

Resources for **small groups**

Budgets for small groups

15 steps to effective financial control

This Fact Sheet is aimed at very small groups that have:

- Both income and expenditure of less than £10,000
- No staff
- No premises
- Limited financial expertise

Whatever the size of your group, it is vital that you set a budget before the start of each financial year and monitor progress against that budget. This will help ensure that your expenditure stays within your limited resources.

In the smallest of groups the procedures adopted for doing all this do not need to be sophisticated to be effective but they must be present. Whilst it is likely that the Treasurer will be responsible for carrying out just about all the steps described below, you must remember that all trustees are jointly responsible for the management of a group's money.

15 steps to effective financial control

Step 1 Set a timetable

If you don't do this you may find you do not have a budget for the new financial year or that you have to prepare one in a hurry and miss out a lot of information. So leave yourself plenty of time to complete the exercise. This means that if, for example, your financial year starts on 1 April it is not a bad idea to start work on the budget in January.

Step 2 Gather your information

Identify all the items you might need to spend money on, all your sources of income and all the projects for which you will need to prepare a separate budget.

Next gather information that might help you work out how much you might expect to receive or spend. This is likely to involve looking at past accounts, your progress against your current year's budget, price lists from your suppliers and the experience of other, similar, voluntary groups.

If you are preparing a budget for a new group or project you will have to rely much more on the latter two sources of information.

Remember that the better the information you are working from, the more accurate your budget will be. This makes it well worth investing time at this stage.

Step 3 Put together an expenditure budget

From the information you have gathered, estimate what you need to spend on each item of expenditure. Break this down into individual projects if you have a need to account for them separately – e.g. because you receive some funds that can only be spent on a specific project.

Exactly what items you need to consider will depend on what you do but amongst the common items a small group is likely to have to consider are:

- Postage
- Telephone, fax, internet charges
- Printing, stationery and photocopying
- Computer consumables
- Bank charges
- Publicity material
- Volunteers' (including Management Committee) expenses
- Newsletter costs
- Event costs
- AGM costs
- Costs of fundraising

Step 4 Work out what income you need to cover expenditure

Once you have identified and calculated all your expenditure, total it up to find out how much income you need to cover it all. Again, remember to separate out the expenditure on any projects for which you receive separate funding.

Step 5 Work out what income you have secured

Go back to your research and work out how much money you know you will receive or can reasonably expect to receive over the next year. This might include:

- Grants
- Membership fees
- Donations
- Income from fund raising events
- Bank interest
- Surplus income carried over from previous periods

Step 6 Work out what extra funding you need

Once you have estimated what your total income and expenditure might be, you will know whether you are likely to have a surplus or shortfall for the year. Again, make sure you do this for individual projects, if applicable.

If you predict a surplus, fine – but do check your figures to ensure it is really a surplus.

If you predict a deficit, you must decide how it can be eliminated – you must aim at least to break even, i.e. ensure your expenditure equals your income.

One obvious way will be to increase your income by:

- Applying for grants
- Increasing membership fees
- Holding additional fund raising events
- Increasing charges for services or entry to events

If you are proposing any of these things, you will need to get them approved by your Management Committee before you can finalise the budget. If you are applying for grants you will have to meet the deadlines of the awarding organisations. These are both good reasons for an early start on preparing the budget.

Step 7 Revise the budget so that all expenditure is covered by income

If it is not possible to increase income, then the only option to get the budget to balance is to reduce expenditure. Go through each item of expenditure and ask yourself the question, "Is it necessary to spend this much?" Work out the implications of any cuts that you make – will it adversely affect what you can do during the year?

If what you plan to do will be severely affected by cuts in the budget, you will have to bring it to the attention of the whole Management Committee. Present them with options so that reasoned decisions can be made – especially if some planned activities might have to be shelved.

Step 8 Get the budget approved

Once you have finalised the draft budget, it should be presented to the whole Management Committee for its approval. This is likely to be a matter for the last meeting of the financial year.

Step 9 Divide up the budget for monitoring

It can be useful to allocate income and expenditure to accounting periods so that it is easy to determine at any point in the year whether you are ahead or behind budget. The most common way of doing this is to assume that all income is received and expenditure incurred evenly throughout the year and divide up the annual budget into monthly parcels by dividing by 12.

Step 10 Write up the books

The information you will use to monitor income and expenditure will come from your books of account. It is therefore vital that you keep these up to date. Failure to do so will mean that you fail to include items of income and expenditure in the figures you compare with your budget. As a result you will get a false impression of your financial position. This in turn could result in you taking actions that you would not have taken if you knew the true picture – e.g. spending money you thought you had but which had already been spent.

Step 11 Prepare your financial report and investigate variances

Periodically – at least once a quarter – you should compare what you have actually received and spent with what you budgeted. This can be done by preparing a simple report such as that shown at the end of this Fact Sheet.

If there are differences, you should find out why they have incurred.

Step 12 Present your report to the Management Committee

As financial management is the responsibility of all the members of the Management Committee, a report on the finances should be a standard feature on any agenda. Again, it is suggested that Management Committees should receive a financial report – usually that prepared during Stage 11 - at least quarterly.

Members of the Management Committee should be concerned if they do not receive a financial report on a regular basis. Ideally they should have some input into the design of the report they receive i.e. telling the Treasurer what they want rather than accepting, without question, what the Treasurer provides. This ensures that information is provided in a way that members understand.

Step 13 Answer questions

When presenting the financial report, the Treasurer should actively seek questions from other members of the Management Committee. Not only does this confirm that they understand and are interested in the group's finances but also can produce ideas that the Treasurer has not thought of.

Step 14 Act on feedback

The review of actual performance against budget might highlight a need to change what the group had planned to do. It might, for example reveal that:

- Certain expenditure needs to be curtailed
- More fund raising is required
- The group can do more than it originally planned as it has money to spare.

If such a need is identified, ensure the whole Management Committee is committed to the action and that it is carried out.

Step 15 Do it all again for the next year!

Example of a Financial Report

The Small Group
Financial Report for The Period: 1 April to 30 June 2000

Item	Annual Budget £	Period Budget £	Actual Spend to Date £	Difference £	Explanation
<u>INCOME</u>					
Lottery Grant	8,000	2,000	4,000	2,000	Grant for 6 months received in advance.
TOTAL INCOME	8,000	2,000	4,000	2,000	
<u>EXPENDITURE</u>					
Stationery & Post	800	200	300	(100)	Letterhead paper printed to give stock for whole year.
Event Costs	5,400	1,350	900	450	Events programme started late.
Volunteers' Expenses	1,200	300	500	(200)	Larger number of volunteers than anticipated was required to set up and run events programme.
AGM	120	30	NIL	30	AGM scheduled for December.
Telephone	480	120	120	NIL	
TOTAL EXPENDITURE	8,000	2,000	1,820	180	
SURPLUS/ DEFICIT	NIL	NIL	2,180	2,180	

Notes:

1. A budget for the period to 30 June has been calculated by dividing the annual budget into 12 and multiplying by 3. This enables a fair comparison with the actual expenditure to be made. Note, however, that this is a fairly crude way of dividing up the budget, as some expenditure such as the AGM is not spread equally throughout the year.
2. The overspend on stationery would not cause concern at this stage as the forecast is that the group will stay within budget for the year as a whole.
3. As the group's events programme started late, one would expect that the associated costs would be lower than the original budget. The £450 saving has been built into a forecast for the year. The committee should be concerned if this lower figure is exceeded.
4. The volunteers' expenses figure should give rise to concern. It is clear either that the budget has been underestimated or that there has been a lack of control over what has been spent. The committee would need to get a full explanation of what has happened and institute some action to rectify the situation.

