**Risk Management- Budgeting**

**Budgeting and Forecasting.**

Budgeting and forecasting are the future financial plan of the station and play an important role in maintaining financial stability and establishing reserves for station improvements or equipment.

Often budgets are developed after a process of strategic planning or review so that priorities are clear and with a close look at annual operational plans. If you don’t make these connections, you may find that that the budget and financial planning are not consistent with the station’s vision or goals.

With a budget you can then forecast the future health of the station. Forecasting is when you review actual outcomes against budget and make adjustments. For example, forecasting will allow you to predict that by the end of the year your electricity will have cost four times the amount you had budgeted for. You are then able to allocate more funds (usually by taking them from elsewhere) to ensure that you don’t overspend.

Once you have a budget:

* you are able to monitor the financial performance of the station closely.
* you can make plans over a number of years
* you can avoid shortfalls or financial problems before they happen
* you can authorise financial delegations to staff with budgets to guide them

How many budgets do you need?

An organisation should have an overall annual budget that includes all areas of operation and is prepared in advance of the start of the financial year.

Your station may also have several sub-budgets depending on how many “jobs” there are being done. “Jobs” in accounting terms are separate cost centres which can be combined. If your station has received a grant for a specific project that involves a number of transactions (eg paying wages or expenses) then a separate project budget is important. You will have probably developed the project budget at the time of a grant application and any grant undertaking usually requires you to keep to the proposed budget. There might also be a separate budget for a fundraising event or an upgrade to station facilities.

Jobs can be consolidated to give a picture of the combined accounts but if you are really wanting to see what’s going on at the station you will need to also look at the various projects as separate budget reports.

Remember that good budgeting requires:

* Preparation against the strategic goals of the station.
* Timelines which match up to your reporting year (either calendar or financial)
* Referring to previous financial year figures to make sure the budget is realistic
* Frequent comparisons between actuals and budgets throughout the year or for a specific project
* The possibility of amending the budget if required.

**Preparing Annual Budgets**

When preparing a budget, there are a number of things to consider.

Ideally, you should always budget to make some level of surplus (which can be added to your reserves for special projects, upgrades and to maintain financial stability). If not, budget to aim to break even by the end of the year.

Sometimes it is a difficult financial situation, or there are some financial reserves that need to be used to operate, and you may have to budget for a deficit. If you think you’re heading into a situation where you’ll be operating at a loss, discuss options with your Board or Management Committee and with your accountant. The aim in this situation is to plan ahead so that the deficit only applies for a specified period. This could be one or two years, but make sure the period of time is realistic and agreed to by the Board, and budget to return to a small surplus as soon as possible.

However, in framing the budget bottom line, it is very important to be as accurate as possible. Do not put a positive spin on your budget (that is, forecast a unrealistic surplus) when it’s more likely that, given the previous year’s performance, there may be a deficit. This would be highly misleading information to provide the Board or Management Committee.

The budget for the overall operations of the station will be more accurate if you also budget separately for special events. For example, the line item for income from events for the whole year will be more accurate if you’ve carefully considered each event separately. Similarly, your forecast regarding how much money will be spent on printing or organisation for events will be more accurate if you’ve considered each event separately.

A budget allowance should be also made for the purchase or replacement of office or studio equipment of any substantial cost that is anticipated to be required in the coming year. This represents capital expenditure.

You can’t escape the consequences of what has happened in the previous year! As you move into each new financial year, you take with you the state of play at the end of the year just finished. The factors involved are:

* the annual surplus/deficit
* any major outstanding debts or monies owed to the station
* liabilities in the form of monies set aside for specific purposes (eg. unused annual leave, long service leave).

There are two main ways to tackle the process of budgeting:

* incremental: this is where you simply take the previous budget and make a percentage increase to each of the items, to account for inflation or adjust amounts for any item where you know for sure that changes are going to occur. For example, this year, the station spent a lot of money on advertising because of a special event, but you know it won’t need to spend that amount on advertising next year. The disadvantage of this approach is that you aren’t looking critically at everything in your financial operations – you’re assuming you got it right this year and that next year will be more or less the same.
* zero-based: this is where you start from scratch and work everything out as though you are starting the operations anew. The disadvantage of this approach is that it’s very time consuming.

As so often happens in life, the middle road is the best way to follow – use past experience as your guide, but be open to new ideas and review each line item of the budget. Ask yourself questions for each category - are there different circumstances this year to last year or are there different operational requirements this year. You wouldn’t want to miss out on a new income stream because you didn’t think beyond current sources of income.

Be as specific as possible when listing items - avoid items such as ‘miscellaneous’ income and expenditure – you can always find some other way of categorising an item.

DON’T list ‘petty cash’ as an expense in your budget. Petty cash should always be reconciled and entered against the appropriate line item in your accounts eg. postage, taxis, catering.