

Budgets

A guide to producing an annual budget for a company or an individual project.

Introduction to financial management

Good financial management includes three essential elements – realistic budgets, up-to-date financial records and healthy cash flow.

- **Budgets** illustrate the predicted income and expenditure of a company or project over a specific period of time, e.g. a twelve-month period.
- **Financial records** and accounts illustrate the actual income and expenditure over that same period of time and what the company owns and owes at the end of it.
- **Cash flow** relates to the activity of the bank account over that same period of time and how well the account can maintain a positive balance.

All three elements will provide a full and detailed picture of how the business is doing financially and how it is likely to do in the future. They are essential tools in managing the business on a day-to-day basis, providing information to support key decisions, highlighting potential problems and providing an opportunity to avoid them. They are also powerful tools with which to persuade others to lend or give you money and to show that you have a viable and successful business.

This guide focuses on the first element – budgets.

An introduction to budgets

A budget is an essential tool for planning a new project, making a funding application or drawing up a business plan. It is a practical plan which outlines the cost of a specific project or venture, (expenditure), and forecasts the amount of money it will generate plus any extra finance needed to ensure success, (income).

Budgets detail the predicted income and expenditure over a specific period of time and the resulting balance – ideally a surplus or a break-even position. You might have a very specific target balance in mind; for example, you want to achieve a surplus of £15,000 at the end of the year either to pay yourself some money or to invest in the second year's business. Whichever way, your budget must detail a way in which your predicted income and costs will achieve that end position.

A good budget will prepare and organise the realisation of your project, and prevent you or your company from running at a loss. It will highlight how and where the income will be divided amongst different aspects of the project; this is especially helpful in simplifying the distribution of funds throughout an organisation, where a group of

people are working on the same project but assuming different roles with different responsibilities and tasks.

Most organisations work to an annual budget that covers all aspects of their business. This enables staff to analyse the likely costs and benefits of different activities in advance and provides an opportunity for making changes. It also provides a very useful way to monitor progress on a particular activity or project and to demonstrate to others what you plan to do in the future.

Budget formats

Project budgets will look specifically at the income and expenditure relating directly to that project and over the period of time that the project runs.

Company budgets cover a twelve-month period and will include projects and other activities that take place during that time, as well as income and expenditure involved in running the company itself.

Income might include:

- grants, donations and sponsorship (including sponsorship in kind)
- fees for running workshops, tutoring, consultancy, project management, exhibiting
- royalties and license fees
- ticket sales, bar sales and box office commission for events
- sale of work (via galleries or agents)
- bank interest (normally fairly minimal but a pleasant bonus if you have money in the account)
- own contribution

Direct costs / project costs might include:

- materials used to create work on sale
- equipment and facilities hired for specific events, rehearsal, production or workshops
- catering, ticket printing, posters, publicity for events
- staffing costs (staff / freelancers that are only employed/hired on income generating activities or specific projects) – wages, fees, insurance

Overheads might include:

- staffing costs (staff that are needed to work within the organisation regardless of any projects or specific money earning activities e.g. general manager, administrator, technical manager) – wages, staff development and training
- rent, rates & insurance for the office, studio or venue where the business takes place
- power and heating costs, alarm systems, building maintenance

- office administration e.g. telephones, IT, stationery, postage, refreshments
- marketing costs e.g. company brochure, website, press work, distribution
- professional fees e.g. lawyers, accountants, consultants
- bank charges and interest on overdrafts and loans

A budget should also include a **contingency** to finance the unexpected: the contingency figure is usually between 5-10% of the total cost of the project.

It is good practice to detail in kind sponsorship – services or materials that are provided to you, your company or the creation of your product that are given without charge, e.g. workshop time, studio space, materials or free advertising. The true value of such donations or sponsorship should be calculated and the total used as a form of income and support of your project.

If you are planning to finance your project with funding from an arts funding body, local authority or trust, you may be expected to match a percentage of the financial grant offered to you with your own contribution, funding or sponsorship from other sources. In kind contributions can count towards “matched funding”.

All companies, large and small, will follow the given format (income, direct costs and overheads), and most companies’ overheads will include the same headings. Income and direct costs (costs relating to specific projects and activities) will vary dramatically depending on the business.

If you are putting together an annual budget for your company, make sure you break it down into headings that are relevant to your business and use this as a basis for all financial reports you produce.

When writing a business plan, make sure that it includes an annual (or three or five-year) budget that illustrates how your plan will work financially.

Budget examples

Annual budget

A small-scale arts organisation has put together an annual budget.

They predict their income to be coming from a range of sources including a revenue grant, project grants and fees. The revenue grant and bank interest have been calculated to cover the cost of overheads (£20,050) and the project grants are calculated to cover the project costs (£15,000). Their target is a break-even position of zero at the end of the year. Their project grants will be obtained on the basis of funding applications that detail the likely costs of the projects and they estimate some income to be earned from workshop fees.

Income	£	Expenditure	£
		Direct / Project Costs	
		Materials	8,000
		Equipment Hire	2,000
		Packing & Transport	300
		Tapes & Cables	700
		Project Staffing	3,000
			14,000
		Overheads	
		Staffing Costs	12,000
		Rent, Rates & Insurance	5,000
		Power & Heat	500
		Telephone & IT	700
		Travel & Subsistence	300
		Stationery & Postage	450
		Press & Publicity	450
		Legal & Accountancy	500
		Original research trip	100
			20,000
		Sub total Expenditure	34,000
		Plus 5% contingency	1,700
		Total Expenditure	35,700
Total Income	35,700		
		Net Surplus/-Deficit	£0

Funding application

In this example, two musicians have drawn up a budget for a funding application towards the creation, rehearsal and recording of this new piece of work. The budget details in kind as well as cash contributions, predicted sponsorship income alongside the amounts requested from the funders.

		Income	Income	Income	Income
	Expenditure	Funding requested	Own Contribution	In Kind	Sponsorship
Section A: Creation & Rehearsal					
Artists Fees for 2 Artists (£440 per day x 10 days)	4400	2400	1000		1000
Rehearsal Studio Hire (£80 per day x 10 days)	800			800	
Accommodation (£40 per night each x 10 nights)	800			800	
Sub Total	6000	2400	1000	1600	1000

Section B: Recording					
Artists Fees for 2 Artists (£440 per day x five days)	2200	1700	500		
Studio Hire (£150 per day x 6 days)	900			900	
Engineer (£84 per day x 6 days)	504				504
Sub Total	3604	1700	500	900	504

Section C: Marketing					
CD Artwork	300			300	
Sub Total	300			300	

Section D: Travel Expenses					
Artist travel to rehearsal	300		300		
Artists travel to recording	150		150		
Artists travel to launch gig	50		50		
Sub Total	500		500		

Project Contingency					
Sub Total	600	300	300		

Total	11004	4400	2300	2800	1504
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Preparing a realistic budget

It is tempting to prepare budgets, by costing their work, time and materials at 'best deal', 'cheapest located cost' or 'well within budget' in the belief that if the costs of their project are kept to a minimum, they are more likely to receive funding. The opposite is often true: projects are far more likely to receive funding due to;

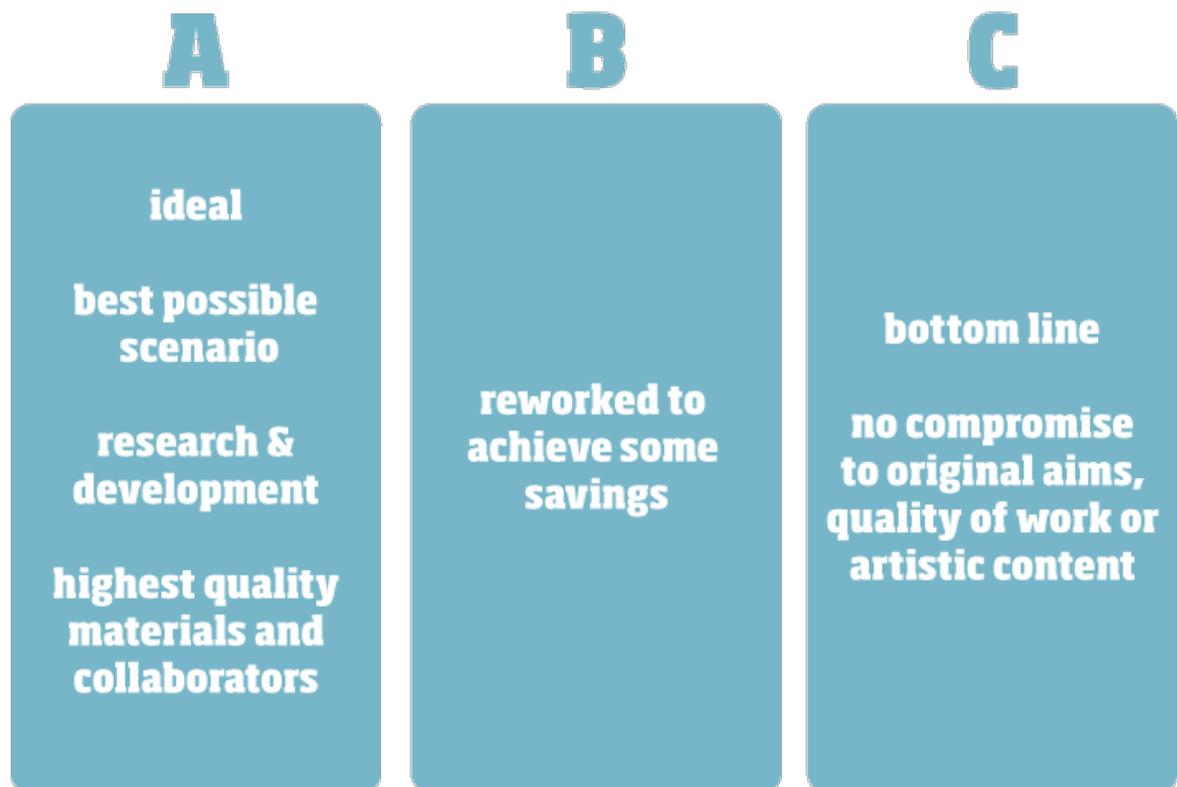
- the strength of the proposal
- the quality of work
- the reputation and / or success of the organisation or individual
- accurate research into the cost of the project

A common misconception is that once funding has been awarded, the budget may be 'creatively' adjusted to direct funds to other sources, e.g. the purchase of unplanned resources or materials, or the downscaling of allocated fees to technical support or project managers. This is bad business planning and, as a running business concern, you will be accountable for the accurate auditing of your business accounts. Instead, make sure your budget is properly prepared and researched; spend time considering labour fees, administration, essential equipment, materials and miscellaneous costs, and don't forget to include your contingency costs.

When you do your own budgets, either for a project or the company as a whole, make sure you put in the most realistic estimates of income and expenditure. If, once you've done this, the resulting balance is a loss, you need to review all aspects of the budget. To make the figures work, do not estimate your income higher without good reason. Have a look at your expected costs. Is there a way of keeping costs down e.g. negotiating better terms with suppliers or using less expensive materials? Do you need to keep an office or studio, can you share one? Are you charging enough for your work? Are there other things that you can do to earn some more money with little outlay?

Doing a budget can throw up lots of questions you may not have considered before, it can help you evaluate the business and provide you with opportunities to improve it, make it more efficient and ultimately, more successful.

The 3 budget plan



A useful system you might like to consider for planning a new project is constructing a 'three budget' plan. This scenario, though more time consuming, is worth the effort on many levels. In the long term, it will assist in the realisation of your project, and provide invaluable experience in budgeting and preparing proposals for various agencies and funding bodies. It will aid negotiation and therefore, help achieve your aim - to create your work without artistic compromise.

Budget A

This is the budget that considers the best possible scenario, including payment for a period of research and development into the proposed project, the running costs of the creation period, administration, ample budget for material costs and fees. Ideally this would be the form of budget to be included in your business plan, or submitted to funding bodies for support.

Budget B

This is a reworked budget from the first, showing how you could achieve some savings while making no compromise in the original aims and intentions of your proposed project, the quality of work or projected artistic content.

Budget C

To be considered within the same deadline, this is the budget at which the project could just about be realised without any artistic compromise or allowing the initial aims and intentions to suffer.

The ultimate goal is to create your vision of the proposed work on a minimum budget, whilst not compromising artistic integrity or allowing the creation of a sub-standard work. It would appear that due to lack of funds, too many projects are begun without securing the finances to create budget C. Without the appropriate funds to realise budget C, the artistic quality and content of the work is bound to suffer. Without the funding for a project secured, question if you should progress with this work at this stage? Should this particular project go ahead at all? Could an alternative project that can be realised without compromise, be considered in its place?

A presentation tool

A realistic budget is an invaluable management tool for you. However, it can also be a very effective way of convincing other parties e.g. funders, lenders, prospective clients that you are organised, that you have given the project or activity sufficient thought and that you are able to back up your proposals with a realistic financial plan.

To convince someone that you have a good business idea or proposal and that they should give you or lend you money towards it, you must be able to convince them that you understand the financial implications just as much as the artistic ones. It will also help you negotiate with them. For example, if you have a good reason why you want to charge a certain level of fee, you are far more likely to persuade them if you can demonstrate how you have calculated it and what it will be used for.

These same parties may well want to see other financial information, for example your latest accounts, actual income and expenditure on a project and perhaps a cash flow forecast. Your budget should form the basis for all these other reports and give you a clear structure for moving forward and taking decisive action.

Your project budget

All budgets will differ in their content, as they reflect different types and scales of project. The only rule to remember is, try to cover all aspects of financial outgoings in one chart, balanced against all aspects of potential income in another chart. If, when completed, your total expenditure for your project matches your total income for the project, you are probably on the right track.

Next steps

Please refer to our other two financial management guides: [Keeping Financial Records Guide](#) and [Cash Flow Guide](#)

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