# Guide to budgets

Budgeting involves setting financial targets. It helps your management committee allocate resources to meet the club's objectives.

You should set aside the time to prepare your budget early, understand budgeting methods, prioritise initiatives aligned with strategic objectives and regularly monitor your performance against the budget. Collaboration among the management committee and key stakeholders helps you prepare a realistic budget that considers revenue sources and expenses.

## Driving your club forwards

Think of crafting your budget and assessing your actual performance against that budget like driving your club towards its financial goals. Your budget is like your financial 'windscreen', providing a forward-looking view of the financial road you want to travel. Your financial statements are then like your 'rear-view mirror', offering insights about your financial journey in the past. The rear-view mirror's insights matter, but just like driving, you should focus more on the road ahead - hence why we have a big windscreen and a small rear-view mirror!

## Comparison

When monitoring your club's financial performance, if you only look at the financial statements, you're merely getting a snapshot of your club's financial position without context. When you are just looking at one number for income and one number for expenditure, you have no way of knowing if those numbers are good or bad.

However, when you compare your actual performance to your budgeted figures, this dual perspective reveals a deeper narrative. When comparing your actual financial performance to your budget, you gain crucial insights. If you fell short of budgeted income figures or overspent on expenses, you need to investigate the reasons. If you exceeded your income budget and underspent on expenses, it means you should understand the successful strategies employed and aim to repeat them. Even if your budget and actuals align perfectly, there's still a story of accomplishment there.

> Your budget should always aim to achieve a profit, or surplus, by having more income than expenses. But achieving a profit each year is more than just providing a financial safety net for unforeseen expenses like equipment repairs. It's only by generating a surplus that you will have extra funds to invest in growth!

### Here are six tips to help create a successful budgeting process for your club:

## 1. Make it a collaborative process

The budget should be developed through collaboration between the management committee, any key staff and relevant subcommittee members. This approach helps ensure that the budget is based on realistic assumptions and accounts for all expected sources of revenue and expenses.

## 2. Budget for a surplus

Make sure that you budget to make more income than you'll need to cover all of your expenses. Every club has different needs and operates in different market conditions, so understand what level of surplus is appropriate for you. But don't be afraid to aim high!

It is wise to be conservative when estimating your income and realistic when estimating your expenditure.

**A sinking fund** is the name given to a long-term savings initiative to cover significant future expenses. For example, a sinking fund could cover replacement of your floodlights, refurbishment of the clubhouse or replacement of assets that reach the end of their serviceable lives.

Be aware of your tenure obligations (e.g. through your lease or licence agreement with Council) and create a sinking fund to cover those expenses for which you will be responsible.

Regular contributions to your sinking fund should be included in your budget.

Clubs that only rely upon grants or hope that Council will come to the rescue are risking disappointment. Having a sinking fund puts you in a far stronger position to ensure your long-term sustainability.

## 3. Understand your inputs

Recognise that your budget isn't solely about containing expenses - it's also about optimising your revenue. Most clubs have various 'business units' or income streams that can be optimised to increase cash flow. Your expenses are often subject to factors like inflation or growth goals, so remember the levers you can use to boost income. Consider the profitability of your canteen or bar, the appeal of your merchandise, or the potential of creative fundraising and unique events.

## 4. Set the budget early

The budgeting process should have a clear timeline and should be completed well in advance of the start of your financial year. This allows time to make informed decisions and allocate resources effectively.

## 5. Understand budgeting methods

Will your budget be 'zero-based' or based on last year's performance? Zero-based budgeting starts from scratch, requiring justification for all expenditure and every income item, while basing the budget on last year's performance means starting with the previous year's financial statements and making assumptions about the next year from there.

## 6. Monitor

Regular monitoring of the budget helps you to proactively manage the club's finances, make informed decisions and guide adjustments to operations as necessary. Scenario planning can be helpful to consider different possibilities such as significant decreases in revenue or unexpected expenses.

### Setting membership fees

Club membership fees are usually the greatest lever you can pull to increase income, but they are often overlooked! Many clubs set their fees before they complete a budget, or without any reference to a budget at all. All too often, management committees simply add an arbitrary amount to last year's fees, say $5 or $10, without considering how much they should be increasing fees to ensure the financial sustainability of their club.

When setting fees, keep in mind that as a member of the management committee, you have a duty to prevent insolvent trading. So make sure that the management committee has the final say on how fees are set, not members who may be looking for a free ride. It is the committee who is accountable for your club's financial stability.

There should be no concerns about making 'too much money' by increasing your fees and making a surplus. The self limiting factor of your not-for-profit status always means that no matter how much money you make, when you spend it, it must be for the benefit of your members. More profit simply means better facilities, programs, equipment and services!

See the *Setting fees* resource for more information and tools for setting fees for your members.

**Your duty to prevent insolvent trading**

Insolvency means an organisation is not able to pay its debts as and when they fall due. To help comply with this duty, keep yourself informed about the club's financial position at all times, as well as how it is tracking against its budget.