Finance & Funding Guide
2.13 Financial Planning for Larger Groups

The information below is an overview of requirements and for further more detailed information, support and guidance etc please contact the BVA Group Development team via telephone 01256 423816 or email admin@bvaction.org.uk (please quote "BVA Group Assistance" on title).
www.bvaction.org.uk

Funding for voluntary and community organisations has undergone major changes. Core funding is on the decline while project or service-specific funding, and tendering to procure a commissioned piece of work has increased.

This means that organisations have to be more sophisticated and creative in drawing up budgets and funding proposals. It also means having to plan and present your finances in different ways in order to attract funding for specific pieces of work or projects while ensuring that the organisation's running costs are covered.

Considering and producing a Group Profile which explains in a concise way what your group was formed to achieve with successes to date, will save time especially as many funds are released with a limited time frame to turnaround.

What is a business plan?
A business plan is a statement of what you are proposing to do over a period of two to three years, how much money you will need, when you will need it, and where it will come from. The core of your business plan will be a forecast of income and expenditure for that period of time.

It can take quite a while to prepare - months rather than weeks. Once it's drafted make sure that your whole committee or group approves it.

Try to keep it as concise and short as possible and avoid jargon.

The process of developing your business plan can be a positive experience for your organisation because it can:

- Help you to focus on what you are actually doing.
- Stimulate creative thinking by involving lots of people and seeking their opinions.
- Help you to see any areas of weakness in your organisation.
- Help you to see what is holding you back - whether it is a shortage of people or time, or not enough funding.
- Identify your projected costs and highlight how much funding you are looking for over the course of the business plan.
- Set a list of priorities for your group.
- Help to develop action plans.
- Help you to see opportunities that you were not aware of before.
- Provide a way of monitoring and evaluating the progress of your group.
- Help you to avoid crisis management.

Project costing
First of all, think about the work you want to do and convert it into project ideas, that is discrete pieces of work, and then devise a budget for each project including a share of your organisation's 'overheads'.

There are a number of issues to bear in mind if you approach your fundraising in this way:

- Your budget will have to reflect your 'project thinking' and shift away from a core budget to 'cost' or 'project' centres.
- In costing each project you need to include one-off start up and capital costs and then divide your other costs into 3 categories - 'direct', 'shared', and 'indirect'.
- 'Direct' costs are those that apply exclusively to the project, such as salaries and recruitment costs.
- 'Shared' costs are those that will be shared out between a number of different projects, like rent and cleaning.
- 'Indirect' costs are those that are incurred by the organisation as a whole and may include things like insurance, audit fees, and management committee expenses. As with 'shared' costs these can be worked out on a percentage basis.
- When including a share of general costs or organisational overheads (e.g. rent, heating, lighting, buildings insurance) into your project, make sure that you allocate the costs in a sensible and realistic way that can be explained. Do not just pluck figures out of the air. For instance, if the project represents 20% of your total staff time then it would be reasonable to expect it to pay 20% of the rent and other running costs.
- When drawing up your budget for running costs, don't forget to allow for inflation, that is, price rises in years two and onwards. You may need to seek advice on future levels of inflation.
- When drawing up your budget for capital items, don't forget to allow for depreciation, that is, things like equipment wearing out and losing its value.
- If you already get some income form another source then that could cover your general costs so that you need only approach new funders for the interesting bits.

Once you are happy that you've included all the relevant costs into your project budget ask yourselves:

- Does it look right?
- Is it a lot less or more than you expected?
- If you need to increase or decrease the total cost, look at the items that are flexible like management or administration time or any allocation of overheads.
- If you think that the total amount you need is too much for one particular funder to support you can approach several funders.

You could try to break down the project into smaller chunks or mini-projects and ask different funders for money for the different chunks.

Once you are happy with the budget, agree it within your group.

Unit Costs
You may hear funders or others using the term 'costing' or 'unit cost' - especially where contracts are being developed for the delivery of services - and you may want to look at using this as a method for costing your activities. Statutory funders sometimes require you to cost your work like this - most charitable funders do not. However, you might want to be able to say how much it costs to help each person using your service or how much each activity costs in order to show that your project is good value for money, or to make it appeal to a particular funder, e.g. 'for every £x you give us, we can help y people'.

This can be a complicated process and involves taking into account the whole organisation's costs so it may take time to develop your own systems. Basically a unit cost is the cost of a particular piece of work, activity or service. For example if the total cost of taking five people on holiday for a week is £1,000 then the unit cost per person is £200.

Cash Flow
Once you have decided how much you plan to spend, how much you need to raise, and have managed to do so successfully, you can balance your budget. But in reality things may not work that way.

Money is not all received and spent at the same time. Grants may come in as quarterly payments or might arrive late but you might not be able to delay payments such as wages or the phone bill. This can cause 'cash flow' problems.

You need to know when you will receive money so that you can plan your expenditure accordingly. For instance, you could delay building works, or negotiate a bridging loan from your bank, or get a supporter to guarantee your overdraft.

To work out your cash position you need to draw up a cash flow budget. This looks at each item of expenditure and income and shows when the money will be received and when it will have to be paid out. You should look at this each month, or at least once a quarter.

You can follow the same procedure for every item of expenditure, and then repeat it for your income budget. Keep track of the receipt of each item of your income over a period of time and you can then see how it matches up with your expected expenditure. This is called a 'cash flow analysis', and the point of doing it is to get advance warning of any problems so that you can take action to avoid them.

Value for Money
Increasingly you will have to prove to funders that your project is good value for money. This means asking yourselves three questions:

- Is the project economic? How do your costs compare with those of other organisations running similar projects?
- Is the project efficient? Could you do more for the same amount or by doing more could you reduce the unit costs?
- Is the project effective? Will it make a difference? What are the likely outcomes?

You can use a value for money argument to support your case.

Added Value
This is another way of arguing that your project is good value for money. Added value means that for every pound the funder puts in you will enhance their investment through other 'inputs' such as your knowledge and skills, your management capabilities, volunteers' time and skills. If your organisation didn't already exist to run the proposed project, then to set the project up from scratch would cost far more money, so you can use an added value argument to support your case.

Additionality
The Big Lottery Fund and many charitable trusts will not fund services that are meeting a statutory obligation (education, primary health care), or subsidise services paid for by statutory agencies. But they will fund 'additional' projects. For example if your organisation was funded by Social Services to provide day care you could apply to charitable funders for other aspects of your service, such as setting up a gardening scheme.

Matched Funding
Some funders, like the European programmes, will only provide part of the total cost of your project, often a set percentage. You have to find or 'match' the amount they are offering from within your own resources or from other sources.

Leverage
This is the process by which your project brings in other money from other sources. For instance, you might need to show that for every £1 given you by a Regional Development Agency you will be able to bring in another 50p or £1 from local businesses.