

Financial Planning - Budgeting

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Financial Planning

The Treasurer has several key roles in the area of financial planning for a sport and recreation club, mostly to do with budgeting, financing and investment activities.

Preparing budgets

J Edgar Hoover once said “that budgeting is about telling your money where to go rather than wondering where it went”. In more formal terms - even though a budget is often thought of as a way to limit expenditure it is really a tool for planning the efficient and effective application of financial resources on a day-to-day basis so as to advance the long-term goals of the club. A budget is not about putting a sport or recreation club in a financial straightjacket. The level of sophistication in the budgeting process is determined largely by the size of the club and its objectives (e.g. expansion of staff and programs, facility redevelopment).

Operating and capital budgets

Usually it is the Treasurer's responsibility to coordinate the budgeting process in consultation with other management committees. Budgeting is a key role in financial planning and management for most sport and recreation clubs. It follows on from a review of the club's development or strategic plan and may well lead to a reassessment of the club's future plans. There is usually a separation between operating and capital budgets. Operating budgets are usually projected for one year at a time.

Capital budgets involve less frequent but mostly substantial items and might be projected over a five-year period and subject to annual review. Though not elaborated on in this guide, in larger clubs operating budgets may be further subdivided into a number of cost-centre budgets such as for marketing, administration, programs, facility operations, training and development, merchandising and so on.

The budget is a statement of the likely sources of income and anticipated expenses for operations and capital development. The budget shows all sources of income and expenses such as administration expenses, as well as program income and expenses. It is therefore essential that program sub-committees (e.g. coaching, facility development) have input into the budgeting process.

Major steps in preparing budgets

1. The management committee should decide whether the club is going to use a conservative approach to budgeting and whether it is going to run a break-even (i.e. operating income to equal operating expenses), surplus or deficit budget. If there is to be a surplus or deficit budget, what amount is the management committee expecting or prepared to tolerate?
2. Identify and list all possible sources of income and all likely areas of expenditure, separating those items that belong in the operating budget and those items that belong in the capital budget. As a general principle, prudent budgeting ensures that total operating expenses are covered by total operating income for the year.
3. Obtain or make estimates for all budgeted items. Make a careful estimate about the amounts likely to be spent or received for each item. If the principle of conservatism is to be applied to the budgeting process, income items should be underestimated and expenditure items overestimated. Having end-of-year financial statements and budgets from previous years is particularly helpful in the budgeting process. This is an incremental approach to budgeting and assumes that the club does not need to implement major changes. It is important to consult with individuals and groups within a club who are likely to be affected by budget decisions.
4. Adjustments for inflation and likely increases in expenses should be made. Figures are usually rounded off because they are estimates.

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5. For some items it will be possible to calculate the amount, which is likely to be paid or received. For large items such as capital expenditure or hiring a staff member for the first time, it may be necessary to obtain quotes or estimates if the budget is to be accurate.

6. It may take several attempts to draw up a budget that is acceptable to the management committee or board. It is not unusual for a sport or recreation club to review its operational and capital expenditure plans in light of budget estimates, particularly where deficits are likely to occur.

A draft operating budget for a small sport and recreation club might look like the example shown below. Note that the budget is in deficit (expenses are projected to be higher than income).

OPERATING BUDGET FOR THE YEAR _____	
Income	\$
Subsidies	2,000
Membership	1,500
Donations	400
Fundraising	2,000
Sponsorship	1,000
TOTAL	\$6,900
Expenses	
Rent	3,500
Equipment	600
Volunteers' expenses	350
Publicity and printing	200
Fundraising expenses	200
Telephone	1,500
Stamps and stationery	300
Insurance	600
Sundry	500
TOTAL	\$7,750
PROJECTED DEFICIT	(\$850)

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When compiling the budget it is important to detail the estimates behind any numbers. This allows for more accurate budgeting when compiling future budgets.

Large deficit budgets, where expenditure is expected to exceed income, can be a problem if a club does not have a pool of uncommitted accumulated funds from previous years. The club must find ways of reducing expenditure or increasing income. As discussed earlier, the club may have to forgo some of its plans if it has insufficient funds.

A draft operating budget for a larger sport and recreation club might look something like this:

OPERATING BUDGET FOR THE YEAR _____	
Income	\$
Government grant - salary subsidy	42,000
Membership/affiliations	100,000
Awards, badges	2,000
Bank interest	500
Bar takings	50,000
Donations	1,500
Fundraising	10,000
Gate takings	6,000
Hire of gym	5,000
Sponsorship	12,500
TOTAL	\$229,500
Expenses	
Salaries and costs	
- administrator	39,000
- clerical secretary	22,000
- development officer	29,000
- coaching coordinator (part-time)	8,000
- hourly paid assistance	1,000
- casual bar staff	17,000
Postage and telephone	12,000

cont. overleaf

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OPERATING BUDGET FOR THE YEAR _____ <i>cont.</i>	
Stationery and postage	14,000
Travel	3,500
Insurance	100,000
Repairs and maintenance	6,000
Trophies	1,000
Photocopier	10,000
Word processor	6,000
Publicity and promotions	10,000
Rental	2,500
Bar stock	7,000
Tracksuits	2,500
Coaching sessions	7,000
Umpires seminar	4,000
Secondary schools tournament	5,000
National affiliations	1,000
Miscellaneous	1,500
TOTAL	\$220,000
PROJECTED SURPLUS	\$9,500



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A capital budget for a sport and recreation club, which owns a licensed clubhouse facility, might look something like the budget below. The yearly figures would need to be carried forward into the operating budget of the club to ensure that it did not run into problems with a deficit budget. Grant funds and other forms of income might be used to offset some items of capital expenditure:

	Year 1 \$	Year 2 \$	Year 3 \$	Year 4 \$	Year 5 \$	Total \$
Refurbish lounge bar area	7,000	5,500				12,500
Repaint exterior of building	10,000				12,500	22,500
Replace beer reticulation system		21,000				21,000
Upgrade gymnasium equipment			7,500	7,500		15,000
Replace and upgrade car park lighting			30,000			30,000
Rectify car park drainage problem	15,000					15,000
Clubhouse extension				120,000		120,000
Fitout clubhouse extension					60,000	60,000
TOTAL	\$32,000	\$26,500	\$37,500	\$127,500	\$72,500	\$296,000

Cash flow budgeting

If a sport and recreation club is to continue to operate it must have enough cash to pay its bills when they become due. Many sport and recreation clubs are vulnerable to cash flow problems because they operate on small cash reserves, and they fail to see the Implications of cash flow problems until it's too late.

The timing and size of cash receipts and payments are the two most important factors in cash flow budgeting. After projecting annual operating and capital budgets, the Treasurer and the management committee should try to project on a month-to-month basis their club's cash position to plan for months where the club is likely to have a shortage or a surplus of cash on hand. Months where income is projected to be low and expenditure is expected to be high tend to cause cash management problems.

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For larger clubs, borrowing money (e.g. a bank overdraft) is another strategy that is often used to overcome cash flow problems. However, the risks and costs associated with borrowing funds and finding access to such funds makes it a less appealing strategy for most not-for-profit sport and recreation clubs. In months where a cash surplus is expected to occur, the Treasurer can suggest strategies for investing the surplus funds for short periods of time to generate additional income for the club.

Good budget preparation should include documentation of all your key assumptions. This way you will remember what you anticipated, and when reviewing your forecast against actual budgetary position, it will help to see what has changed if the actuals turn out differently. When listing your assumptions, if you believe that there is some risk that the event may not occur, include this information with the assumption and any actions that you may have thought of in the event that a particular assumption turns out to be incorrect. That way, you will already have an action plan in place. The table below is an example of documenting assumptions.

Assumptions	Forecast	Source	Risk	Action
Grants	Grants will decrease by 11%.	Released government information as attached.	Grants available will be less than anticipated.	Increase fundraising and donation activity.
Trading operations	Overall trading income will decrease by 13%.	Current economic data and industry information.	Overall the decrease will be greater than anticipated.	Implement aggressive marketing campaign to increase sales. Review expenditure.
Salaries	Salaries will increase by 2.3%.	In line with CPI and market conditions.	Salaries will increase by more than 2.3%.	Review all staffing levels and employment contracts to identify possible savings.
Expenses	Expenses will decrease by 8%.	Prior-year historical data identified excess expenditure.	Expenses will decrease by less than 8%.	Continually review operational activities to identify any expense savings.

Financial management tip: You may want to consider presenting the key assumptions to the management committee for approval before developing the new budget. This way, it will be fully informed of what has been estimated for the key events for the budget year and will be able to see clearly what is going on. If you do seek approval, then at each committee meeting you should also advise the management committee of any changes that may have occurred that have or are likely to have an impact on your assumptions.

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Financing and investing activities

From time to time the Treasurer may be called on to provide advice or make recommendations to the management committee about financing the purchase of a major asset (e.g. a new clubhouse facility) or how to invest surplus funds. Because financial institutions offer such a wide range of loan and investment products and services, the Treasurer should seek independent financial advice about such matters before making firm recommendations about how the club should proceed. Decisions about financing major asset purchases or investing large amounts of money do not occur very often but have significant long-term implications for the financial performance of most sport and recreation clubs. The Associations Incorporation Act regulates financing and investing activities to some extent in incorporated associations.

Some financial implications of incorporation

Incorporated sport and recreation clubs have a legal existence in and of themselves. In financial terms this means that they can:

- Sue and be sued in its own right
- Own land and other property
- Make contracts and enter into tenancy agreements in their own right
- Receive a bequest or gift from a will
- Borrow money
- Perpetually exist, that is, remain in existence no matter who is a member until the club is disbanded by direct operation of the law.

The office bearers and members are not personally liable for the debts of the club, nor the negligent acts or omissions of other office bearers and members unless the rules specifically provide otherwise. However, incorporation does not protect the individual from liability for their own negligence.

Incorporated associations may not be formed for the purposes of trading or earning profit for members. If the club earns a profit from commercial activity, this profit may not be distributed among the members. It must be used for the objectives of the club as stated in its constitution.

Sport and recreation clubs that frequently review their financial position can make investment decisions to ensure that they carry minimal levels of surplus cash in their cheque accounts. When surplus funds are invested the two key factors to consider are the level of risk and return. In general, investments with higher returns tend also to have higher levels of risk. Dealing with reputable financial institutions when making investment decisions minimises the risks associated with investing funds. In some states, under the Associations Incorporation Act the investment activities of incorporated associations are restricted to certain types of financial institution.

Borrowing funds exposes clubs to some degree of risk. If a club defaults on its loan repayments the financier may move to appoint an administrator to conduct the affairs of the club (i.e. the management committee loses control) or may have the club wound up and its assets sold to cover any outstanding debt. There are several basic principles involved when borrowing funds to finance the purchase of fixed assets:

- Match the term of the loan to the useful life of the asset (e.g. motor vehicle 4 to 5 years, new building 10-20 years).
- Funds provided by the club should equal or exceed the borrowed funds.
- The club should ensure it has the capacity to service the debt.

Lenders are concerned with the amount of collateral offered in relation to a loan, the ability of the club to repay the loan out of its earnings, the current market value of its assets, and the ease with which the lender could sell the assets. When approaching a financial institution with a proposal to borrow funds, a sport and recreation club will need to have the following information available:

- The purpose of the loan
- Last three years' financial statements (e.g. statements of income and expenditure and balance sheets)
- A cash flow budget for the period of the loan (monthly for first year)
- Details of debtors and creditors.

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