

# BUDGETING AND BUDGETARY CONTROL

Planning and control are major activities of management in all organisations. It is strongly recommended that regardless of the size of the organisation, community groups and voluntary organisations should consider drawing up an annual budget prior to the beginning of each financial year. An annual budget is an estimate of how much an organisation expects to pay out in expenditure and receive in income during the financial year. An organisation should ensure, as far as possible, that the budget is balanced, reflective and accurate, because the contrary may create financial difficulties for the organisation to carry out its planned activities or work plan properly. If anticipated income is greater than anticipated outgoings, the excess may be shown as 'surplus transferred to reserves' to balance the budget – if the reverse is true, the difference will be shown as a deficit.

If this is the case, the committee/treasurer/manager needs to know that the organisation can cover it.

More importantly, a properly thought out budget will allow an organisation to forecast the amount of financial resources required to run planned activities and provide services according to its strategic or business plan, if applicable. This will then enable managers or committee members to work on relevant funding proposals or income generation strategies to finance the planned activities.

A budget needs to be prepared and approved in advance of the period in which it is to be used. When we use a budget, we do so as part of a system of budgetary control. That is, we know what we want to do, we prepare budgets so we can achieve those ideas or carry out projects and constantly check our spending against the budget to ensure that we do not overspend.

When preparing for a budget, an organisation needs to consider the following items:

- staff salaries including national insurance, pension contributions and future increments, etc
- recruitment costs
- training for staff, volunteers and users, if applicable
- insurance including public liability, employer's liability and professional indemnity, if applicable
- building and contents insurance, repairs and maintenance, if applicable
- travel expenses
- office costs including rent, rates, cleaning, water, telephone, light and heat, etc
- stationery, postage, printing and publicity
- legal advice, accounts audit/ independent examination fees and consultancy
- costs of providing services or activities
- capital / equipment costs
- any other costs associated with legal requirements such as health and safety.

Overall, a budget is a statement setting out the monetary aspects of an organisation's plans for the coming months or years. Budgetary control is the analysis of what happened when those plans came to be put into practice and what the organisation did or did not do to correct for any variations from these plans.

Most managers or treasurers of the management committee in the community and voluntary sector have to prepare budgets in order to prepare for a financial forecast: how much income will our organisation receive? how much will our organisation spend? and is there anything left over? The purpose of this is to demonstrate that budgets are useful, informative and communicative. In general, budgeting can be applied to almost every situation and budgetary control is a vital management tool. By the start of an annual budget cycle, managers or management committee members of any voluntary sector organisation should have formalised their views and identified the most likely outcomes and targets, based on the needs of service users, they will work to for the coming year in terms of income, spending and costs etc.



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That is, the budget will have been set and agreed for different activities and services the organisation aims to carry out in line with its strategic or business plan, if applicable. A set of feasible and desirable end results will have been established. This is an example of a fixed budget which tends to be more suitable for voluntary sector organisations or community groups; it is a planning budget of expected outcomes, before the event. A good starting point is to set budgets within an overall organisational planning and control framework. A common sub division of the wider planning and control framework in organisations is strategic planning, management control and operational or task control. Strategic planning is the process of deciding on the goals of the organisation and the formulation of the broad strategies to be used in attaining these goals. It is the responsibility of the management, it is creative and involves identifying an organisation's strengths and opportunities to grow whilst minimising weaknesses and threats. It has a long-term focus and looks outside the organisation at the needs of service users and external factors such as appropriate funding regimes and statutory policies.

Management control is the process by which management ensures that the organisation carries out its strategies. Operational or task control is the process of assuring that specific tasks are carried out effectively and efficiently. The link with strategic planning identifies the services an organisation intends to develop and provide, projects or activities, which the management intend to pursue to meet the organisation's overall goals. Budgets are derived from these and are the responsibility of the managers, treasurer or members of the management committee. Budgets, as they are generally understood form the cornerstone of management control and the management control system. They are a multi-purpose management tool supporting planning and control. Once a budget is formulated a regular reporting system should be established so that the extent to which plans are, or are not, being met can be established and some form of management by exception can be established.

Although budgets are useful tools for evaluating how an organisation or a specific project is performing, it is also important to remember when monitoring performance against a budget, that non-financial outcomes are considered. For instance, the number of informal awareness raising workshops that were actually delivered and whether the numbers of workshops were more or less within the original budget. If targeted activities are met or satisfactory services are provided to targeted service users within spending limits then this confirms the budgeted expenditure items were accurately estimated. However, if actual spending exceeds the original budget it is important for the manager, treasurer or management committee members to find out reasons behind this and whether it would affect the rest of the budget items.

Finally, reporting and analysis takes place as a basis for control of the budget, for the co-ordination of activities and as a basis for future decisions perhaps to change the original plan. The manager and/or the treasurer should report to the full management committee on the organisation's receipts and payments at least once every quarter. The report should include details about whether the organisation's receipts and payments are still in line with the original budget. If the organisation has more than one project the report should cover all of them individually. This form of reporting is often known as management accounts and it is essential to keep the full management committee informed about the organisation's financial position.

Links believes that this information is correct at the time of publication, however details may change      Page 2/2  
You are advised to contact Links for the up to date position and seek legal advice where appropriate.      23/10/2003