How to write an income and expenditure budget

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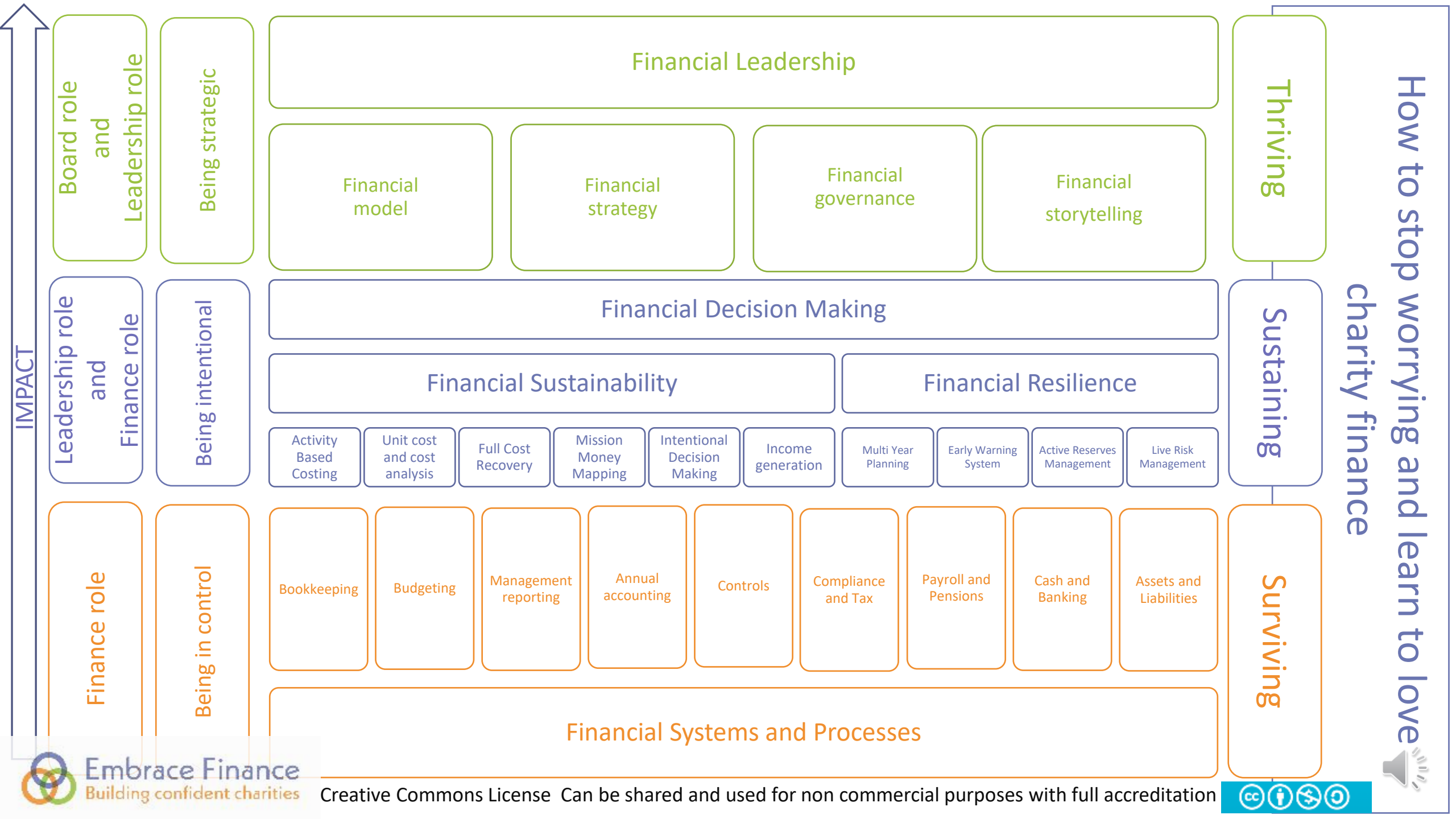

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Today

- What we talk about when we talk about budgeting?
  - What?
  - When?
  - Why?
  - How?
  - What does good look like?
- What? So what? Now what?
- Is this contributing to our sustainability?
- Common icebergs

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What is budgeting?

- A budget is our plan in numbers
- A budget tells us if we are going to break even, build sustainability or go bust
- A budget is our path through the future

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Why we should all be budgeting right now

- Our budget is our strategy, or plan, in numbers
- As the world changes, our plans change
- And, as our plans change, our numbers change
- So, now, given all the uncertainty around, is a good time to revisit our numbers

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What does good look like?

- When it aligns to the real world
- When it is activity based and captures true costs
- When we can determine our internal subsidies
- When it contributes to our ongoing sustainability

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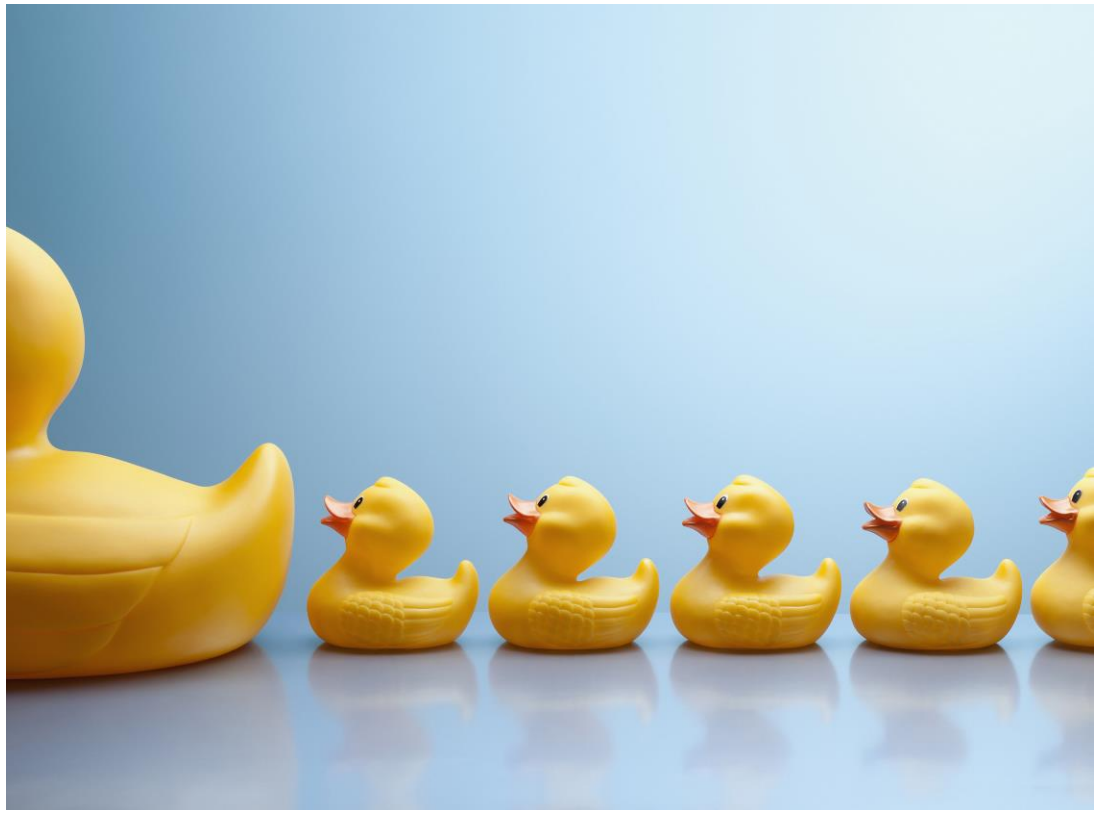
How to start?

Expenditure

- Start with your planned activities
- List the various expenditure categories
- List your cost centres
- Make a note of your assumptions
- Allocate direct costs to activities
- Apportion all support costs across activities
- Include a contingency

Income

- Include known income
- Include target income



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Who to involve

It takes a whole village to raise a child, and a whole organization to build a sustainable budget

Who is responsible?

Who is accountable?

Who is supported?

Who is consulted?

Who is informed?

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How a budget works

	RESTRICTED				UNRD	TOTAL
	Grant/Activity 1	Grant/Activity 2	Grant/Activity 3	Total	Total	£
Income						
Income from grants and donations						
Grants	1,000					1,000
Grant 1		1,000				1,000
Grant 2			1,000			1,000
Grant 3						
Donations						
Donations						
Gift aid						
Income from charitable activities						
Contracts						
Consultancy						
Income from other trading activities						
Fundraising events						
Sponsorship						
Investment income						
Interest						
Total Income	1,000	1,000	1,000	0	0	3,000
Expenses						
Fundraising costs						
Charitable activities						
Direct costs						
Project costs	1,000	400	300			1,700
Salary costs		300	300			600
Support costs						
Overhead costs						
Accounting and IE	100	100	100			300
Heat and Light	100	100	100			300
Insurance	100	100	100			300
Governance costs						
Trustee expenses						
Total Expenses	1,300	1,000	900	0	0	3,200
Net Income	-300	0	100	0	0	-200

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Questions to ask ourselves:

1. Is this organization sustainable?
2. Which activities break even?
3. Which activities have a net surplus?
4. Which have a net deficit?
5. How much is in reserves?

	RESTRICTED				UNRD	TOTAL
	Grant/Activity 1	Grant/Activity 2	Grant/Activity 3	Total	Total	£
Income						
Income from grants and donations						
Grants	1,000					1,000
Grant 1		1,000				1,000
Grant 2			1,000			1,000
Grant 3						
Donations						
Donations						
Gift aid						
Income from charitable activities						
Contracts						
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Support costs						
Overhead costs						
Accounting and IE	100	100	100			300
Heat and Light	100	100	100			300
Insurance	100	100	100			300
Governance costs						
Trustee expenses						
Total Expenses	1,300	1,000	900	0	0	3,200
Net Income	-300	0	100	0	0	-200

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Spotlight on the numbers

- What is the true cost of each activity?
  - Direct costs + shared costs + support costs
  - Art supplies + CEO time + heat and light
- Have we included all staffing costs?
  - What about Gross + NIER + PENER
- Have we included inflation?
  - What rate? CPI or RPI?
  - Where to look https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/september2022

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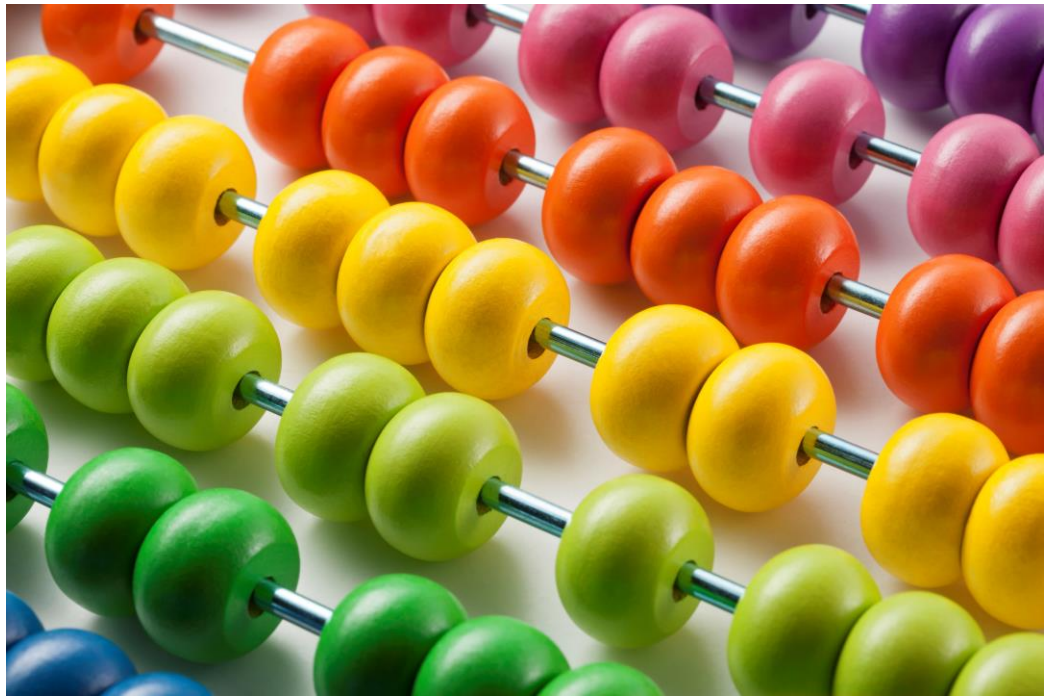
Not all costs are the same

- **Direct** costs are those costs we incur in delivering an activity
- They are wholly and solely attributable. E.G. art supplies
- **Shared** costs are those costs we incur in delivering several activities
- They apply to several activities . E.G. CEO costs
- **Support** costs are costs incurred whether we deliver activities or not
- E.g. Overheads such as heat and light, accountants fees



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A note on salary costs

1. The full annual cost is the annual salary plus NIER (14%) plus PENER (3%)
2. The full day cost is the full annual cost divided by the number of working days per year
3. The number of working days might be (5*52 =260 working days per year) - (25 days annual leave) - 8 bank holidays = 227
4. The full hour cost is the day cost divided by 7
5. E.g. 30,000 * 117/100 =

CEO salary is £30k per annum

Full salary = £30,000 * 117/100 = £35,100

Full day cost = £35,100 / 227 = £154.63

Full hour cost = £22.09

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Allocating direct costs

- Based on usage – think Ronseal
- Shared costs are also direct costs

Apportioning overheads

- Which categories doe they apply to?
- Determine a basis of apportionment
- E.g. income, resource usage, FTE, floor space

This example:

- Direct costs based on actual costs
- Support costs based on income

	RESTRICTED				UNRD	TOTAL
	Grant/Activity 1	Grant/Activity 2	Grant/Activity 3	Total	Total	£
Income						
Income from grants and donations						
Grants	1,000					1,000
Grant 1		1,000				1,000
Grant 2			1,000			1,000
Grant 3						
Donations						
Donations						
Gift aid						
Income from charitable activities						
Contracts						
Consultancy						
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Total Income	1,000	1,000	1,000	0	0	3,000
Expenses						
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Salary costs		300	300			600
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Accounting and IE	100	100	100			300
Heat and Light	100	100	100			300
Insurance	100	100	100			300
Governance costs						
Trustee expenses						
Total Expenses	1,300	1,000	900	0	0	3,200
Net Income	-300	0	100	0	0	-200

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How to budget in times of uncertainty?

- If there are options ahead of us in the real world then there are options in our numbers too
- What are our possible finance futures?
- What are our most reasonable best case and worst case scenario?
- What do they look like in numbers? Do we need a best case and a worst case?
- How do we know when to move from one to the other?

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	WORST CASE						BEST CASE					
	RESTRICTED				UNRD	TOTAL	RESTRICTED				UNRD	TOTAL
	Grant/Activity 1	Grant/Activity 2	Grant/Activity 3	Total	Total	£	Grant/Activity 1	Grant/Activity 2	Grant/Activity 3	Total	Total	£
Income												
Income from grants and donations												
Grants	1,000					1,000	1,000					1,000
Grant 1		1,000				1,000		1,000				1,000
Grant 2			1,000			1,000			1,000			1,000
Grant 3												0
Donations												0
Donations											1,000	1,000
Gift aid												250
Income from charitable activities												
Contracts												
Consultancy												
Income from other trading activities												
Fundraising events												
Sponsorship												
Investment income												
Interest												
Total Income	1,000	1,000	1,000	0	0	3,000	1,000	1,000	1,000	0	1,000	4,250
Expenses												
Fundraising costs												
Charitable activities												
Direct costs												
Project costs	1,000	400	300			1,700	1,000	400	300			1,700
Salary costs		300	300			600		300	300			600
Support costs												
Overhead costs												
Accounting and IE	100	100	100			300	100	100	100			300
Heat and Light	100	100	100			300	100	100	100			300
Insurance	100	100	100			300	100	100	100			300
Governance costs												
Trustee expenses												
Total Expenses	1,300	1,000	900	0	0	3,200	1,300	1,000	900	0	0	3,200
Net Income	-300	0	100	0	0	-200	-300	0	100	0	1,000	1,050

How to manage the budget

- Is life as we expected?
- Monthly actual v budget variance analysis
- What | So What | Now what?
- What to do when the numbers go the wrong way?

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Questions to ask ourselves

- What is your confidence level in your current budget?
- Is it a deficit, breakeven or surplus budget?
- Is it activity based?
- Does it capture the full costs?
- Are reserves expected to go up or down?
- Does it need reforecasting?
- Do we have the scenarios that we need?
- Are we building a sustainable future?

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The limitations of budgeting

- Out of date instantly
- Can give false sense of security
- Can encourage titaniccing
- Only one part of good decision making
- Full cost recovery is a break-even strategy
- It is not a sustainability strategy
- Paperclip fundraising = paperclip accounting

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Not all heroes wear capes some manage budgets for small and medium charities

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