Budgeting for Beginners

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This was a practical hands-on session in which Margaret Jones spoke briefly about the principles of budgeting in general, then looked at the marketing budget of a theatre and explained its approach to the budgeting of income and expenditure, budget profiling, cash flow and VAT.

Setting Budgets

There are two different methods of setting a budget:

- Using last year's figures and adding inflation or a % increase
- Looking at need, reflecting the artistic programme and priorities for the company and its marketing department

The first is common – we don't have time to pull apart every budget head every year. We quite often don't know the detail of our artistic programme, and we are often responding to changing priorities of our funders at short notice! The second is preferable and is possible to apply if you are in a small organisation or if you are managing one aspect of a budget.

Bottom-up budgets get followed – top-down ones don't. Staff need to be motivated to achieve budgets, which should be developed by the department's staff. This doesn't always happen. Heavy turnover in senior management can mean a General Manager or Financial Manager taking over control. Alternatively, some organisations are very hierarchical and staff are not given the opportunity to be involved.

Income Budgets

Earned income is one of the most important elements of income budgeting, so before we begin estimating our income budget for productions for the year, we review our ticket pricing strategies. We debate

- Single-priced houses vs tiered pricing
- Reductions and members deals
- Specific shows having specific pricing structures (e.g. comedy might have a single priced house

From this we can calculate our average ticket yield for each production type, based on both historical fact (previous similar shows, audience profiles etc.) and instinct (e.g. 'this show is at a different time of year so we need to be cautious about what we'll achieve' or 'the audience for this company has grown over the past two years, so perhaps we can be a bit more optimistic').

Once tickets are put on sale we can start to monitor sales levels, compare them with previous similar productions, and initiate additional marketing and publicity activities to boost sales if we need to. Setting pessimistic targets is better – partly because if we exceed targets everyone gets a boost and feels good. If this sits alongside expenditure control, and we don't exceed the expenditure budget we've set, everyone feels better still, and we're on the road to financial success, not just financial survival.

Expenditure Budgets

A commonly recited 'rule of thumb' in setting marketing budgets is to allocate 10% of turnover (overall) or 15-20% of ticket sales. However, this is crude and not necessarily appropriate in any particular instance. Monitoring changes in marketing expenditure as a proportion of both ticket sales and turnover is more useful. The finance manager should be producing regular management accounts to enable you to monitor your targets. Knowing the current situation can make a huge difference to whether you are developing budgets based on need, or making a best guess. You may be given a figure by your manager, within which you have to 'manage', but within which you can also set your own priorities for spending. You may have separate budget expenditure targets for all your productions at the beginning of the year and be able to combine these into one – and reallocate each production expenditure within the overall total.

The core overheads of the marketing and sales departments are likely to be stationery, photocopying, ticket printing, transport, postage and the season brochure. Other expenses can be linked directly to specific shows, such as mailing, postage, labels, poster sites, print, and advertising. Starting with your marketing plans for each production, you can allocate spending for these items, then amalgamate them to assess total expenditure. As the season progresses, keep records of orders and invoices on a spreadsheet for your own monitoring purposes, and make sure you are getting monthly management reports to monitor spending. Finally, you need a contingency for each production (4-5%).

Budget Profiling

From here you can build up a budget profile, which is prepared on a monthly basis and will form the year-to-date budget figures for comparison with actual spending / income. This is different to cash flow, which predicts when actual receipts and payments will occur (i.e. predicts your bank statements).

VAT

There are two rates of VAT: standard rate and zero rate. Output tax is the tax which is due on your taxable supplies i.e. tickets. Your inputs are the goods and services which you buy for your business – materials, consumables etc. The amount of tax on zero-rated supplies is nil, but they are still called taxable supplies and are included in your VAT return. If you sell zero-rated supplies, you can reclaim input tax in the same way as if you sell standard-rated supplies (though we tend to have very few zero-rated supplies in our industry).

Another category is the exempt supply which is not taxable because the law says that VAT is not to be charged on it. In this instance, you may not be able to reclaim your input tax. Donations, for example, are exempt supplies and are not included in your VAT return. You may be able to reclaim some input tax if the value of your exempt supplies meet certain criteria of % of value of your supplies, but I'd be cautious about this and check it very carefully. Exempt activities include education and training, and some capital expenses for special adaptations of toilets for disabled people are zero rated. Donations are generally exempt supplies, but sponsorship is taxable. An easy way to define whether something is a taxable supply or a receipt is to say "are we providing a service with this?"