

Cardiff Third Sector Council

Your local county voluntary council



8. Managing money

8.4 Monitoring expenditure and budget

The governing body of a voluntary organisation (management committee, board of directors etc.) has a responsibility to manage the finances of an organisation and report on them according to the law. In order to do this properly and efficiently the organisation should have a good ongoing approach to money management. In other words, don't leave it all until the end of the financial year and try to sort it out then. There are a number of particular key issues that governing bodies should bear in mind.

Above all, voluntary organisations should monitor their finances by careful budgeting.

Managing money is not just about holding cash. To hold large amounts of inactive cash in floats is counter productive. It is far better to use a bank account (such as a 'Treasurer's account') that generates interest while the cash is awaiting use. Depending on the timing of cash needs as well as the size of deposits, it should be possible to maximise interest generation by choosing from a range of deposit accounts. It is advisable to inform the bank if you are a charity, as interest should then be added gross to the account i.e. without any tax taken off it. It might be better to invest longer deposits of cash in investments such as stocks and shares.

Tax relief

Charities should utilise tax benefits available to them. Tax paying donors can be encouraged to use Gift Aid. Because the payer hands over an amount, net of basic rate tax, and obtains relief on the payment, the charity is entitled to repayment of the tax deducted by reclaiming from the Revenue.

Cashflow

Cash in hand, at the bank and 'near cash' on deposits and in investments (not investments held long term, as 'investment assets') are part of what is called the *working capital* of the organisation.

Other major elements are stocks of goods for sale, and monies due to the charity less monies owed by the charity. It is vital that a charity maximises the amount of cash in its hands, by ensuring that monies due are collected as quickly as possible and payment of monies owing are delayed for as long as is reasonably possible, although care should be taken not to incur penalty interest. Delaying payments to suppliers may jeopardise future supplies. It is quite reasonable to use the full payment terms offered by a supplier.

Any discounts offered by suppliers should be carefully compared with the loss of interest on the organisation's money incurred by an early payment.

If an organisation is in receipt of grants it should try to make sure that they are paid promptly on the date the funder says they will pay them. Organisations should plan on this basis but they should have a strategy for what they will do if payment is late. If there is a problem it should be discussed with the funder first.

Fixed asset purchases

Depending on the resources of the organisation, it is important to consider the options available when buying fixed assets, that is, capital purchases such as equipment. Obviously outright payment is one option, but it is possible to spread payments over a period of months by using hire purchase and lease purchase schemes. Because these schemes are effectively loans there is a cost of borrowing which will increase the overall amount repaid. Beware also of penalties on early repayment.

What is a budget?

A budget is a plan translated into money-terms for a defined period of time, usually 12 months from April to March or January to December.

Who is responsible for managing budgets?

Responsibility for setting and overseeing budgets rests with the voluntary management committee. This is part of strategic planning. Senior and finance staff will have responsibilities in the budgetary process, for example, ensuring that the committee is presented with financial information that is relevant, up-to-date, accurate and intelligible.

What is the budgetary process?

Budgeting in most organisations is a cyclical activity revolving around the financial year with:

Finance department/officer providing budget holders with a plan and budget worksheets six months before the budget is due to start.

Budget holders then compile the respective budget for their activity and return to the finance officer responsible.

Finance department/officer compiles these into a master budget.

Senior management reviews this, then seeks approval from the **management committee**.

In smaller voluntary organisations this activity is usually informal.

What does a budget look like?

A basic budget is an estimate of income and expenditures for the next year in table form. Each line is an authorisation to spend or a target to achieve. Some columns break this down into shorter time periods, e.g. quarters, and others allow for actual figures to be included at the end of each period.

What is involved in preparing and presenting a budget?

For small organisations a single budget will probably suffice. Larger or more complex organisations may need to develop a master budget from which a series of subsidiary budgets are derived. In addition to a master budget an additional cash flow budget will be required. This identifies expected outflows and inflows and, by comparing this against what actually happens, organisations can anticipate problems and take early action to deal with them.

The budget and specific items within can vary over the year. A fixed budget gives only one estimate of income and expenditure at one level of activity. A flexible budget identifies items around which the level of activity might vary, e.g. units sold or cases handled, and provides alternate figures for each level.

What is forecasting?

Forecasting is a process that requires asking simple but practical questions such as 'it cost this much last year but how much will it cost next year?' Forecasting can include an analysis of the strengths and weaknesses of income sources. Timing differences between receipt of income and payment of expenditure are also a consideration. A healthy financial picture overall might disguise cash flow problems at particular times that will require preventative action, e.g. bridging loans or negotiation with funders.

How should information from previous budgets be treated?

When a budget item follows on from a previous year there are two choices:

- Arrive at an updated figure by applying a percentage increase (incremental method).
- Re-calculating the item (zero based method).

While the incremental approach can lead to inaccuracy, applying a zero based approach to all items may be extremely time consuming. An assessment should be made as to the best balance between these approaches.

What is necessary for monitoring and reporting on the budget?

Normally the finance department/officer will make regular comparison of actual results against the budget. This information is reported to 'budget holders', managers with responsibility for a part of the overall budget. Budget holders can then either take corrective action or be reassured that everything is going according to plan. Finance officers and budget holders should make regular reports to the voluntary management committee.

Further information

HM Revenue and Customs (HMRC)

Tel: 0845 010 9000

www.hmrc.gov.uk

Charity Commission for England & Wales

Tel: 0845 3000 218

www.charity-commission.gov.uk

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