

Voluntary and Community Action

Budgeting for an Application

Funding Information Sheet No. 11

February 2008

A budget is an estimate of how much money a group needs to spend and raise in order to carry out its work. This information sheet explains why a group needs a budget and how to go about preparing one.

Funding Information Sheets

The Funding Advice Service has produced a series of Funding Information Sheets on:

- the different types of grants available
- good practice when applying for funding
- sustainable fundraising

These are available to download from our website or can be obtained from our office.



What is a budget?

A budget is a prediction on paper, as accurate as you can make it, of what you are likely to earn/raise and spend in the coming year. Sometimes, for planning or funding purposes you might need to be able to do this for the next three to five years.

It has a lot of uses. It is:

- a fundraising aid which gives you the financial information needed for grant applications
- the money part of a project plan
- a financial statement for the future indicating a group's viability
- a forecast that helps identify weak areas and allows you to make plans to overcome these
- a management tool which allows you to control the group's income and expenditure.

2. A budget will show the management committee of the group exactly how much work they can fund with the money they already have, and how much they need to raise from other sources.
3. A budget also shows funders and other organisations that the group is professional and planning ahead. It will show funders that a group really does need funding. Few funders will support groups who do not know how much money they really need.
4. Setting a budget will also help prevent confusion within the group. The whole committee should decide what they should do over the next year, agree some clear aims and agree a budget to match.

Why does a group need a budget?

There are many reasons why a group needs a budget:

1. Groups need to be aware of how much their work is going to cost. Most groups do not have an unlimited pot of money to finance their activities, so they will need to fundraise.

Will a budget give us extra work?

Especially for a newly established group that has not been spending much money, putting the first budget together will take longer than in the future. But next year, you will be able to look at what you spent last year and that will help you set the budget.





**A BUDGET IS A
FINANCIAL PLAN
SHOWING INCOME
(MONEY COMING IN)
AND EXPENDITURE
(MONEY GOING OUT)
FOR THE YEAR
AHEAD**

1. The Treasurer may find that there is a bit more work, but at least he/she will be able to tell the group exactly what their financial position is, which is vital!
2. For a budget to work well, the committee also needs to review what is actually spent with what was predicted in the budget. This might mean that committee meetings are a few minutes longer.

Preparing the budget

If you are established you will have the basis of information from previous years to help you with financial predictions. There are four stages which you need to go through in order to plan a budget.

Stage One

You need to forward plan -

- what are you going to do over the next year to three years?
- is it new work or are you a new organisation?

Once you have decided this then you can start working out the cost of doing the work.

This can be done in a few different ways - ask groups who are doing similar work/activities, obtain quotes from relevant companies e.g. gas, electricity, telephone etc and find out the cost of hiring rooms, renting or buying premises.

Stage Two

Using the forward plan done in stage one you begin to draw up your draft budget. You need to separate it into headings and think carefully about your spending in each one.

You might find these headings useful:

Premises

Rent, rates, heating, lighting, insurance, cleaning, building maintenance

- how much do you currently spend and what quotes do you have for likely costs?
- are any major repairs likely to be necessary?

Will there be an increase? - this could be due to cost of living, new developments or expansion of the project.

Staff costs—including sessional workers and volunteers

- who do we / want to employ?
- how much are they / should they be paid?
- what wage increases are likely for the time of this budget? Include increments and cost of living rises in this calculation.

When calculating staff costs don't forget to include Employers' National Insurance, pension costs, payroll, travel expenses, recruitment costs and training/supervisory support costs.

Compare to previous year's costs. You need to be able to justify any new work you want to undertake and be as realistic as possible about additional costs.

Remember that employing new members of staff will have implications to your everyday running costs and asset costs - they will need somewhere to work and equipment/a budget to do it with!

If employing staff for the first time you must make sure you have considered whether the management committee has the expertise to do this properly or whether they need training or

outside help - this will also need to be budgeted for.

Volunteers also have cost implications. You will need to allow for training and all out of pocket expenses e.g. travel.

Assets

- do you need to buy or replace any fixed assets.

Assets include desks, chairs, bookcases, computers and other pieces of equipment or furniture you need to do your work.

Administration / other costs

Printing, postage, stationary, telephone, equipment and IT maintenance, meeting costs, audit/independent examiners fees, event costs.

Try and be as realistic as possible - many of these costs can mount up especially if you do regular mailings as part of your work.

Remember to look at your spending on maintenance - if you are spending a lot of money on maintaining old equipment, which is struggling to cope with the amount of work that you do, it may be time to buy new, which will have an impact on the assets section of your budget.

Stage three

- look at the draft budget with the management committee
- everyone concerned with the running of the organisation and responsible for its work should look carefully at the budget to make sure it is realistic
- it is bad practice if your administration budget seems big in comparison to your staff costs
- make sure any increase in costs is justified

- don't set an unrealistically low budget in the hope that it will be easier to attract funding - you need to be able to carry out the work you have raised money for
- make sure that you can relate the budget to the work you are doing and can separate the costs out if you run more than one project/type of activity.

Stage four

- use the budget to help plan your funding strategy. It will depend on the amount of money you need as to who the most appropriate funders might be
- you need to make sure that previous year's accounts are in order and that your financial systems are working properly
- you might need to get your accounts audited. It is important to demonstrate to funders that you are able to manage money
- you need to make sure that you have appropriate financial systems in place. The accounting system you use to manage £3,000 will probably not be adequate to manage £30,000
- remember that you will have to adapt your budget to the funder you are applying to. Some times they might have space for budget on the application form and you need to be clear about whether this should be for all your work or just what you are asking them for
- the running costs should be spread between the different projects/activities rather than asking funders to support running costs on their own.



MAKE SURE YOUR FIGURES ARE BROKEN DOWN (IN A FUNDING APPLICATION) INTO SEPARATE ITEMS OF EXPENDITURE – IT MIGHT NOT BE GOOD ENOUGH JUST TO SAY 'WE NEED £3,000 TO KEEP OUR SERVICE GOING'.

YOUR GROUP OR COMMITTEE SHOULD LOOK AT YOUR BUDGET EVERY FEW MONTHS TO CHECK SPENDING AGAINST INCOME AND TO REVIEW YOUR FUNDRAISING ATTEMPTS IF NECESSARY. YOUR BUDGET MAY NEED TO BE REVISED.

What should go under the Expenditure heading?

Everything that the group will spend money on. You might want to divided the expenditure up into two sections:

Revenue costs include:

Wages, pensions, postage, telephone bill, insurance, photocopying, gas & electric bills, training costs, insurance, volunteers expenses, rent of premises.

Capital costs, include:

Vehicles, computers, chairs, desks, buildings, telephones, bookcases, refurbishment costs, kitchen crockery, play equipment.

What should go under the Income heading?

All the money that the group is expecting to be given to them. You might want to use the following headings in the income section:

Grants

Money given to the group from grant making trusts, the National Lottery distributors, and other bodies. Many grants can only be spent on certain activities. This type of grant is also known as restricted funding.

Service Level Agreements

Health authorities, local authorities and other statutory bodies may

also provide funding as part of a service level agreement where for a certain amount of money your organisation provides a particular service.

Donations

Money that is given to your organisation, mainly from individuals. It can be in many forms such as cheques, cash, standing orders etc.

Fundraising

Money that you have raised by putting on an event, doing a tin collection at the local supermarket, putting on a raffle or jumble sale, running the marathon etc.

Fees

Some groups have a small membership fee. Other groups, specially coffee clubs and youth clubs have a small entry charge.

Interest

Money in a bank account can gain interest. (If you have any money!)

Further Reading

Community Accountancy Self Help and Community Matters have produced Community Money Matters, a "comprehensive guide to financial management and accounting for small charities and community organisations". Written from experience by a community accountant.

<http://www.communitymatters.org.uk/resources/docs/Moneymatters.pdf>.



FULL COST RECOVERY
WHEN BUDGETING FOR AN APPLICATION, IT IS WISE TO CONSIDER FULL COST RECOVERY, WE HAVE PRODUCED A RESOURCE SHEET, EXPLAINING THIS IN FULL.

Voluntary and Community Action

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How can our Funding Advice Service help?

We can help you discover which grant making trusts, foundations or funders are the most appropriate for your organisation to approach for funding, help you to fill out the application form or provide help and support with any funding related issues.

Please give us a call on 01525 850559 to arrange a meeting so we can guide you through the maze of funding opportunities available.