6 Financial Planning and Budgeting of Events

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Learning outcomes

- ☐ Use a framework for financial planning to understand the overall role finances play in event management.
- ☐ Apply financial principles to demonstrate sound, practical decision-making.
- ☐ Communicate effectively in dealing with financial and business matters.
- ☐ Describe budget's element and creation.
- ☐ Understand different type of costs and revenues in event planning .
- ☐ Discuss the budget as a controlling process.
- ☐ Discuss monitoring of the budget.
- ☐ Observe preparation of the budget for an agency or a event organisational firm.

Introduction

The importance of financial management and resource allocation for events cannot be understated. Events are an important part of cities', regions' and countries' cultural make-up and represent more than simply entertainment for interested consumers. Given this importance it is imperative that their ability to operate on a regular and ongoing basis is supported by a strong financial awareness of their management teams. How will we price the event to ensure that our objectives are met? How can we ensure that the management team and staff stay on-time and on-budget? How can we determine if we are generating enough revenue from our event to cover costs, and how important is our cash-on-hand for our immediate survival.

This chapter aims to provide event managers with a clear understanding of these finance-related questions. The topics presented in this chapter build on, and extend the scope of the concepts discussed in the previous chapter. More emphasis will be on the numerical aspects as illustrated in the examples used throughout this chapter.

Financial planning and management of events

Setting financial sustainability goals relies on understanding the relevant theories that explain the probable results of pursuing a specific dimension of sustainability. Two rivaling theories try to predict the effect of suitability on the financial results of the firm. While the theory of value creation attests that the firm's performance becomes predictable with the adoption of environmental and social accountability, the theory of value destruction posits that by adopting environmental and social responsibility, firms tend to lose focus of profitability by prioritizing stakeholder needs over shareholders. Additional theories also suggest the variation between results and pursuing sustainability goals. The tradeoff theory explains that undesirable effects ensue from investing resources in less profitable sustainable functions, while resource-based theory and value-based theory suggest a positive correlation between the two. According to the stakeholder theory, appealing to stakeholder needs through a comprehensive CSR bolsters the firm's performance. In contrast, value-based theory suggest that the firm needs only optimize its unique value proposition to improve its financials. Different approaches suggest different results for sustainability practices, leaving the decision making at the discretion of management guided by firms' priorities. The priorities are documented in the strategic statement.

A primary responsibility of management is to ensure the financial health of the event. This requires an understanding of fundamental financial concepts, financial reports, and some key tools for analyzing financial data. The proper presentation of financial accounting data can greatly facilitate both the preparation of management accounting information and the fulfillment of external reporting requirements. Given their limited resources, it is particularly important for event management organisations to adopt a business-like attitude toward their financial operations and the way they present financial information to stakeholders.

With ever rising costs and price level, it is essential for all types of businesses to develop a financial management system that helps stabilize the business for a long time. It has become imperative that businesses manage their finances with enough flexibility to allow them to continue to grow and also pay for their necessary expenses. On the other hand, it has to be stringent enough to allow for money to be put away in the event of future catastrophes.

In present times the event's planner function requires a higher level of strategic thinking than ever before. For effective and successful planning of an event, a good understanding of accounting and financial fundamentals are essential. Event professionals must possess enough knowledge of accounting and financial basics to be able to understand and evaluate financial statements, prepare and compare budgets to actuals and to understand the process of cash inflows and outflows. A shift from tactical to strategic responsibilities of the event's planner not only up-scales the value of the professional in the company but also enhances its position in the market place. Thus effective financial planning and financial management skills promotes the company's ability to remain successful.

Financial management is concerned with planning, organizing, directing and controlling the financial activities of an enterprise. These activities can be broken down into three major decision areas: financing, investing and asset management decisions. Thus, financial management means applying the general management functions to the financial resources of an enterprise. Major decisions are interrelated, eg. a decision to acquire an asset requires the financing and management costs which affect the decision to invest.

1. Investment decisions in fixed assets are also known as *capital budgeting* decisions and investments in current assets are called *working capital* decisions.
2. Financial decisions relate to the various modes of sourcing finances, which further depends on the duration of finance, the type of sourcing, the costs and the returns on these.
3. Dividend decisions deal with the distribution of net profits in the form of dividends to the stakeholders and the amount of retained profits, which would be influenced by the expansion and diversification plans of the business.

Thus, the main objectives of financial management are concerned with procurement, allocation and control of the financial resources available to the enterprise thus ensuring the following:

- Adequate and constant supply of funds.
- Optimum utilization of funds.
- Safe and secure investment of funds.
- Maintaining a sound capital structure creating a right balance between debt and equity.