



**Managing finance  
- frequently asked  
questions from  
childcare settings**

## Managing finance - frequently asked questions from childcare settings

Efficient and effective management of finance is a key element of creating a sustainable and an effective childcare setting. The following 10 questions are those most frequently asked by childcare settings:

### 1. How does the setting set a price for the service we provide, as people often complain that childcare is too expensive?

Pricing correctly is an essential part of making any type of business effective. If you price too high you may not get customers or the customers you do get may not pay! If the price is too low it will result in a loss and it is always more difficult to increase a price. Prices can be set in 3 main ways:

- Cost Plus Pricing – Work backwards from the costs of providing your service and add in a profit margin.
- Market Pricing – In line with going rate / competitors.
- Value Pricing – You can charge more if your service is better than the rest and customers perceive that and are prepared to pay.

Knowing what your business costs are is essential when calculating the price of your service. There are 3 types of costs.

- Variable Costs – These are things like food and direct labour costs. For example the more children attend the more your food bill will increase, as will your staff costs if another member of staff is required to meet OFSTED ratios.
- Fixed Costs (Overheads) – These are costs which occur regardless of how many children attend your setting e.g. rent, insurance, heating, lighting advertising etc. These costs can be dangerous as you

will be paying for them when child numbers are low. Having staff on a flexible contract where their hours can be adjusted to suit child/staff ratios is one way of controlling fixed costs. Therefore, in a childcare setting where flexible staff contracts exist, staff costs could be perceived as a variable cost.

- Capital Costs – Equipment, vehicles, computers.

### 2. Should my childcare setting become a Limited company, a Company Limited by Guarantee or Sole Trader?

The legal status of any business often depends on how much you anticipate the business to generate which is often difficult to calculate in your first year. It also depends on the values and principles of those who own or are in charge of the setting. An Accountant will give you advice on which legal status your childcare setting should be. Most Accountants will give a free consultation, make sure you prepare some questions before you see an Accountant and ask questions if you don't understand. Choose an Accountant you feel comfortable with.

### 3. Cashflow – what does this term actually mean?

Cash is the lifeblood of every business. Managing cash badly is one of the main reasons for business failure. The time you spend working out your cash needs and monitoring cashflow is time well spent. This is because you can:

- Find out when you might not have enough cash before you run out.
- Find out when you might make extra cash and use it efficiently.
- Make sure you have enough cash for any essential purchases.

**See Appendix one - simple sample childcare cashflow spreadsheet.**

**4. Do we need an Accountant?**

There is no legal requirement to have an accountant unless you own a limited company that requires statutory audits. However, a good accountant will be an invaluable asset to your business and can act as a 'critical friend' so even if you are not a limited company using an accountant may be a wise use of finance. The role of an accountant is to achieve your stated goals, specifically, but not exclusively in financial matters. It is essential you have a good working relationship with your accountant so choose wisely! Visit two or three and assess whether they explain things to you in a manner which you understand.

**5. How can we increase child numbers / occupancy?**

Increasing child numbers/occupancy is a combination of good marketing, and a flexible approach to managing allocated sessions for the day with OFSTED child/staff ratios being paramount.

Marketing is the link between you and your customers. A good marketing campaign will highlight what benefits are available to your customers when they buy your service. Typical childcare benefits are:

- Quality
- Affordable
- Flexible
- Safe

**6. What is a profit and loss sheet?**

This is the summary of the business performance over the period of the year and is the basis for any tax assessment.

**7. What is a balance sheet?**

This is a financial statement prepared at a specific date that shows what the company has in terms of assets (e.g. play equipment) Liabilities (e.g. credit card bill owing £400) and capital (e.g. vehicle).

**8. How do we deal with parents/carers who don't pay fees on time?**

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

Creating and Encouraging a 'payment on time' culture.

Providers can help parents manage their payments in very simple ways:

- A simple and clear payment structure with clear policies and procedures.

The first step in avoiding debt owed by families is to provide a clear and concise fee structure and policy. Fees must be set based on realistic occupancy forecasts and sound business planning. When a parent/carer signs a contract before a child takes up a place in a setting, there should be a paragraph in the contract which says the parent/carer agrees to pay fees on time. This combined with a clear Payment of Fees policy can be a powerful way to prevent and/or minimise debt. A sample Payment of Fees policy is included at the end of this information sheet.

- Effective invoicing systems and methods of payment.

It is essential to ask for childcare fees in advance, ideally a month, but otherwise two weeks. That gives time for any late payments to be addressed. When a payment is late it must be addressed immediately.

- Advice about support with childcare costs, and sources of help with money management.

Publicising the variety of help that is available to support childcare costs by the use of posters newsletters and leaflets will help inform parents/ carers. Free information can be downloaded from the following websites:

[www.hmrc.gov.uk/payetaxpayers/tmacchildcare-costs-help-with](http://www.hmrc.gov.uk/payetaxpayers/tmacchildcare-costs-help-with)  
[www.direct.gov.uk](http://www.direct.gov.uk)

### 9. Staff costs are spiralling out of control – what should we do?

Childcare is notorious for having high childcare costs due to adult to child regulations laid down by OFSTED. If too many staff are employed on full time contracts where the organisation is over staffed compared to the number of children, financial disaster will loom. The following are solutions to managing staff costs.

1. When employing staff issue flexible contracts where there is a minimum amount of hours offered with opportunity for increased hours if child occupancy increases.
2. If staff are not on flexible contracts try to increase occupancy through a targeted marketing campaign. This may include taster sessions and first session discounts. Please be aware always put a deadline on discounts!

### 10. Why is keeping good financial records so important?

Provides information to evaluate the financial performance of the organisation i.e. surplus or deficit.

Provides accurate information which will allow you to make informed decisions about your organisation including;

- Potential purchases of new pieces of equipment.
- Employment / redundancy of new staff.
- Number of children required to break even (equal all your costs). Provides accurate information for other important stakeholders including;

Management committee / treasurer – to enable them to make strategic decisions about the organisation.

Your accountant - accurate records reduce the time the accountant requires to complete the accounts – less time = less cost.

HMRC – to calculate any tax owing etc.

Funders – has the organisation made a surplus and do they keep accurate financial records?

Suppliers – suppliers can check credit worthiness of organisations which can prevent accounts being provided.

Enables you to easily and quickly calculate how much you owe and how much you are owed (creditors and debtors).

Reduces stress – if records are kept accurately throughout the year it is less stressful at the end of the year when you hand them to the accountant or HMRC etc.



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