Fifteen budget tune-up tips

By Bob McMahon, CA
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In honour of the 15th anniversary of **CharityVillage®**, following are 15 tips to help you tune up your nonprofit's annual budget for optimal performance.

1. Use the organization's overall mission and strategy to drive the budget.

Planning is key to any organization's success. Use the strategic plan to determine where to make the most important investments to effectively carry out the mission. If, for example, your long-term strategy is to launch a capital campaign, then the budget should take this strategy into account on both revenue and expenditure sides of the ledger.

2. Factor in the outside world.

Consider the impact of the external environment — the economy, industry trends and other factors — on your organization when budgeting revenues and expenditures. If it is dependent on fuel or other commodities, for example, fluctuations in market conditions could significantly impact expenditures. Local salary costs can be another major factor for nonprofits and charities.

3. Seek input from program/project managers.

Open up the budgeting process beyond financial staff by also involving program or project managers. They can often contribute valuable insights into the programs they manage along with the associated costs. Being part of the process also gives these managers more responsibility for the budget and a stronger commitment to their numbers.

4. Keep *thinking outside of the box.*

It may be cliché, but it is important. New and different can be lucrative for a nonprofit. Being the first to promote a novel fundraising idea or event can, for example, generate new supporters and more revenue. Look to your volunteers for suggestions and contacts.

5. Source strategically.

Many nonprofits use the same suppliers year after year, yet there are often significant savings available when management conducts a regular review of costs associated with these expenditures. Consider issuing a request for proposal for key suppliers and service providers, and ask them for solutions to alleviate budget pressures.

6. Prioritize.

Establish priorities for your organization's programs and projects as well as within each program/project. Prioritizing makes tough decisions easier in years where funding is limited. Analyzing in priority sequence helps to identify opportunities for delaying or eliminating expenditures.

7. Budget detailed revenue and expenditure lines.

A budget should break down not only revenue and expenditures by program but also by the specific revenue items and costs within each program/project. Regularly review these on a line-by-line basis to assess whether each expense is contributing essential value to the specific program or project.

8. Ensure that revenues and expenditures are realistic.

Thoroughly examine revenues and expenditures to ensure they are based on reasonable assumptions and are realistic. Never arbitrarily increase revenues or decrease expenses to offset a preliminary budget shortfall. For example, when activities remain the same or increase, there is no reasonable expectation that payroll and benefits expenditures will fall by 10%. The same is true for the revenue side of the equation.

9. Look for opportunities to replace expenditures with in-kind donations.

In–kind donations help to preserve valuable cash that may be redirected to other priority expenditures. Donated brochures, for example, can save pricey printing costs. Donated food for a fundraising event may save costly catering expenses. Therefore when reviewing expenditures, consider opportunities for in-kind donations to reduce cash outlays.

10. Budget for capital items.

While a new computer or equipment may not be necessary for a few years, it's important to ensure the cash is there when items are needed. Thus be sure to consider what you may require within the next two to five years and account for these items in the budget.

11. Plan for the unexpected.

No matter how tight your budget, it is essential to allow a cushion for unplanned opportunities and costs. This will enable your nonprofit to adapt to the unexpected without compromising important programs.

12. Build a contingency surplus.

It's also important to set aside some budget funds each year to build a surplus of six months to a year of operating costs. This contingency fund can help the organization survive in the event of a potential funding or expenditure disaster.

13. Document the process.

A budget is not just numbers. There is a reason why every expenditure and revenue item appears in a budget. Documenting these reasons makes budgeting and monitoring clearer. It also makes these processes easier in subsequent years and assists in communicating results to funders and other users of the organization's financial results.

14. Take some time and space.

After the preliminary budget has been drafted, step away from it for a day or two. Then revisit it to ensure the contents make sense. Before finalizing the budget, bring in fresh eyes. Ask the board of directors or finance committee to review revenues and costs and provide input.

15. Regularly monitor budget progress.

Each month, compare the previous year's budget, the current budget, and monthly revenues and expenses to assess successes and challenges. Explore differences between budgeted numbers and actuals to identify potential problems, such as expenditure lines that are too high or low compared to what is expected. Share this information with those who are accountable for various cost centres or expenditures so they can effectively manage revenues and costs for their respective areas of responsibility.

If you think of your organization's budget as the engine that drives the mission, these 15 tips will help to ensure that your budget is tuned, responsive, and ready to get your organization where it needs to go.

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