

How To Develop And Manage A Route Budget (134)

A budget is an estimate of what you expect your route to earn and spend in the year to come. Budgeting allows you to check how your route is performing financially from week to week, or month to month. Without a budget, you would not know how much was available to spend on which activities.

This Guide explains how to prepare a budget for your route, taking into account your planned expenditure and planned income. It will also explain how to use the budget to support your priorities and control your spending.

Also look at the Guides on how to manage route finances, how to manage a project budget, and how to report on route finances.

Why is a budget important?

A budget can be seen as the financial expression of the route's priorities and plans. Budgeting does not exist in isolation but is linked directly to what the route wants to do in the coming year and how it will achieve its aims. The budget is therefore an enabling tool, setting out how much the route will spend, when it will spend it, and what it will spend it on.

By planning a budget alongside the planned activities for the year, the Route Forum can check whether it has the resources to do what it wants to do. After all, there is little point in making plans if there are not the financial resources to carry them out.

The budget also provides a regular yardstick or benchmark against which the actual expenditure for each month can be

compared. If the actual expenditure is much higher (or even lower) than the budgeted expenditure, then questions must be asked about why this is the case. It is therefore also an important governance tool for the route and its members.

What is a budget and how is it used?

A budget is a forecast or prediction of the route's income and expenditure for the year – and it is usually split up into months. The example below shows a simple budget for three months, with a profit/loss calculated from the income minus the expenditure. A budget can also include a line for running balance to indicate how much money there should be in your bank balance; this is only a rough estimate, though, because it assumes that cash will come into the account in the month that a sale is made. This is often not the case, as customers (and even donors) do not always pay immediately or on time.

Simple budget for three months (a budget is usually done for a year, but this is three months to make it easier to see):

Budgeting for income

Depending on how your route raises its money, you can fill in the line items that are relevant to you. In the example provided, the route gets its income from three sources: membership fees, route levies, and sponsorship from large corporations. It is not always easy to know exactly how much income will be raised in each month, since it is sometimes difficult to get sponsorship confirmed so far in advance. However, the budget is meant to be an estimate and a tool, so the figures will be what the route is aiming for.

What is important is to use the budget as a goal, and then assess every month how close you have come to achieving that goal. It is not a disaster if an income target is not reached,

but it does show you that something must be done about the income in order to meet the expenditure the budget has forecast. Either the income needs to be found somewhere else, or the expenditure must be reduced – if only temporarily.

In other words, the budget must be used for planning and for corrective action. It will show you where you might be going off course, so it must be looked at regularly (at least every month) by the Route Forum, which must come up with solutions if there are problems in getting enough income or in keeping expenditure under control.

Budgeting for expenditure

Working out how much the route needs to spend each month is usually an easier task than estimating the income. This is because the route should be able to plan what resources it needs (office, staff, phone, travel, stationery, etc.) to do what it has planned to do for the year.

Expenditure items usually include items such as office space rental (plus electricity, water and rates), the landline telephone (and broadband) account, a certain allowance for cellular phone calls by staff and committee members, stationery, printing and travel costs. Each route will have its own requirements, and most will try to keep these costs as low as possible (by donating office space, for example) until the route's income is well established.

There will be unexpected expenses from time to time, but these just need to be discussed by the Route Forum and agreed before the money is spent. The budget helps here by putting a limit on what the route wants to spend each month and requiring a definite decision before anything extra is spent. This way, it is not left up to the administrator, for instance, to decide he or she can go over budget with the spending.

Applying the budget

As noted, the budget must be put to use by the Route Forum before it can be useful (don't leave it in a file on the shelf until next year!). This means looking at the budget at each monthly meeting, and comparing the route's actual income and expenditure with the budgeted income and expenditure.

By simply adding another column to the budget example provided, you can see that this process becomes fairly easy. Putting a Budget column and an Actual column next to each other makes it easier to compare the two numbers. The Route Forum's financial manager or administrator can fill in the Actual figures after every month by using the income and expenditure figures on the bank statement for that month. Putting the Actual figures in a different colour can also be useful.

In the example below, the actual income and payments have been recorded for January, so this may be what the Route Forum would see when it gathers for its February meeting. The method used here is to use different colours to highlight how the Actual figure compares to the Budget figure:

- If the Actual income was lower than the Budgeted income, it represents a possible problem, so mark it in red (signifying danger!); if actual income is on budget (or better than budget), mark it in green.
- If Actual expenditure is higher than Budgeted expenditure, then mark it in red; if Actual spending is on budget (or below budget), mark it in green.

Table comparing Actual with Budgeted income and expenditure each month

	Jan		Feb		Mar	
	Budget	Actual	Budget	Actual	Budget	Actual
Income (receipts or money received)						

Contributions by members	R 5,000	R 4,766	R 5,000		R 5,000	
Sale of sundry products	R 2,000	R 2,560	R 8,000		R 12,000	
Sponsorship	R 10,000	R 10,000	R 3,000		R 0	
Total receipts	R17,000	R17,326	R16,000		R17,000	
Payments (expenditure or money paid out)						
Rent	R 3,000	R 3,000	R 3,000		R 3,000	
Wages	R 7,000	R 7,000	R 7,000		R 7,000	
Stationery and printing	R 4,000	R 3,457	R 4,000		R 4,000	
Telephone and broadband	R 900	R 986	R 900		R 900	
Transport	R 1,500	R 1,397	R 1,500		R 1,500	
Total payments	R 16,400	R15,840	R16,400		R16,400	
Profit/Loss	R 600	R 1,486	-R 400		R 600	
Running balance	R 600	R 1,486	R 200		R 800	

Another useful column can also be added to each month: Variance. This is the difference between the Budgeted and Actual figures, expressed in rand. It is useful because it can then be clearly seen how much of a gap exists between what your route expected and what it achieved. The Variances can then be totalled up, giving the Route Forum a clear indication of financial challenges or successes.

Who is involved with budgeting?

The Route Forum's Treasurer will usually be the one tasked with preparing the budget. They may work on this with the administrator (especially if the administrator must manage the financial paperwork) and even the Chairperson (who often is the person with an overview of everything going on). If the route has office staff, then they may also give inputs – perhaps they are having challenges because certain resources are not being fully provided for by the existing budget.

How is a budget applied to the route?

Once a draft budget is compiled, then the Route Forum needs to

see it and discuss it more fully. Only once this is done can it be presented at the AGM for members to consider and approve. Once the budget has been approved in the AGM, it can then be officially implemented by the route as the framework for what can be spent.

A budget is not just a vital internal tool for planning and governance in the route, it is also a key ingredient in your funding applications. Funders and sponsors want to be assured that your route is clear about what it will spend its money on, and that you are not just guessing the amount you have requested. Remember that all funders need to account for how well their donations are spent, so the amount that you request must match the actual impact that your activity has on the route, the community and the local economy.

When you apply for funding or sponsorship, therefore, you must include a clear budget of how the money will be spent. Your case will be strengthened if you are able to show budget (and actual) figures from previous years, which show that you are competent at estimating and controlling your expenditure.

Practical tips

- Know why you are budgeting – keep in mind the importance of controlling spending and staying ‘in the black’ (spending less than the route can earn).
- Have accurate data of your route’s spending – keep good records of all invoices and receipts.
- Have a simple budgeting tool that you understand how to use – start with pencil and paper if you must. There are computer programmes that can help, but don’t use them if you find them too complicated. Rather understand what you are doing.
- Be realistic. Budgeting is like planning a diet – it’s not going to work if you expect too much too soon. Take small steps – especially when starting up.

- Update the actual amounts in the budget every month, and circulate them at the Route Forum meetings, so that the forum has an overview of financial matters. This is vital, since the solution to any problems in spending or income will have to start with this group.

Use of this Guide

This Guide can be used by the Route Forum's Treasurer and administrator, as well as other members, to allow them to become familiar with the basics of budgeting.

Route members can also use this information in their own businesses, because all enterprises have to budget in one way or another.

Other Guides

Here are some other Guides related to finance and budgeting:

- Guide: [How To Develop A Project Budget](#)
- Guide: [How To Open A Route Bank Account](#)

Contacts and other support

Department of Tourism

The Chief Directorate: Tourism Development has an annual budget for funding projects that help to grow the tourism industry. This growth can be realised in many ways, for instance, through job creation, training or infrastructure development.

If you wish to qualify for funding, you must meet a number of criteria. For instance, your company should be a going concern and must be able to submit an annual report. The following are examples of the activities that may be funded by the

Department: training, development of tourist routes, tourist information centres, mentorship, signage and literature related to small business development.

Funding is not available to pay bonuses or salaries, cover retrospective costs incurred by an entity, or a number of other excluding factors. For more information, visit www.tourism.gov.za.