

Budgets

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

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 (expenditure) of a specific project or venture, and forecasts the amount of money it will generate (income), plus any extra finance needed to ensure success.

Budgets detail 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 target in mind – e.g. a surplus of £15,000 at the end of the year, either to pay yourself or invest in the next year's business. Your budget must show how your predicted income and costs will achieve that position.

A good budget prepares and organises the realisation of your project. It prevents you or your company from running at a loss. It highlights how and where income will be divided. That's especially helpful for distribution of funds in an organisation where people are working on the same project but assuming different roles with different responsibilities and tasks.

Most organisations work to an annual budget covering all aspects of their business. That allows staff to analyse likely costs and benefits of different activities in advance, and provides an opportunity for making changes. It's also a useful way to monitor progress on a particular activity or project, and to demonstrate to others your plans for the future.

Budget formats

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

Company budgets cover a twelve-month period and include projects and other activities taking place during that time, as well as the 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 for people staff needed regardless of specific projects or money-earning activities, like the general manager, administrator or technical manager). Costs will include wages, staff development and training.
- Rent, rates and insurance for the office, studio or venue.
- 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 figure is usually 5-10% of the total cost of the project.

It's good practice to detail **in kind** sponsorship – services or materials provided to you, your company or the creation of your product given without charge. That might include 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're planning to finance with funding from an arts funding body, local authority or trust, you may have to **match** part of the grant. That could be through a contribution of your own, or funding or sponsorship from other sources. **In kind** contributions can count towards match funding.

All companies follow a given format when creating budgets (showing income, direct costs and overheads). Most companies' overheads will include the same headings (see the example budget below). Income and direct costs – i.e. those relating to specific projects and activities - will vary dramatically, depending on the business.

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

When writing a business plan, make sure it includes an annual (or three- or five-year) budget that shows 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 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. They also estimate some income will be earned from workshop fees.

<u>Income</u>	<u>£</u>	<u>Expenditure</u>	<u>£</u>
		Direct / Project Costs	
Revenue Grant	20,000	Materials	8,000
Project Grants	12,000	Equipment Hire	2,000
Workshop Fees	3,650	Packing & Transport	300
Bank Interest	50	Tapes & Cables	700
Total Income	35,700	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
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 a new piece of work. The budget details in kind as well as cash contributions, predicted sponsorship income and the amounts requested from funders.

	Expenditure	Funding requested Income	Own Contribution Income	In Kind Income	Sponsorship Income
Creation & Rehearsal					
Artists Fees for 2 Artists (£592 per day x 7 days)	£4,144	£1,776	£1,184		£1,184
Rehearsal Studio Hire (£72 per day x 7 days)	£504			£504	
Accommodation (£50 per night each x 6 nights)	£600			£600	
Sub Total	£5,248	£1,776	£1,184	£1,104	£1,184
Recording					
Artists Fees for 2 Artists (£592 per day x 5 days)	£2,960	£2,368	£592		
Studio Hire (£300 per day x 6 days)	£1,800	£900		£900	
Engineer (£90 per day x 6 days)	£540				£540
Sub Total	£5,300	£3,268	£592	£900	£540
Travel Expenses					
Artist travel to rehearsal	£280		£280		
Artists travel to recording	£200		£200		
Sub Total	£480	£0	£480	£0	£0
Project Contingency 10%	£1,103	£662	£441		
Sub Total	£1,103	£662	£441	£0	£0
Total	£12,131	£5,706	£2,697	£2,004	£1,724
Percentage of Budget	100%	47%	22%	17%	14%

Preparing a realistic budget

It's tempting to prepare budgets by costing work, time and materials at 'best deal' or 'well within budget'. It's a misconception that if costs are kept to a minimum, the project 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

Similarly, it's wrong to think that once funding has been awarded, the budget can be adjusted. Funds shouldn't be redirected to other purposes, like the purchase of unplanned resources. Fees for technical support or project management shouldn't be scaled down. It's bad business planning and, as a running business concern, you'll 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. Don't forget to include contingencies costs.

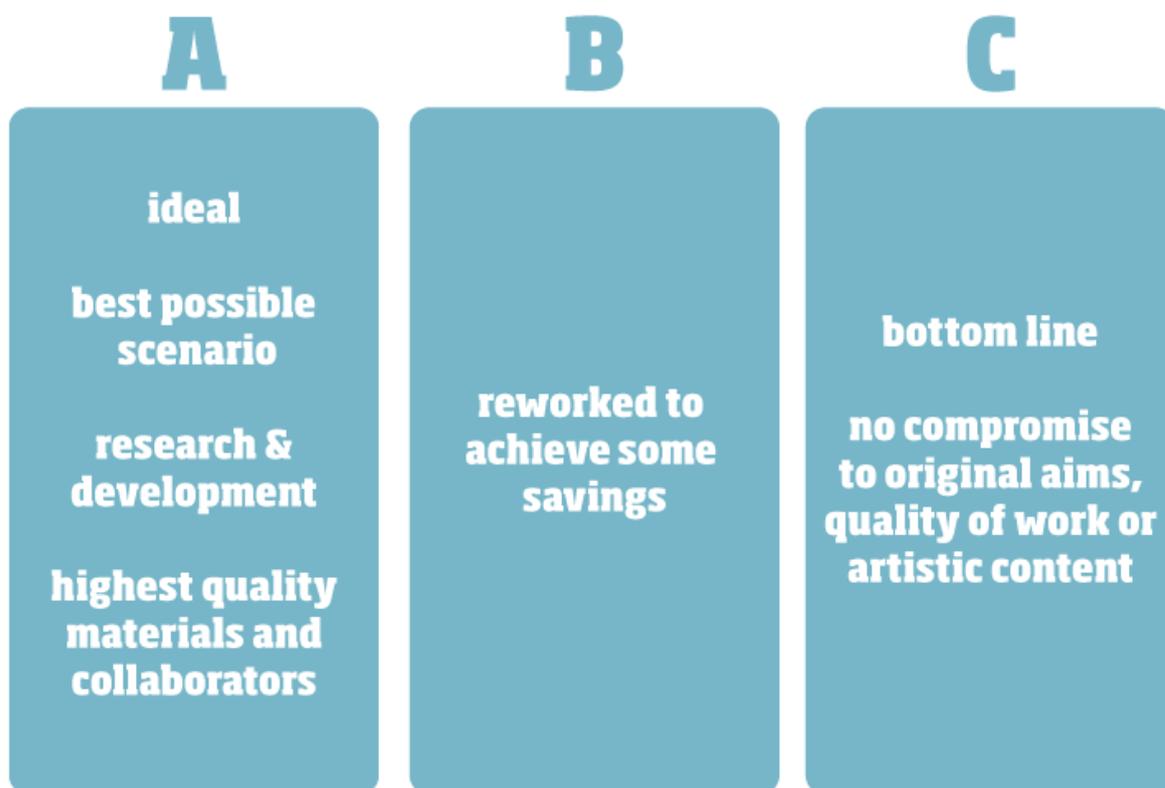
When creating your budgets, either for a project or the company as a whole, make sure you put in the most realistic estimates of income and expenditure. If, once you've done so, the resulting balance is a loss, you need to review all aspects of the budget.

Don't overestimate your income to make up the shortfall. Instead, look at your expected costs. Is there a way to keep them down by, for example, negotiating better terms with suppliers or using less expensive materials? Do you need an office or studio, or can you share one? Are you charging enough for your work? Are there other things you can do to earn more money with little outlay?

Creating a budget can throw up questions you might not have considered before. It can help you evaluate the business, and provide opportunities to improve it, make it more efficient and ultimately, more successful.

The 3 budget plan

The **three budget plan** is a useful system when creating a new project. It's more time consuming, but worth the effort. In the long term, it will help with the realisation of your project, and provide invaluable experience in budgeting and preparing proposals for agencies and funding bodies. It will aid negotiation and help achieve your aim - to create your work without artistic compromise.



Budget A

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

Budget B

This is reworked from Budget A, and should show how you could achieve some savings without compromising the original aims of your project or the quality of work and artistic content.

Budget C

To be considered within the same deadline, this budget shows how the project could only just be realised without 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, without compromising artistic integrity or allowing the creation of sub-standard work.

Due to lack of funds, many projects are begun without securing the finances to create budget C. Without those funds, artistic quality and content is bound to suffer. If that funding is not in place, you need to question whether to go ahead at this stage. Could an alternative project be realised without compromise in its place

A presentation tool

A realistic budget is an invaluable management tool. It can also be an effective way of convincing other parties - funders, lenders, prospective clients - that you're organised. It shows you've given the project or activity sufficient thought and that you can back up your proposals with a realistic financial plan.

To convince someone you have a good business idea, and that they should invest in it, you must show you understand the financial implications as much as the artistic ones. It will help you negotiate with them. For example, if you can show how you've calculated fees and what you'll use them for, you're more likely to persuade them to support you.

Potential funders may also 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 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 rule to remember is to cover all financial outgoings in one chart, balanced against all aspects of potential income in another. If, when completed, the expenditure matches the income for the project, you're on the right track.

What next?

You'll find more information about financial management in our two guides: [Keeping Financial Records Guide](#) and [Cash Flow Guide](#).

Disclaimer: We want to keep you in the know, so we offer a wide selection of useful resources. But Cultural Enterprise Office isn't responsible for the advice and information of external organisations in this document. So if you have any questions, please contact the specific organisation directly.