</b>
<b>Post stationary etc.</b>	<b>100</b>	<b>e</b>
<b>Refreshments</b>	<b>465</b>	<b>g</b>
<b>Photographs</b>	<b>100</b>	<b>h</b>

<b>Transport/coaches</b>	<b>1000</b>	<b>i</b>
<b>Admissions</b>	<b>2200</b>	<b>j</b>
<b>Workshops</b>	<b>500</b>	<b>k</b>
<b>Equipment/materials</b>	<b>400</b>	<b>l</b>
	-----	
	<b>9030</b>	

- a** Wages 1 x 7 weeks x £180 + 2 x 5 x £150
- b** Quote from Karen
- c** Volunteers 3 @ £5 per day x 5 weeks = £375
- d** 5 weeks @ £160 per week
- e** Notional flat fees paid to Carrot
- f** Insurance. No cost because covered by Carrot
- g** Refreshments £3 per child/adult. £3 x 31 people x 25 days
- h** Photographs Same as last year
- i** Two outings - Seaside and Mega land @ £500 each
- j** Three activities requiring entrance fees a week with average fees of £4 per child, £6 per adult. Add an extra £5 per head for Megaland.
- k** 5 music/craft workshop leaders with equipment and materials
- l** Board games, minor sports equipment and art materials.

## 22. Equipment and repairs

General maintenance call-outs re: computers and photocopier £300.

Purchase of two second-hand computers and one printer to be used by Youth Scheme and Supplementary School £1,700.

**Total £2,000.**

Forecast out-turn (mentioned above)

	9mth Actual	Forecast 12 Mth Out turn	Next Years Budget
Salaries	22,000	29326	30720
Recruitment	1200	1200	0
Training	0	400	600

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