

THE ARTS SECTOR BUSINESS CLUB

BUDGETING FOR THE ARTS

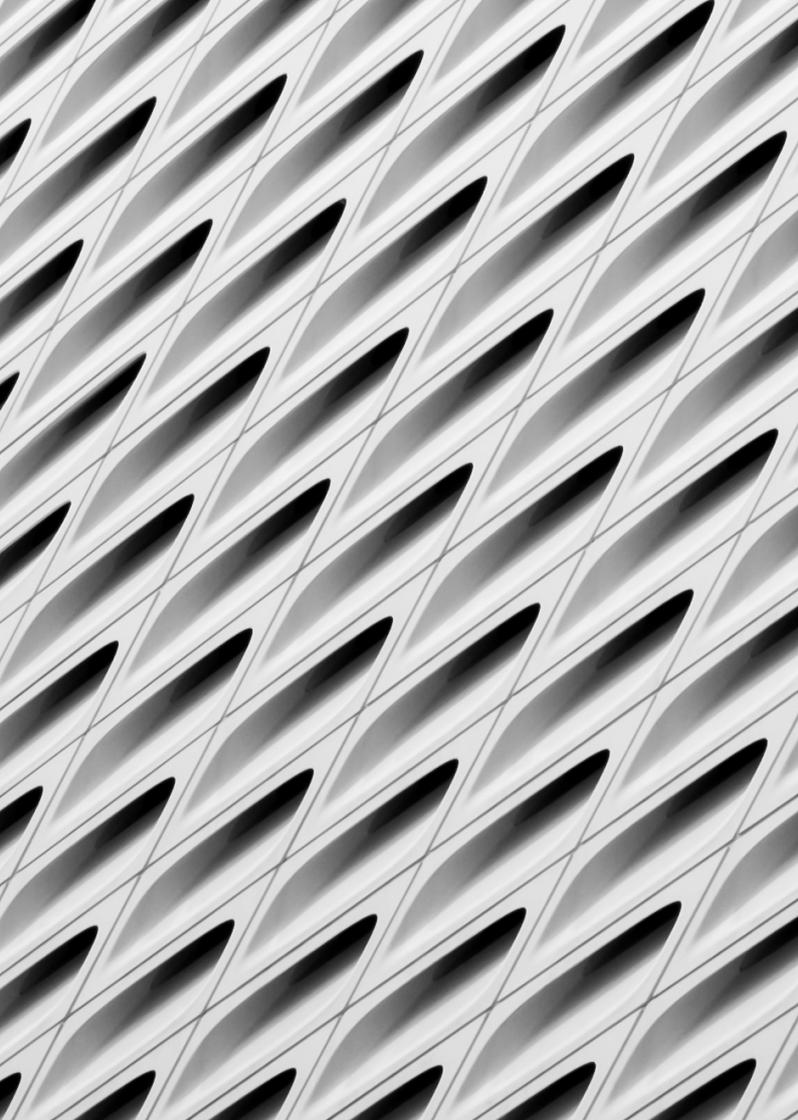
Skills Handbook





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WHAT IS A BUDGET?

A budget is a financial plan for an organisation's proposed activities over the next year. Effective budgeting is one of the most powerful management tools available; its process and implementation helps with planning, control, decision-making and motivation. This booklet will outline the budgeting process from start to finish. Every organisation needs to have sound financial management built into its overall strategy, and finances should underpin every aspect of its work. Every activity needs to be planned and costed, to ensure resources are properly taken into account. The budget is the document which translates these action plans into monetary terms.

An effective budget...

- is prepared in advance
- may be revised monthly
- explains the costs of organisational activities
- is based on action plans
- is a monitoring tool
- forecasts all expenses
- needs to be transparent
- may be long-term or short-term

IN THE BEGINNING

First, we need to decide who is going to be involved in the budgeting process (for example, those responsible for delivering specific parts of the service), what their roles and responsibilities will be, and who will be co-ordinating the process, to make sure it runs smoothly.

The whole process needs to be timetabled—clearly outlining the people involved, their responsibilities and deadlines. The timetable should allow for holidays and time for the budget to be distributed (ideally before the next financial year begins). It should also not be too slack nor too tight: one of the responsibilities of the co-ordinator is to ensure that deadlines are met and that the necessary people are pulling their weight.

Budgets are based on assumptions; for example, the level of regional arts funding, audience numbers, artists' fees, inflation and price increases, staff levels and pay rises, national insurance, and so on. These budgeting assumptions need to be agreed in the beginning, communicated to all concerned and kept on file with all other budgeting documentation.

By its definition, a budget is taking a view on the future: a timeframe that's impossible to gauge with 100% accuracy. As such, budgeting should be seen as an evolving process, and, when the process is repeated the following year, the previous year's file can be reviewed, modified and improved.

WHAT TO BUDGET FOR

Once the organisation has decided on projects and activities it proposes to carry out, it needs to consider what the expenditure headings will be, clearly distinguishing between capital and revenue costs:

- Capital costs will include items such as computers, printers, furniture and vehicles
- Revenue costs are best itemised under appropriate headings, such as 'artistic' and 'administrative' costs

Artistic costs would include artists' fees, performance fees and touring costs; administrative costs would include gross salaries, printing and stationery, depreciation, postage and phone contracts. A review of what we have spent this year, as well as what we plan for next year will help ensure that all items are covered.

Budgeting for income should be done by income type, using appropriate headings, such as box office/admission fees, grants (distinguishing between capital grants, Arts Council funding, etc.), fundraising events, workshops and hire charges.

HOW MUCH TO BUDGET FOR

At the start of the budgeting process a **latest likely achievement (LLA)** should be produced.

This is effectively what the actual income and expenditure is to date, projected forward to the end of the financial year. This projection will provide a guide to next year's figures (read along with our budgeting assumptions), where a new project or activity is being planned it will be important to obtain quotes on what the likely costs will be.

REVIEW AND FEEDBACK

Budgets produced will be subject to review, change and modification. Effective communication is essential if one is to avoid delays, demotivation and frustration.

CONTINGENCIES AND SENSITIVITY

The budget should be subjected to a what-if scenario i.e. what do we do if, say, income drops by 10%? Can we scale down our activities? Can we cancel or postpone the project? Can we implement activities in phases? We would also need to consider how sensitive the budget is i.e. by how much would income and costs have to change before we faced problems?

APPROVAL AND USE

Once the final budget is approved, it needs to be phased and distributed to our budget holders. It's vital that we monitor the actual income and expenditure and compare it to the budget, otherwise the value of budgeting as a management tool will be lost.

DRAWING UP THE BUDGET

A budget normally starts as a draft, drawn up by one person or a small number of people, which is later approved by a management committee. A draft budget gives an organisation the opportunity to consider its proposed activities for the next year in detail. This is a democratic process, giving people the chance to determine how, and to what purpose, the organisation is working. Actually writing a budget is relatively easy; all you need is common sense, a logical approach and bit of simple maths.

SIX STEPS TO PRODUCING A SUCCESSFUL BUDGET

1. PRODUCING A BUDGET

Start by making a list of all the expenditure headings (items) that may be needed by your organisation or project—a bit like writing a shopping list. Consider special start-up costs, like recruitment adverts, and capital costs like furniture, computers, transport, and so on.

Capital items (known as fixed assets) would normally last more than a year. To avoid minor items like staplers being included, one normally sets a threshold of £100 (or a similar amount up to £1,000, depending on the size of the organisation) before an item is “capitalised”.

Also think about running costs. These are expenses of a recurring nature, such as rent, rates, salaries, electricity, postage, stationery and phones.

Related items, like salaries and employer's National Insurance (NI) contributions, should be grouped together under the same heading.

Keep running cost headings separate from capital cost headings.

Now make a list of all likely income headings, such as membership, subscriptions, grants and donations.

2. FILLING IN THE FIGURES

Estimate the cost of each item of expenditure as realistically as you can. Talk to people in similar organisations, shop staff, equipment suppliers, builders and local trade unions (for salary scales and the like). Catalogues from stationers, office equipment suppliers and companies like Argos (for the office fridge) are really handy.

It's helpful to look at items of income and expenditure as **fixed**, **variable** and **mixed**:

- **Fixed:** things likely to remain the same throughout the year and are unaffected by organisational activity e.g. office space and rates

- **Variable:** things likely to change depending on levels of organisational activity e.g. income from ticket sales
- **Mixed:** things containing fixed and variable elements e.g. call charges on phones will vary, but line rental will remain the same

Make a clear note of how you arrived at each figure, as well as of any items you're not sure about. Without notes, you'll look back at the figures in a few days and not be able to remember the assumptions you made.

Now do the same for each item of income: estimate the likely amounts of income from each source. Talk to funders and other organisations. Make notes on how each figure was arrived at. If it's a guess or broad estimate, say so.

3. REVISING THE FIGURES

Show the draft budget to people inside the organisation: workers, volunteers and members of the management committee. Make sure you talk to those responsible for delivering specific parts of the service.

Has anything been left out? Are extra headings needed? Missing out a heading is the same as giving that item a budget of £0—it's better to guess than leave something out altogether. At the same time, would the budget be simpler if several headings were grouped together?

Check on the items you weren't sure about. Is more information needed to improve the accuracy of the estimates?

When is the funding likely to be received, and when are the activities likely to start? Will inflation affect the budget? It may vary from one heading to another.

Revise the notes. Make sure there's a note explaining how each figure was arrived at. The notes are an important part of the democracy of the organisation. People should understand where all the figures have come from, rather than just trust you with the finances.

4. OPTIONS AND CONTINGENCIES

Is the income less than the expenditure? If so, what is the organisation going to do about it?

What if your fundraising isn't completely successful, and you have a shortfall? Would you scale down the activity? Would you cancel or postpone the project? Or would you split it into phases?

What will happen if some income is late? Should you plan for other unexpected circumstances?

5. APPROVAL

The budget should be presented to the management committee for their comments, alterations and approval.

6. MONITORING AND REVISION

The budget is a very important tool for financial management. Small organisations should compare projected against actual income and expenditure at least every three months.

Remember that all unpaid bills, including any outstanding taxes, must be included in the figures. It may be that income has not been as high as forecast, so savings will have to be made, or some activities haven't happened, leaving money available to be spent on other activities. The budget should only be revised to take major changes into account.

THE FINER DETAILS

FIRST YEAR

The first year's budget is the most difficult. A lot of guesses have to be made, because there's nothing to base predictions on. It's sensible to ask similar organisations about their costs, but remember no two groups are the same. Rent could vary considerably between two organisations. It's very important to include all the likely areas of expenditure. Missing something out is the same as budgeting no expenditure on that item. Be realistic about costs and be prepared not to start a project rather than finance it badly.

FOLLOWING YEARS

Look at the income and expenditure for the last year and forecast what will happen next year. Adjustments have to be made for changes in levels of activity and for new activities. Inflation may vary from one heading to another. Rent might not increase at all if there is a lease running over several years. Staff may be entitled to an incremental increase of about £500 to their salaries taking them up a point on the local government scale.

FORECAST OUT-TURN

Frequently one produces next year's budget by estimating the year's out-turn: total income and expenditure for the year during month 10.

	9 month actual	Forecast 12 month out-turn	Next years' budget
Salaries	29,000	29,326	30,720
Recruitment	1,200	1,200	0
Training	0	400	600

When preparing the figures above the treasurer has adjusted the 9-month salaries to 12 months, added an increment of £500 and inflation of 3%. No more recruitment is expected before the end of

the year, and none next year. No training has taken place, but some is expected in the last quarter and more next year.

Budget outline

The following guide gives a simple list of headings. Note that the main charitable activities have been grouped together as a project, but you may have several projects.

STAFF COSTS

- Salaries, national insurance contributions, pensions
- Recruitment
- Training
- Volunteer expenses

OFFICE COSTS

- Bookkeeping/payroll
- Bank charges
- Photocopying
- Postage
- Print and stationery
- Phone and internet
- Insurance
- Hospitality
- Professional fees/consultancy
- Depreciation of equipment

PREMISES

- Rent and rates
- Water and refuse
- Heat and light
- Cleaning
- Repairs and maintenance
- Direct charitable expenditure

- Travel
- More staff or volunteer costs
- Materials
- More training
- More equipment
- Memberships and publications
- Marketing and promotional activities
- More property costs

FUNDRAISING

- Staff, marketing, promotional activities

MANAGEMENT AND ADMINISTRATION

- AGM and annual report
- Audit/independent examination

INCOME FORECAST

The budget contains a forecast of income. Typically, at the start of the year, some income has been approved, applications have been made for other amounts and some applications will be made during the year.

There is always an issue as to whether to include non-approved income in the budget. This involves some judgement, because including it can be very risky, giving the committee a false sense of security. If you are not fairly certain that the grant will be approved, don't include it.

For example grants relating to equipment and projects may have not been approved, and discussions held about what should be done if these applications are rejected. Other outstanding applications have been excluded, but there's no firm rule about how to treat this this.

Income can be restricted, meaning it can only be spent on what the funder has stated. A restricted grant for the summer play scheme could not be spent on the term-time activities of an after-school club.

Unrestricted grants can be spent on whatever the trustees decide, as long as it falls within the charity's constitutional objectives. Funding can also be in the form of grants, service agreements or contracts.

Briefly, a grant is a gift, and it is very difficult to attach penalties for non-performance; however, if it's a restricted grant, it must be spent as the funder intended. For example, if you had a restricted grant to run a festival and, after reasonable efforts, very few people attended, there would be no penalty. A contract normally stipulates a minimum level of service (maybe 200 people attending the festival) and a system for monitoring this. If this level is not reached, the organisation may be asked to refund all or part of the contract fee. If the charity is not also a limited company, the trustees may be personally liable. You can, however, normally apply any surplus (profit) from a contract to anything that falls within the charity's objectives.

In law, there is no such thing as a service agreement: it's either a contract or a grant. But, when they are contracts, they tend to be a bit softer than formal contracts—check the wording, though.

It is worth pointing out to trustees what type of funding is being received. It's worth mentioning if the funding is restricted, unrestricted, grant, service agreement or contract.

SALES INCOME

Generally speaking, sales income is unrestricted. When this income is significant you should look at the trend over several years before forecasting next year's sales.

IT'S IN THE DETAIL

When drawing up budgets, it's easy to overlook items of expenditure. Presented here is a detailed check-list to help you ensure that everything's included.

SETTING UP AND RUNNING AN OFFICE

- Letterhead, design, desktop publishing and printing
- Compliment slips
- Business cards
- Identification badges/photos for staff
- Envelopes, invoices, printer paper and toner, notepads, pens, correction fluid, paper clips, staples
- Minor equipment: cash box, staplers, first aid tin, post scales, franking machine (for large volumes of post only)
- Phones and internet (consider future needs over three to five years): handsets, switchboard, line rental, ISDN line, internet subscription
- Photocopiers (purchase or lease costs and maintenance)

COMPUTERS

- Set-up costs: software, computer(s), printer, scanner, monitors, modem, additional phone lines and rental, security devices, anti-glare shields, mouse, keyboard, external hard drive or other back-up system
- Recurrent costs: discs, printer cartridges, paper, internet subscriptions, telephone charges, staff training, maintenance, repair and depreciation

VEHICLES

- Fixed costs
- Lease payments or purchase price
- Insurance
- Road fund licence
- MOT(s)
- Basic maintenance
- Subscription to recovery organisation
- Garaging
- Salaries and training

VARIABLE COSTS

- Petrol
- Cleaning
- Parking
- Additional maintenance
- Payments to casual drivers

PROPERTY COSTS

- Legal cost (for both sides)
- Rent, service charges, mortgages and loans
- Heating and lighting
- Insurance
- Rates, water and sewerage, refuse collection
- Cleaning
- Building works (including architects, surveyors, etc.) and adaptations, access issues and compliance with fire regulations and health and safety, environmental health, building and planning controls, Factories and Office, Shops and Railway Premises Acts
- Decoration, costs of compliance with the lease, including redecoration on vacation, carpets, blinds, security upgrades (shutters, locks and burglar alarms)

FURNITURE

How many parts of the building might need furnishing? New, donated or second-hand? Is it all needed straightaway or can it be phased in? Would trusts fund parts of the capital expenditure?

- Entrance and hallway: signs, lights, ramps, entry phone
- Reception: carpets, chairs, noticeboard, receptionist desk and chair, staff/department pigeon holes
- Office: desks, filing cabinets, chairs, notice boards, room dividers, curtains/blinds, tables, desk lamps, tea/coffee facilities and storage/fridge, noticeboards, coat hooks, shredder and bins
- Other work spaces: floor covering, work benches/equipment tables, seating, lighting, ventilation, cleaning materials/equipment and work equipment
- Training/meeting room(s): curtains/blinds, carpets, chairs, tables, flip charts, white boards, projectors and presentation screens, kettles, cups, sufficient toilets for large meetings
- Play areas/crèche: carpet, tables and chairs, play equipment, water supply, wet area, sink, fridge, toilets
- Storage: stationery, other supplies and stocks, safe, equipment, library, archives

STAFF COSTS

- Recruitment: advertising, photocopying, postage, panel expenses, applicant expenses, refreshments and venue
- Salaries, NI contributions, pension, increments and inflation in future years
- Staff training, external supervisors/consultants
- Travel expenses
- Volunteers: recruitment, insurance, training, travel and meal costs
- Do staff grades look reasonable?

INSURANCE

- Public liability

- Employer's liability
- Personal accident or injury to staff, volunteers and management committee members
- Loss or damage to assets, either on specified premises (contents) or anywhere else (all risk)

ALSO CONSIDER YOUR NEED FOR:

- Building insurance: essential if you own one, or check lease for who is responsible
- Increased cost of working: relates to costs following unforeseen circumstances, such as temporary office rent, hire of equipment, etc.
- Motor vehicle insurance for volunteer drivers using their own vehicles as well as your vehicles
- Professional and public indemnity
- Money insurance: is there a lot of cash being handled?
- Fidelity bond: insuring against dishonest staff

OFFICE COSTS

- Bookkeeping/payroll
- Bank charges
- Photocopying
- Postage
- Print and stationery
- Phone and internet
- Insurance
- Hospitality
- Professional fees/consultancy
- Depreciation or equipment

COMPLIANCE COSTS/MANAGEMENT AND ADMINISTRATION

- Audit or independent examination
- AGM and annual report

FUNDRAISING

- Staff, marketing, leaflets
- Direct costs of the service
- Specialist equipment
- Recruitment and training
- Publicity and marketing
- Subscriptions, memberships and publications
- Wages/salaries and employers' NI and pension contributions, volunteer expenses
- Insurances
- Materials
- Travel
- Clothing
- Cover for sickness/maternity
- Communications
- Translation
- Property costs: rent, heating, lighting
- Is there enough supervision and quality control for the number of staff?



