

Financial Management

Module three-Planning, setting and operating budgets

The work of drawing up a budget must begin well in advance of the time it is due to commence.

Clubs can operate a budget that aligns with the standard financial year from June to July or a budget that follows the calendar year if that suits the sports or recreation season better. Either way, there is a requirement to allow sufficient time to plan and develop the budget details.

If your budget follows the standard financial year count back from July - how long will it take to analyse the previous year's figures, collect the necessary information about planned activities and new equipment purchases, decide on the membership fee for the coming year and all the other things needed in order to have in place a well thought out financial plan?

How long will it take to have the Board or Committee of Management examine the draft budget, seek clarification, make adjustments and finally sign off on the budget documents?

It is important that the process of preparing the club's budget involves everybody who's going to be affected by it. Make sure that all the Board and Committee of management members are fully engaged in the process and involve other key club volunteers who may have a view about the process such as the people who run the canteen and other fund-raising activities and the people who decide on the equipment and kit purchases.

The best starting point is to review last year's operating budget. What can you learn from how your estimates for last year's operations went? Did you achieve the income projections you set? If not, why not? How close to the estimates were your expenses?

In addition to the experiences of the past the budget process should also look at the club's longer term future. Are there any items that have been identified in the club's strategic or longer term operating plans that will require expenditure during the period covered by the new budget?

A club may have a three year plan to increase the number of teams it fields by 50%. This objective will probably require expenditure on marketing and promotion, education programs for new coaches, additional play strips, additional team registrations and a raft of other costs that would not be appear in the previous year's accounts.

Planning for a complete operating budget requires an examination of all parts of a club's current activities and consideration of future plans.

There is one area that is usually left out of the general operating budget.

If there are significant capital expenditure items identified as part of a club's long term plan, such as the erection of floodlights or the building or refurbishment of clubrooms, it is usual to establish a separate budget for capital expenditure.

Remember – start the process well in advance of when the budget comes into operation, collect and analyse sufficient information and involve everybody that needs to be involved.



Most sports and recreation clubs operate as not-for-profit organisations. This means they do not operate for the profit or gain of individual members and any profit that is made is directed back into the organisation to carry out its purposes and to undertake activities that are for the benefit of the whole membership.

For most clubs in the not-for-profit area the major priority is to ensure that the revenue generated is sufficient to cover all the expected expenditure.

When setting a budget clubs should consider the following points:

- Is the club looking to break-even, generate a surplus or operate to a deficit? Depending on the circumstances of the club it may be appropriate to plan for either of the three outcomes. If the club's activities will be much the same as in previous years it is probable that the budget will aim to break-even with the income generated by the club aligned to cover the costs of running the club. Or the club may have some longer term goals that require additional revenue and an operating surplus built up over a number of years will provide the club with the resources it needs – in these circumstances the club will look to make a surplus with the cost of running the club less than the income it generates. In other circumstances the club may decide that it is prepared to accept that it

will run at a loss during a budget period and that the cost of running the club will be more than the revenue generated.

- For most clubs an approach to setting the budget that takes a prudent and conservative approach is the best model. The club should establish a reasonable position on the amount of income it is likely to receive – based on the detailed budget planning process – and the costs of running the club should not exceed this income.
- Clubs that take a prudent approach to the setting of the budget will underestimate income items and over-estimate expenditure items. Clubs will also make allowances for increased costs as a result of inflation and will consider an increase in fees for the same reason.
- When setting the budget it is important that a club keeps detailed notes on the various income and expenditure items so that there is a record to justify decisions and to provide some context for how the budget was set when measuring performance during the year and to use when setting next year's budget.
- For most clubs the issue of cash-flow is critical. Cash-flow is the money that moves in and out of the club during each month. When setting the budget it is important to understand the timing of income and expenditure items. When will the club collect revenue? When are the major payments due? It is important that the club has an understanding – based on the detailed budget planning and projections – about the month-by-month financial situation of the club.



Activity

Think about the operation of your club.

What are the main sources of income for the club and when does it collect these?

What are the main expenses for the club and when does it pay these?

Does the club have formal processes in place to track income and expenditure each month? What are these processes?

Once a budget is established and the budget period commences a club needs to ensure it tracks, monitors and measures budget performance – this operational responsibility usually sits with the club treasurer.

The Board or Committee of Management in a club needs to be kept fully informed about budget performance and this is usually done by the presentation of a 'treasurer's report' at scheduled monthly meetings.

The best way to report on the operation of the budget is by showing the club's actual financial situation when compared to the projected budget figures. These reports are usually referred to as monthly income and expenditure statements or 'variance' reports. The variance is usually shown as a percentage under or over the projected amount. These reports may be generated from an Excel spreadsheet or proprietary software such as MYOB or Xero.

The table below shows an example of a monthly report.

	This month	Year to date	Budget	Variance
Income				
Membership fees	3600	9100	12600	72%
Canteen sales	1800	5400	10200	53%
Fundraising events	0	1000	3100	32%
Sponsorship	0	1500	1500	100%
Merchandise sales	780	1220	2800	43%
TOTALS	6180	18220	30200	60%
Expenses				
Player registration fees	1270	7660	9450	81%
Team registration fees	0	1800	1800	100%
Local council ground fees	0	0	880	0%
Equipment purchase	1700	1700	2680	63%
Utilities	220	440	930	47%
Canteen supplies	1300	2230	5610	40%
Merchandise	600	900	1540	58%
Events costs	600	600	1705	35%
Web hosting	190	190	190	100%
PO Box	0	135	135	100%
Insurance	0	645	645	100%
Printing and postage	40	76	110	69%
Replacement playing strips	300	300	595	50%
TOTALS	6220	16676	26270	63%

The 'variance' in a report needs to be considered against what the 'year to date' figures actually represent. Is the report for the second, fourth, sixth or eighth month of the budget year? The answer to the question will determine the action required.

The monthly reports also show whether income and expenditure is tracking as expected. In the example shown income and expenditure are closely aligned.

In general if the variance is equal or close to what was expected then no action needs to be taken. If the variance is higher or lower than what was expected the club will need to take some action because income is lower than budgeted or expenses are higher than budgeted.