

# Team Steps to Success

Skills for running and sustaining your childcare business



**Managing finance**

**Business**  
success for  
**Childcare**

# Welcome to 'Team Steps to Success'

'Team steps to success' is a series of guides, which are aimed at improving the sustainability of all forms of childcare businesses.

The guides are primarily for 'Team Managed' childcare settings, but they might also be useful for some childminders.

Team managed childcare settings range from privately owned settings to ones which are run by a voluntary management committee.

## About the guides

The guides contained within the 'Team Steps to Success' series are useful for all childcare settings whether they are:

- Privately owned or voluntary managed
- Profit making or 'not for profit' groups
- Charities, cooperative organisations, private companies, social enterprises, maintained childcare settings or any other form of childcare business

As you would expect these guides contain many references to business concepts, words and phrases, in particular the words 'profit' and 'surplus'.

However, it's important to note that the guides are **not just** about making a profit in a private sector environment, far from it!

They actually refer to good business practices, which will enable your childcare setting to remain sustainable, whether or not you choose to invest all your surpluses back into providing a better childcare service.

Definition of  
**'Sustainability'**  
- The ability of a childcare provider to continually maintain its business.

Definition of  
**'Team managed'**  
- A team managed business is one which employs more than one person and is generally managed by a team of people, such as a nursery, playgroup or out of school club.

**Did you know?**  
The word '**profit**' originates from the Latin word '**profectus**' and the old French word '**proficere**' meaning to '**progress**' and '**advance**'.

### Consider the following

All group childcare settings have the following in common:

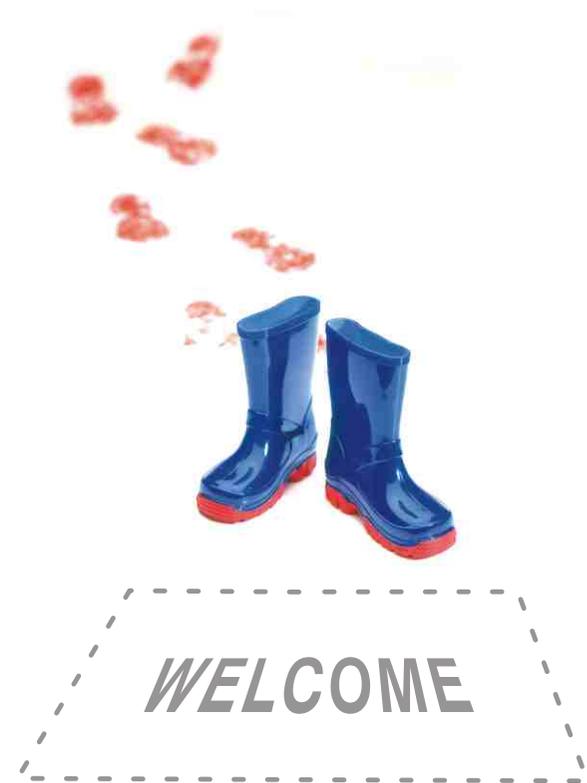
- Parents pay for a childcare service
- Staff are employed
- Premises are rented or owned
- Costs are incurred

Whether your childcare group is profit making or not, it's essential that all costs are covered and some surpluses are generated to keep the provision sustainable for the future...

These guides can help your organisation begin to do that.

What kind of childcare settings are these guides designed for?...

- Nurseries
  - Out of school groups
  - Holiday play schemes
  - Breakfast clubs
  - Playgroups
  - Pre-school groups
  - Crèches
- to name but a few



# How to use this guide

**Team Steps to Success** is a series of four guides and a foundation module, that are aimed at 'team managed' childcare businesses. The four guides cover the key business issues, drawing on best practice in business support. They build on the 'foundation' module, 'Planning for business success', which is designed to be used as a reference point as it contains the practical planning techniques for applying the concepts covered in this guide.

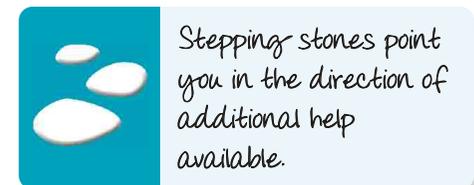
## Planning for business success

Planning is the foundation of the Business Success for Childcare guides and this module defines the key principles of business planning. The module is designed to be read first, as it shows how you can plan and implement ideas and concepts contained in this guide.



This guide will show you a typical design for a financial management system. It is used to regularly review and control your finances. The starting point is always to forecast your business finances and aim to make a surplus and then use the tools and techniques to control your finances and remain sustainable.

Throughout this guide there are information and action points labelled '**Steps to Success**'. These items are particularly important because they aim to prompt your thinking. There are also a number of '**Stepping Stones**' that will direct you towards useful sources of guidance and advice. There is a useful summary '**Stepping Stone**' at the end of this guide. The guide also contains a number of practical aids and simple exercises to help you plan and prepare for the future. To get the best from the guide, complete these as you come across them.



# Welcome to 'Managing finance'

Managing the finances of any business is a vital function, which requires well-defined systems and regular reviews. Carefully managing the money in a childcare business can offer many benefits. Performing a business forecast at the start of the year enables business managers to plan their finances to ensure sustainability. Looking closely at past financial records tells a business what has happened, so that decisions about the future are informed. Finally, if a business looks regularly at its current financial position it can ensure that everything runs smoothly and that the bank balance remains in 'the black'.

This guide will set out the basics of a financial management system and how it can be used to improve your business sustainability. The guide does not outline a full financial accountancy package, it provides an overview of what regular financial information can be managed and used, to maintain control of the business.

The guide is not intended to replace other sources of financial advice and it is recommended that for matters of financial guidance childcare providers continue to seek help from Business Support Officers, professional financial advisers and the Inland Revenue.



# Your financial management system

Having a financial management system is critical to the effective running of a childcare business and to ensuring long-term success.

Financial management systems include all aspects of your daily business activity, such as monitoring 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.

A financial management system can be operated and organised in many ways. This guide offers a simple model, which breaks down financial information into three main areas:

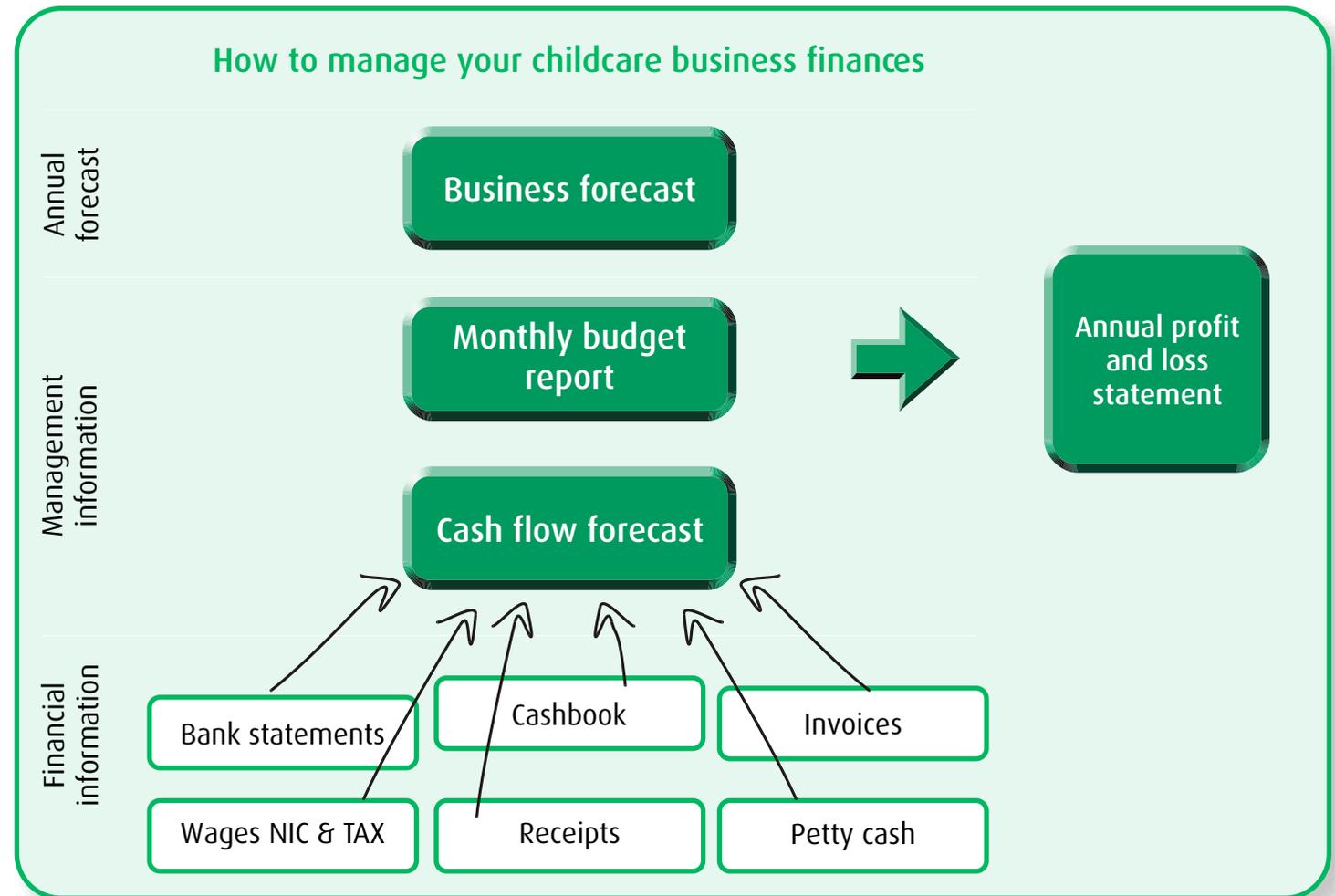
1. **Annual forecasts and statements** - what's planned to happen in the year
2. **Regular financial management information** - what information you need to look at, so that you can make informed decisions and remain in control of the business
3. **Your financial records** - the records you need to keep in order to be accountable as a business and be able to review your finances

When a business analyses its finances it usually:



The following financial management model uses forecasts, financial information and financial records and offers ideas on how to take control of your business.

 For a detailed guide on how to set up a financial management system, seek advice from a professional financial adviser.



The explanation of all the key components of the financial management model, as outlined in the diagram are detailed in the following sections of this guide.

### How the financial information documents work together

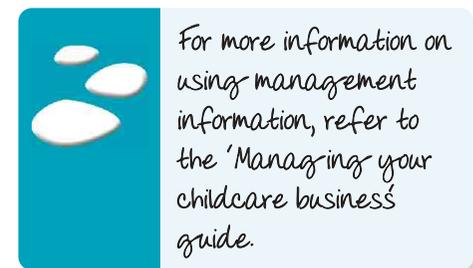
Firstly, a business forecast is created to enable the setting to plan business activities for the year. This will be reviewed by the management team throughout the year to see if business performance is on course and to take corrective measures if required.

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.





# Business forecast

## What is it?

A business forecast is the method used by businesses to forecast income and expenditure for the year and is included as part of a business plan. It shows an informed estimate of the income, costs and expenses and gives you a forward look at the business expectations for the coming year.

When creating a business forecast try to avoid using inaccurate figures. The figures you use should be based on your best understanding of the likely income and expenditure, taking into account your figures from the previous operating period. You can use your experience to guide you, but also take into account any plans you have that will change the picture, for example plans for growth, additional business, more staff or changes in expenses.

If you don't have figures to guide you in some areas then you can use catalogues or the Internet to source prices. As a minimum you should try and have budgeted figures for:

- Income - from fees, funding, fundraising and any other sources such as a loan or donations
- Expenditure - including regular costs of operating the business such as wages, national insurance, premises, utilities (bills), insurance, as well as variable expenditure on training, printing, stationery, travel and consumables



### What does it do?

By forecasting the expected income and expenditure, the management team are able to make practical decisions and set processes in action that enable the business to prosper and meet its objectives.

An accurate forecast can show in advance any areas of concern or issues that the business may face, so the management team are able to prepare the way forward.

Without a forecast the business won't know whether it can continuously cover its costs and make money. Equally, without measuring the business status against the forecast, managers will have no idea whether or not things are on track and won't be in control of the business.



### How regularly should it be used?

A full business forecast should be set at the beginning of your trading year.

#### Our childcare setting - Business forecast

01/04/03 - 30/03/04

##### Income

Fees	12830
Funding	9360
Fundraising	2780
Donations	570
Loans (if any)	0
<b>Total income</b>	<u>25540</u>

##### Expenditure

Wages	13630
National Insurance Contributions	1502
Premises	2880
Utilities	436
Insurance	516
Training	650
Printing and stationery	414
Maintenance	284
Consumables	1318
Loan repayments (if any)	
<b>Total expenditure</b>	<u>21630</u>
<b>Balance</b>	<u>3910</u>



This summary position can be used as an inclusion in your business plan. It has the overall figures for the year and tends to summarise some of the budget lines under one heading. So for example, consumables would include food, milk, sundries and materials.



# Monthly budget report

## What is it?

A monthly budget report is a statement of what the business expects to spend and receive and is linked directly to the annual forecast. It details every item of income and expenditure that has actually occurred within the month (this information is taken from your cash book). It's 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 it provides information for your profit and loss account.

## What does it do?

It's a way of keeping track of the actual income and expenditure that the business receives and spends, compared with the figures expected.

A budget report grows as you progress through the year. It shows your total forecast for that point in the year (taken from your business forecast). It shows your summary position for each month to date and the cumulative total to date across all months. It also shows the 'variance' which is the difference between the 'forecasted' spend and the 'actual' spend for that point in the year. The variance can be a positive or negative figure showing that the business has either spent or received more or less than expected.

Continually reviewing an updated budget can help managers ensure that the business doesn't spend more in each period than was forecasted. The business can then take action if there's continual overspending, against your budget figures as this could result in a loss at the end of the year. It's useful to ask:

'Why have we spent more or less?'

'What can we do to prevent adverse variances in the future?'

A budget provides information about the way in which the business is actually trading, showing any trends that are contrary to the annual forecast. If this is the case the annual forecast can be updated to give a more realistic financial picture of how the year might end for the business.

### **How regularly should it be used?**

There are no rules about how often a budget should be monitored and reviewed, but it's common to update and review budgets on a monthly basis. This allows managers to see how well the business is performing against the forecast on a regular basis.

As the use of computers are common in business it's easy to set up a budget on a spreadsheet and often companies update all their spending and income into a budget on a daily basis. This means the budget can be reviewed easily, at any time within the month, if needed.

# Monthly budget report

These columns show actual income and expenditure

This is the month being studied

The variance column is the difference between your forecasted figure for the number of months and your actual spend for the number of months. This can be a positive or negative figure depending on your performance against your forecasted budget

Our childcare setting - July budget report	These columns show actual income and expenditure			This is the month being studied			Year to date	Year forecast to date	Year variance to date
	April	May	June	July budget	July actual	July variance			
<b>Income</b>									
Fees	1550	1240	1290	860	860	0	4940	4860	80
Funding	2940	0	0	0	0	0	2940	3120	-180
Fundraising	240	150	450	210	360	150	1200	1170	30
Donations	0	0	0	30	0	-30	0	210	-210
<b>Total income</b>	4730	1390	1740	1100	1220	120	9080	9360	-280
<b>Expenditure</b>									
Wages	1250	1310	1290	830	790	40	4640	4700	60
National Insurance	138	144	142	92	86	6	510	518	8
Premises	240	240	240	240	240	0	960	960	0
Utilities	0	261	0	38	63	-25	324	183	-141
Insurance	43	43	43	43	43	0	172	172	0
Training	0	160	0	0	150	-150	310	120	-190
Print and stationery	50	54	0	8	25	-17	129	133	4
Maintenance	24	42	0	0	30	-30	96	36	-60
Materials	20	30	40	18	20	-2	110	88	-22
Toys	0	0	0	50	30	20	30	90	60
Food	50	30	44	46	50	-4	174	166	-8
Milk	32	28	8	24	32	-8	100	104	4
<b>Total expenditure</b>	1847	2342	1807	1389	1559	-170	7555	7270	-285
<b>Balance</b>	2883	-952	-67	-289	-339	-50	1525	2090	-565

Variance = this minus this

Totals to date of all the months shown

# Annual profit and loss statement

## What is it?

At the end of each trading period, usually a year, the business needs to look back and see whether it has made a profit or a loss. An annual profit and loss statement provides this information. It's therefore a historical summary of the business financial activities.

## What does it do?

The annual profit and loss statement summarises all income and expenditure in that trading year, showing whether the business has made a profit or loss.

## How regularly should it be used?

It's usually prepared at the end of the year, but some companies look at the profit and loss statement every quarter to see how the business is progressing.

Essentially your monthly report builds into your overall profit and loss statement for the year. In turn this will help you formulate your business forecast for the following year and give you reliable figures for your cash flow forecast.

### Our childcare setting - Profit and loss statement

01/04/03 - 30/03/04 **Actual**

#### Income

Fees	12550
Funding	9440
Fundraising	3100
Donations	500

<b>Total Income</b>	<b>25590</b>
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#### Expenditure

Wages	13350
National Insurance	1468
Premises	2800
Utilities	525
Insurance	516
Training	720
Print and stationery	375
Maintenance	280
Materials	240
Toys	220
Food	550
Milk	320

<b>Total Expenditure</b>	<b>21364</b>
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<b>Profit/Loss</b>	<b>4226</b>
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# Cash flow forecast

### What is it?

A cash flow forecast is a statement of when cash is coming into the business and when cash is flowing out of the business.

When payments for childcare are received they're classified 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 transactions occur, whether money is coming into or out of the business.

### What does it do?

Regular update and review of a cash flow forecast allows managers to make sure that the business always has enough money at the right time to pay bills. Many businesses fail not because they're not profitable but because they don't have enough available cash.

The cash flow forecast aims to give accurate figures of exactly when money is received and spent by the business so that managers can always see what the anticipated cash balance may be at any point in the future.

By looking ahead at the exact timings of when 'money comes in' and 'money goes out', managers can plan ahead in case the forecast shows that the business may run out of cash. It's possible to take action like re-scheduling bill payments or increasing revenues to avoid any future cash deficits.



*A cash flow forecast doesn't show profits. It only predicts how money moves in and out of the business.*



*Review your cash flow forecast regularly, preferably once a week.*

### How regularly should it be used?

Cash movements within your childcare business happen daily, fees from parents, rent payments, bill payments, money for consumables and petty cash, so because the picture changes rapidly it's necessary to review cash flow frequently. It's recommended that you review your cash flow situation on a weekly basis as it takes very little time.

Once your cash flow format is set up it's a quick and easy task to update it regularly when changes occur such as changes in the anticipated numbers of children or a change in fee rates. As the cash moves in and out of your business, make the changes to your cash flow forecast.

There's an example cash flow forecast and a template included for you in this guide, but you may choose to develop your own, including rows of income and expenditure that are specific to your business.

As with all functions within the business, to make sure your cash is managed properly you need to delegate the action to one person. This person should be responsible for maintaining your cash flow forecast. You may want to involve them in the completion of the template found at the back of this guide.

### Our childcare setting - Cash flow forecast

01/04/03 - 30/03/04

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
<b>Income</b>													
Fees	1500	1200	1300	860	340	1160	1040	1240	460	1220	1170	1340	12830
Funding	3120	0	0	0	0	3120	0	0	0	3120	0	0	9360
Fundraising	240	120	600	210	240	170	400	320	100	40	120	220	2780
Donations	80	40	60	30	0	100	60	20	50	60	50	20	570
<b>Total income</b>	<b>4940</b>	<b>1360</b>	<b>1960</b>	<b>1100</b>	<b>580</b>	<b>4550</b>	<b>1500</b>	<b>1580</b>	<b>610</b>	<b>4440</b>	<b>1340</b>	<b>1580</b>	<b>25540</b>
<b>Expenditure</b>													
Wages	1290	1290	1290	830	360	1290	1290	1290	830	1290	1290	1290	13630
National Insurance	142	142	142	92	40	142	142	142	92	142	142	142	1502
Premises	240	240	240	240	240	240	240	240	240	240	240	240	2880
Utilities	0	145	0	38	0	77	0	62	13	0	56	45	436
Insurance	43	43	43	43	43	43	43	43	43	43	43	43	516
Training	0	120	0	0	60	0	250	0	0	0	0	220	650
Print and stationery	45	68	12	8	22	17	58	26	51	26	54	27	414
Maintenance	12	0	24	0	20	0	24	40	0	0	64	100	284
Materials	16	24	30	18	16	16	24	8	20	14	10	20	216
Toys	40	0	0	50	0	0	30	40	0	0	20	0	180
Food	40	44	36	46	18	52	40	64	52	52	64	60	568
Milk	32	28	20	24	16	28	36	40	36	42	28	24	354
<b>Total expenditure</b>	<b>1900</b>	<b>2144</b>	<b>1837</b>	<b>1389</b>	<b>835</b>	<b>1905</b>	<b>2177</b>	<b>1995</b>	<b>1377</b>	<b>1849</b>	<b>2011</b>	<b>2211</b>	<b>21630</b>
<b>Balance</b>	<b>3040</b>	<b>-784</b>	<b>123</b>	<b>-289</b>	<b>-255</b>	<b>2645</b>	<b>-677</b>	<b>-415</b>	<b>-767</b>	<b>2591</b>	<b>-671</b>	<b>-631</b>	<b>3910</b>
<b>Cumulative cash balance</b>	<b>3040</b>	<b>2256</b>	<b>2379</b>	<b>2090</b>	<b>1835</b>	<b>4480</b>	<b>3803</b>	<b>3388</b>	<b>2621</b>	<b>5212</b>	<b>4541</b>	<b>3910</b>	<b>3910</b>

# Controlling the cash flow



*Being in tune with your cash flow and responding to negative changes quickly will ensure the future of your business.*

The vast majority of businesses, across all sectors, experience problems with cash flow. Small and medium sized businesses suffer the most as individual transactions, such as a customer failing to pay on time, can have a major impact on the health of the business. If you want to stay in business you must take prompt corrective action.

## What to do if the cash position looks poor:

- **Increase sales:** you should focus on the specifics that help you get more people using your services, and therefore, more cash coming in.
- **Collect money:** you could review your debtors and increase your efforts to collect overdue cash from customers. Remember, a customer isn't a customer unless they pay for the goods and services you provide them with.
- **Negotiate different payment methods with suppliers:** changing the way you pay bills and spreading large bills over longer periods all helps with cash flow, or you could change to lower cost providers.
- **Control costs:** as a manager of a business, costs are the single item that you have absolute control over. You authorise the expenditure and/or sign the cheques. So, unless a cost's absolutely necessary you don't have to incur it. If you need to cut costs you can.
- **Speak to your bank:** nobody likes unpleasant surprises and that includes banks. If it's likely that you're going to need an overdraft facility in two months, now's the time to speak with your bank manager. It will show you're in control and if it turns out that you don't need it, great!

# Cashbook

## What is it?

A cashbook is used to record all transactions that result in cash coming into or going out of the business.

## What does it do?

A cashbook allows you to see at a glance when and where money has been spent, enabling you to record exactly what money has been spent on. It also allows you to record all instances when the business has received money. An example cashbook can be found overleaf. You can develop rows of income and expenditure that are meaningful to your business.

## How regularly should it be used?

The cashbook should be used on a daily basis and it's good practice to record transactions as they occur to ensure that you have up to date accurate records.



You can purchase cash books from post offices and stationers or if you have a PC you can develop your own.



**Reconciliation:**  
It's good practice to regularly reconcile your figures with the balance of your bank account.



# Petty cash

## What is it?

Many businesses have a petty cash system that's available to staff for the purchase of small items and sundries such as books, crayons, milk, stamps and so on.

## What does it do?

A petty cash system allows you to manage the money spent on small items necessary for the business.

A member of staff will manage the petty cash system ensuring a locked box is kept safe, together with the receipts and vouchers and making sure all petty cash spending is monitored and accounted for.

## How regularly should it be used?

You need to decide on a limit or 'float' for the petty cash system. This would usually be enough for sundry spending over a two-week period. Every time money is taken out, a petty cash receipt or voucher is written out and signed when the money is handed over. This procedure should be followed no matter how much money is withdrawn. The receipt for the goods is then attached to the petty cash voucher. The vouchers are subsequently recorded in the petty cash book in chronological order.

The petty cash will need to be topped up every now and then. When the float is low, the vouchers are added up and cash, equal to the sum of vouchers, is made out to bring the float back to the original amount. Again, this action is recorded in the cashbook.



Cashbooks and petty cash receipts can be bought at most stationers and post offices.

When keeping a petty cash float, there are a few golden rules that will help to make sure that money doesn't go unaccounted for. These are:

- Set an upper limit (float) to how much money is kept in the petty cash box
- Vouchers + cash should always equal the original amount
- Petty cash is kept in just the one place and locked at all times

You can use the cashbook analysis columns to record what the money is being spent on. However, it's not necessary to make lots of small entries into the cashbook as long as all money is accounted for in terms of a signed receipt and voucher.

A member of staff will manage the petty cash system ensuring a locked box is kept safe together with the receipts and vouchers and making sure all petty cash spending is monitored and accounted for.



## Keeping records

By law you have to keep up to date, accurate records of your business income and expenditure. This is a good habit to get into anyway because keeping records will also help you manage your business more efficiently. After all, if you know the precise financial status of the business, you're in a good position to take appropriate action to improve it or respond to potential problems.

Your records will help you to complete and submit your end of year tax return to the Inland Revenue. If you run a Limited Company, you're also required to submit your accounts to Companies House.

Childcare providers generate income from a number of different sources. You may find that your own income includes:

- Invoices raised by the business
- Details of any grants or funding - you may also have to keep specific records under the terms of the grant or funding
- Donations



*The Inland Revenue requires you to keep financial records and related paperwork for six years.*

Your expenditure will vary depending on the service you provide. Your records of expenditure will include:

- Receipts of anything purchased by the business for the business
- Details and receipts of costs such as rent, rates and utility bills
- Details of wages and NIC paid to employees
- Invoices for repairs or replacements
- Invoices for any travel expenses incurred
- Invoices for training expenses

**Additionally retain**

- Bank statements
- Loan statements



It's very easy to lose, misfile or throw away receipts. Most people have first hand experience of wanting to return goods to a shop only to find that they have mislaid the receipt. This may be a nuisance in your private life, but in business it's important that you can demonstrate all expenditure.

Legally you have to keep receipts for at least six years. During this period you may have to show them to the Inland Revenue. They will not look kindly on any business that fails to produce records when requested so make sure you file receipts, bills and invoices in date order in a safe place.

So now you've explored the ways you can approach 'Managing finance'. What are the next steps? The techniques found in 'Planning for business success' will help you to implement your ideas. The 'Planning for success' section at the end of this guide gives an example of how you can use this approach.



# Planning for success in 'Managing finance'

**Goal:** To improve sustainability by developing more rapid decision making and better financial management information

**Objective:** To set up a financial management system for our childcare business by August 2004

**Action 1:** Create a business forecast

**Action 2:** Review the profit and loss so far this trading year

**Action 3:** Set up the monthly cumulative budget

**Action 4:** Create a cash flow forecast

**Action 5:** Check and ensure all financial records are available and up to date

**Action 6:** Define responsibilities for creating financial reports and reviewing financial status regularly

**Action 7:** Implement the financial management system



# Stepping stone



For more information:

- Visit the Business Success for Childcare website at: **[www.surestart.gov.uk/support4business](http://www.surestart.gov.uk/support4business)** and use the "Ask-the-Expert" facility
- Call the free phone helpline on: **0800 294 2904**
- Talk to your Business Support Officer who is based at the Local Authority's Early Years and Development Childcare Partnership
- Visit the Surestart website at: **[www.surestart.gov.uk](http://www.surestart.gov.uk)** or call **0870 000 2288**
- Visit the Children's Information Service website at: **[www.childcarelink.gov.uk](http://www.childcarelink.gov.uk)** or call **0800 0960 296**



### Our childcare setting - Cash flow forecast

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
<b>Income</b>													
Fees													
Funding													
Fundraising													
Donations													
<b>Total income</b>													
<b>Expenditure</b>													
Wages													
National Insurance													
Premises													
Utilities													
Insurance													
Training													
Print and stationery													
Maintenance													
Materials													
Toys													
Food													
Milk													
<b>Total expenditure</b>													
<b>Balance</b>													
<b>Cumulative cash balance</b>													





# Business success for Childcare



This programme is provided by:

**SureStart**

Making life better for children, parents  
and communities by bringing together:

- ▶ early education
- ▶ childcare
- ▶ health and family support

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