2016

# MANAGING A CHILDCARE BUSINESS
## PART 2 FINANCES

**KILDARE COUNTY CHILDCARE COMMITTEE**

# PART 2 *FINANCES*

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# 1. Financial Planning and Management

Financial planning and management is one of the most important key activities of managing a thriving and successful childcare business. Good business practice involves good financial planning and management. It is not just about getting your house in order, it is about setting up your business for the challenges and opportunities it will face in the future.

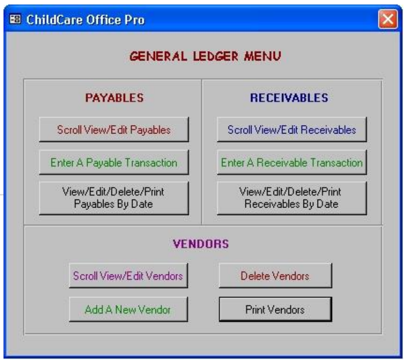
Carefully planning and managing the money in a childcare business can offer many benefits. If you do not plan your finances you may not be aware if you are making enough income to keep your business going in the long term. Every business, including private childcare and even community childcare settings need to make a surplus to support:

- Providing a safeguard against late payments or unexpected expenses
- Providing a cushion against the seasonal ups and downs in income coming into the business
- Build up funds for renovations or renewing play materials and equipment
- Reinvesting in the business including training and development for staff and volunteers.

Good business practice adds value to a business. A childcare business that follows good practice benefits in many ways, such as:

- the business is more likely to be profitable, have better cash flow and operate with less financial risk
- the business may be easier to sell in the future, and possibly at a better price
- the business may find it easier to access external finance, including bank finance

Managing the finances of any business requires well-defined systems and discipline to ensure that critical tasks are



carried out and reviewed regularly. Having a financial management system is vital to the effective operation of a childcare business and to ensuring long-term success.

Financial management systems include all aspects of your daily business actions, such as checking your bank balance, the cash coming in and flowing out of the business, your income and expenditure and how you manage your budget to ensure you make a surplus at the end of the year.

***There are three key areas that any childcare business should consider when looking at good financial management:***

1. Forecasting Finance: using annual forecasts and statements to plan for what you want to happen in the year. This involves setting budgets and planning the cash flow for the business

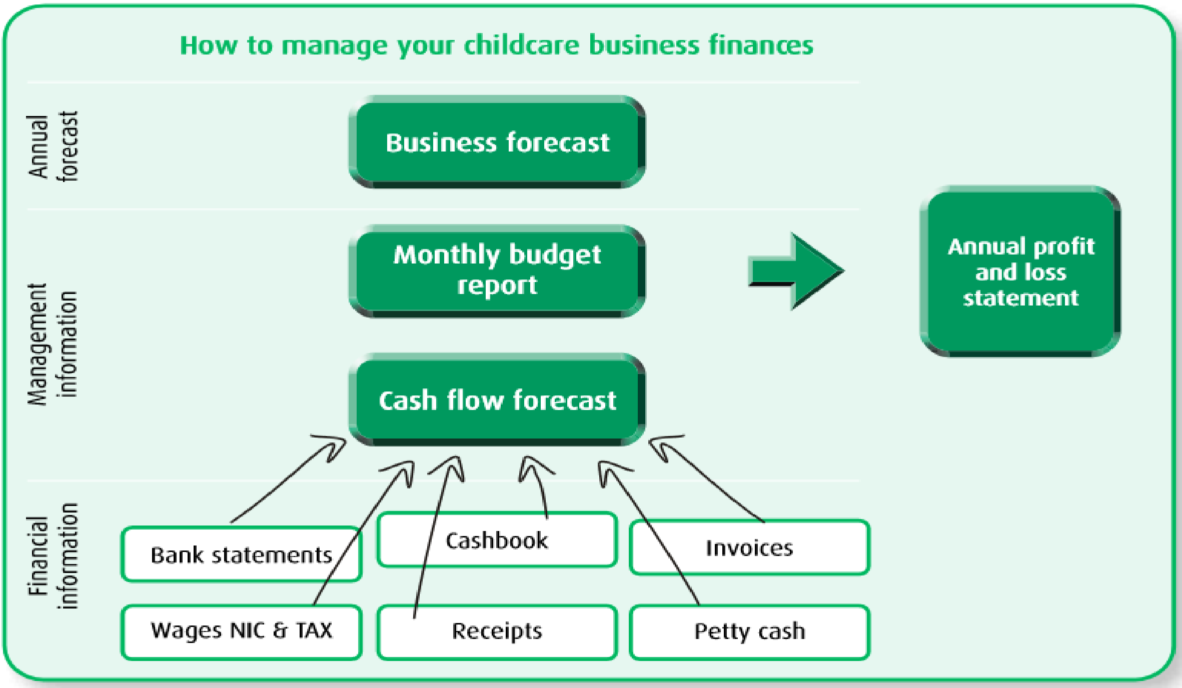
2. Managing Financial Information: using regular financial management information. This involves identifying the information you need to look at regularly, so that you can make informed decisions. These decisions and actions will allow you to remain in control of the business, keeping it on track and ensuring enough cash flow

3. Financial Records: keeping regular financial records. This involves looking at the records you need to keep in order review your finances and plan for the future and also to support the business to be compliant with funding schemes and legislation

Consider the following basic financial management model that uses forecasts, financial information and financial records which will support you in taking control of your business.

*Source: Managing Finance: Team Steps to Success, Skills for Running and Sustaining your Childcare Business, Business Success for Childcare, developed by A4e, Action for Employment, 2003*

## How to Manage your Childcare Business Finances




## How the Financial Documents Work Together

Firstly, a business forecast is created to enable the setting to plan business activities for the year. This will be reviewed by the management team throughout the year to see if business performance is on course and to take corrective measures if required.

A monthly budget is prepared from the business forecast to show how much money should be spent and received to keep control of the business. This is then regularly reviewed by the management team. It's updated by using information from the cash book.

Daily operation of the childcare setting will result in cash flowing into and out of the business. This is forecasted initially for the year, to demonstrate when fees and income will be received and when expenses will be paid. It's important to note the actual date that money is expected to go into or come out of the bank account is recorded on the cash flow forecast.

At the end of your financial year a profit and loss statement is prepared to see whether the childcare setting has made a surplus or a loss.

Your financial management system will form part of your management information system and should be received regularly ensuring that members of the team have responsibility for keeping records and collecting and analysing the financial information.

### Additional Supports

There are lots of resources available to help you plan and manage your finances. If you're not confident about financial planning, the Local Enterprise Office in Kildare serves as a first stop shop, providing small businesses with financial support, advice on starting and growing a business and training services to develop enterprise in the Kildare region.

If you wish to avail of mentoring / business advice you can access their application form here.

The Local Enterprise Office also has a **Supporting SMEs Online Tool** which is a guide to support Irish start-ups and small businesses to navigate the range of Government supports to see which you could possibly apply for. You can access the **Supporting SMEs Online Tool** here**.**

Also, a good book-keeper or accountant will be able to help you. You will have to pay for this service, though it may be valuable if it helps you to manager your financial situation and make plans for your future sustainability.

Also, check out our **Useful Resources** section that includes, guides, templates and other support tools.

# 2. Managing the Finances: Budget and Cash flow

### Business Forecasting

Business forecasting is vital to the success of your business. Simply put, if you do not know how much income you are going to bring in and how much spending you will have to do, you will not know whether your business is sustainable.

Preparing a budget and a cash flow forecast are two of the essential elements in successful business forecasting. The thought of assembling a set of figures for a budget and cash flow forecast can be intensely daunting for many people, especially if you have not had much familiarity of financial management. In actuality, it is no more difficult than planning your personal money or a family budget.

There is no requirement to have had any training in book-keeping or accountancy to do budgets and cash flows. Although, it may be an advantage if you work with someone who is confident using spreadsheets such as Excel, or has some practice in financial planning and management. The systems that you can use should be simple to use and the most important thing to remember is to use a model that makes sense to you and your service. *Sample templates for a Projected Budget and a Cash Flow with a Receipts and Payments page are available on this page.*


Business forecasting is a practical tool used by businesses to estimate income and expenditure for the year. It shows a knowledgeable forecast of the income, costs and expenses and gives you an advanced look at the possible business outcomes for the coming year. In order to effectively keep informed of their financial situation, a service needs to have a strong awareness of where their money comes from and with what regularity, and where and how rapidly it goes.

When creating a business forecast it is important to use factual and realistic expected figures. A solid budget should be pessimistic in terms of projected income and optimistic in terms of projected expenditure. The figures you use should be based on your best comprehension and judgement of the likely income and expenditure, taking into account your figures from the previous operating period. You can use your familiarity to guide you, but also take into account any plans you have that will change the picture, for example plans for expanding the service, more employees or the ups and downs of expenses.

**Budget**


A budget is an estimate for the upcoming financial year of the income, expenditure, requirements and expected profit or loss of the service. The preparation of a budget is crucial for:

- Planning, monitoring and controlling the money received and the way it is used
- Establishing the financial sustainability of the service within the reporting period
- Calculating what the service's fee setting strategy should be
- Identifying the service's financial commitments
- Preventing unnecessary fee increases, and
- Planning for professional development opportunities for employees and planned quality improvements to the service.

| Budget Sept 2016 to Aug 2017 | | |
|---|---|---|
| | | |
| | Totals | |
| **Income** | | |
| ECCE | € | - |
| CCS/CCSP | € | - |
| CETS | € | - |
| CEC | € | - |
| ASCC | € | - |
| Parental Fees | € | - |
| Bank Loan | € | - |
| Fundraising | € | - |
| Donations | € | - |
| Capital Grant | € | - |
| Other | € | - |
| **Total Income** | € | - |
| | | |
| **Expenditure** | | |
| Salaries | € | - |
| Revenue | € | - |
| Pettycash | € | - |
| Bank Charges | € | - |
| Insurance | € | - |
| Telephone/Internet | € | - |
| ESB | € | - |
| Gas | € | - |
| Building Maintenance | € | - |
| Bin Charges | € | - |
| Food Consumables | € | - |
| Programme Materials | € | - |
| Advertising | € | - |
| Membership | € | - |
| Other | € | - |
| **Total Expenditure** | € | - |
| | | |
| **Income -Expenditure** | € | - |

A budget is typically drawn up on an annual basis, and should be prepared prior to the beginning of the financial year so that the financial performance of the service can be measured against it.

Your budget will show your estimated income and expenses for the year including items such as:

- How much income you will earn from your childcare places, e.g. 24 places at €X cost per year
- How much income is expected from DCYA funding schemes such as ECCE, CCS, CCSP and TEC
- Staff salaries total for the year
- Expected average costs such as rent, food, utilities, insurance etc. for the year

## Budget Report

A monthly budget report is linked directly to the annual forecast. It shows every item of income and expenditure that has actually occurred within the month. It's a way of keeping track of the actual income and expenditure that the business receives and spends, compared with the figures expected. This information is taken from your cash book, which details your payments and income monthly. The budget report is cumulative, so it gives an instant view of the balance at the end of each month and for that point in the year. At the end of the year the budget report provides figures for your profit and loss account.

It is recommended that budget reports should be updated, monitored and reviewed on a monthly basis. This allows you to see how well the business is performing against the predictions on a regular basis

| **Budget Report Sept 2016 to Aug 2017** | | | |
|---|---|---|---|
| | Per Annum | | |
| | **Budget** | **Actual** | **Difference** |
| **Income** | | | |
| ECCE | € - | € - | € - |
| CCS/CCSP | € - | € - | € - |
| CETS | € - | € - | € - |
| CEC | € - | € - | € - |
| ASCC | € - | € - | € - |
| Parental Fees | € - | € - | € - |
| Bank Loan | € - | € - | € - |
| Fundraising | € - | € - | € - |
| Donations | € - | € - | € - |
| Capital Grant | € - | € - | € - |
| Other | € - | € - | € - |
| **Total Income** | € - | € - | € - |
| | | | |
| **Expenditure** | | | |
| Salaries | € - | € - | € - |
| Revenue | € - | € - | € - |
| Pettycash | € - | € - | € - |
| Bank Charges | € - | € - | € - |
| Insurance | € - | € - | € - |
| Telephone/Internet | € - | € - | € - |
| ESB | € - | € - | € - |
| Gas | € - | € - | € - |
| Building Maintenance | € - | € - | € - |
| Bin Charges | € - | € - | € - |
| Food Consumables | € - | € - | € - |
| Programme Materials | € - | € - | € - |
| Advertising | € - | € - | € - |
| Membership | € - | € - | € - |
| Other | € - | € - | € - |
| **Total Expenditure** | € - | € - | € - |
| | | | |
| **Income -Expenditure** | € - | € - | € - |

**Cash Flow Forecast**

A cash flow forecast is a statement of when cash is coming into the business and when cash is going out of the business.  When fees for childcare are received they are categorised as cash received by the business and when bills like rent and wages are paid, cash is taken from the business. The cash flow forecast details when all monetary activities occur, coming into or out of the business.

Budgets and cash flow forecasts differ in that the budget shows projected income and expenditure for a full twelve month period, whereas the cash flow forecast will break down month by month when you expect the money to actually be spent or received.  For example:

- If you pay a single annual insurance premium, the cash flow will show the full amount in the month that the premium is to be paid, not an average monthly amount
- If your total annual rent is, for example, €3,000 but you pay it in twelve monthly instalments, your budget will show your annual rent cost of €3,000 but your cash flow will show it as €250 spend every month

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash Flow Forecast Sept 2016 to Aug 2017 | | | | | | | | | | | | | |
| Opening Balance | | | | | | | | | | Total Weeks Income | | Total Weeks Staff | |
| € - | | | | | | | | | | | | | |
| | Sept | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Totals |
| **Income** | | | | | | | | | | | | | |
| ECCE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| CCS/CCSP | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| CETS | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| CEC | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| ASCC | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Parental Fees | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Bank Loan | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Fundraising | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Donations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Capital Grant | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| **Total Income** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| | | | | | | | | | | | | | |
| **Expenditure** | | | | | | | | | | | | | |
| Salaries | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Revenue | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Pettycash | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Bank Charges | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Insurance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Telephone/Internet | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| ESB | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Gas | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Building Maintenance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Bin Charges | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Food Consumables | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Programme Materials | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Advertising | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Membership | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| Other | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | € - |
| **Total Expenditure** | € - | € - | € - | € - | € - | € - | € - | € - | € - | € - | € - | € - | € - |
| | | | | | | | | | | | | | |
| **Income -Expenditure** | € - | € - | € - | € - | € - | € - | € - | € - | € - | € - | € - | € - | € - |
| | | | | | | | | | | | | | |
| **Balance** | € - | € - | € - | € - | € - | € - | € - | € - | € - | € - | € - | € - | |

It should be noted that many businesses fail, not because they are not profitable but because they don't have enough accessible cash. The cash flow forecast allows you to see what the expected cash balance may be at any point in the future.

As cash activities happen within your childcare business daily e.g. fees from parents, rent payments, bill payments, money for consumables and petty cash, the status of your cash flow changes rapidly therefore it is important to evaluate your cash flow frequently; at least monthly. This will allow you to plan ahead to help avoid the possibility of the business running out of cash. The service then has the time and can employ different strategies to resolve a cash poor position such as:

- Increasing sales
- Start or increase marketing activities
- Reduce and/or control costs
- Collect overdue payments
- Negotiate alternative payment methods with suppliers
- Organise overdraft facilities with your bank

The good news is, that once your cash flow system is developed it is a quick and easy job to update it regularly when changes occur. But as with all activities within the business, to ensure your monies are handled appropriately you need to delegate the task and duty to one individual who will maintain your cash flow forecast – this can of course be you.

The sample budget, budget report and cash flow forecast templates on this page are ones you may choose to use, but you could develop your own to include rows of income and expenditure that are particular to your business.

Remember: As a word of **caution**, you should be comfortable using a spreadsheet and understand that spreadsheets are fairly error-prone. Even if the spreadsheet is completely free of errors in its original format, there is no guarantee that you won't accidentally introduce errors yourself.

# 3. Pricing your Service


In order to make certain that your service is sustainable, it is crucial that you are able to set your fees so that they cover your costs and allow you to make an excess or profit to finance the future of your early years' service.

The fees you charge for your early years' service will provide the monetary base for your business and your own income.  Your prices need to be competitive in your market, realistic and affordable for the families, but also fair to you. You need to take into account a range of issues, including your costs, the profit you want to make, the fee charged in your area, and what the families you're targeting can pay.   Developing your fees, explaining, and often defending them to parents, then collecting the money are all part of being in the early year's business.

Many early years business owners and manages experience dilemmas when devising a pricing strategy.  The action of identifying all of the business's costs can often be an eye opening activity for early year's services, but it is essential that you examine this on a regular basis to confirm that you are charging enough to cover all your responsibilities.  You will need to think about more than just the recognisable costs such as salaries and rent or mortgage payments and take into account longer term costs and any investment that you need to make, for example purchasing new equipment, improving your outdoor area or extending the services offered.

Pricing your service doesn't have to be a difficult process, but doing it can be the difference between remaining in business and having to close your doors!

**What's involved?**


No matter what business you operate, there are three factors to consider before deciding what to charge for your products or services:

1. Costs,
2. Competition
3. Customers

## Costs

Delivering a service or product involves expenses. Your costs may include:

- Raw materials or supplies
- Salaries
- Equipment and property

The bottom line is that the price you charge for your product or service must cover your expenses if your business is to survive.

There are two types of costs:


- **Fixed costs:** These overhead costs like rent, utilities, and insurance are normally the same every period, irrespective of how much service is delivered or places occupied. Although these costs are easy to forecast, they are often overlooked when prices are being calculated.
- **Variable costs:** These costs change in relation to the scale of your business activity. If you are producing more, you will need more raw materials.

**Cost Considerations**

- A feature uncommon to most other businesses but significant for early years' services is the limit to the number of children you can accommodate. In early years’ care, state regulations and space requirements limit the number of children you can admit to your service, putting a cap on the income potential of your business. To overcome this, childcare providers can extend their existing services, open services in more locations or provide additional services to grow their customer base and income.

- Labour cost is generally expressed as an hourly rate. A little research should give you a good idea of the going rate in your area for different early year’s positions. When you calculate your labour costs, remember to include the hidden costs such as PAYE, PRSI, benefits, training and professional development etc.
- As an owner, your salary (if you don’t take your personal income directly from net profit) must be included in the total labour charge. If you make no formal allowance for yourself but simply draw from the net profit, you should include your labour, in proportion to your contribution, in the total labour estimate.
- You can charge for your services on an hourly, weekly, or even monthly basis. Charging by the hour normally means you're paid only for the time the child uses the service and you won't receive any income if the child is absent. This makes forecasting your own time and budget more challenging. Weekly or monthly charges based on a projected amount of care can be more suitable and are simpler to work with.
- It is not common for any business, and this includes early years services, to function at 100% occupancy all the time, so you should set a price that allows you to make a profit at a lower occupancy which you anticipate to reach regularly

**Breakeven Price & Breakeven Occupancy**

Your **breakeven price** is the total cost of your product divided by the expected number of places you realistically expect to fill.


When you identify the breakeven price, you can work out your **breakeven occupancy**, that is, how many children you will need to attend each day to meet your costs.

The difference between what you pay per unit and the price you charge is called the **profit margin.**

Click **here** to see how to calculate your breakeven price and occupancy.

## Competition

For the most part, early years services may be operating in an area where other services may be competing for the services you provide. One of the factors that parents will consider is price and therefore may be comparing your charges with other local services. Although your competitor's price should not be the only factor to determine the fees you decide to set, it is important to survey on a regular basis what other early year's services charge, so you know where your price is positioned.


Early years services need to look at other factors in reviewing prices of other services. When comparing what other services charge, consider the quality of their service, the range of facilities and the staff expertise compared to yours. For example, look at their opening hours to see what flexibility they provide. Your price should reflect the value you deliver.


Price benchmarking helps you realize where you are placed compared to your competition. If you want customers to choose your service, you'll need to come up with a pricing strategy. This pricing strategy will include all the above factors and also ultimately involve making the decision to either charge the same price, a lower price, or a higher price, in order to maximize your sales potential.

- If you choose to set your price at the **same price** as the other services in your area it may do little to help you stand out and engage parent's interest. This pricing strategy is best used when you have a reputable client base or if you know you will have a large portion of the market.

- If you choose to set your price at a **higher price** you should know and be confident that your services, facilities and quality differs considerably from what others early years services are providing. Parents can often perceive high quality with a high price.
- Choosing to set a **lower price** will attract families who want to save money. This can be a good pricing strategy to use when you are trying to break into the market. But you should be careful that you do not set your price too low. Setting your price too low can mean you may have to you increase at a future date, and it is much more difficult to persuade parents to accept a price increase versus a price reduction. There is also a risk that parent's may associate a low price with poor quality.

When you have decided on your pricing strategy it is essential to review it regularly. You need to take consider inflation and events such as new competitors in your market area.

## Customers

Knowing the difference between cost and value can increase profitability:

- the **cost** of your product or service is the amount you spend to produce it
- the **price** is your financial reward for providing the product or service
- the **value** is what your customer believes the product or service is worth to them

Pricing should be in line with the value of the benefits that your early years' service provides for families, while also factoring in mind the prices other services charge.

To maximise your profitability, find out:

- what **benefits** your customers gain from using your product or service
- the **criteria** your customers use for buying decisions - for example,

speed of delivery, convenience or reliability
- what **value** your customers place on receiving the benefits you provide

Wherever possible, set prices that reflect the value you provide - not just the cost.


You also need to consider the needs of families in your catchment area and how much families may be able to afford. Identify your cost price and add your desired profit amount and the figure of what families can pay, and see how closely they match. You will need to do a little research in this area, possibly use local census information or parent's surveys to gather this information. Although you definitely want to be sensitive to a family's budget, remember it is not your duty to help all parents afford child care. Where you can help families is to set up a quality early years' service based on a sound business model. You can also facilitate all families by being knowledgeable and providing information on the various government subsidy schemes intended to support families to access affordable early years care.

### Decreasing or Increasing Prices?

Be careful though if you identify other services are charging less in the local area and reacting by lowering your price. Ask yourself, can you reduce your overhead and sustain profitability? A business that doesn't produce an adequate profit is more exposed to financial failure as it doesn't have the financial cushion that good profits provide.


Consider any increase in fees carefully and only introduce increases in price after you have considered the market numbers and trends. Most importantly, ensure that you do not price yourself out of the market and decrease occupancy because existing parents cannot manage to pay for the new fees.

If you have no choice but to increase prices, talk with parents and give them as much notice as is possible - you may be surprised at how accepting they are about any increase if you are providing an excellent early years' service and meeting their needs more effectively than other services could.

# 3.1 Pricing Calculations

**How to Work out your Price**

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

Total yearly expenditure ÷ Number of weeks open = 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 you can sell.

Hours per day X Days open per week X Registered places = 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 hou**r in order to cover your costs when your occupancy is at a realistic level.

Weekly cost ÷ Realistic hours occupied = Breakeven hourly fees

**How to work out your 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.

Number of hours that need to be sold ÷ Hours per day ÷ Days open = Number of children needed to break even

**Example**

If a business was registered for 22 children and yearly expenditure was €40,500 and you are open for 38 weeks per year. **Your weekly cost would be:**

€40,500 ÷ 38 = €1,066

The business is open for 3 hours per day, 5 days per week with 22 registered places. **Your total hours would be:**

3 X 5 X 33 = 330

You might expect to achieve 80% occupancy. This would mean that you could expect to sell 264 hours on average. **Your hourly breakeven charge would be:**

€1,066 ÷ 264 = €4.03

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

264 ÷ 3 ÷ 5 = 17.6 children

In reality of course this means that you need 18 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 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.

***Source: Advice for your Childcare Business: Financial Management***

***Produced by: Early Years and Childcare Service Fairmount House Bull Hill Leatherhead KT22 7AH www.surreycc.gov.uk/earlyyears Tel: 01372 833833 Financial Management***

# 4.Regular Finance Management

Do you have financial management skills? If you do not, have you employed someone with these skills or can you develop these skills through training? Support and training in this area is available from the Kildare Local Enterprise Board at https://www.localenterprise.ie/Kildare/

As a business owner you need understand the financial management required for all of your daily business activities which include:

- Monitoring bank balance
- Monitoring income and expenditure
- Managing your budget to ensure that you have a surplus at the end of the year
- Forecasting using cash flow forecasts
- Record keeping enabling you to submit required, accurate and timely returns to Revenue, Irish Tax and Customs, and any funding agencies.

Good financial management enables you to make informed decisions and looks at:

- Your past to see what has happened
- Your present to make sure everything is running smoothly
- The future to help you plan, forecast and ensure sustainability

**Monitoring Financial Performance**

After your annual budget and projected cash flow forecast have been developed and set, you will need to monitor your income and expenditure regularly. This is crucial to the management of finances and ultimately the success of your business. You need to compare what was forecast with what has actually happened. This will then allow you to react quickly to any unexpected differences and identify the reason for these variances. You will then be in a better position to address any financial problems before they become unmanageable.

To ensure that cash is managed effectively there are two accounting tools available. One is a budget and the other a cash flow forecast. This can be achieved by comparing the **actual** income and expenditure figures with **the projected** figures in your projected cash flow forecast.

If you identify any unexpected variations this should be reported in your regular budget report with details of intended amendments to the original budget and cash flow forecast.

**Monthly Accounts**


All businesses including early years' settings need to organise their records into accounting periods. Most businesses will work on their main accounting period being a full year divided into 12 monthly periods. It is advisable to monitor your financial position at least once a month.

Keeping your monthly accounts up to date may sound difficult but like all documenting required in early year's services is easy once you get into the habit of completing them.

If you need support in setting up systems to monitor the monthly accounts you can speak to KCCC, KLEO, or a local recommended accountant or book-keeper. Some might consider a computerised accounting system a smart investment for early year's services. The volume and complexity of income and expenditure that flows through an early years business requires a simple, but well defined effective book keeping system that can be managed easily and efficiently by busy managers and other relevant staff. You can access financial spreadsheets that are easy to use and understand with minimal training. Luckily there are also financial programmes available today that are specific to early years accounting systems.

Monthly requirements:

- Bring all accounting transactions up to date on your system – this can be paper or an IT based system.
- Check that all transactions balance and you can account for all income and expenditure.
- Reconcile your income and expenditure accounts to your bank statements – does the bank statement include all the income and expenditure items you expected? Are there any items that need to be transferred onto the accounting system e.g. banking charges? Identify any payments that have not gone through the bank statement, so that you do not go overdrawn.
- Ensure that you follow up on any queries that you identify while the information is still recent, do not let situations delay too long.


Tips to help manage monthly accounts:

- Schedule a block of time each week to bring your records up to date.
- Use ways that work for you – such as keeping all the paperwork from each day together in a plastic folder/pouch, until you are ready to record them.
- Document notes as you go along on purchases, cash movements, and other payments received – don't rely on memory.
- Schedule specific times, possibly once every two weeks, to pay bills and see who has not paid what they owe to you.

**Responding to Possible Scenarios**

Income is **down**:


- If income is less than you expected, you need to identify and address the possible causes?
- Is occupancy lower than expected? If so, why? Do you need to put more effort into advertising and filling places, and if so, what activities should you take?
- Are parents not paying on schedule, or even struggling to pay? If so, what steps can you put in place to support them to pay what is owed or on time?

- Discuss different payment methods with suppliers, altering the way you pay bills and dividing larger bills over longer periods all helps to manage reduced cash flow, or you could move to lower cost suppliers.
- Control your costs, these are the only item that you have complete control over. You approve the expenditure and/or sign the cheques. So, unless a cost's totally essential you do not have to sustain it. If you need to cut costs you can.
- Use emergency funds that you have set aside to cover the shortfall.
- If you need to, speak to your bank. If it is probable that you may need an overdraft facility in two months, talk to your bank as early as possible. Manging future cash flow needs will show you are controlling your financial management.

Income is **up:**

- It is always great if you are taking in more money than expected. However, it's worth having a closer look at what is bringing about the increase, so that you can continue to benefit from the success. .
- On the other hand, if you find the increase is due to a short term development, you can prepare for a possible drop in the future.
- If you are lucky enough to find yourself in a situation where you have additional cash each month, there are some actions you can take to reinvest the funds into your early years' service to continue successfully growing your business into the future.
    - Paying off any debt, or paying a little extra when you have spare cash will decrease your monthly expenses and help you continue a strong cash flow.
    - You could invest your money to create additional benefits of earning interest. However, ensure that you take professional advice on the best methods of investing so that you are not taking uncalculated risks. Create or add to your emergency fund
    - If you have a positive cash flow now, it may not always be the case. Think about putting money away to create an emergency fund. This way, if your

boiler breaks, down or your plumbing springs a leak, you will have money set aside to cover the cost.

  - In early years services your staff is the most important element of building a high quality successful service. If the business is regularly profitable, consider giving back to your team. Think about increasing wages, giving bonuses or investing in their training and development. This will serve as a motivation for your employees and will help you hold onto your best team members.
  - Consider improving your service by using additional money earned to purchase new supplies, equipment, toys, furniture or developing the outdoor play area.
  - It could be time to consider expanding if you are always performing profitably. If the need exists, maybe a larger building or a second location could be possible options that will help you continue business growth and add to your profits.

Costs are **down:**


- When costs are lower than you expected this could be a good position to be in. Remember to check to identify where and why the differences are occurring. Consider questions such as:
  - Are the purchases less expensive that I thought?
  - Did I have to buy less of the materials than I thought?
  - Do I need to review my projected cash flow based on the new information?


Costs are **up:**

- In the situation of your costs been higher than you expected, you need to react quickly and identify the where and why they have increased to ensure you retain a healthy cash flow.

Consider questions such as:

  - What were the unexpected items that I had to purchase?

- Are there actions that I can take to ensure that I do not have these types of unexpected costs in the future?
- Were the unexpected costs necessary?  Or, could they have waited?
- If the cost of the items has risen, can I re-negotiate with suppliers?
- Do I have to review my prices given the increase in costs to provide my service?

**Maintaining Best Value**

It is sensible to look at any contracts you have for services or goods to review whether they still provide the best value. Such services may include banking services, insurance, waste collection, mobile phone and any other product or service that you are paying for.
You might a supplier who offers a more economical price or you may be able to agree a more favourable rate with your current supplier.

# 4.1 Accounting for Cash

It is highly recommended that where possible payments should be made by cheque, or by internet banking methods such direct debit or credit transfer. Any handling of cash transactions should be kept to a minimum. Cash refers to money received in the form of coins and notes. However, there will most likely be times when some early year's services do not have a choice but to hold cash in relation to the receipt of cash fees for childcare.

**Tips for Handling and Accounting Cash Transactions**

The following are some best practice tips for the management of cash handling and accounting:

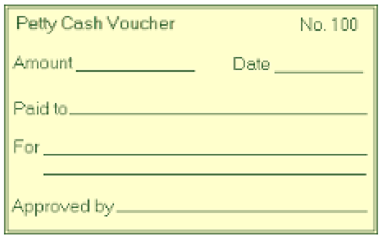
- All monies should be accounted for including any petty cash items.
- Cash should be paid into the bank account and recorded in the same manner as cheques.
- A petty cash system is a float system which should be used to pay small expenses.
- Any petty cash expenditure should be recorded and accounted for in a petty cash book.
- You should keep cash received in relation to childcare fees etc. separate from the petty cash fl oat.
- Avoid temptation to put monies received in the petty cash box and then make payments from it. You will need to differentiate between money received and money drawn from the bank for the petty cash fl oat.
- Always pay any monies and cheques received into the bank as soon as possible, drawing a cheque for petty cash from the bank account. This way all monies in and out of the bank account will be accounted for and shown on the bank statement.

## Petty Cash Management

The type of items that should be generally paid for out of petty cash include:

- Food provisions- bread, snacks, fruit and milk etc.
- Small items of toys and equipment
- Small items of stationery
- Postage stamps
- Window cleaning

It is a valuable exercise to have a written policy identifying what type and the maximum amount of expenditure that can be claimed from petty cash and what items should alternatively be paid for by cheque from the bank account.




Limit the size of petty cash payments to small payments and have minimum limit to the amount of any single payment. The borrowing of petty cash in the form of IOU's should not be encouraged.

The Imprest System is an accounting system for paying out then later restoring petty cash levels. Petty cash is a small reserve of cash kept on-site at a business location for payment of small casual cash needs. The imprest system is designed to provide a simple manual method for tracing petty cash balances and how the cash is being used. The crucial components of an imprest system are:

- A fixed amount of cash is assigned to a petty cash fund, which is stated in a separate account in the general ledger.
- All cash payments from the petty cash fund are documented with receipts.
- Petty cash expenditure receipts are used as the basis for periodic top ups of the petty cash fund.
- Differences between expected and actual fund balances are regularly reviewed and examined.

**Sample Petty Cash Book (Running Balance)**

| Date | Purchase/Receipt | Amount | Balance |
|---|---|---|---|
| 4/01/xx | Opening balance | €250.00 | €250.00 |
| 10/01/xx | Kitchen supplies | -52.80 | 197.20 |
| 22/01/xx | Birthday cake | -24.15 | 173.05 |
| 6/2/xx | Arts and crafts supplies | -81.62 | 91.43 |
| 13/02/xx | Taxi fare | -25.00 | 66.43 |
| xx/xx/xx | | | |

Whenever the imprest is topped up by drawing more cash from the bank, the petty cash book must be 'balanced off'.

The following website link and podcasts provide further information on petty cash management and the steps in using the imprest system:

http://www.bookkeepersireland.com/tikiwiki/tiki-index.php?page=Petty+Cash

http://bookkeepingpodcast.ie/wordpress/2010/04/ibapp-007-petty-cash-the-basics/

http://bookkeepingpodcast.ie/wordpress/2010/08/ibapp-025-petty-cash-using-the-imprest-system/

# 4.2 Bookkeeping

If you are running a business small or large, you need to keep suitable business records for good sustainable business practice, compliance with legislation and contractual obligations with funders.

Good bookkeeping should not mean extra work for your early years setting. You should think about putting a formal system in place for the recording of important pieces of business information. If managing the financial information is not one of your

strengths, you could consider allocating these tasks to a member of staff who has these skills, or using an external bookkeeping service.

The key to successful bookkeeping management is to set up simple, efficient and appropriate systems in the beginning. Don't worry, if you have not developed this from the start, there is no time like the present to start good bookkeeping. Firstly, consider if you are going to record all your records manually using manual ledgers, or use some spreadsheets such as Excel or Access, or alternatively, you could use accounting/book-keeping software packages. There are some formal packages available that have been developed specifically for early years' settings.

It would be considered best business management practice that, even if you use an external book-keeping service for this task, as a business owner the sole responsibility for the financial information that is collated remains with you. You should be knowledgeable on the practice and monitor the financial information to ensure your service remains sustainable. It would be a very good idea to consider undertaking a basic bookkeeping course so that you can develop an understanding of the principles behind bookkeeping and can pick up practical skills. Information on local training courses offered through Kildare Local Enterprise Office is available on the following link. https://www.localenterprise.ie/Kildare/Training-Events/Training/

The basic task that a bookkeeper needs to complete is keeping records on every item of income/sales and every item of expenditure/costs. This includes all your PAYE records of employees. It is the responsibility of the bookkeeper to ensure that the financial statements are maintained along with the complete paper work so that referring to it in the future becomes easy.


The primary tasks that a bookkeeper performs can include:

- Managing petty cash
- Paying expenses/bills
- Paying wages
- Receiving and receipting payments
- Updating financial ledgers for the above items and also for any automated payments and receipts through the back account.
- Track payments not received and expenses/bills not paid to date and take action to reduce these amounts
- Write off bad debts
- Carry out monthly tasks such as bank reconciliation
- Close off books monthly to provide a clean account on each new month with no amounts not queried or unaccounted for.
- Update budget to add in actual figures for latest month.
- Prepare financial reports
- Managing an efficient and reliable filing system so that all documentation can be accessed easily.

Businesses need to keep their records for a set period of time. The following links to Revenue.ie provide guidance on managing your financial records.
http://www.revenue.ie/en/business/running/keeping-records-revenue-audit.html
http://www.revenue.ie/en/tax/vat/guide/records.html

# 5.Collecting Fees

It is important for any business, particularly a small business to have effective debt control methods in place. However, as early year's practitioner/services we often find this area of financial management the most difficult and sensitive issue to address. The very qualities that make good earl year's practitioners can sometimes weaken your ability to tackle this aspect of your jobs. It can be an emotionally challenging to be presented with non-payment issues that may result in taking the step to exclude a child. Particularly knowing too well the potential impact this may have on the child involved.

However, like any small business, it is paramount that early years' services need to manage the cash flow and ensure sustainability and the high quality of the service for all users. The bottom line is you can operate your service with parents who pay for the childcare costs. Parents need to pay for the service, on time and every time.


The following guidance and tips will help you to prevent a spiralling debt event occurring in your setting. In most cases, clear policies and good communication with families can generally avoid debts arising or reaching unmanageable levels.

**Understanding Why Debt Can Occur**

Understanding how families find themselves in debt with fees can help providers develop effective policies and strategies.

There are usually 3 main triggers which can create a debt situation.

These are:

1. Changing circumstances (divorce, redundancy, bereavement etc.)

2. Poor money management

3. Spending behaviour

Debt can slowly build up over time, or occur suddenly, for instance in the case of redundancy or illness. Debt can have a major personal impact, affecting relationships within and outside the family. Sometimes individuals keep the debt a secret from their partner or other family members, hoping it will resolve itself, or through not wanting to cause anguish to others. Childcare providers might discover this when approaching a parent who is not aware of financial problems of their partner, resulting, for instance, in bounced cheques.

In the case of families owing money to various businesses, they often expect a more understanding and lenient approach from a childcare provider, than for example, a commercial moneylender. Therefore childcare fees can be last on the list for families to commit funds to.

Understanding triggers of debt and its impact can help providers develop ways to work effectively with families. This benefits both the sustainability of the childcare setting and the family's own financial planning.

Whilst providers can be understanding in terms of personal debt, priority must be given to the sustainability of the childcare setting and its ability to provide high quality childcare. Encouraging a 'payment on time' culture when a child takes up a place in a setting is essential.

**Source: Debt Collection for Childcare Settings, Cumbria County Council**

**http://www.cumbria.gov.uk/elibrary/Content/Internet/537/6379/6441/6446/41207145948.pdf?timestamp=42608161010**

**Managing and Collecting – Non-Payment of Fees Tips**

- **Creating and encouraging a 'payment on time' culture** when a child takes up a place in a setting is vital. To minimise and/or prevent debt arising, start by providing a simple and clear payment structure with easy to understand and concise policies and procedures.  Explain the payment structure to parents when they agree to enrol their child and are signing their parental contract with you.   You should include a short paragraph in the contract which states the parent agrees to pay fees on time.


- **Set the tone immediately.** When enrolling cover the payment structure and policy in detail, to avoid misunderstandings and leave no grey areas for misinterpretation.   Detail their payment rate, how they can pay e.g. cheque, credit card, cash, direct debit or all of the above.  Detail how often they must pay their fees, e.g. weekly, biweekly or monthly.  Monthly collection of fees may be more favourable for the service in terms of time and paperwork but you may also consider that weekly or biweekly may be more accommodating to some family's needs.
- **It is important to ask for fees in advance,** this gives time for any late payments to be addressed.
- **Consider asking for a deposit** that is either non-refundable of the last payment or used in the event of child leaving with a non-payment.
- **Devise a late payment fee policy enforce it.** This can be a simple policy which, states that if they are a day or week late in paying fees, they be charged an additional percentage e.g. 5%. Another approach to late payments is to advise parents that if they are more than a week late on 1 or 2 or more occasions, you will be unable to provide a place for their child anymore. You need to decide the methods on how you will respond to late payments for your service, but the key is to enforce the policy and be consistent.



- **Be fair with your late payment policy.** You should be quite strict in enforcing your policy from the start but if you know they are exceptional circumstances which the parents can recover from and get back on track with payments, you might decide to consider some leniency. However, be careful with this, and ensure that parents know the leniency is a one-time event as some parents can then believe that paying on time is not that important and they can become a habitual late payer.

- **Have information and support available.** If you are catering for low income families of families or families availing of subsidised childcare schemes, they may run into difficulty paying fees. Have information available to them on national and community resources and support or considered alternative payment plans
- **Get to know the parents/families that use your service.** Developing a relationship with the parents helps you to identify any indicators of individual parent/families in financial difficulty e.g. avoidance of contact or change in patterns of use.

- **Bad debt contingency fund**. Your service may choose to absorb a certain amount of debt each year but this should be included as a budget expense.
- **Acting immediately sends a clear message.** If parents are late in paying and you do not address it, they will think it is acceptable in the future. You also run the risk that if parents fall behind by two weeks or more, it may be impossible for them to catch up and you risk losing the child.
- If you do not get the response required from one parent, **talk to the other parent** if applicable.
- **Be physically present at drop offs and collections times.** If parents do not see you they may not feel the importance or urgency of paying on time.
- **Be persistent in your follow up on late payments** and follow the policy you have developed.
    - Make face to face contact and talk about the late payment diplomatically as soon as possible. You could say "I'm sure you forgot but…" "You have probably been busy but…".
    - If payment is still not received the following day, follow up with a phone call.
    - Continue to follow up daily if needed with reminder invoices, or friendly notes and make sure that these are handed to parents personally by yourself or supervisory staff.
    - Ensure that parents can be by different methods that are easy for them.
    - Be brave and stand your ground. The next step when speaking to parents, should be a conversation where you are polite but firm and following the

next step in your payment policy, e.g. “Lucy has had a great day here today. I hope your day has been good too. By the way, I did want to remind you that you missed a payment last Friday. If Lucy will be attending this week, I will need payment by tomorrow, Tuesday”.

- Be prepared to give advice on payment options according to your policy and procedures and be able to provide parents with any information on national and local schemes where they may be able to access support in paying for childcare.
- The next step may be to follow up with a standard debt payment letter from your solicitor. The intention is not to alarm parents but to send an “official request” that sometimes can result in a more prompt response to payment. As an early years provider you also need to acknowledge that you provide a quality service and place “value” on that service that requires payment.
- If the unfortunate situation arises where you have followed all steps in your payment policy, you may need to consider further legal action through your solicitor or a debt collection agency. This should be a last resort, but unless you are in a position to absorb the debt, you may have to take such actions to remain sustainable.

Collecting late payments is never easy and most of us will find it hard to ask for money. The most successful way to avoid this is to promote a “payment on time” culture. Set clear expectations from the beginning, be consistent, be kind and fair, but remember, you are caring for their child and that is a valuable service for which you deserve to be paid.