Children and Families – Early Years Team
Business Resource Toolkit –
WORKING OUT CASHFLOW FORECASTS and BUDGETS

This text is based upon guidance originally produced by Nottinghamshire Council for Voluntary Service, but has been modified to be more childcare-specific, and with additional points.

1. What *is* a Cashflow Forecast?

A Cashflow Forecast looks at the future and predicts *how and when* money will come in to and go out of your organisation.

Isn't that the same as a Budget?

No. **A Budget is an overall plan** to show which sources of income and costs will fall into which broad periods of time - typically Budgets are prepared covering a full year. Often in reality though, money doesn't change hands at exactly the same time as a piece of work is done. **A Cashflow Forecast** will map ***when*** the money is expected actually to change hands, monthly or even weekly.

So why is that difference important?

Your Budget may show that your project or business should be "profitable" (i.e. planned Income is more than or equal to planned Expenditure). **But a showing profit in the Budget isn't the same thing as getting the money into the Bank.** So, for example, if you receive a Grant instalment late, or people who owe you money are slow to pay, you may not have enough **actual cash** on hand to be able to pay your employees, and they may walk out. This could lead to a very early end to your activities!

What ultimately counts most for the survival of any business, whether in Childcare or anything else, is its "solvency" – the ability to go on meeting the bills as and when they fall due. Looking at the ***timing*** of money going in and out is therefore essential.

How do I start?

Cashflows can cover any period of time from a few weeks to several years ahead, but are most commonly done on a monthly (or occasionally quarterly) basis, looking forward at an organisation's Financial Year.

a) Set up a table like the one below. If you have already done a Budget you can probably use the same headings for your Income and Expenditure. Ignore odd pence; work in "round pounds". Where you genuinely have no idea what a figure should be, and can't find out, it's better to make an estimate rather than show nothing at all – you can always revise the Forecast later.

b) **Income:** Work out when the money is likely to come in. Enter it in the table. In our example the Grant comes in each quarter, starting in April.

c) **Expenditure:** Work out when you'll have to pay the bills. Enter it in the table. Base it on "real life" expectations. For instance you may have to pay rent each month, but the electricity bill only comes in once a quarter. In our example the insurance premium is paid in one go; you may pay yours each month. Remember to allow for some things that may go up in price part-way through the year.

d) **Add up** your table following the simple guide letters.

e) Look to see if the balance at the bottom *("balance c/fwd")* is **positive**. That's what you *hope* to see every month. If the number is **close to zero** you will have to keep a very keen eye on the monies going in and out. If the number is a **negative** amount you will run out of money that month! So you'll have to plan how you're going to cope with those bills, e.g. arrange to pay later, arrange an overdraft facility with the Bank, or chase-up any money owing to you.

f) Carry-forward this month's 'closing' Bank balance to be the 'opening' balance for next month – this way the Forecast builds-up to show the **cumulative position over time.**

		April	May	June	July	August	Sept	
INCOME								
Grants		10,000			10,000			
Fees		2,000	2,000	2,000	1,500	750	1,500	
Other (Summer Fair, Raffles etc.)				100			100	
	A	12,000	2,000	2,100	11,500	750	1,600	
EXPENDITURE								
Wages/ Tax		3,200	3,200	3,000	3,000	3,000	3,200	
Rent		1,500	500	500	500	500	500	
Electricity			175			200		
Operating Expenses		1,000	1,000	1,000	1,000	700	1,000	
Insurance				1,000				
Subscription			50					
Accountancy				250				
	B	5,700	4,925	5,750	4,500	4,400	4,700	
Total Inflow (or Outflow)	**C**	6,300	(2,925)	(3,650)	7,000	(3,650)	(3,100)	A - B
Opening Bank balance, b/fwd	**D**	500	6,800	3,875	225	7,225	3,575	
Closing Bank Balance, c/fwd to next month		**6,800**	**3,875**	**225**	**7,225**	**3,575**	**475**	C + D

Notes:

- *From this, the months to watch with particular care will be June and September, since there isn't a lot of margin in either month's remaining Bank Balance to cover anything unforeseen.* ***What might happen if the July Grant Instalment was delayed a month?***
- *Notice how allowance has been made for lower Fee Income over the Summer – some items will change due to 'seasonal factors' like this. Also, some items don't appear regularly every month.*
- *Notice also that on these figures the Setting is not making enough Income purely from trading to cover its Costs. So what would happen if the Grant Funding came to an end? (This shows clearly why relying on Grants or Subsidies can be a risky thing to do for the long-term sustainability of a Childcare Setting!)*

2. What *is* a Budget?

A Budget is a **plan of how you are going to spend your money** – either during a set period of routine trading, or on a specific project.

Often a Budget is prepared as part of a 'Business Plan' which also looks at the organisation's objectives and how they're going to be achieved. This is especially important for a new or changing business. If you are "well settled" in what you're doing, it may not always be strictly necessary to prepare a full and detailed written Business Plan every year, but you should always at least have an informal Planning Session to review where you are, where you want to get to this year, and how you'll do it.

Why is it a good idea to have a Budget?

It gives you a yardstick against which you can monitor the 'actual' spends once a trading period or project has started. It allows you to see whether a business activity or project is likely to be worthwhile in money terms. If your planned Expenditure is going to be greater than your expected Income, you're on to a non-starter and need to have a re-think!

If you're planning a Budget for the whole organisation it may be easier to break it down into individual parts, or projects, of your activities. For example, if your organisation runs two Childcare Settings, even if you're going to pool their profits in the end, it's vitally important you know whether each of them is *individually* profitable in its own right – otherwise how will you know whether 'success' at one is masking 'problems' at the other?

And if you have an activity or project where the pattern of Income and Expenditure is seriously different to your normal activities – for example, an After School Club that decides to run an "All Day" Holiday Club – then you should consider giving it a separate Budget, to make sure it won't be losing money.

When preparing a Budget it's important to consult with the people who are going to be responsible for working within it. If people are involved in setting a Budget, it will be more realistic - and they're more likely to stick to it.

How do I start?

Set out your Objectives – what is the Budget ***for?*** *(Of course, if you DO have a Business Plan, it will have covered this very point!)*

List all expected sources of Income e.g.

Fees - Grants - NEF and 2YO Programme income - Donations - Bank Interest - Sales – and so on.

List all the categories of Expenditure

For an organisation operating a Childcare Service, these will generally tend to fall into these four groups:

- **Staff Costs:** Gross Wages plus 'On-Costs' (Employ**er**'s National Insurance & Pension Contributions) – but also Payroll Services – Training – Expenses - Recruitment (many Childcare Settings typically turn over 20-30% of their Staff every year) - and some allowance for Agency/Relief Staff to cover unplanned periods of absence and sickness.
- **Premises Costs:** Rent, Lease or Commercial Mortgage payments - Business Rates - Security Costs etc. (Some Settings pay a "Services Charge" which includes both a Rental element and some of their Operating Expenses – so show this here).
- **Operating Expenses:** Utilities (heat, light & water) - Insurances - Printing & Stationery - Postage, Telephone & Internet Access - Advertising - Publications and Subscriptions – Accountancy, Bank & Legal Charges – Waste Disposal – Repairs & Renewals – Office Furniture & Equipment etc.
- **Childcare Expenses:** Food & Drink - Toys and Minor Equipment – Sanitary Waste Disposal – 'Care' Consumables (e.g. wipes, nappies) – 'Play' Consumables (e.g. paints, colouring books) etc.

*(The last three groups, taken together, are often called the **"Overheads"** of the business, and they often stay the same whatever the level of Occupancy, which is an important consideration).*

Capital Projects (e.g. such as a new or extended Building)

It is best to give these a separate Budget of their own, to avoid cross-over into your main trading money.

On the **Income** side, where will the Capital money come from? (Reserves, Grants, Bank Loans etc.?) – and just because you have "agreement in principle" to funding, it's still very important to check **when** the money will actually be made available, and under what conditions. **Be very, very careful with VAT** – many Childcare Settings aren't registered for VAT for their normal trading activities, so they have to pay it on major building works. Check with your Accountants before you commit!

On the **Expenditure** side come things such as: Land - Builders' Labour - Materials - Planning & Building Regulation fees - Architects & Surveyors – Legal Costs - Other Tradesmen - Decorating and Equipping – Fencing, Landscaping and Signage.

It's a rare building project that comes in "on-time and on-budget", so always allow **at least** 5% 'Contingency' to cater for the unexpected.

What do I do next?

1. Prepare a simple table *(This example shows just the main categories – behind each of these numbers you would prepare more detailed calculations to show how you reached them).*

Expected Income		
Fee Income		£100,000
Grants		£15,000
Total Income	**A**	**£115,000**
Expected Expenditure		
Staff Costs		£80,000
Premises Costs		£15,000
Operating Expenses		£8,000
Childcare Expenses		10,000
Total Expenditure	**B**	**£113,000**
Net Surplus (Profit)	**(A minus B)**	**+£2,000**

2. If the bottom figure is a **negative** number (**-**) your Budget is not viable and needs some more planning. Do your Fees need increasing? Can your Costs be cut?

3. **It is *essential* to aim to make a reasonable Surplus (or Profit). Simply "breaking-even" (where your Expenditure is *just* covered by your Income) is not enough** – it gives you no margin to deal with unexpected events, and doesn't allow you to build any Reserves to cope with problems such as a downturn in business, or the need to replace some major equipment or repair the premises. We generally recommend a Childcare Setting aims to build-up, over time, sufficient Reserves to keep it trading for at least 3 months following a serious collapse in its income. *Even a so-called 'Not For Profit' organisation still needs to aim to make more than it spends!*

4. Use the Budget and the Cash Flow Forecast to **plan and monitor** both Income and Expenditure. Plan to take action quickly if the Income falls short of the target or the Expenditure exceeds it. A **'Budget Report'** giving details of progress and any significant unexpected variations of 'actual' figures to 'budget' figures should be a feature of every Management Committee or Board Meeting.

5. Remember, **your Budget is not cast in stone**. You may need to revise it part-way through the year it if there is a big change, e.g. you lose a Grant, or start doing important new activities.

[rev. April 2011]