**Cluster 4 Assessment 1**

**Hawkesbury Skills Inc. Budget Analysis**

**Developing and Reporting on a Budget**

Hawkesbury Skills Inc (HSI) is long-standing committee based at its premises in Richmond. The HSI committee formed in 1985, running federally funded programs for the youth, unemployed and the disadvantaged up until 2006. At the present, Hawkesbury Skills is in a transition stage in which it is trying to maintain the 100 year old building, rent out the facility to small community groups and start new programs. HSI hopes to regain funding from the state or federal government in the next funding rounds and bring Hawkesbury Skills back to its ‘glory days.’ This assignment will analyse the budget of HSI through the observation of the major areas of expenses, exploring positive and negative variance, explaining how austerities can be reduced, examining the ways that HSI could improve their budget monitoring process before determining the process of developing, implementing and reviewing budgets.

Areas of Expenses

In the January 2014 Profit and Loss Statement, the three main areas of expenses were 1) Repairs and Maintenance (50.79%), 2) Cleaning (20.67%), and 3) Electricity (16.99%). January has been an expensive month for HSI as there has been a loss of 8.16% total income compared to what has been made in the year to date. While there has only been 29.01% of the financial yearly income generated this month, 56.71% of the total expenses for the financial year were spent. The organisation’s major sources of income have experienced losses in January due to a lack of annual member subscriptions, community contributions, interest income and rent received. Rent received has a large impact of whether there is positive or negative net profit at HSI as it contributes to nearly 95% of the total income received in January and 89% of the total income received so far in the financial year.

Hawkesbury Skills Inc. Profit and Loss Statement

(January 2014)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Income/Expenses | Measures | December 2013 - January 2014 | Year To Date |  |
| Income | Income Measures | % of Total Income (Jan) | % of Total Income Year to Date  | % January to Year to Date |
| Annual Members Subscription | 0% | 0.16% | 0% |
| Community Contributions | 5.06% | 9.08% | 16.17% |
| Interest Income | 0% | 1.70% | 0% |
| Rent Received | 94.9% | 89.06% | 30.93% |
| Total Income |  |  | 29.01% |
| Expenses | Expenses Measures | % of Total Expenses | % of Total Expenses to Date | % of January to Year To Date |
| Bad Debts | 0% | 3.86% | 0% |
| Bank Charges | 0% | 0.44% | 0% |
| Cleaning | 20.67% | 12.96% | 90.45% |
| Depreciation | 0 | 4.26% | 0% |
| Doubtful Debts | 0 | 4.62% | 0% |
| Electricity | 16.99% | 18.80% | 51.26% |
| Insurance | 0 | 7.65% | 0% |
| Legal Fees | 0 | 1.30% | 0% |
| Petty Cash Expenses | 11.56% | 6.56% | 100% |
| Postage | 0 | 0.12% | 0% |
| Repairs and Maintenance | 50.79% | 42.01% | 68.49% |
| Telephone | 0 | 5.67% | 0% |
| Total Expenses |  |  | 56.71% |
| Net Profit / (Loss) |  |  |  | 8.16% |

Variance Analysis

Variance Analysis is an assessment of income and expenditures. It measures the results from the planned budget versus the actual results as well as exploring the cause of the differences that occur. Variance analysis provides a base against which actual results can be compared. **Positive variance** is a favourable variance when actual results are better than expected result. Where there is **negative** (adverse) **variance,** the actual results are worse than expected. Budget variances can happen for many reasons including a poor budget or simply differences between budget assumptions and actual outcomes (Certified Public Accountants 2011). HSI conducted a variance analysis for each program when there were a number of programs operating, however while there has been an overall plan with a priority list, these activities are only budgeted as money is made available to the organisation.

Austerity Measures

Austerity describes policies to reduce budget deficits. On a government level this includes spending cuts, tax increases or both, however in non-profit organisations such as HSI, austerity policies are processes are used to reduce spending and bring revenues closer to expenditures. Ways that expenses could be limited may include a targeted strategy that reduces electricity expenses, minimises cleaning costs and the recruitment of volunteers to help with repairs, maintenance and gardening.

Reduce Electricity Expenses

Linfox Energy (2009) suggests a number of ways that electricity can be reduced in a workplace. They express that it is important to set or reprogram the air conditioner to reflect comfortable temperature settings for different times of the year (e.g. 26O for summer), ensure that people dress in clothing similarly to what they do outdoors as well as using fans in addition to or in place of air conditioning (Linfox Energy 2009). HSI previously reduced expenditure on electricity by disconnecting hot water systems which were no longer in use, upgrading existing electrical equipment and changing the electrical suppliers. Metres were installed in previously rented out areas and the tenants who have exclusive use of these areas are now paying a portion of the electricity bill calculated on their usage.

Minimise Cleaning Costs

Despite cleaning expenses only representing 12.96% of the overall expenses, 90.45% of cleaning expenses this year occurred in January. The majority of the cleaning expenses in January were the hiring of skip bins to enable a major clean out and repair two additional rooms over two working bees. Improvements were also made to the toilet areas and the purchase of additional equipment (such as toilet paper and hand towels) planned to last approximately 4 months. Ways that cleaning costs could be reduced in the future include the recruitment of volunteers to help clean the premise or to create weekly and monthly cleaning schedules. Cleaning schedules ensures that all areas are cleaned and checked regularly as well as giving people renting the facility ownership of the premise and the organisation (Waimakariri District Council 2011).

Repairs, Maintenance and Gardening

In 2013, it was decided that HSI would take on a number of maintenance issues so that more community organisations would use the facility. As a result, repairs and maintenance are significantly the biggest expenses at Hawkesbury Skills due to the difficulty of the upkeep of the 100 year old facility. Repairs and maintenance accounted for over half the monthly expenses in January and 42.01% of the expenses this year to date. Nearly 70% of the total repairs and maintenance expenses this year were spent in January. This is due to the committee having more time to devote to the process of organising and volunteering their time to the maintenance of the building. It was necessary to spend this time and money so that the rooms were ready for Hawkesbury U3A to begin classes in February. To reduce repairs, maintenance and gardening costs, HSI could recruit volunteers to assist in making repairs and maintenance on the premise. Much of the work has been carried out by volunteers both from the committee and Hawkesbury U3A, with some of the equipment being donated by a local business. It was however necessary to also purchase certain equipment and the expertise of tradesmen where required.

The Budget Monitoring Process

Budget monitoring is the continuous process that ensures that resources are used for their planned purposes, resources are properly accounted for and opportunities and/or problems are defined so that corrective action can be made. It ensures that finances are managed in accordance with best practice, so that a standardised approach can be applied to the budget (University of St Andrews 2010).

The Budgeting Monitoring Process

*Retrieved from* <http://www.st-andrews.ac.uk> (*University of St Andrews 2010)*

In the HSI budgeting monitoring process, the committee decided that they needed to regenerate income by 1) improving the grant application process and 2) restructuring the marketing and promotion strategy.

Applications of Grants

Grants are extremely important for small non-for-profit organisations as around 60% of Australian Community Services budget was provided in grants. Several funding applications have been submitted by the HSI committee for a number of government programs without success. Currently the secretary and chairperson have enrolled in a funding submission workshop. The committee is talking to other organisations who rent rooms from the facility to apply for joint-funding. The NSW Community Builders program is a possible financial avenue for HSI as it provides funding for programs that strengthen communities, as is the Community, Youth and Seniors Heritage Project.

Marketing Strategy

In the HSI budgeting monitoring process, the committee realised the need to restructure the marketing and promotion strategy. The committee decided to encourage all organisations accessing the facilities to independently advertise their organisations as well as ensure that information about HSI is distributed within their networks. A more comprehensive marketing strategy could include a versatile e-mail strategy, social network coverage (e.g. Facebook and Twitter), a web page, a regularly updated blog as well as a wider distribution of HSI’s monthly newsletter in its contact list so that the network of potential partnerships is expanded, stakeholder awareness is enhanced and that the activities of HSI is advertised to a wider audience so that funding opportunities are increased (Office Tool Tips 2013).

Developing, Implementing and Reviewing Budgets

Developing and implementing a budget is a major exercise for most organisations. Requiring a significant amount of an organisation’s management and staff time, it is important to integrate the planning of the budget into organisational planning (Commonwealth of Australia 2008). This process requires effective planning, coordination, oversight as well as structured communication, consultation and supervision (Commonwealth of Australia 2008). The regulations that guide budgeting processes for Australian organisations include the Financial Management and Accountability Act 1997 (FMA Act) and the Commonwealth Authorities and Companies Act 1997 (Commonwealth of Australia 2008).

A **Budget Review Policy** (or financial plan) sets the guidelines that need to be amended from previously adopted budgets in an attempt to forecast what is required for future budgets. The budget review process at HSI is conducted by the treasurer, a professional accountant who has been a member of the committee for many years. Accounting procedures are maintained on an MYOB accounting program. Every month, a full written report is published and passed at committee meetings after discussion. The report includes a profit and loss statement for each project and a summary of cheques that were written during the month. BAS statements are submitted to the Australian Tax Office (ATO) each quarter.

In addition, there is an annual review process in which the books are audited. Professional auditors are appointed each year at the annual general meeting. In the last two years the committee has determined that they can no longer afford the cost of professional auditors and on the treasurer’s advice, the chairperson and public officer have audited the books and produced a written report which is then submitted to the Committee and forwarded to the Department of Fair Trading.

Conclusion

Hawkesbury Skills Inc is at a transition point, in which there is a highly experienced committee and is renting out all its rooms to community groups, however employs no staff and is not receiving funding. Now that there is financial stability, the committee is committed to re-establish its major role to support young, unemployed and disadvantaged people. In recognising areas of expenses, austerity measures and the importance of conducting a variance analysis, this assignment has explored the importance of the budget monitoring process as well as the development, implementation and review of a budget. As Hawkesbury Skills moves on, it is imperative that it seeks additional funding opportunities, initiates new projects and expands it networks, so that HSI can regenerate more income and rebuild their organisational culture.

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Appendix 1: History of Hawkesbury Skills History

Hawkesbury Skills is a long-standing committee based at its premises at 23 Bosworth St, Richmond. Formerly operating under the Community Youth Support Scheme (CYSS), the Hawkesbury Skills committee formed in 1985 to run federally funded programs for youth, unemployed and the disadvantaged, becoming Hawkesbury Skills Inc (HSI) in 1995.

In its early days, the job of HSI was to analyse the job market in the area and put forward training and development options to address skill shortages. Skills Share was a federally funded initiative instigated in 1986 to assist unemployed people getting jobs and developing employment skills. In 1998 under federal funding, HSI became the work for the dole coordinator in the Hawkesbury District. In the first contract, HSI formed a partnership with In2Youth, a youth specific organisation running similar employment programs in Penrith. HSI continued to get funding on its own for the rest of the time the program was on offer until 2006.

Hawkesbury Skills Share ran a number of programs including a boxing club, job clubs and operated a recording studio where young people could play and record music. It offered counselling services and other interventions for people who were unable to get work. Operating like a case management system, such programs were offered to those who had personal or health problems that made them unable to work. It became a community meeting place, acting as landlords to lease out to the facility. Hawkesbury Skills Inc. also operated the Hawkesbury Hort Site at the Hawkesbury Agricultural College (University of Western Sydney (UWS) – Richmond). Here they developed programs for people with intellectual disability or other disabilities so that they could learn how to garden, develop horticulture skills, improve social skills and give have the opportunity to get out into the community. Funded through Skills Share and the Work for the Dole program there were two specific programs, the Dig-it Program and Food for Thought. This was a site for many purposes with a market and was self-sustainable until 2006.

In HSI’s ‘glory days,’ they had a manager, 2 administration, 2 people for the dole community coordinators, 2 working in the long-term program, 2 people teaching work for the dole programs, three people running the Hort site and a cleaner. In 2006 however, HSI could no longer support its activities. The Hort Site was given to North-West Disability, which become the Secret Garden, and the need for work for the dole programs and personal support programs went further west. Hawkesbury Skills no longer receives funding from the federal government but is searching for other funding sources.

In 2013, the committee accessed limited funding from the council to maintain the 100 year old building and reinvigorate Hawkesbury Skills as an outlet for the youth, unemployed and disadvantaged people. Currently at the premises many community groups including the Richmond Boxing Club, Hawkesbury Community Outreach Service, Hawkesbury Mens Shed, Hawkesbury U3A, River of Life, DAP Driver Awareness Education, Hawkesbury Church of Christ now run at the Bosworth centre. Their latest initiative is the Hawkesbury Homework Hub and they hope to regain funding and bring Hawkesbury Skills back to its glory days.