Funding Guide 6

Budgets

Parish Resources

Funders will require reassurance that you will be able to administer your project effectively so you will need to show that you have thought carefully about the finances. A robust budget will give you and your Funders confidence that you have planned ahead and your project is achievable. The budget is the clearest way in which you state exactly what your project entails. The following may be helpful to you before you draft your budget.

- Good budgeting has some flexibility, which allows you to deal with unexpected changes in a controlled way.
- Your budget should be led by the priorities, not by the finances.
- Do not build your budget on past patterns; always start from scratch with the goals of your current project in mind, rather than previous experience.

You should try to set a budget to ensure:

- Your project's income will match its expenditure
- You can manage the finances
- There is a degree of calculated flexibility allowing room to manoeuvre
- You are able to monitor your progress and plan for the future

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Areas of Cost

The following are six areas of cost you should consider in a new project:

- **People**

Advertising, recruitment, temporary staff costs (if needed) e.g. illness or training.

- **Buildings**

For a repair or new build, one-off costs that will be based on costings provided by professionals e.g. architects and the tendering exercise. For a project purchasing or hiring buildings e.g. legal fees, insurance, additional equipment, storage, security, heating and maintenance.

- **Operating Costs**

Computers and software, vehicle running and depreciation, stationery, telephone and other bills.

- **Slow Start Costs**

Often new projects need to build up business so their income is smaller at the beginning.

- **Cash Flow Costs**

If you spend more of your money at a particular time of year, but have a steady income throughout the year you must plan to meet a cash flow gap.

- **Launch Costs**

Publicity material and hiring costs e.g. equipment etc.

Managing Cash Flow

Managing cash flow is important to make sure that you have enough money available at the times that you need it. It is particularly difficult for most community based projects to produce realistic cash flow projections, as many items are not certain. Once down in black and white, the figures can look intimidating, but like the business plan as a whole, having a good cash flow chart will help you identify and resolve potential problems. Potential problems could include:

- The project may not generate much income in the early months because take up is low.
- Costs pile in upfront at the start of the year whilst income is spread over the whole year.
- Your income may be provided by trusts retrospectively or you may rely on payments which are often late.

Expenditure

Set out a monthly chart and a list of all costs, indicating which months they will require paying. When you extend it to years 2, 3, 4, and 5 remember to include an inflation increment (normally between 2% and 4% each year).This is for the running of a project. If you are planning building work the cash flow can be very complicated. Your architect, contractors, and all professionals involved should indicate to you with a cash flow chart of their own (normally produced by the architect) when payments on the scheme are due.

Remember to Include:

- Salaries and national insurance, pension contributions etc.
- Volunteer expenses
- Training costs
- Insurance
- Equipment costs and replacement
- Vehicle depreciation
- Usual bills
- A realistic value of what the everyday running costs will be

- On-going professional fees
- Any statutory fees that you may be required to pay
- If you are running a building include maintenance costs
- Contingency

If your project involves a major building project, you might find it helpful to do a separate budget for the one off capital costs relating to the building work, distinct from the on-going revenue (running) costs for the project. Remember to feed both into the cash-flow chart.

Income

On a similar monthly chart indicate your income month by month. By comparing the two you will be able to plan your income / expenditure so that you will meet all your costs.

If you plan to charge for services, research other similar projects in similar economic conditions before deciding what charges your project will make. You must consider what the local market for your project is like and what people are willing to pay for. Who sets the price? Is it stable? Are you likely to be undercut? Do not set a deliberately low price initially to encourage users into your project. This will only raise the expectation that your project is cheap and may cause resentment later when you need to raise charges.

A good way to bring security to a project is to reward your users if they agree to contract to use your project for a set period of time. Many after school clubs and playgroups offer reduced fees to parents who contract on a termly/ yearly basis to pay for the facilities. Income lost is gained through the security of knowing for certain that the money will be coming in.

You should also consider what level of reserves you want to try and establish through your budget. It is sensible for a project to try and build up reserves of between two and twelve months' income, depending on the exact nature of your project. If you are employing a number of staff, for example, you need to be sure you can continue to pay them even if your income dips. How much you decide to raise for reserves depends on the risks that are likely to occur.

It is worth having a 'notes' column alongside the budget you keep for internal use (not necessarily for sending to funders), to remind you how you reached certain figures.

For Example: Income from mothers and toddlers group (based on average of 8 mothers attending each week paying £x per session; at the Nursery up the road they charge £X).