Budgeting tips for resilient non-profit organisations

Most leaders and staff of non-profit organisations (NPOs) are currently involved in planning their budgets for 2022. Many lack financial skills, however, it's no easy task to forecast costs and allocate resources in light of the lingering impact of Covid-19.

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According to the Department of Social Development website, there are currently over 250,000 South African NPOs on its national register. However, the accuracy of this total is unclear as there are many unregistered NPOs and possibly inactive ones. The pandemic has also led to both the closure of some organisations and the establishment of new NPOs.

“Sound financial management, which includes budgeting, helps to ensure that an organisation not only survives but is resilient and becomes sustainable in the future and can deliver on programmes and projects,” says Soraya Joonas, Finance Director of Inyathelo, a non-profit organisation that helps other NPOs to become more sustainable.

“Your budget must be aligned with your organisation’s strategy and operational plan to ensure that you meet your objectives. This budget should be a principled document that translates your strategy into financial terms, with an approach that encompasses your organisational values,” Joonas adds.

Joonas says there are two sides to the budgeting equation: Income and expenses. “On the expenses side, a fundamental lesson of NPO budgeting is to differentiate between core costs and programme costs. These require two types of budgeting focus, to be managed separately and then integrated as a complementary whole,” she says.

On the expense side of the budgeting equation, Joonas says it is important to consider the following:

Core costs

These are basic expenses (also termed indirect costs) that an NPO must meet in order to function. It is the cost of ‘keeping the engine room running’ or ‘keeping the shop lights on’. Examples include non-programme staff salaries and training, furniture and equipment, rent, electricity, IT hardware, software and internet access, insurance, security, marketing and infrastructure.

Depending on the organisation, some NPOs separate out their administrative costs. These include the costs of governance, reporting, tracking, bookkeeping, auditing, banking, compliance and legal advice. Many donors stipulate a set percentage for indirect and/or administrative costs.

Other costs and equity budgeting

Comprehensive budgeting also includes budgeting for a nurturing environment, whether it be staff wellness, market-related salaries, diversity, equity and inclusion.

“It involves those resources needed to nurture your organisation and governance structures and policies which have a direct impact on the delivery of programme work and sustainability of the organisation,” Joonas adds.

Programme costs

In addition to their core operations, organisations’ individual programmes or projects each require their own budgets. A soup kitchen programme, for example, may need a dedicated programme coordinator, cooking equipment, raw ingredients, a vehicle and fuel.

Sustainability budgeting

A basic premise is that every project must not only cover its own programme costs, but also contribute to the core costs of running the organisation as a whole. Adding a portion of these core costs to a programme proposal budget can make the latter look very high. This is, however, a true reflection of what an organisation must budget for in order to run a programme.

Donors are looking to partner with sustainable entities and the seeds of this sustainability lie with budgeting and funding comprehensively, says Joonas.

On the income side of the budgeting equation, Joonas says it is important to consider the following:

Diverse funding sources

It's good practice to have support from a range of donors such as individuals and companies, and both local and international foundations. It is also important to have a mix of multi-year funding.

"While this promises greater financial stability and less dependency on one or a few donors, keep in mind that donors require stewardship which involves relationship management, meetings and reports. Aim for a balance between sufficient donors to ensure financial viability, and being spread too thin to be able to manage donor accountability properly," Joonas advises.

Multiple donors

If an organisation requires funds from several donors to do its work, it must put systems in place to track and report on spending for each donor. This is called a chart of accounts or fund accounting. This can be tricky as donors' own budget formats may vary and there may also be excess funds available for some line items and too little for others.

"To avoid confusion, explain all costing, negotiate changes in line items, and use budget notes for clarity. It helps to have real time accounting and to allocate your spending at the very least on a monthly basis, so that you have a financial snapshot at any given time," advises Joonas.

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Income generation and undesignated funds

It is increasingly essential for non-profit organisations to budget for additional income known as unrestricted, undesignated or general purpose funding. This can be used for any organisational expenses, or even budget shortfalls. Despite this freedom, it is important to keep to the same high standards in fund management and reporting in order to maintain trust.

Financial sustainability and reserves

Non-profits that have been resilient throughout the pandemic and sustainable into the future have a common feature; they have healthy reserves. The pandemic therefore has left no non-profit unconvinced of the need for reserves and having a buffer for uncertain circumstances. This should ideally cover expenses for six to nine months.

Prepare for this with comprehensive budgeting instead of using any surplus or undesignated funding to plug shortfall holes. Undesignated funding through additional income generation activities – be they consulting, selling goods and services, rental, or other initiatives – can be earmarked to start saving for reserves.

Joonas says NPO staff should always keep in mind that they manage and spend donors' money on behalf of the beneficiaries or communities that they serve. This is a great responsibility and the CEO, financial manager and board members need to budget carefully and work closely to ensure sufficient funds for the coming year.