



## Phone Link Ups

## Financial Management and Family Day Care

Financial management and control is vital for the success and viability of any business, be it a for profit or not for profit service.

The measurement of our finances, particularly our expenditure, is a way of accurately assessing what the depletion of our resources has been in the attainment of our goals, and is therefore the very best form of controlling the performance of our operations.

Sound financial management requires the formulation of a realistic budget, accurate record keeping, and regular monitoring of the results of that record keeping, in order to track the service's financial situation.

### Budgeting

A budget is an estimate for the forthcoming financial year of the income, expenditure, provisions and expected net surplus or deficit of the service. The formulation of a budget is essential for:

- Planning, monitoring and controlling the money received and the way it is expended;
- Establishing the financial viability of the service within the reporting period;
- Calculating what the service's fee setting policy should be;
- Identifying the service's financial commitments;
- Avoiding unnecessary fee increases, and
- Planning for professional development opportunities for staff and identified improvements to the service.

A sound budget should be pessimistic in terms of projected income and optimistic in terms of projected expenditure. A budget is usually formulated on an annual basis, and should be prepared prior to the beginning of the financial year so that the performance of the service can be measured against it.

In order to successfully keep track of their financial situation, a service needs to have a good understanding of where their money comes from (and with what regularity) and where it goes (and how quickly).

**Estimating Income and Expenditure** – When preparing the income and expenditure components of a budget, it is important take into account a whole lot of factors:

- Not only what the annual income and expenditure will be but also at what stage of the reporting period the income will be received, and when major items of expenditure will fall due. A service may have made provision for major items of expenditure such as Worker's Compensation premiums over the entire reporting period, but what happens if the premium falls due within the first month of the period? Are there sufficient cash reserves to cover major overhead costs?

- 🌈 What variations can be expected in terms of the previous period's levels of income and expenditure? A sound financial manager will allow a potential increase of at least 5% in anticipated expenditure, but, failing planned fee increases, children's services are not currently in a position to expect an equivalent rise in funding levels.

Whilst the responsibility for budget preparation in children's services is primarily the responsibility of the Treasurer of the Committee or the local Council's accountant, it is through consultation with the Coordinator/Manager and staff that a service successfully plans its short term financial future and makes a commitment to its long term viability. The consultation process should be open and allow for reasonable input, comment and review by stakeholders prior to approval of the budget.

If the draft budget, in its initial draft reflects the fact that the organisation can expect a negative net income for the reporting period, it needs to be reviewed to protect the organization against impending cash flow problems and to provide a buffer against unexpected loss.

**Planning Income** – Whilst centre-based children's services are in a position to set their child care fees on the number of places which they have available, taking into account some variables, in Family Day Care the self funded income base is through:

- i) Family Administration levies
- ii) Carer Levies & Fees
- iii) Family Enrolment Fees
- iv) Play Session Fees
- v) Partnerships with external organizations such as Families NSW, Work for the Dole, etc.
- vi) Grants from Sponsoring organizations, charitable groups and local councils and licenced clubs
- vii) Fund Raising
- viii) Interest from investments

The first three forms of income are those over which a service has maximum control. In general terms, these items are also likely to generate the most significant returns.

However, care should be taken to ensure that when setting levies and enrolment fees, the fee structure is competitive within the community. This requires close examination of what the economic conditions are within the community, what other children's services are charging, as well as the availability of child care places. The usage of a service will not be enhanced by setting fees, which are significantly higher than other services within the community. However, it is not sound business practice to be known as the *cheap* alternative.

## Investments

**Provisions** – Sound financial management dictates that provision is made for liabilities such as annual leave, long service & personal leave, etc. Provision should be made for improvements to the service such as computer upgrades, office equipment, painting & maintenance.

As these funds are not earmarked for immediate use, it is essential to make the most of them. Investment on the medium term financial market, such as term deposit accounts, means that these funds are working for you and providing an additional form of income to the organisation

**Planning Expenditure** - There are some expenses over which you have no control, such rent, insurance, etc. In managing expenditure, a service needs to identify those expenses, which are essential in delivering a quality children's service to the community, and ensuring that the service is advertised and

promoted within the community. The provision of professional development opportunities for both staff and Carers is also essential, in keeping with our sectors commitment to the Quality Assurance process.

Wage and wage related expenses will usually comprise about 80% of a service's anticipated expenditure, and realistically this is the area in which an organisation needs to consider making cuts if a negative net income is anticipated – not with small items such as catering and the children's Christmas Party (tempting though this may be).

## Suggestions for Reducing Expenditure

Apprenticeships, Work for the Dole Schemes and Traineeships are often available to services to assist with staffing costs in the provision of play sessions, administration, maintenance of grounds, etc.

Consultation with Federal Departments such as *Ausindustry* and the *Australian Tax Office* can lead to the availability of training courses and information sessions for both staff and Carers, which are provided at a minimum, cost and sometimes are free. Similarly, *NSW Workcover* is able to deliver information presentations, which assist services to meet their OHS obligations under Quality Assurance, and *TAFE* and other teaching facilities are sometimes able to assist services in the provision of low cost in-service trainings.

While it is commendable to maintain long term relationships with providers of goods and services, it is a good idea to seek quotes and estimates for goods and services from new players within the community; new business are often ready to make generous agreements in order to establish their businesses.

*Budget estimates should not be adjusted during the financial year. The budget is a tool for use in monitoring and measuring, and if it is altered, there is no room for comparison- no opportunity to question why there are variances between budgeted and actual figures.*

## Monitoring Cash Flow

It is important to regularly monitor the service's financial performance against the budget and balance sheet in order to be able to appraise its current financial situation.

A Coordinator/Manager needs to make a commitment to ensuring that all service accounts are reconciled on a monthly basis. Services using an accrual accounting method, and providing monthly reports, following reconciliation of accounts, to Committees and Council managers are showing responsibility in tracking their cash flow, and are in a position to adjust their planned expenditure to address impending difficulties.

## Accrual Accounting

This is the most accurate and sound way of keeping track of income and expenditure. What it means is that income is recorded as it is earned, rather than when the money is paid into the bank account. Similarly, expenditure is recorded when the purchase is made – not when the cheque is written out for the invoice.

By employing an accrual accounting method, an organization maintains an awareness of their relationships with their creditors and their debtors.

## Setting up Bank Accounts

Under the Long Form Funding Agreements offered to Family Day Care Schemes by the Australian Government, the Department reserves the right to resume service funds should the funding agreement be terminated.

It is therefore extremely important that those funds, which have been self-generated, are clearly recognisable from those, which have been provided to services by the Government.

*This does not necessarily mean that services need to set up a separate bank account for their self-generated income.*

By identifying in the service's Chart of Accounts those items of income and expenditure which are *Australian Government funded* and those which are from *self generated funding* the service is demonstrating that they are fully expending the Government funding on essential areas of expenditure such as Salaries and On Costs, Travel, etc. What is also being demonstrated is that the service's essential assets and fittings such as computers, photocopiers, etc, have been purchased out of self-generated income.

And, whilst we all wish to continue to work collaboratively with the Australian Government in the provision of quality Family Day Care, it is also of vital importance to allow for all contingencies and to protect those resources, which we have worked so hard to attain.

By making a commitment to the responsible management – the planning, monitoring and controlling of the income and expenditure of the service, the Coordinator/Manager is able to assist the service to operate in a financially viable manner, and to be better equipped to respond to the needs of all stakeholders within the Family Day Care community

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