

Effective Budgeting Factsheet



What is budgeting?

A budget is a financial plan that outlines expected income from sources like donations and grants, and expected expenses for activities, operations (salaries, rent, utilities), and administration. The goal of a budget is to balance income with expenses to ensure the organisation's financial health and fund its mission, maybe a small surplus. A budget helps an organisation to monitor financial health, identify risks, and demonstrate financial responsibility to donors, regulator and stakeholders.

“A good budget should help you to tell a story of a project or organisation.”

Why is it helpful?

Budgeting helps organisations plan their income and expenses for the year or projects, making it easier to deliver their goals. It identifies risks like financial shortfalls so action can be taken early. A good budget shows accountability to donors and trustees, ensures essential costs are covered for smooth operations, and improves transparency by showing how funds are used, which builds trust.

Core aspects of budgeting



Getting a team together

The right team is essential for budgeting in a charity or non-profit. A collaborative approach with diverse expertise ensures accuracy, transparency, and alignment with the organisation's mission. The team should include a finance lead, board finance lead, programme managers/heads, a fundraising lead, and possibly the CEO or chairperson.



Getting the timing right

The timing for budgeting in charities and non-profits is crucial. Considering the key dates in a calendar will help align the process with the organisation's financial year-end and statutory reporting deadlines. Best practices suggest starting the budgeting process several months in advance and adopting a continuous, rolling forecast approach.



Preparing for the budget

To prepare for charity and non-profit budgeting, define and set financial goals, gather data and build budget templates, forecast current year results and conduct a team kick-off meeting.



Understanding your income and expenditure

To understand your income and expenditure, identify your expenditure categories (programme, shared and specific), forecast your income, develop alternate scenarios, and develop a cashflow.



Creating the right tools

From basic Excel templates to all-in-one financial management systems, ensuring you have the right tools for the job is essential.



It's all part of a bigger system

Budgeting is a crucial part of financial management, aligning financial resources with mission objectives, ensuring accountability to stakeholders, and supporting long-term sustainability. It is a dynamic tool that guides decision-making and risk management.

Step by step guide

Follow these five clear steps to build a solid and useful budget.

Step 1

Gather information & set goals

- Review last year's income and spending.
- Check the organisation's plan and key projects for the year.
- Speak with project managers and trustees about priorities.

Step 2

Estimate your income (money in)

List all expected income sources realistically.

- **Confirmed:** Grants already awarded.
- **Probable:** Grants applied for with a strong chance.
- **Projected:** Expected donations or fundraising based on past data.

Step 3

Estimate your expenditure (money out)

List all expected costs and slightly overestimate where needed.

- **Direct Costs:** Project-related expenses.
- **Core Costs:** Essential running costs (rent, utilities, staff, insurance).
- Include a small contingency for unexpected costs.

Step 5

Get approval & monitor

- Present the budget to the Board of Trustees for approval.
- Review actual income and spending regularly to stay on track.

Step 4

Bring it all together & review

- Compare total income and expenditure.
- **Surplus:** Income is higher than spending.
- **Deficit:** Spending is higher than income, adjust by increasing income or reducing costs.

Review & learn from last year

