Budgeting in cooperatives

Economics, Budget

BUDGETING IN CO OPERATIVES A budget is a statement about the allocation ofmoney(income and expenditure) according to a set of priorities or a plan over a period of time. The advantages of having a budget and budgeting system are as follows: ¦ It ensures the plans and ultimately the objectives of the co-operative are realized; ¦ It provides a means to control expenditure and ensure corrective measures are in place if over-expenditure has occurred or is happening; ¦ It assists in communicating financial information to all in the co-operative – everyone will know how money coming in will be spent; It assists with plan implementation; ¦ It helps to measure performance of the co-operative; ¦ It is also a motivational tool because it gives direction. If a co-operative does not budget the following disadvantages will occur: ¦ There will be no sense of direction; ¦ Overspending will happen and financial control will breakdown; ¦ Decisions will be made in an ad hoc or unplanned way; ¦ There will be unrealiable financial information. There are two main ways of budgeting: (1) Incremental: incremental budgeting works with last year's figures.

It means adjusting to some degree the budget to fit the current year. This is a very problematic way to budget. It assumes the objectives or priorities for the co-operative are the same every year. It might even repeat some of the problems of last year's budget. (2) Zero Based: zero-based budgeting is based on analyzing the costs afresh for the year. It allows the budget to be aligned to new objectives for the coming period. All expenditures have to be justified and in line with the objectives of the co-operative.

There are many things that should and should not be done when drawing up a budget. The Do's: ¦ Be hard nosed and realistic; ¦ Take last year's budget expenditure and the actual results into account – assess where there were variances; ¦ Know what the fixed and variable costs of the co-operative are; ¦ Develop budget headings that fit in with the operations of the co-operative as a whole; ¦ Collect information thoroughly; ¦ Decide to go for incremental or zero-based budgeting. The Don’ts: ¦ Neglect to involve members and other stakeholders; Leave too little time to prepare the budget; ¦ Make over-optimistic assumptions about income, in particular. The drawing up of a budget should take at least a full month of research, participatory input and drafting. It should come after the board has had an opportunity to plan for the forthcoming year. How should a budget be drawn up? Step 1: Identify the key plans and objectives/priorities for the co-operative. Step 2: Cost these objectives or priorities using last year’s budget and the actual results.

Know what is coming in and out by breaking costs under different headings such as wages, rent, telephone, etc. Think through the fixed and variable costs such as permanent staff costs and the cost of raw material. Ask important questions about the income and outgoings. Are there likely to be any changes? Step 3: Build in budget control parameters such as monthly or weekly tracking income and expenditure against the budget. The C E O should give reports to the board on changes or variances and recommend corrective action.

Step 4: A draft budget must be presented to the all worker-owners for input. It must then be tabled at the board and General Body for approval. Step 5: Once AGM’s approval is given, the budget must be communicated to everyone in the co-operative and must be freely available. Step 6: Consistent and ongoing monitoring by the C E O and thefinancesubcommitteemust occur. Regular reports must be given to the board and where there are variances between income or expenditure and budgets, this must be reported to the board and corrective action put into place.