

02

BUDGETING

2.1 BUDGETS

A budget can be defined as a quantitative or financial plan that estimates revenue and expenses for the next financial year or beyond. It can be set on an accrual basis, that is, when the expense is incurred or revenue earned, not necessarily paid or received in the bank, or on a cash basis, when the expense is paid or revenue received in the bank. It's helpful to ensure the organisation has a clear mission statement and strategic plan prior to setting the budgets.

Mission statement and strategic plan

An organisation's mission statement should identify the reason why it exists, e.g., Hampden Tennis Club's is: "To provide facilities and support for our members and non-members to play tennis."

A strategic plan then builds on this to define the process for how to achieve the mission statement. This is set by the organisation's governing body (such as a board or committee), and, should be the basis for setting the budgets.

Operational budget

The task of preparing the operational budget may be delegated by the board, for example to a budget committee or treasurer/accountant or, in the case of Hampden Tennis Club, the manager.

Once the budget has been prepared, the governing body should review the prepared budget, and either adopt it or ask that changes be made until it is accepted.

The task of executing the strategic plan using the resources provided by the operational budget is then delegated by the governing body (or in the case of Hampden Tennis Club, by the committee) to the manager.

Other types of budget

A capital budget lists fixed assets that the organisation wishes to purchase along with the intended means for funding the purchases.

Budgets can also be non-quantitative – or non-financial based – and include things such as the number of tennis tournaments held, golf course bunkers repaired or badminton clinics staged.

Monitoring the budget

At periodic meetings (usually monthly or quarterly), progress against budgets should be reviewed by the governing body, which is ultimately responsible for the financial performance of the organisation

Yearly budget allocations should be broken down into monthly figures to reflect when amounts are expected to be received or spent.

These budgeted figures are then compared against the actual results. In a perfect scenario, if a budgeted amount of \$400 was allocated for electricity in July, the actual amount spent would be the same. This would mean a variance of zero, i.e., the difference between actual and budget. This is illustrated below:

	ACTUAL JULY	BUDGET JULY	VARIANCE
Electricity	\$400	\$400	-

Actual amounts equaling budgeted amounts are often uncommon, and in practice variances are more likely to occur.

Variances can be favourable or unfavourable. A favourable variance (F) occurs when an actual expense is lower or revenue higher than the budgeted amount. An unfavourable variance (U) occurs when revenue is lower or expense higher than budgeted. These two types are illustrated below:

	ACTUAL JULY	BUDGET JULY	VARIANCE
Electricity	\$479	\$400	\$79U
Subscription revenue	\$4,670	\$4,210	\$460F



Setting budgets should be the responsibility of the board or committee. The board or committee then gives the authority to a person(s) to implement the budget.

Variances can occur for several reasons. There can be permanent variances, which occur when the actual revenue or expense exceeds, or is below, the budgeted amount. This could be caused by, for example, electricity usage being higher due to an unexpected tariff increase or a rise in activity which has resulted in more use.

A timing variance is a variance caused by revenue or an expense not received or spent in the month or year expected. For example, a marketing campaign of \$2,300 to promote the organisation to increase membership was timed for August but did not occur until September.

	ACTUAL AUGUST	BUDGET AUGUST	VARIANCE
Marketing campaign	-	\$2,300	\$2,300F

	ACTUAL SEPTEMBER	BUDGET SEPTEMBER	VARIANCE
Marketing campaign	\$2,300	-	\$2,300U

As shown above, there is a timing difference in the expenditure from August to September. If August and September were combined, the variance would be zero.

The addition of a year to date column in our monthly reporting will eventually smooth out any monthly timing differences that may occur during the year as shown.

	ACTUAL AUGUST	BUDGET AUGUST	MONTHLY VARIANCE	ACTUAL YEAR TO DATE	BUDGET YEAR TO DATE	VARIANCE YEAR TO DATE
Marketing campaign	-	\$2,300	\$2,300F	-	\$2,300	\$2,300F

	ACTUAL SEPTEMBER	BUDGET SEPTEMBER	MONTHLY VARIANCE	ACTUAL YEAR TO DATE	BUDGET YEAR TO DATE	VARIANCE YEAR TO DATE
Marketing campaign	\$2,300	-	\$2,300U	\$2,300	\$2,300	-

When presenting the financial information to the governing body, it is good practice to highlight reasons for variances, whether they are favourable or unfavourable. In the examples of electricity, subscription revenue and marketing campaign variances, we could state the reasons as shown.

Permanent differences

	ACTUAL JULY	BUDGET JULY	VARIANCE	VARIANCE EXPLANATIONS
Electricity	\$479	\$400	\$79U	Increased charges from electricity company
Subscription revenue	\$4,670	\$4,210	\$460F	Two more winter members joined than expected

Timing differences

	ACTUAL JULY	BUDGET JULY	VARIANCE	VARIANCE EXPLANATIONS
Marketing campaign	-	\$2,300	\$2,300F	Campaign due to start in September for the same amount as budgeted

Fixed and variable expenses

In setting budgets there are three types of expenses that can occur.

Fixed - which do not change regardless of the organisation's activity, such as rates paid to the local city council.

Variable - which depend on a level of activity, e.g., if winter night tennis became more popular, electricity costs for floodlights would increase.

Mixed costs are a combination of fixed and variable, such as leasing a photocopier, where there is a monthly rental for the machine, and variable costs for paper, ink etc.

While fixed costs should be able to be budgeted with a degree of certainty, variable costs can fluctuate according to activity – and this can be disadvantageous to the organisation if they exceed budget with no corresponding offset in revenue. Variable costs, therefore, should be monitored closely, especially as by their nature they can be difficult to budget accurately.



Variable expenses can move in line with variable income, so an increase in variable costs isn't necessarily bad.

For example, electricity has increased by 50% for the winter months due to an increase in night tennis. However, this is offset by an increase in revenue from court hire, which exceeds the electricity cost increase.

Secured and unsecured income

Few organisations can survive on revenue from their members alone and need other sources of income, not only to meet operating expenses, but to purchase assets.

Examples of funding sources for non-profit sporting organisations are subscriptions, grants, donations, gifts, contracts, fundraising, loan financing, hireage and trading activities.

Secured income is income which has been confirmed and will be received in the current financial year.

Unsecured income, for example, might be \$100,000 worth of grants the organisation has applied for, but is not yet approved.

It goes without saying that the unsecured income could pose a financial threat to an organisation, and therefore needs to be closely monitored. One way of doing this is an income risk register, and an example is shown below.

	ACTUAL JULY	BUDGET JULY	VARIANCE	ACTUAL JULY	BUDGET JULY
ABC Trust	-	-\$50,000	\$50,000	Low	Confirmed to be received August 20X3
DEF Gaming Trust	\$10,000	\$10,000	-	Low	Received July 20X3
Eastern Community	-	-\$50,000	\$50,000	High	Funder advised grant unsuccessful. Another funder being approached
Western Trust	-	\$50,000	\$50,000	Medium	Grant application sent to replace unsuccessful Eastern Community application. Funder says we should be successful

2.2 EXAMPLE 1

EXEMPLAR MANAGEMENT REPORT

The governing body of any organisation needs to be provided with relevant financial information to fulfil their obligation of monitoring and making decisions as part of the governance process.

Governing bodies should be supplied with enough information on which to make decisions, and have it presented in an easy-to-understand format. This is especially relevant in a non-profit sporting context, as many who are on governance boards may not have had financial experience.

In the example of the Hampden Tennis Club in Section 1.0, financial reports of the year's actual activity are shown.

The club's committee receives monthly management reports, which compare the actual results against budget. The following management report is for the 12 months to 30 June 20X3. The report shows actual versus budget figures, and any variances are expressed in dollars and percentages.

This report can be presented differently to the Statement of Financial Performance. In this case the bar (less wages), wine sales and court bookings are presented as their net revenue figure. Grants are also included as its important for the management team to be able to compare what has been received against budget, even if the grants cannot yet be recognised as revenue in the Statement of Financial Performance.

Variances are shown with red, orange and green flags.



Positive variances or negative variances of 5% or less have a green flag which indicates the results are as expected



An orange flag indicates the negative variance is between 5% and 10% and may require attention



A red flag indicates the negative variance is 10% or greater and needs attention or explanation

Although only negative variances are represented with an orange or red flag, an unusually good variance, may still need some explanation if it was unexpected.

The follow-up actions in respect of timing variances should be stated. For example, if 40% of subscriptions are overdue, what steps are being taken to collect the money?

More permanent variances, which can be more serious, for example, a grant application being declined, would require a comment on how this would be dealt with. This might include applying to another source or delaying the expenditure until funding has been secured.

MANAGEMENT REPORT

For the 12 months ended 30 June 20X3

CURRENT MONTH

CURRENT MONTH JUNE 20X3	\$ ACTUAL	\$ BUDGET	\$ VARIANCE		% VARIANCE	N
REVENUE						
Grants - conditional	-	-	-			
Grants - non-conditional	-	20,000	(20,000)	U	-100%	●
Member subscriptions	600	2,000	(1,400)	U	-70%	●
Tennis lessons	-	-	-		-	
Court bookings (non-members)	1,980	1,000	980	F	98%	●
Wine sales fundraiser	-	-	-		-	
Bar	267	1,000	(733)	U	-73%	●
Total Revenue	2,847	24,000	(21,153)			
EXPENSES						
Audit fees	-	-	-		-	
Bad debts	696	-	(696)	U	-	●
Bank fees	25	25	-	F	-	●
Cleaning	530	500	(30)	U	6%	●
Depreciation	3,265	2,500	(765)	U	31%	●
General expenses	256	200	(56)	U	28%	●
Insurance	-	-	-		-	
Interest	1,800	1,800	-	F	-	●
Electricity	1,600	1,500	(100)	U	7%	●
Printing	-	-	-		-	
Rates	-	-	-		-	
Repairs & maintenance (tennis courts)	12,300	5,000	(7,300)	U	146%	●
Repairs & maintenance (building)	2,485	2,000	(485)	U	24%	●
Telephone/internet	110	100	(10)	U	10%	●
Wages & salaries	5,500	5,500	-	F	-	●
Total Expenses	28,567	19,125	(9,442)			
Budget surplus/(deficit)	(25,720)	4,875	(30,595)			

MANAGEMENT REPORT

For the 12 months ended 30 June 20X3

YEAR ENDED

\$	\$	\$		%		N
ACTUAL	BUDGET	VARIANCE		VARIANCE		
30,000	100,000	(70,000)	U	-70%	●	1
-	80,000	(80,000)	U	-100%	●	2
66,435	72,500	(6,065)	U	-8%	●	3
52,800	35,200	17,600	F	50%	●	4
16,574	15,000	1,574	F	44%	●	5
174	5,500	(5,326)	U	-97%	●	6
4,657	20,000	(15,343)	U	-77%	●	7
170,640	328,200	(152,569)				
2,500	2,500	-	F	-	●	
696	-	(696)	U	-	●	8
300	300	-	F	-	●	
6,000	5,500	(500)	U	-9%	●	9
30,765	30,000	(765)	U	-3%	●	
3,561	4,000	439	F	11%	●	
2,200	2,100	(100)	U	-5%	●	
3,600	3,600	-	F	-	●	
24,600	22,000	(2,600)	U	-12%	●	10
1,200	1,000	(200)	U	-20%	●	11
2,300	2,250	(50)	U	-2%	●	
18,804	5,000	(13,804)	U	-276%	●	12
2,485	2,000	(485)	U	-24%	●	13
1,400	1,200	(200)	U	-17%	●	
75,000	75,000	-	F	-	●	
175,411	156,450	(9,442)				
(4,771)	171,750	(176,521)				

N: Notes

I. Grants – conditional

During the year \$100,000 was set as a target to raise enough finance to begin the first stage of the pavilion project. The club was only successful in getting one grant of \$30,000. This was not enough to begin the project. Of concern is that there are funds of \$21,432 in the bank and this \$30,000 may need to be repaid if insufficient funding is raised to build the pavilion within two years.

2. Grants – non-conditional

To subsidise the club's operating costs, grants of \$80,000 to various trusts were applied for. Unfortunately, these were unsuccessful. This was due to the funders' reluctance to subsidise operating costs when it appeared this would be an ongoing requirement for the club, not a one-off.

3. Member subscriptions

The club has, for a number of years, seen a decrease in the number of members. This issue has already been identified by the club, and needs to be addressed.

4. Tennis lessons

These have been a success owing to the services of our contract professional. However, he has asked for a profit share on top of his contract rate and this is on the meeting agenda for discussion.

5. Court bookings

While the club membership is declining, hireage of the court for social games is on the increase.

6. Wine sales fundraiser

The general manager purchased a large quantity of wine at a bargain price from a local winery, which would soon be past its use-by date. The idea was for members to sell this at a profit of \$10 per bottle. However, a lack of co-operation from members in this activity meant that most of the wine became out-of-date and had to be discarded.

7. Bar sales

The revenue shown of \$4,657 is before bar wages of \$15,000 are deducted. This is also on our meeting agenda to review the bar's future.

8. Bad debts

For the first time in many years, two subscriptions were not paid and attempts to recover the amounts from these new members have been unsuccessful.

9. Cleaning

As the bar employee did not wish to clean around the bar area, the commercial cleaner has undertaken this work on Sunday mornings in addition to the regular cleaning of the club house.

10. Electricity

Increased hire of the courts at night has meant increased power costs for the floodlights. This has been offset by increased revenue in court booking for non-members.

11. Printing

Pamphlets for a letter box drop to canvas for new members (by the manager) were not budgeted.

12. Repairs & maintenance (tennis courts)

When the contractors began scheduled maintenance of two tennis courts in June, they discovered some serious issues with the synthetic grass on court five, which meant total replacement.

13. Repairs & maintenance (building)

A hot water cylinder burst in June, which meant total replacement. Because of this, other maintenance has been deferred.

2.3 EXERCISE 2

MANUKA DISTRICT INDOOR COMMUNITY SPORTS ARENA TRUST

The Manuka District Council operates an indoor sports arena for the benefit of the community under the umbrella of a trust. The Council donated the land and buildings. The arena contains four squash courts and a gym, with separate fitness areas where national franchise fitness courses are run.

As a newly elected District Councillor, you have been placed on the Trust by the Mayor, because of your sporting prowess as a Commonwealth Games bronze medallist. The mayor is concerned about the governance of the Trust in terms of the control over the club.

You find out the following information:



The membership has been declining over several years.

There has been no increase in squash lesson or fitness class fees for three years.

15%

In response to the declining membership, fees have been budgeted to increase by 15%, and had been increased by 10% in the previous two years.



Management prepares the budget, and it is approved by the board as long as it is projected to make a surplus for the year.



The national franchise fitness programmes in recent years have increased the variety of types of classes.

40%

Some 40% of the membership participates in at least two fitness classes or squash lessons per month.



Approximately 80% of the membership uses the gym at least three times a month. Over half of the membership uses the gym at least twice per week.



The Trust has the latest gym equipment and spends significant sums of money to keep it that way, based on the decisions made by the staff on what equipment to buy. Some of the equipment is only used for two years before being replaced.



Having the best trained employees is important to the Trust, and it pays out bonuses and annual pay increases to retain them.



The Trust's employees have free access to the gym, fitness classes and squash courts, and are heavy users of all the facilities.

The following table shows the actual financial results for 20X0 and budget for the upcoming year of 20X1, which has been prepared by the Arena Manager.

	\$ ACTUAL 20X3	\$ BUDGET 20X4
CASH REVENUE		
Member subscriptions	355,000	395,000
Squash lessons	53,000	56,000
Fitness classes	112,000	122,000
Total Cash Revenue	520,000	573,000
CASH EXPENSES		
Arena Manager salary	81,000	86,000
Squash professional	44,000	47,000
General expenses	67,000	72,000
Electricity and gas	31,000	32,000
Gym equipment	30,000	91,000
Sports arena staff wages	175,000	195,000
Total Cash Expenses	428,000	523,000
Cash Surplus	92,000	50,000

2.4

EXERCISE 3

MATARIRI GOLF CLUB

Management report for the 12 months ended 30 June 20X3

CURRENT MONTH

	\$ ACTUAL	\$ BUDGET	\$ VARIANCE	% VARIANCE
REVENUE				
Grants – Pub Charity	3,000	-		
Grants – Eastern Trust	12,000	12,000		
Member subscriptions	11,000	13,000		
Golf lessons	900	1,500		
Corporate golf days	1,980	1,000		
Club room hire weddings	-	500		
Bar surplus	4,500	4,000		
Total Revenue	33,380	32,000		
EXPENSES				
Audit fees	-	-		
Bad debts	500	-		
Bank fees	30	25		
Cleaning	750	700		
Depreciation	2,500	2,500		
Gift vouchers (prizes)	-	-		
Insurance	-	-		
Rubbish fees	900	700		
Electricity	1,900	2,000		
Printing	100	300		
Computer expenses	600	300		
Maintenance supplies (course)	10,500	600		
Maintenance (building)	900	300		
Telephone/internet	190	200		
Wages & salaries	18,500	18,000		
Total Expenses	37,370	25,625		
Budget surplus/(deficit)	(3,990)	6,375		

YEAR TO DATE

\$ ACTUAL	\$ BUDGET	\$ VARIANCE	% VARIANCE
40,000	45,000		
18,000	20,000		
284,000	296,000		
26,500	34,000		
21,565	15,000		
1,000	6,000		
74,500	65,000		
465,565	481,000		
6,500	6,000		
6,000	8,000		
360	300		
9,000	8,500		
30,000	30,000		
3,561	4,000		
4,500	4,200		
9,200	8,600		
11,500	13,500		
3,200	3,600		
2,300	3,600		
17,000	9,000		
3,100	3,600		
2,600	2,400		
222,000	220,000		
330,821	325,300		
134,744	155,700		

