

BUDGETING

Learn how to create an annual budget and why it's so important



What is an annual budget?

An annual budget is an estimate of what your likely 'income' and 'expenditure' will be for the upcoming year. Organisations do this at the beginning of the year to ensure that there are enough funds for activities throughout the year and that resources are allocated appropriately.

The annual budget process also presents your organisation with an important opportunity to consider and agree priorities as you allocate your resources.

Why is a budget so important?

It will help you...

- make sure your income will at least match, or better, exceed your expenditure
- manage your finances and give your organisation a degree of calculated flexibility with room to manoeuvre and deal with unexpected changes
- monitor your progress and plan for the future
- funders will require reassurance that you will be able to run your organisation effectively and have carefully thought about spending their money to meet your organisation's charitable aim

Who should be involved?

Anyone involved in the management of operations or board of directors should be involved in the annual budgeting process. Begin with section/department heads and involve other staff when necessary.

Timing of budget activity

At least two or three months before the beginning of your financial year you will want to start thinking about the budget for the upcoming year. The budget typically corresponds to your financial year, which should be selected to reflect your organisation's operating cycle. Typically, a financial year runs from 1 April to 31 March the following year. However, you can establish your own 'financial year' based on your specific group's cycle.

Spotted Tip: Keys to effective budgeting

1. Good budgeting has some flexibility and allows you to deal with unexpected changes in a controlled way.
2. Your budget should be led by priorities, not by the finances
3. Do not build your budget on past patterns; always start from scratch with the aims of your organisation in mind
4. Your budget needs to be realistic and honest in terms of your income

Finance Buzzwords

Budget

An estimate of income and expenditure for a set period of time

Income

The amount of money (or money equivalent) received in exchange for providing a service (e.g. subscriptions, donations, grants, sponsorship)

Expenditure

The amount of money spent (e.g. expenses, payments, overheads, core costs)

Financial Year

A one-year period of time that an organisation uses for reporting and budgeting



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What to include in an annual budget?

As previously mentioned, an annual budget is a comparison between your likely expenses and planned income. Below are a list of typical expenses and income you might see.

Note: if you choose to do a budget over 2+ years remember to add inflation increment (normally between 3-4%)

Typical Income

1. Subscriptions/member payments
2. Service contracts
3. Events
 - a. Ticket sales
 - b. Concessions
 - c. Raffles
4. Fundraising
 - a. Donations & in-kind support
 - b. Grants
 - c. Sponsorship
 - d. Online fundraising sites
 - e. Trust & foundations
 - f. Local Council & government funding

Typical expenses

1. People
 - a. Salaries and National Insurance
 - b. Advertising/recruitment
 - c. Staff training
 - d. DBS Checks
 - e. Pensions
2. Facility Costs
 - a. Repairs & maintenance
 - b. Rent
 - c. Telephone and internet
 - d. Security
 - e. Storage
 - f. Heating and electricity
3. Contingency
 - a. Insurance
 - b. Legal fees
4. Operations
 - a. Postage and stationary
 - b. Equipment
 - c. Membership fees
 - d. Travel expenses
5. Marketing
 - a. Website
 - b. Promotional materials
6. Financial
 - a. Bank fees
 - b. Audit costs

Basic example of an annual budget

Income		Expenditure	
Membership fees	£20	Staff wages	-£10
Fundraising activities	£20	Coach fees	-£10
Grants	£20	Rent	-£10
Sponsorship	£20	Utilities	-£10
Gifts	£20	Insurance	-£10
Bank interest	£20	Repairs	-£10
Total income	£120	Marketing	-£10
		Travel/food	-£10
		Reserves	-£10
		Total expenditure	-£90

Annual surplus/deficit **£30**

This is an example budget, and it is provided only for general information. It is not intended to address your specific requirements and does not constitute advice from Sported.

[Download a detailed example annual budget](#)



Cash flow forecast

Everyone knows that if an organisation has more expenses than income, sooner or later it will find itself in trouble. However, **even if income matches or exceeds expenses in a given year, the cash from the income may not arrive in time to pay the bills as they are due.** You need to make sure you have enough money available at the times you need it. Therefore, a cash flow forecast is vital to develop alongside your annual budget.

Common cash flow problems

Community-based organisations can find it difficult, as many items are not certain. There are a number of common cash flow issues:

- If the organisation is new, it may not generate much income initially
- Costs appear at the start of the year and income is provided throughout the year
- Your income can be provided retrospectively or you can rely on payments which are often late
- Instability of funding sources
- Unpredictable expenditure (e.g. older equipment breaking)

Sported Tip: Anticipate fluctuations

The types of questions asked to anticipate these situations vary from organisation to organisation. But as a team you can try and brainstorm your confidence in each line item. For most budgets it is advisable to try and build up reserves of between two months for projects and twelve months income for organisational costs.

What does a good cash flow forecast do?

It breaks down your income into monthly figures to ensure you can cover your expenses.

It will then help you to identify and resolve potential problems. As the year progresses, cash flow projections can be updated. By comparing budgeted cash flows to actual deposits and expenditures, understanding the nature of any variances, you can strengthen your ability to accurately anticipate cash flow in the future

[Download a cash flow forecast statement example](#)

Remember the budget is there to help you manage your organisation better and it challenges you to think about your management and delivery. Don't be afraid of the language and go for it.

Need more guidance?

If you have any questions about this guide or would like to work with a volunteer who specialises in financial management, [request volunteer support from The Sported Hub](#).

