Exercise: really understanding our business model
Break out session 1

1. How do we move on from the simple statement that we need to balance income and expenditure in the budget?

2. Suggested answers:

i. **What needs to be the case to meet the assumptions which underpin our budget?** Particularly,

ii. What type of work and what level of quality do we need to achieve in our work to attract the income (usage) target and at what cost?

iii. Similarly what volume of activity do we need to undertake and at what prices and levels of return e.g. cash yield? If access is free what levels or use or participation do we need to show funders?

iv. How do these answers position us in the market particularly against our competitors?

v. How far do we depend on growth in projects (larger and/or more)? How far is stasis or consolidation an option? Will cost creep and income erosion invalidate that option?

vi. Put another way, is the balancing of necessary risks well judged and explicit?

vii. Is there conflict between our markets (particularly our public and funders) and do we reconcile it?

viii. Is a growth in activity going to contribute to meeting overheads or be a burden?

ix. Critically, and we often will not face this, what are the real deadlines for making critical decisions about what we do? Time changes the quality of costs and revenues.

x. What underlying resources do we need to deploy to meet the plan? Critically how far can we provide these without long-term commitments? Are we stuck with a high level of overheads for historical reasons which we no longer really need?

xi. Is the reconciliation of cultural and financial demands routinely embedded in the planning process, or is it done too late to shape the best outcome?

xii. Can we really tell the story of our business model to everyone who needs to hear it?

xiii. Are we completely candid in sharing it with our Board and public funders? Are there taboos? If the answers are negative we may fundamentally jeopardise good governance because we will not have established trust and the Board will have been excluded from real decision taking and funders will see this.

Exercise: Facing the reality of undertaking activities
Breakout Session 3

1. Almost without exception what we do can be expressed as a set of activities. We usually cost and assess by showing only the direct or marginal cost set against the direct income (if any).

2. It's important not to blend or conflate discrete activities E.g. touring a production or exhibition may be may be scheduled or adventitious. In both cases it should be a separate activity.

3. At critical points we should examine the full costs of each activity.

4. There is no point in faking this. Do it for real or don't bother.

5. Allocate overheads/infrastructure costs without exquisite analysis. The two broad heads are people and buildings. Allocate the former by time and the later by space or consumption.

6. Do the same for funding which is general. This will require an intelligent guess in many instances.

7. As a nice addition we might include an income line for goodwill (e.g. the unpaid value of volunteers and 'busting a gut') and an expenditure line for the attrition of goodwill (e.g. loss of key staff or unwillingness to continue unpaid overtime)

8. Ask the executive team to do this blind and compare answers. There is a template to fill out. There's also a worked example.

9. Question 1: Do any activities show a negative figure after allocating full cost and funding? If they do what justifies us continuing them?

10. Question 2: How can we achieve a surplus on each activity to establish reserves sufficient to allow us to go on taking necessary cultural risks?

11. Question 3: What should that level of free reserves be for us?

Blank Proforma	**Main Activity**	**Other Activity 1**	**Other Activity 2**	**Other Activity 3**	**Other Activity 4**	**Total**
Direct Income	£'000	£'000	£'000	£'000	£'000	£'000
Tickets (if any)						
Sponsorship						
Restricted Grants/donations						
Other						
Total Direct Income						
Direct Expenditure						
Creative fees						
Physical creation and operational						
Artists, curators, project workers						
Transport, travel and subsistence						
Direct Overheads						
Other						
Total Direct Expenditure						
Marginal/Direct Surplus/(Deficit)						
Indirect Expenditure						
Staff						
Facilities						
Other						
General Income						
Public Funding						
Grants and donations						
Trading surplus						
Overall Surplus/(Deficit)						
Goodwill (optional)						
Surplus/Deficit after goodwill						

Worked Example 1. **Indirect Costs and Income Unallocated**	**Main Activity**	**Other Activity 1**	**Other Activity 2**	**Other Activity 3**	**Other Activity 4**	**Total**
Direct Income	£'000	£'000	£'000	£'000	£'000	£'000
Tickets (if any)	300	50	30	5		385
Sponsorship	25	0	5	40		70
Restricted Grants/donations	60	8	50	30		148
Other	30	3	4	5		42
Total Direct Income	415	61	89	80		645
Direct Expenditure						
Creative fees	(40)	(25)	(5)	(10)		(80)
Physical creation and operational	(100)	(45)	(10)	(15)		(170)
Artists, curators, project workers	(250)	(100)	(50)	(25)		(425)
Transport, travel and subsistence	(10)	(5)	(30)	(2)		(47)
Direct Overheads	(5)	(3)	(5)	(3)		(16)
Other	(3)	(2)	(10)	(10)		(25)
Total Direct Expenditure	(408)	(180)	(110)	(65)		(763)
Marginal/Direct Surplus/(Deficit)	7	(119)	(21)	15		(118)
Indirect Expenditure						
Staff						(150)
Facilities						(85)
Other						(20)
General Income						
Public Funding						300
Grants and donations						40
Trading surplus						10
Overall Surplus/(Deficit)						(23)
Goodwill (optional)	30	(10)	10	(20)		10
Surplus/Deficit after goodwill	37	(129)	(11)	(5)		(13)

Worked Example 2 **Indirect Costs and Income Allocated**	**Main Activity**	**Other Activity 1**	**Other Activity 2**	**Other Activity 3**	**Other Activity 4**	**Total**
Direct Income	£'000	£'000	£'000	£'000	£'000	£'000
Tickets (if any)	300	50	30	5		385
Sponsorship	25	0	5	40		70
Restricted Grants/donations	60	8	50	30		148
Other	30	3	4	5		42
Total Direct Income	415	61	89	80		645
Direct Expenditure						
Creative fees	(40)	(25)	(5)	(10)		(80)
Physical creation and operational	(100)	(45)	(10)	(15)		(170)
Artists, curators, project workers	(250)	(100)	(50)	(25)		(425)
Transport, travel and subsistence	(10)	(5)	(30)	(2)		(47)
Direct Overheads	(5)	(3)	(5)	(3)		(16)
Other	(3)	(2)	(10)	(10)		(25)
Total Direct Expenditure	(408)	(180)	(110)	(65)		(763)
Marginal/Direct Surplus/(Deficit)	7	(119)	(21)	15		(118)
Indirect Expenditure						
Staff	(70)	(40)	(20)	(20)		(150)
Facilities	(40)	(30)	(5)	(10)		(85)
Other	(5)	(2)	(8)	(5)		(20)
General Income						
Public Funding	150	90	50	10		300
Grants and donations	20	10	5	5		40
Trading surplus	7	3	0	0		10
Overall Surplus/(Deficit)	**69**	**(88)**	**(9)**	**5**		**(23)**
Goodwill (optional)	30	(10)	10	(20)		10
Surplus/Deficit after goodwill	99	(98)	1	(15)		(13)

Worked Example 3 **As 2 but New Activity Added**	**Main Activity**	**Other Activity 1**	**Other Activity 2**	**Other Activity 3**	**Other Activity 4**	**Total**
Direct Income	£'000	£'000	£'000	£'000	£'000	£'000
Tickets (if any)	300	50	30	5	0	385
Sponsorship	25	0	5	40	10	80
Restricted Grants/donations	60	8	50	30	50	198
Other	30	3	4	5	0	42
Total Direct Income	415	61	89	80	60	705
Direct Expenditure						
Creative fees	(40)	(25)	(5)	(10)	(10)	(90)
Physical creation and operational	(100)	(45)	(10)	(15)	(15)	(185)
Artists, curators, project workers	(250)	(100)	(50)	(25)	(20)	(445)
Transport, travel and subsistence	(10)	(5)	(30)	(2)	(5)	(52)
Direct Overheads	(5)	(3)	(5)	(3)	(5)	(21)
Other	(3)	(2)	(10)	(10)	(2)	(27)
Total Direct Expenditure	(408)	(180)	(110)	(65)	(57)	(820)
Marginal/Direct Surplus/(Deficit)	7	(119)	(21)	15	3	(115)
Indirect Expenditure						
Staff	(70)	(40)	(20)	(20)	**(20)**	**Increase (170)**
Facilities	(40)	(30)	(5)	(10)	**(10)**	**Increase (95)**
Other	(5)	(2)	(8)	(5)	(5)	**Increase (25)**
General Income						
Public Funding	150	90	50	10		Static 300
Grants and donations	**19**	**9**	**4**	**4**	**4**	**Static 40**
Trading surplus	7	3	0	0		10
Overall Surplus/(Deficit)	**68**	**(89)**	**0**	**(6)**	**(28)**	**(55)**
Goodwill (optional)	30	(10)	10	(20)	10	**?20**
Surplus/Deficit after goodwill	98	(99)	10	(26)	(18)	(35)

Worked Example 4 **As 2 but Existing Activity closed**	**Main Activity**	**Other Activity 1**	**Other Activity 2**	**Other Activity 3**	**Other Activity 4**	**Total**
Direct Income	£'000	£'000	£'000	£'000	£'000	£'000
Tickets (if any)	300	50	30	0		380
Sponsorship	25	0	5	0		30
Restricted Grants/donations	60	8	50	0		118
Other	30	3	4	0		37
Total Direct Income	415	61	89	0		565
Direct Expenditure						
Creative fees	(40)	(25)	(5)	(0)		(70)
Physical creation and operational	(100)	(45)	(10)	(0)		(155)
Artists, curators, project workers	(250)	(100)	(50)	(0)		(400)
Transport, travel and subsistence	(10)	(5)	(30)	(0)		(45)
Direct Overheads	(5)	(3)	(5)	(0)		(13)
Other	(3)	(2)	(10)	(0)		(15)
Total Direct Expenditure	(408)	(180)	(110)	(0)		(698)
Marginal/Direct Surplus/(Deficit)	7	(119)	(21)	0		**(133)**
Indirect Expenditure						
Staff	(70)	(40)	(20)	(0)		**reduce (130)**
Facilities	(40)	(30)	(5)	(0)		**reduce (75)**
Other	(5)	(2)	(8)	(0)		**reduce (15)**
General Income						
Public Funding	150	90	50	0		**reduce 290**
Grants and donations	22	12	6	0		**static 40**
Trading surplus	7	3	0	0		10
Overall Surplus/(Deficit)	**71**	**(86)**	**2**	**0**		**(13)**
Goodwill (optional)	30	(10)	10	**?(30)**		0
Surplus/Deficit after goodwill	101	(96)	12	**(30)**		(13)

Exercise: Adding or removing activities
Breakout Session 4

1. Scenario one: a major donor wants to fund a substantial new project/activity which will really help to fulfil our mission and we want to undertake it without reducing any existing activity.

2. Scenario two: income for a substantial and critical project/activity shrinks. We cannot increase it and have no alternative but to close the project/activity.

3. What do we do about the overheads under each scenario?

4. N.B. There is a real risk that under scenario one that the extra burden will not be allowed for and thus overstretch the organisation. There is an opposite risk of over overcapacity in scenario two.

5. Thus there is a real opportunity for radical reappraisal under both.

6. We seem incurably committed to sustaining our own, dedicated physical resources and employees to fulfil our overhead functions. Why?

7. Ironically at the sharp end of our operations we all deploy temporary and transient resources, e.g. actors, visiting curators, researchers, casual catering staff, borrowed artefacts, even venues. Moreover we deploy these at low cost and very efficiently. Why are we so precious about our fixed resources?

8. Is it really to preserve and enhance a culture and an ethos? This seems to outweigh efficiency and its effectiveness is not proven.

9. Our competitors who operate in the parallel commercial worlds e.g. theatre producers have no such qualms and are very lean. Are we really so different?

10. Does charitable/public status plus subsidy over-encourage a benevolent and indulgent attitude? If we were e.g. a Community Interest Company would we think differently?

11. Question 4: What is the scope for the radical reconfiguration of overheads in our organisation?

12. Question 5: What will the impact on the level of our regular funding?

13. Question 6: What happen to our goodwill as a result of our decisions?

Exercise: Knowing our free 'on balance sheet' reserves
Break out Session 5

Definition: Reserves which can be deployed in the current or future years to fund projects and new assets.

Context: These Steps reflect the mandatory disclosures of the 2005 Charities Statement of Recommended Practice (SORP)

Calculation: Step 1. Take the **unrestricted** reserves **including designated** reserves. Remember we are free to de- and re-designate these reserves.

Step 2. Deduct the net book value of physical and investment fixed assets which is funded from unrestricted reserves. This sum should be included in the notes to the accounts and may well not be the figure on our balance sheet. This deduction is (part of) the 'capital' we need to fund those assets. It is sunk and unfree. We may sensibly have designated this sum already.

Step 3. We can prove the resulting sum by reconciling to with other side of the balance sheet. It should equal the sum of net current assets (or liabilities!) shown is the same note to the accounts as attributable to unrestricted reserves. **This sum represents our true free reserves.**

Step 4. This step is optional but important. If we have loans or liabilities which are not current but which we are due to repay in over one year, we should consider deducting those as well. We will need to find surpluses (i.e. reserves) at some time to meet them. If we have no restricted reserves for this purpose then we will need to use unrestricted reserves.

Step 5. Examine our **restricted** reserves. How much can be deployed to finance (a) project(s) or new assets. If we meet these tests then we may have further usable reserves. N.B. If they are already sunk by e.g. funding fixed assets they cannot be reused.

Step 6. Let's have ago with our own latest accounts.

No.	Step	£
1	Total of unrestricted reserves –including designated	
2	Deduct fixed assets but only those funded from unrestricted reserves –see Note for detail	
3	Reconcile sum to net current assets/(liabilities) shown in same Note. They should equate	
4	Optional –deduct long term liabilities to be paid from unrestricted funds	
5	Examine restricted reserves to test how far they can be deployed on ordinary activities	

Exercise: Are we really maximising your income and giving ourselves a chance to build reserves?
Breakout session 5

1. Full project costing allows us to re-examine some familiar issues. We can think of **five** strands. Strand **one**: by far the biggest and closest source of extra income is from our **unsold seats**, not-full-enough galleries, underused archives and unsold publications.

2. Most of us have a deep anxiety about the ageing of our attenders and about our disconnection from the young (and not so young).

3. We can despair about this or we can address it radically. Three facts stand out. One, the crucial marketing decisions we take are about the work we produce and not about the sales techniques we use. Two, most of us worry that traditional paper based communication is often ineffective and wasteful. Two, the young interact with the world far more often and more radically than we do through new electronic media.

4. And we must stress **interact**, i.e. participate actively. Actually what most of us offer most of the time is a virtuous **participation** with a live experience-sometimes hard work! We may seem to occupy a parallel universe from the electronic but there is a deep connection. How do we begin to make it?

5. We depend fundamentally on our audience and attenders acknowledging our **integrity**. If in future the story of every project we do has to play tellingly in new media how can we communicate that virtue in new ways? How do we shift our sales and marketing overhead to cope?

6. Strand **two**: we should deploy the full costing project model in all negotiation for **funding**. What attitudinal shift do we need to embed to achieve this? It is a policy which Arts Councils the MLA and other public funders should make mandatory.

7. Strand **three**: a few projects have a stand-alone viable **commercial** life. If they do they can attract equity, loan or private project funding. Have we really isolated all these potentials? How could we exercise branding control? How could we integrate them with our corporate structure? Again is the charity model unhelpful to us?

8. Strand **four:** we remain timid about applying the sort of yield management techniques which we all embrace in our private lives. Why? Is it really true that we will alienate early bookers for full price by later heavy and explicit discounting?

We should be less ready to believe this. Again the nature and scale of the sales resource will have to change if we are to do this.

9. Strand **five**: we all struggle to sustain let alone build development income. A clear understanding of the dynamics of our projects should enhance the crucial professionalisation of our fundraising. An ability really to articulate how and why projects generate costs and revenues is fundamental for Board members' and executives' understanding of the whole fundraising process. It allow them play their role in asking and nurturing. It promotes real opportunities for securing matching support.

10. Question 7: How can we increase income?