

Financial Management for Childcare Providers

Budgets and budget monitoring

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Budgets and budget monitoring

Effective, regular budgeting and budget monitoring is an essential part of any childcare provider's financial management. It enables you to make informed decisions, helps you allocate resources where they are needed and is key to ensuring current and future sustainability.

A budget is a forecast of what you expect your income and expenditure to be over a specific period. We recommend that it covers a period of at least 12 months and that can be split into terms, quarters, months or even weeks, depending on the needs of the childcare provider. For most, particularly for those operating in term time only, a termly budget will be suitable. Occasionally, in particular during periods of financial pressure, more frequent budgeting might be required.

A well produced budget will reflect:

- What has happened in the past
- What is currently happening
- What you know or can reasonably assume is going to happen in the future

To use your budget effectively you will need to review and revise it frequently. How frequently will vary depending on your needs, but if your budget has been done in quarters it would be reasonable to review it quarterly too. This review will involve comparing what has actually happened during the period to what you predicted would happen and that will then allow you to revise future budgets.

Financial Management System

To budget successfully it is important to have a Financial Management System which captures all of the information needed. Such systems don't need to be complex and will be dictated by the size, needs and type of organisation.

Financial records should include:

- Daily Accounts or Cash Book - It is essential to keep accurate and up to date records of the setting's income and expenditure. This could be a manual cash/accounts book or part of a more complex computer software package. Column headings can be matched to those on the budget, making it very easy to rule off on a regular basis and monitor actual figures against the budget. It can also make production of end of year accounts very easy.

Top tips:

- Record transactions as they occur.
- Reconcile to bank statements on a regular basis to makes sure that all items have been recorded correctly.
When writing a cheque where an invoice or receipt is held write the date paid and the cheque number on the invoice/receipt.
- Salary Record - This is a record of weekly and/or monthly wages and salaries including calculations of deductions to be made for Income Tax, National Insurance etc. The Cash Book relating to wages and salaries needs to reflect the net payments made to staff plus calculations of payments due to HMRC shown as commitments. This is to ensure that all funds are allocated to pay HMRC when required.
Software and advice is provided by HMRC for capturing this information.
- Invoices and Receipts for fees - It is recommended that invoices are raised for fees due and receipts issued for payments when they are received. They can be given unique reference numbers that can be recorded in the daily cashbook and listed and totalled each week or month to give an up to date record of income received and outstanding amounts due.
- Grants - Details of any Grants received should be held together with criteria and any monitoring information required by the grant funder. This is to ensure that any information required can be captured within the day to day running of the provision. e.g. average daily occupancy, age range of children etc.
- Registers - Should be clear and up to date. Total occupancy levels each day, week or month so that comparisons can be made with forecasts and predicted numbers required to break-even. This enables awareness at an early stage of any potential shortfall in fee income.
- Profit and Loss Statement - To be produced at the end of each financial year. Depending on type of organisation this may be required for Charity Commission, Companies House, HMRC or Grant Funders. Also a tool to revue the financial year and predict for the future years budget.

Creating a budget

Creating a budget is not difficult although it may take some time and could involve gathering information from several people within an organisation. Most importantly you do not need to be a financial expert to complete one and if the task is done regularly it will become quicker and easier.

The first decision needs to be what total period the budget will cover and over what terms, for example a 12 month budget split into 3 school terms. We have already said that this will depend on the type and size of an organisation and occasionally, in particular during periods of financial pressure, more frequent budgeting might be required.

Things to consider when creating a budget:

- Cautious predictions are better than over optimistic ones.
- Have full details with you of what's happened for the last year and what you know already is going to happen in the coming year e.g. the number of children that you know are booked in for the coming term and details of their dates of birth so that you know if and when they are due to leave during the year to go to school.
- If you have links to local parent toddler groups find out from them what children will be joining you and when.
- Income and/or expenditure will very rarely be the same for each period. We see many 3 term budgets where exactly the same figures are entered for each term. Bearing in mind inflation during the year, changing child occupancy levels and in particular the fact that terms are of different length that is unlikely to happen.
- Consider any changes that you are planning to make to your service during the year and changes that you know are coming in relation to Central Government policy. Is there anything happening in your local area that will affect your service e.g. local property development or employment changes.

Income

- Do not overestimate the level of fee income you anticipate to receive
- Occupancy numbers predicted and therefore fee income, might fluctuate due to changing circumstances e.g. economy, population, employment trends in area
- Do not include income unless you can reasonably assume its going to be received. For example potential income from Fundraising should not be included unless it can be assured. In any case if that fundraising or other grant income is being raised specifically for perhaps equipment purchases, make sure that both the income and expenditure for that is included.

Expenditure

- Do not underestimate expenditure and make sure that all items are included.
- Expenditure will be either:

Fixed costs – those which are incurred irrespective of occupancy e.g. rent, utilities, advertising

Variable costs – those which vary with occupancy e.g. catering, materials, staffing

- All costs need to take account of potential increases in line with inflation, in particular rent, utilities, catering etc
- Salary costs should allow for planned increases in National Minimum Wage rates if appropriate
- Expenditure items should be shown within the budget in the period that they are anticipated to fall rather than as an average across the year e.g. for Insurance premiums, OFSTED registration.
- Other staff costs should include payments due to HMRC, holiday pay, sickness cover and where required, an allocation to a redundancy reserve.

The completed budget will show whether in any given period your income is sufficient to meet your expenditure. If not you may need to go back to the original figures to see where expenditure might be reduced or income increased, including by increasing fee rates, applying for other grants or committing to a certain level of fundraising to balance the budget.

It should though be noted that a budget does not necessarily show how much cash you have at any particular time as it might not include any balance carried forward from a previous period. This however can easily be included as part of the budget form to create a Cashflow Forecast.

Breakeven and Cost Analysis

Breakeven Analysis:

For a business to become and remain viable it is important to know its break-even point. This is the point where a business' income is equal to its costs. Every business and a childcare one is no exception, should be able to answer the questions;

- For every day, week, month I operate am I making a profit, loss or just breaking even?
- How many children, paying our current fees, do we need to attend in order to break even?
- How much would we need to charge those that do attend in order to break even?

Answers to these important questions together with well produced budgets, will help financial management in many ways, including in deciding on fee structures, marketing activities and in varying the range of services provided.

To find the Breakeven Point you first need to list all costs for the year. The last set of annual accounts can be used or the coming year's budget if you think that is accurate enough. Remember to include costs relating to money put to reserves in particular to cover redundancy liabilities. The years total cost figure is then divided by the period you are considering, so for example a pre-school

operating for 38 weeks per year would divide the years costs by 38 to find the weekly cost and that in turn divided by 5 to find the daily cost. This is the amount per week or day that you need to take in income to break even. These weekly or daily cost figures can then be divided by the fee rate to find out how many children need to attend each day or week paying that fee, or divided by the number of children who attend to tell you what fee they would have to pay to break even.

Cost Analysis:

Are your hourly fee rates sufficient to cover your hourly costs? Many providers do not know the answer to this. Their fees are either based on what other providers in the area charge, or a pre-existing rate that might be reviewed occasionally and increased by a small amount to account for inflation.

It is very easy, in particular if a provider has calculated the weekly or daily cost as covered in the previous breakeven section, to take that to an hourly cost and very simply to compare that to your fee. This information can then be used during fee reviews, which should be carried out at least annually, to justify increasing fees or in fact showing that they can be left as they are.