

Business Planning- A quick guide to finance

When running a business, it is essential to keep track of the money coming in and out (Income and expenses) of the business. The most effective way to achieve this is by setting a budget and monitoring how closely you can keep to it.

A budget

A budget is a plan for your money..... what your business expects to spend and receive. It will detail every item of income and expenditure that occurs. This should allow for cumulative figures to view the balance at the end of each month and 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 estimates. If you are setting a budget for an existing business, you can use actual figures from one of your previous years of trading, allowing for inflation increases.

Expenditure

In this part of your budget, you will need to forecast what you expect to spend for the next year. An example of a cashflow forecast template is shown on Appendix 1. All expenditure/ expenses should be included under headings as in Appendix 1.

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 (extra set aside), to allow for unexpected problems and to ensure that there is adequate money to cover your commitments (staff benefits, redundancy, maternity pay, holiday pay etc) 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. (fixed assets such as buildings).

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 required.

Numbers you need to know.

There are some basic sums that you will need to know so you can monitor the progress of your business.

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

Total yearly outgoings ÷ Number of weeks open = weekly cost

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

Hours × Days open = Registered Total hours per week × number of places = 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** to cover your costs when your occupancy is at a realistic level.

Weekly cost ÷ Realistic hours occupied = hourly fees or breakeven 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 – Nursery Setting

If a business was registered for 40 children and yearly expenditure was £328,000 and you are open for 50 weeks per year.

Your weekly cost would be: £328,000 ÷ 50 = £6,560

The business is open for 8 hours per day, 5 days per week with 40 registered places. Your **total hours would be:** 8 x 5 x 40 = 1600

You might expect to achieve 80% occupancy. This would mean that you could expect to sell 1280 hours on average.

Your hourly breakeven charge would be: £6,560 ÷ 1280 = £5.12

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

1280 hours ÷ 8 hours ÷ 5 days = 32 children

In reality of course this means at least **32 children** per day to meet your costs. More than 32 and you will make a profit, less than 32 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.

Example – Childminder

If a childminder was looking after 3 children and yearly expenditure was £12,000 and you are open for 48 weeks per year.

Your weekly cost would be: $£12,000 \div 48 = £250$

The business is open for 8 hours per day, 5 days per week with 3 registered places. Your

total hours would be: $8 \times 5 \times 3 = 120$

You might expect to achieve 80% occupancy. This would mean that you could expect to sell 96 hours on average.

Your hourly breakeven charge would be: $£250 \div 96 = £2.60$

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

96 hours \div 8 hours \div 5 days = 2.4 children (2 children attending 4 hours per week and one attending 16 hours per week)

In reality of course this means at least **2.4 children** per day to meet your costs. More than 2.4 and you will make a profit, less than 2.4 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 at least monthly. In this way you can compare what was forecast with the actual data. 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 (see appendix 1) 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 advised to reassess whether suppliers still provide the best rate. These may include banking services, insurance, energy, waste collection, and any other current supplier. Any product or service that you pay for, is always worth relooking at or negotiating with!

[Forms and Guidance \(solgrid.org.uk\)](http://solgrid.org.uk) – Current EEF Rates

REMEMBER CONSUMABLES ARE - Products that have a one time only use!

For example tissues, wipes, nappies, nappy cream, nappy sacks, toilet roll, paper towels, hand soap, paint, glue, paper, sand, craft items, cooking activity ingredients, washing powder and fabric softener. This list is just an idea of things to think about. They are things you have to buy more frequently!

DfE Charging guidance can be found using this link.

[Early education and childcare - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

You may charge a fee for some additions but consider this as a voluntary contribution (with alternative options provided) and ensure all parents, including disadvantaged families, have fair access to a funded place. You can charge for additional hours and additional activities such as trips as well as meals or snacks.

Appendix 1

| Income | DATE Monthly | | | | |
|--|---------------------|--|--|--|--|
| Early Education Funding | | | | | |
| Income from fees | | | | | |
| Milk | | | | | |
| Other funding | | | | | |
| Fundraising | | | | | |
| Grants? | | | | | |
| Total | | | | | |
| Expenditure | DATE Monthly | | | | |
| Staff salaries | | | | | |
| Pensions | | | | | |
| NI + tax | | | | | |
| Premises rent/ mortgage | | | | | |
| Business rates | | | | | |
| Subscriptions | | | | | |
| Electricity / Gas | | | | | |
| Water | | | | | |
| Telephone | | | | | |
| Insurance and Registration fees | | | | | |
| Training | | | | | |
| Administration /Stationary | | | | | |
| Cleaning - products/ cleaner | | | | | |
| Food & Drink | | | | | |
| Consumables (see list on next page) | | | | | |
| Trips/Tuition | | | | | |
| Equipment -toys etc | | | | | |
| Furniture | | | | | |
| Soft Furnishings Cushion covers/ sheets/ blankets/ bibs | | | | | |
| Washing powder | | | | | |