

Zero-Based Budgeting for Nonprofits

6 min read



In a nonprofit, budgeting is one of the most important financial management activities – if not the

Key Takeaways

- **What Is Zero-Based Budgeting?** A zero-based budget is a budget that is made from scratch every year, unlike budgets that are made using an automatic growth method.
- **What Are the Benefits of Zero-Based Budgeting for Nonprofits?** Zero-based budgeting offers several benefits to nonprofits that adopt this careful approach to budgeting. Some of the most notable benefits include...
- **Are There Any Drawbacks of Zero-Based Nonprofit Budgeting?** Grant-giving continues to be on the rise. The numbers speak for themselves: Candid tracked \$10.7 billion across 24,349 grants by foundations, corporations, and large individual donors in the U.S. the past year.

The purpose of a budget is to develop a financial plan and forecast for the upcoming year or another financial period. While no budget is perfect – we aren't fortune tellers – they do provide a fairly close outline of your expectations for income and expenses.

When developing nonprofit budget best practices, the first step is to plan to make a budget and revisit it to make adjustments, as needed, throughout the year when your actual numbers come in. Another key to successful nonprofit budgeting is to determine the best budgeting method for your organization.

Recently, the zero-based budgeting approach has become increasingly popular – especially in nonprofit organizations – due to its more scrupulous approach to financial planning, forecasting, and budgeting.

What Is Zero-Based Budgeting?

A zero-based budget is a budget that is made from scratch every year, unlike budgets that are made using an automatic growth method.

This means that, rather than carrying over line items from the previous year's budget and modifying the totals by a certain percentage, a zero-based budget starts out with \$0 listed in revenue and \$0 listed in expenses. With a zero-based nonprofit budget, every single line item must be justified and accounted for with a documented need. ^[1]

For example, if your nonprofit hires a cleaning service to come in and clean your office once a week, you need to look at that overhead expense, collect a new estimate from the cleaning company, and then intentionally work that expense into your new nonprofit annual budget. If this expense is not included in the budget, then your office does not hire a professional cleaning service.

Likewise, before assuming your revenue you will be the same or increase across the board by a certain percentage, you would go through the same process with each of your revenue streams, contacting major donors to ask if you can count on them again this year and evaluating your fundraisers to determine which ones you will continue in the upcoming year. If you decide to increase or decrease any of these revenue streams going forward, make sure you document your justification for doing so (i.e. a promise from a donor or a year-over-year growth trend of a popular fundraising event).

The Purpose of a Zero-Based Budget

The purpose of a zero-based budget is to eliminate the automatic assumption of growth in order to focus carefully on expenditures and individual revenue streams. When nonprofit leaders fail to approach a budget with a more granular method like that which zero-based budgeting requires, things get missed, large revenue streams swallow up small ones, and excess funds

are used as financial padding to fund budget contingencies rather than spent intentionally to maximize return on investment. ^[2]

6 Steps To Master Your Nonprofit Budget!



[!\[\]\(4729e517bc6a7cd81c8025b9646574fb_img.jpg\) Click to download the FULL Nonprofit Budget Guide for best practices on how to simplify & streamline this essential tool.](#)

What Are the Benefits of Zero-Based Budgeting for Nonprofits?

Zero-based budgeting offers several benefits to nonprofits that adopt this careful approach to budgeting. Some of the most notable benefits include:

More Mindful Spending

Zero-based budgeting forces nonprofit leaders to scrutinize each and every expense. As a result, you'll eliminate costs such as subscription payments for services that are not being used regularly, money going toward equipment or supplies you don't truly need, and other expenses your organization can survive (and thrive!) without.

Identification of Under-Performing Programs

As you evaluate all of your expenses, you can also take the time when building a budget to identify programs or fundraisers that are underperforming. This is a time to look carefully at profit and loss statements for each of your programs and fundraisers to determine which are the most profitable and most impactful for your organization. Create a stack rank of importance and financial health of each program and consider cutting out the bottom ones so that you can reallocate those expenses to higher performing, more impactful efforts.

Read More: [What Financial Reports Should My Nonprofit Program Director Look At?](#)

Improved Donor Relationships

When zero-based budgeting, you should also not make any assumptions about your revenue going forward, especially when it comes to money that you receive from donors. Instead, set aside time to call on your past donors to check in, thank them for their past support, and find out whether you can continue to count on them going forward. The extra bit of effort that goes into contacting donors will result in not only a more accurate budget for the upcoming year but also improved donor relationships.

Increased Efficiency Organization-Wide

As a result of carefully evaluating all of your expenses and the way you are using your available revenue streams, your organization will simply operate much more efficiently, as you maximize the ROI and impact of every dollar you bring in.

Are There Any Drawbacks of Zero-Based Nonprofit Budgeting?

The primary drawback of zero-based budgeting is the time and effort it takes to scrutinize individual line items, create documentation and justification of expenses, and contact previous donors. Creating a zero-based budget will take considerably more time than what is required when using a basic percent-change method of budgeting.

Additionally, zero-based budgeting can leave nonprofits more vulnerable to financial crises that arise as a result of encountering unexpected costs. Since percent-increase budgeting is less precise than zero-based budgeting, organizations can often find wiggle room in some of the categories to cover emergency costs. Relying on budget wiggle room, however, is sloppy, results in funds that are not efficiently used, and can also be unreliable when there simply isn't enough wiggle room to cover the unexpected cost.

Organizations using zero-based budgeting (especially those that do not have a cash reserve from previous years of having budget surpluses) simply need to remember to create contingency plans in their budgets to cover unexpected costs as they arise.

Read More: [Nonprofits That Make Data-Driven Decisions at Budget Time Have Better Outcomes](#)

Affordable Financial Management and Budgeting Resources for Nonprofits

Although zero-based budgeting might seem intimidating at first, you can conquer the challenge and bolster your organization with a solid, well-researched, and documented financial strategy for the upcoming year. ^[3] As you carefully and astutely manage your nonprofit's finances, you will benefit greatly from the support of a strong back office that features automated processes designed to streamline and improve your bookkeeping and accounting functions.

If a full-time, in-house financial department is still out of reach for your nonprofit, you're not alone. These types of full-time employees come at a high cost. However, you can still leverage all of the expertise and services that this kind of department could provide through the much more affordable option of outsourced accounting services. Outsourced bookkeeping and accounting services provide you with everything you need to improve your nonprofit budget best practices, budget more accurately, and create a solid and healthy financial foundation for your organization.



Are You Measuring How Your People Drive Profit?

A guide to help you interpret Company & People KPIs so you can increase profit!

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- [1] <https://boardassist.org/blog/build-nonprofits-budget-collaborate/>
- [2] <https://www.tdtpc.com/2017/05/do-you-have-the-right-type-of-budget-for-your-nonprofit>
- [3] <https://www.councilofnonprofits.org/tools-resources/budgeting-nonprofits>