

Advice for your childcare business

Financial Management



When running a business it is essential to keep track of the money coming in and out of your accounts. The most effective way to achieve this is by setting a budget and monitoring how closely you are able to stick to it.

A budget

A budget is a statement of what your business expects to spend and receive and will detail every item of income and expenditure that occurs. The format should allow for cumulative figures to give a view of the balance at the end of each month and for any point in the year.

Setting your budget

If you are starting a new childcare business your initial budget will have to be based on informed estimates. If you are setting a budget for an existing business you will need to use the actual figures from the previous years trading, allowing for inflationary increases.

Expenditure

In this part of your budget you will need to forecast what you expect to spend for the next year. The Business Team has developed a range of cashflow forecast templates which are suitable for all types of childcare, but an example is shown on the page overleaf. All expenditure should be included under headings as in the example.

The biggest cost for most childcare businesses is salaries and it is important

to remember to include on-costs such as employers contributions to PAYE, NI and pensions. Some costs will be fixed and are therefore likely to be more accurate, while others, like expenditure on food, will vary according to how many children you have. All businesses should allocate an amount for contingency, to allow for unexpected problems and to ensure that there is adequate money to cover your redundancy commitment and any tax due. Many businesses hold an account that earns higher interest for this money so that it is kept in reserve away from the current account. Capital expenditure will need to be recorded separately.

Income

When you have established your total predicted expenditure you need to ascertain what your projected income might be. A good starting point for this is to work backwards using your total expenditure to work out how many children you will cater for and therefore how much you need to charge in order to meet your costs.

Any estimates used will need to be as accurate as possible and this is where your market research will help (see market research sheet). This research will give you information about your area and the fees and services that your competitors offer. The most important factor is that the fees that you charge cover your costs.

When setting out your predicted income it is useful to separate the different sources. For example: fees and grants; and for the voluntary sector: fund raising and donations. For a new business it is important to produce a number of different forecasts based on different levels of occupancy so that you can see exactly how this will affect your business.

You will need to have contingency plans in place in case your business does not progress as expected. For example if it takes longer than predicted to fill your places. Having a current business plan in place will help you to identify what contingency might be needed. Another

sheet in this series, entitled 'Business Planning' gives guidance on this.

Numbers you need to know

There are some basic sums that you will need to do in order to monitor the progress of your business.

How to work out fees

First use your budget plan to work out your **weekly cost**.

$$\text{Total yearly expenditure} \div \text{Number of weeks open} = \text{Weekly cost}$$

Next you will need to work out exactly **how many hours** you will be able to sell per week. To do this you first calculate the total number of hours.

$$\text{Hours per day} \times \text{Days open per week} \times \text{Registered places} = \text{Total hours per week}$$

* If you offer sessional places simply use the hours in each session in the calculation above.

It is unrealistic to expect 100% occupancy, especially in the early days of a new business so it is important to repeat this exercise with a lower number of hours sold.

Now you can calculate what you need to **charge per hour** in order to cover your costs when your occupancy is at a realistic level.

$$\text{Weekly cost} \div \text{Realistic hours occupied} = \text{Breakeven hourly fees}$$

Breakeven occupancy

When you have decided on an hourly fee you can work out how many children you will need to attend each day to meet your costs.

$$\text{Number of hours that need to be sold} \div \text{Hours per day} \div \text{Days open} = \text{Number of children needed to break even}$$

Example

If a business was registered for 24 children and yearly expenditure was £50,160 and you are open for 38 weeks per year. **Your weekly cost would be:**

$$\boxed{£50,160} \div \boxed{38} = \boxed{£1320}$$

The business is open for 3 hours per day, 5 days per week with 24 registered places. Your **total hours would be:**

$$\boxed{3} \times \boxed{5} \times \boxed{24} = \boxed{360}$$

You might expect to achieve 80% occupancy. This would mean that you could expect to sell 288 hours on average. **Your hourly breakeven charge would be:**

$$\boxed{£1320} \div \boxed{288} = \boxed{£4.58}$$

Using this hourly rate your **breakeven occupancy would be:**

$$\boxed{288 \text{ hours}} \div \boxed{3 \text{ hours}} \div \boxed{5 \text{ days}} = \boxed{19.2 \text{ children}}$$

In reality of course this means at least **20 children** per day to meet your costs. More than 20 and you will make a profit, less than 20 and you will make a loss.

You will need to repeat this process each time one of the factors change. For example if you want to increase your fees or the number of hours that you are open.

Monitoring

Once your budget is set you will need to monitor your income and expenditure regularly. In this way you can compare what was forecast with what has actually happened. By reacting promptly to any variance and establishing why and how to deal with changes you give yourself a better opportunity to address financial difficulties before they get out of hand.

It is advisable to monitor your financial position at least once a month. A cashflow spreadsheet will also allow you to ascertain the impact of possible changes, like a salary increase, so that you can alter fees accordingly. You can analyse the financial impact of any developments in this way.

Best value

Each year it is advisable to look at any

contracts you have for services or goods to reassess whether they still provide the best value. These may include banking services, insurance, waste collection; and any other product or service that you pay for. It may

be that you find a supplier who offers a more competitive rate or you are able to renegotiate the amount you pay your current supplier. It is always worth asking!

Income	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7
EYFE							
Income from fees							
Milk							
Other funding							
Fundraising							
Total							
Expenditure	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7
Staff salaries							
NI + tax							
Premises							
Business rates							
Subscriptions							
Electricity							
Water							
Telephone							
Insurance							
Training							
Administration							
Food							
Materials							
Equipment renewal							
Waste disposal							
TV licence							
Advertising							
Cash withdrawal							
Credit card							
Other							
Total							
Balance							
Cumulative cash balance							

Further advice

For further advice regarding financial planning, contact your childcare business adviser on 01372 833833 or email: childcarebusinessadvice@surreycc.gov.uk

Surrey County Council
County Hall
Kingston Upon Thames
Surrey KT1 2DN



Produced by:

Early Years and Childcare Service

Fairmount House

Bull Hill

Leatherhead

KT22 7AH

www.surreycc.gov.uk/earlyyears

Tel: 01372 833833