

How to write an income and expenditure budget which builds financial sustainability

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28 SEPTEMBER 2023

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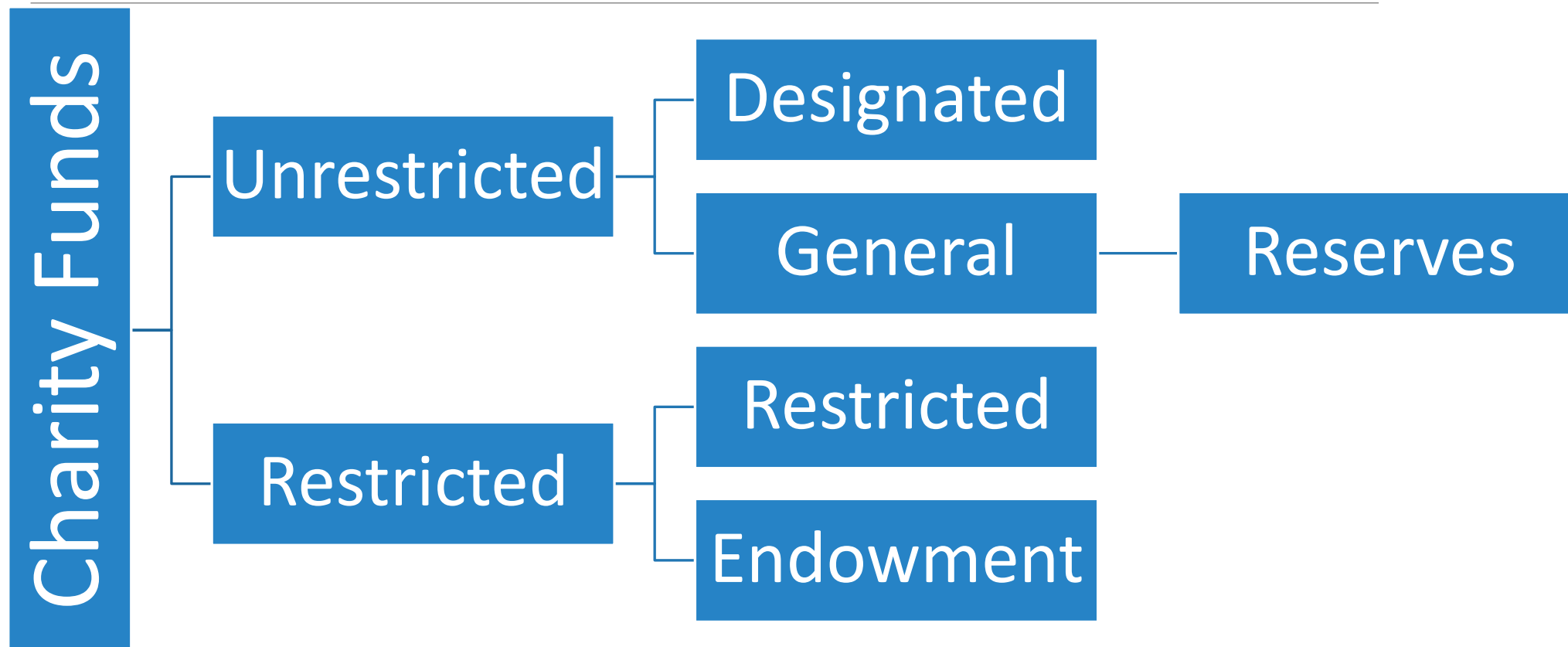
Objectives

By the end of the session, you should...

- Understand the benefits and limitations of budgeting
- Have some ideas on how to draft budgets
- Understand how budgeting can contribute to sustainability

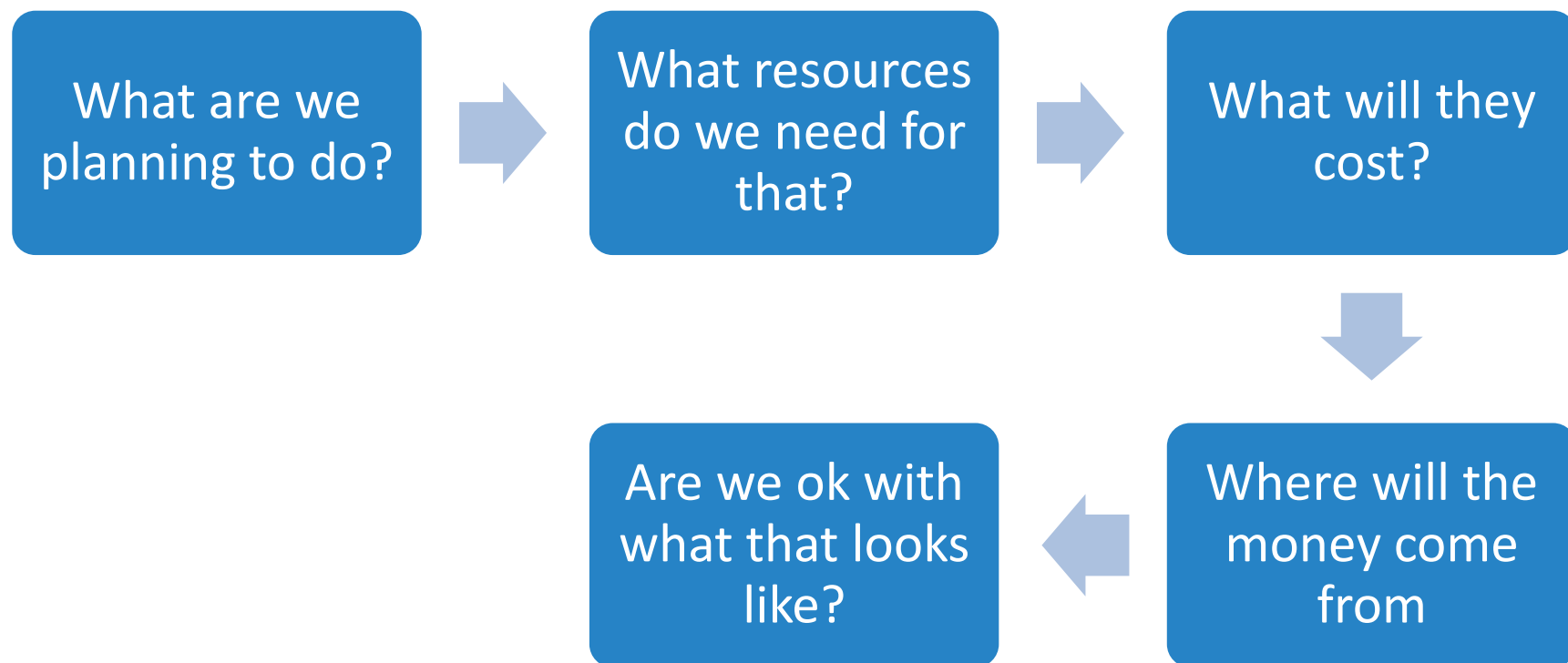


Key accounting concept | Funds



What is a budget?

Translation of your Plan into monetary terms:



Why budget?

budget => path through the future

budget => break even, build sustainability
or go bust

Tool to track performance and allocate
resources to organisation's priorities

flexibility to change if something turns up

Gives funders confidence

Helps trustees fulfil their duties



What does good look like - for an organisation budget?

aligns to the real world and is a mirror of our workplan

shows us which activities are making a surplus and which are making a deficit

gives us an overview of the whole organisation on one page

shows us whether reserves are going up or down



Who to involve

A budget can't be prepared by just one person

We need to speak to the people responsible for doing the work

Get people involved to build a sustainable budget



Different types of budgeting processes

Incremental budgets

- Based on previous year with % increase for inflation
- Upside – easy
- Downside – doesn't reflect life

Zero based budgets

- Start from a blank piece of paper. All exp has to be justified
- Upside – more intentional
- Downside – time consuming

Activity based budgets

- Top-down budgets that determine cost drivers and cost centres and present activity by activity
- Upside – shows full cost and internal subsidies
- Downside – technical and time consuming

Value based budgeting

- All expenditure and income is considered in terms of the (social) value they create
- Upside – mission centric
- Downside – difficult to quantify “value”

Different types of budgets

Surplus

- There is a surplus of unrestricted income in the year
- This can be invested in activities the following year or used to build reserves

Balanced

- Income and expenditure breakeven.
- The impact on reserves is neutral and there is no change from the beginning of the year to the end of the year
- We aim to balance most restricted budgets but...that's only if we get full cost recovery

Deficit

- There is a deficit in unrestricted funds at year end leading to a decrease in reserves.
- Sometimes we have an in year restricted deficit. Providing this is covered by funds brought forward from the previous year or new funds coming in soon this is often perfectly normal and wouldn't necessarily mean we are running a deficit budget

Hallmarks of a sustainable budget

A sustainable budget is a surplus “activity-based budget” which generates unrestricted surpluses for future activities or reserves. Quick budgeting wins:

1. Doing budgeting by activity to capture the full cost of each activity
2. Including all staffing costs
3. Including an inflationary increase
4. Including a contingency for unknown unknowns
5. Mapping different scenarios
6. Modest unrestricted surpluses unless we are intentionally spending down reserves

Ultimately, we want our restricted project budgets to breakeven and our unrestricted budget to generate a surplus so we can build reserves.

Where to start

How to start?

Start with what you know

Interrogate the evidence, both income and costs:

- ongoing work - critical assessment of current & previous years' experience

If you know nothing – create a scenario, do a mind map,

Add notes how you reached estimates & confidence levels - best case/worst case

Step back and see what it looks like



The structure of a budget

At its most basic, we have:

- Income
- Expenditure
- Surplus/(Deficit)
- Opening balance
- Closing balance

	RESTRICTED			UNRD	TOTAL
	Grant/Activity 1	Grant/Activity 2	Total	Total	£
Income					
Income from grants and donations					
Grants					
Grant 1					
Grant 2					
Donations					
Donations					
Income from charitable activities					
Contracts					
Consultancy					
Income from other trading activities					
Fundraising events					
Sponsorship					
Investment income					
Interest					
Total Income					
Expenses					
Fundraising costs					
Charitable activities					
Direct costs					
Project costs					
Salary costs					
Support costs					
Overhead costs					
Accounting and IE					
Heat and Light					
Insurance					
Governance costs					
Trustee expenses					
Total Expenses					
Net Income					
Opening balance					
Closing balance					

A simple set up

We have two sets of categories:

1. Income and expenditure categories
2. Cost centres which we use to analyse our income and expenditure

A note on categories:

Keep income and expenditure categories consistent across all relevant activities; bookkeeping, management reporting, fundraising

	RESTRICTED			UNRD	TOTAL
	Grant 1	Grant 2	Total	Total	£
Income					
Income from grants and donations					
Grants					
Grant 1					
Grant 2					
Donations					
Donations					
Income from charitable activities					
Contracts					
Consultancy					
Income from other trading activities					
Fundraising events					
Sponsorship					
Investment income					
Interest					
Total Income					
Expenses					
Fundraising costs					
Charitable activities					
Direct costs					
Project costs					
Salary costs					
Support costs					
Overhead costs					
Accounting and IE					
Heat and Light					
Insurance					
Governance costs					
Trustee expenses					
Total Expenses					
Net Income					
Opening balance					
Closing balance					

Full Cost Budgeting

Spotlight on the numbers

The decisions we make shape our financial position like rings on a tree.

Full cost budgeting is budgeting to capture the full cost of our activities.

Most of us will have three types of costs:

1. **Direct** costs are costs which are incurred by a project,
2. **Shared costs** which are **direct** costs incurred by more than one activity, and
3. **Support** costs which relate to the running of an organisation

The **full** cost is calculated by adding **direct costs + shared costs + a fair and reasonable portion of support costs** together for each activity.



Definitions

Direct

Relates to one activity

e.g. speaker fees, session resources



Shared

Relates to more than one activity

e.g. minibus costs where minibus services several projects



Support

Doesn't relate to any particular activity
– our core running costs

e.g. accounting fees



Single project organisations

All costs are direct costs

Simple

Multiple project organisations

Costs are either direct, shared or support costs

Less simple



When applying for grants | What we tend to do

Direct costs = Direct Costs



Overheads = Shared and Support Costs



Where possible, we should do this

Direct costs = Direct AND Shared Costs



Overheads = Support Costs



Calculating full costs of one project when we run more than one project

1. Look at each cost and decide if it is direct, shared or supporting
2. Determine and allocate direct costs to the relevant activity
3. Determine and apportion shared costs across the relevant activities
4. Determine and apportion support costs across the relevant activities
5. Apportionment needs a 'fair and reasonable' basis e.g. income, usage, FTE, floor space



For example

100 Acre Wood Forest School runs two activities: a day school and an after school club

Each activity has a session leader. There is a small hut which acts as the HQ and which needs heat and light, and accountancy fees are also required.

The direct costs are the £1000 per session leader's fees. These are allocated in full to the relevant activity.

The support costs are £1,000 for heat, light and accountancy fees. These need to be shared between the two activities.

The full cost of each activity therefore is the direct cost plus a fair proportion of the support costs.

100 Acre Wood Forest School		
Costs	Activity 1 Day school	Activity 2 After school club
Direct	Session leader #1	Session leader #2
Support	Costs of running the center; hut leasing, heat and light, accountancy fees etc.	

Sharing support costs

Sharing support costs across activities needs a **basis of apportionment** that is fair and reasonable to the activity. A simple method is the time spent method.

Example of the time spent method

100 Acre Wood Forest School

Each session leader works 35 hours per week. The total time spent is 70 hours per week. Therefore, each session leader accounts for 50% of the total time spent. Therefore, we apportion the support costs accordingly with 50% being charged to each activity.

100 Acre Wood Forest School		
Costs	Day school	After school club
Direct	Session leader #1 35 hours per week	Session leader #2 35 hours per week
Apportionment based on time spent / %	50%	50%
Support	Costs of running the center; rent, heat and light, accountancy fees etc £1,000	
Apportionment / £ (50% of total support costs of £1,000)	£500	£500

Back to our organizational budget ... this time with some numbers

Activity costs

1. We add our direct costs - £1,000 per session leader per activity
 2. We add our support costs - £1,000 in total for center running costs
 3. We apportion our support costs across the two activities in a fair and reasonable way – 50% of the total time spent in running the organization is spent on activity 1 and 50% on activity 2. Therefore, 50% of the support costs are apportioned to activity 1 and 50% to activity 2.
- Our true cost per activity is £1,500

Organisational costs

- The total organization cost is £3,000

	RESTRICTED		UNRD	TOTAL
	Grant/Activity 1	Grant/Activity 2	Total	£
Income				
Income from grants and donations				
Grants				
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Grant 2				
Donations				
Donations				
Income from charitable activities				
Contracts				
Consultancy				
Income from other trading activities				
Fundraising events				
Sponsorship				
Investment income				
Interest				
Total Income				
Expenses				
Fundraising costs				
Charitable activities				
Direct costs				
Project costs	1,000	1,000		2,000
Salary costs				
Support costs				
Overhead costs	500	500		1,000
Accounting and IE				
Heat and Light				
Insurance				
Governance costs				
Trustee expenses				
Total Expenses	1,500	1,500	0	3,000
Surplus/(Deficit)				

Now we add income

- Each activity has raised a £1,000 grant
- Total income is £2,000
- We allocate the income to the relevant activity.

Each activity has £1,000.

- We have already calculated that total expenditure is £3,000
- Therefore, the organisation has a deficit of £1,000
- This is evenly split between both activities at £500 each

	RESTRICTED			UNRD	TOTAL
	Grant/Activity 1	Grant/Activity 2	Total	Total	£
Income					
Income from grants and donations					
Grants	1,000				1,000
Grant 1		1,000			1,000
Grant 2					
Donations					
Donations					
Income from charitable activities					
Contracts					
Consultancy					
Income from other trading activities					
Fundraising events					
Sponsorship					
Investment income					
Interest					
Total Income	1,000	1,000	0	0	2,000
Expenses					
Fundraising costs					
Charitable activities					
Direct costs					
Project costs	1,000	1,000			2,000
Salary costs					
Support costs					
Overhead costs	500	500			1,000
Accounting and IE					
Heat and Light					
Insurance					
Governance costs					
Trustee expenses					
Total Expenses	1,500	1,500	0	0	3,000
Net Income	-500	-500	0	0	-1,000
Opening balance	0	0	0	0	0
Closing balance	-500	-500	0	0	-1,000

To make the sessions viable the session leaders run an appeal

- They raise £1000 in unrestricted donations.
- The activity costs and income remains the same.
- They use the £1,000 in donations to subsidise the activities.
- Total income is £3,000
- Total expenditure is £3,000
- The organisation now breaks even
- Is this sustainable?

	RESTRICTED		UNRD	TOTAL
	Grant/Activity 1	Grant/Activity 2	Total	£
Income				
Income from grants and donations				
Grants	1,000			1,000
Grant 1		1,000		1,000
Grant 2				0
Donations				0
Donations			1,000	1,000
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	3,000
Expenses				
Fundraising costs				
Charitable activities				
Direct costs				
Project costs	1,000	1,000		2,000
Salary costs				0
Support costs				
Overhead costs	500	500		1,000
Accounting and IE				0
Heat and Light				0
Insurance				0
Governance costs				
Trustee expenses				
Total Expenses	1,500	1,500	0	3,000
Surplus/(Deficit)	-500	-500	1,000	0

Salary Costs

Calculating full staffing costs

Have we included all our staffing costs in full? _____

Full Salary Costs = **gross salary + employer national insurance + employer pension contributions**

Employer's national insurance is 13.8% on all earnings over £175 pw. This changes each year. [National](#)

[Insurance rates and categories: Contribution rates - GOV.UK \(www.gov.uk\)](#)

Pension is applied in line with your policy. Unsure about pensions? The Pensions Regulator has guidance on rates employers need to pay. Check [here](#)

Unsure about calculating salaries? A salary template is available at WYCAS site [here](#). Always check that downloads are working and up to date.

Eligible organisations can often get up to £5,000 towards our [employer's national insurance costs](#)

Inflation

Inflation

1. We haven't had to consider inflation for some time
2. However, it does have a real impact on both our income and on our expenditure
3. Multi-year grants confirmed now will be worth less in the future if we haven't built in inflationary increases
4. Costs will go up, inflation is accumulative
5. We need to factor it into all our budgeting



Average charity donation of £20 a month will be 'worth less than £15 by 2024', study finds



- £20 direct debit set up in 2017 projected to be worth £14.90 in two years
- Donations of £5.7bn in 2022 to drop in value by 8.5% by end of year
- Charities' income impacted by inflation, as demand for support soars

Monthly charity donations of £20 started in 2017 will be worth just £14.90 by 2024 due to inflation, according to projections.

New analysis by Pro Bono Economics (PBE) and the Charities Aid Foundation (CAF) also estimates that the £5.7 billion of total donations made to charities in the first six months of 2022 will be worth £500 million less by the end of the year, a reduction of 8.5%.

<https://www.probonoeconomics.com/news/average-charity-donation-of-20-a-month-will-be-worth-less-than-15-by-2024-study-finds>

Calculating inflation

There are various inflationary rates. CPI one of the common rates. RPI is another.

Inflation is difficult to predict even for the economists and predictions change.

We need to check most recent forecasts and factor these in when preparing multi-year budgets

We can use the [Office for Budget Responsibility](#) for our forecasts

Don't forget that inflation is cumulative - we need to add it onto the adjusted figures

Example	2023	2024	2025
Salary	£10,000	£11,000	£11,500
Example inflationary rate %	10%	5%	2%
Adjusted salary	£11,000	£11,500	£11,730

Scenarios

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 to include a **contingency** for unknown unknowns?



The limitations of budgeting

- Out of date instantly - can give false sense of security
- Furthermore, full cost budgeting is not full cost recovery
- And even when we do get full cost recovery, it is, at best, only a break-even strategy, it is not a sustainability strategy
- Therefore, the budget is only one part of good decision making
- A budget needs to be set and monitored and the variances between the budget and what is actually happening need to be used to inform the future.

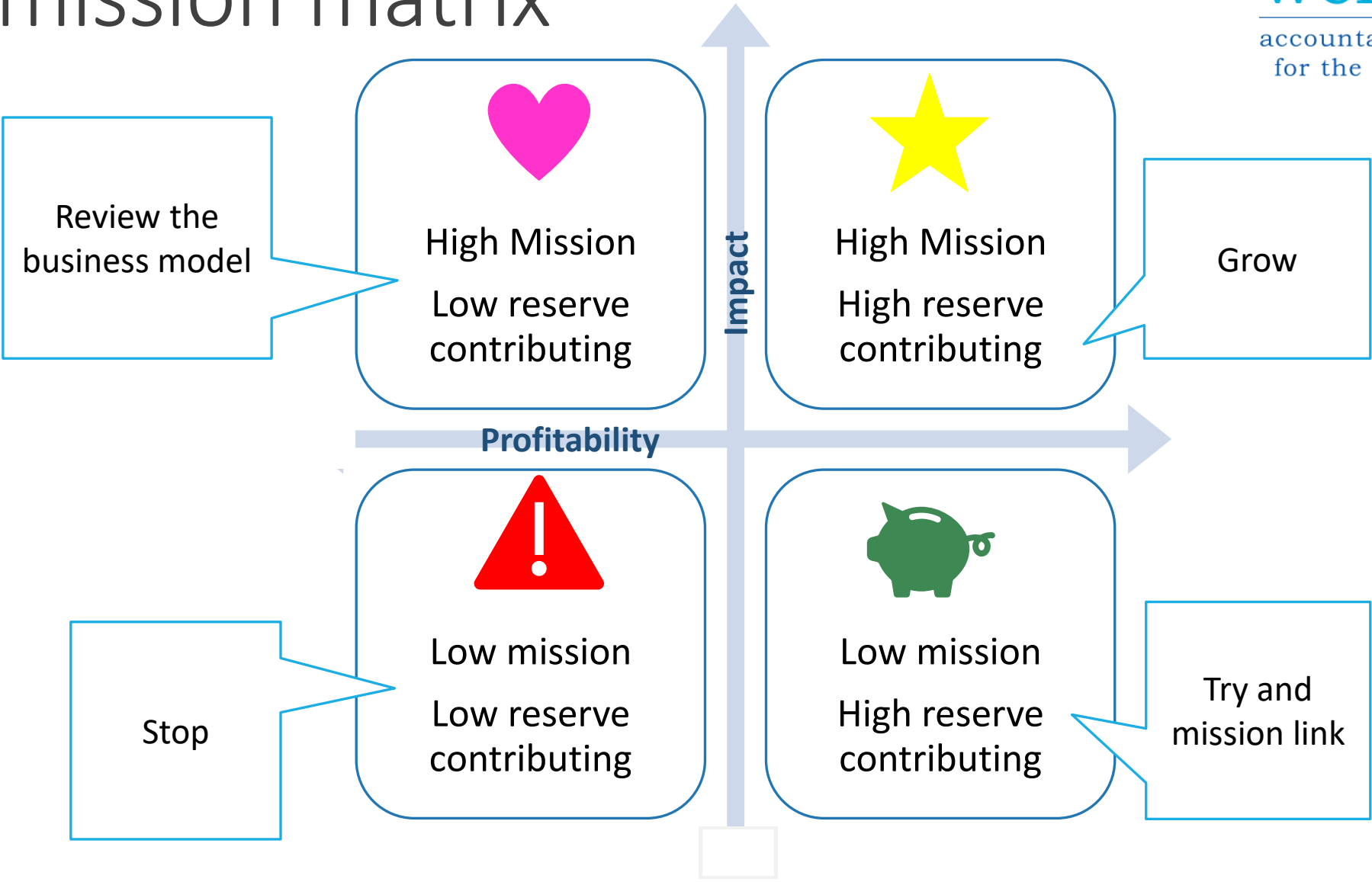


A note on budget variances

1. Life is rarely as budgeted
2. It is important that we know:
 1. when this is case and
 2. we know what is driving the difference and
 3. We use this information to respond accordingly
3. What do we do with budget underspends/budget overspends?
4. Do we need to reforecast?



Money mission matrix



Useful budgeting questions

SUMMARY

- What period does the budget cover?
- What is our current status? Are we surviving, sustaining or thriving? In crisis mode?
- Is our budget ambitious? Cautious? Business as usual?
- What are the key income assumptions and changes from last year? And expenditure?
- Is it a balanced budget? Deficit budget? What is the fundraising target?
- Is this sustainable given our current status?
- What is our opening reserve position? What is our closing reserve position?
- What is our social impact expected to be with this budget?

INCOME

- What is our budgeted income? Is this higher or lower than last year?
- Is it confirmed? High certainty? Speculative?
- What is the balance between restricted and unrestricted?
- What are our main income sources?
- Which grants are coming to an end?
- Do we have a fundraising target? How much and in what types of income?
- Are we heavily reliant on a single income source?
- How confident are we in these income assumptions?

CLOSING POSITON AT END OF YEAR

- What is our opening unrestricted and restricted reserves?
- What is our operating unrestricted and restricted surplus/(deficit)?
- What is our closing unrestricted and restricted reserves?
- Do any restricted funds close in deficit? Are these covered by future funds? Or reserves?
- What is our cash position likely to be across the year?

RISK PROFILE

- Do we an annual fundraising target? What happens if we don't meet it?
- What is our core cost base and how is it funded? Is it all fixed or variable?
- If funded by restricted funds, for how long? What happens when they end?
- Do we have the reserves to allow us to be flexible in our service delivery when needed?
- What is our plan B if our income generating plan does not work out? And our plan C?
- What are our trigger points and when do they occur if we need to reduce our cost base?

EXPENDITURE

- What is our budgeted expenditure? Is this higher or lower than last year?
- What is the balance between restricted and unrestricted?
- What is our core cost base? How fixed it is it? What does this include? How is it funded?
- What are our project costs? How are these funded?
- What are the key expenditure lines?
- Do we have any capital expenditure planned?
- Do we have a contingency expenditure budget for unforeseeables?

Useful resources

NCVO Financial Management Guidance

<https://www.ncvo.org.uk/help-and-guidance/running-a-charity/financial-management/#/>

WYCAS Guidance (Community Accountancy Service)

<https://www.wycas.org.uk/guidance/>

Organisational Resilience Programme

<https://www.lloydsbankfoundation.org.uk/we-develop/useful-resources/organisational-resilience-programme>

Thoughts from the Field

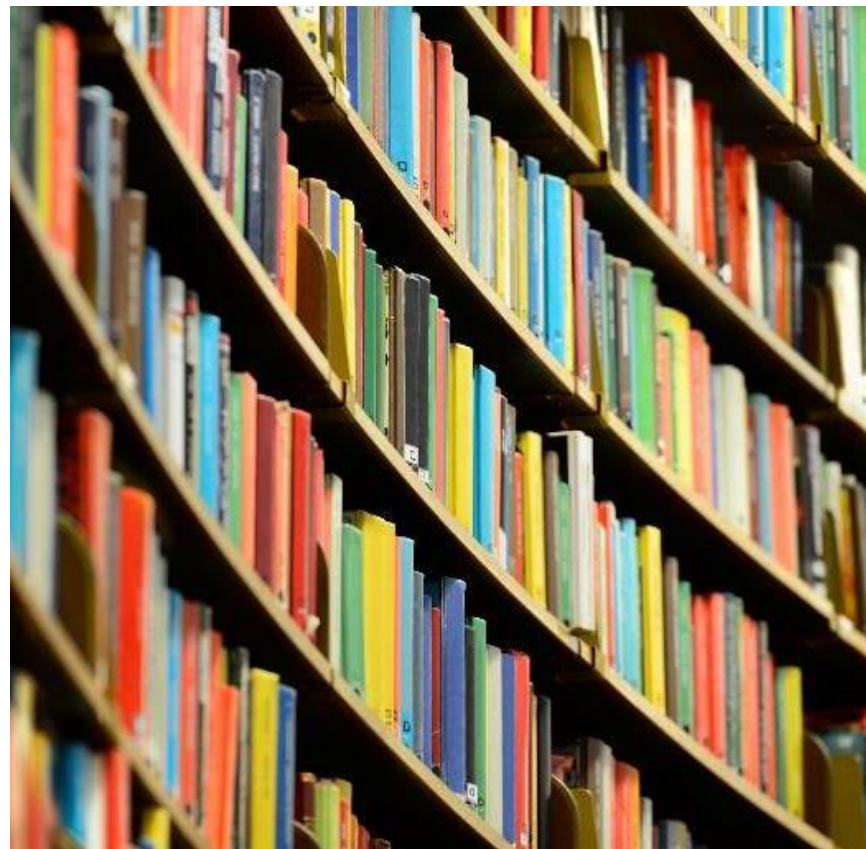
<https://www.embracefinance.org.uk/somethoughts>

Reserves

<https://www.sayervincent.co.uk/publications/reserves-policies-made-simple/>

Building non-profit resilience

https://ssir.org/articles/entry/building_financially_resilient_nonprofits_less_ons_from_the_field#



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