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1.0 Financial management

Statutes
The trustees, directors or owners of a setting are ultimately responsible to the key stakeholders for ensuring that their finances comply with the relevant regulations. Stakeholders are individuals or organisations connected with the group and include parents, staff, funders, banks and statutory bodies. They are also responsible for ensuring that the finances are managed in accordance with the group's governing document (constitution or memorandum and articles). The statutes referred to in this publication for England and Wales are:

- The Charities Act 2006
- Trustee Act 2000
- Companies Act 2006
- Value Added Tax Act 1994
- Income and Corporation Taxes Act 1988

The statutes relating to employment are set out in the Alliance publication *Employment in Early Years Settings (2007).*

Charities Act 2006
Trustees are required to keep accounting records that show and explain all of the charity's transactions. These include a detailed record of all sums of money received or paid and a description of how or why the money was received or spent, as well as a record of the charity's assets and liabilities. The accounting records must show the charity's financial position at any particular date in the past and enable accounts to be prepared at the end of the financial year. The year-end accounts of most charities must be audited or examined (see page 13).

The accounts must be accompanied by an annual report, prepared by the trustees, describing the activities of the charity in the year and providing some basic administrative information about the management and operation of the charity.

All charities are required to submit an Annual Return/Update form to the Charity Commission. The level of reporting will depend on the size of the charity. All charities will need to complete part A of the Annual Return/Update form, which updates the Charity Commission of your charity information. Charities with an income over £25,000 have a legal obligation to notify certain incidents to the Charity Commission and must have regard to the Reporting Serious Incidents section of the form. On signing the declaration at the end of the form, trustees are confirming that the charity has met this obligation.

Part B, which requests financial information of the charity, should be completed where income exceeds £500,000. Charities with an income over £1,000,000 are also required to complete a Summary Information Return, giving key information about the charity. This is part C of the Annual Return/Update and is included as a separate form. Charities with an income over £25,000 must submit their Trustees Annual Report and accounts with the Annual Return/Update form. Where income is £10,000 or less, charities should not submit their accounts, but should have them prepared and available upon request.

Financial records must be kept for a minimum of six years (see page 102).

Members of the public have the right to obtain a copy of a charity's accounts from the trustees. If the trustees receive a written request for a copy of the accounts, this must be provided within two months. A reasonable fee can be charged.

should review to ensure that the budget reflects all aspects of the business plan and is based on appropriate assumptions. Once this has been confirmed, a surplus or break-even budget can be approved. A deficit budget will have to be reviewed and discussed further to identify where either expenditure savings can be made, or fundraising or increasing fees can raise additional income. If fees are to be increased, the marketing and competition section of the business plan should be revisited.

When setting the budget, there are different types of cost to consider:

- Variable costs depend on the level of activity of the group. In most groups the key variable will be the number of children. If the cost increases as the number of children increases it is a variable cost.
- Fixed costs are costs that remain the same regardless of the level of activity of the group.
- Marginal costs also increase as a variable increases but they do not increase evenly.

Little Squirrels Pre-school normally has 34 children on the register.
The rates are £240 per year.
Clay costs £3.50 per child per year.
The pre-school assistant is paid £6 per hour.
One new child has applied to join the group.

The rates are a fixed cost. If a new child is added to the register, the council tax remains the same at £240.

The clay is a variable cost. The clay budget for the year is increased by £3.50 because of the new child. If two children had joined the group the clay budget would increase by £7.

The staff cost is a marginal cost. The group could be able to accept the child with no extra staff cost. However, if there is no spare capacity within the ratios, one more child could mean that the group needs to hire an additional member of staff.

For an established group, forecasting child numbers can be done quite easily using figures from previous years. You should factor in any changes that you are aware of, such as changes in other local settings, or changes in government funding. You should also look at your waiting list and current child numbers.

For new groups, the forecasting will be more difficult. You should carry out local market research to ascertain demand for places, look at waiting list times for other local provision or carry out some advance advertising to see how much interest is generated.

The forecast, although based on well-researched information, will always be an estimate and may need revising later in the year in light of actual take up of places.

Fees need to be set competitively for the local market, so some research into local provision will be helpful. The level of fees charged needs to be high enough to cover the costs of the group, but not so high that child numbers are significantly affected. The budget setting process (see below) will show whether fees are sufficient to cover costs.

Appendix 3.2 | Budget monitoring layout

BIG SQUIRRELS PRE-SCHOOL
Registered as an educational charity
BUDGET MONITORING

20X2 budget - six months		Actual year-to-date £	Budget year-to-date £	Variance £	Full year budget £
Fee income		11,825	11,330	495	22,660
Nursery education grant		8,000	8,250	(250)	16,500
Other income		100	75	25	150
Total income		**19,925**	**19,655**	**270**	**39,310**
Staff costs - care staff		9,168	8,828	(340)	17656
Staff costs - administration and catering		5,200	5,203	3	10,406
Play and craft materials		1,850	1,483	(367)	2,966
Catering supplies		2,053	1,925	(128)	3,850
Recruitment		-	207	207	414
In service training and appraisals		192	178	(14)	356
Rent and rates		216	216	0	432
Office running costs		295	286	(9)	572
IT costs		100	140	40	280
Meeting costs and volunteer expenses		350	383	33	766
Total expenditure		**19,424**	**18,849**	**(575)**	**37,698**
Net project surplus/(deficit)		**501**	**806**	**(305)**	**1,612**

Brackets indicate an adverse variance.

1. **There is one more child on the register than when the budget was set.**
2. **Additional hours have been paid since the extra child started in May.**
3. **A large order was placed this month. Expected to be within budget at the year-end.**
4. **Catering supplies are higher than budget since the extra child started.**
5. **No recruitment has taken place.**

Tax on expenses

Employers can reimburse expenses incurred wholly or exclusively for the group's business under a P11D dispensation (see page 85). The employer must contact the HM Revenue & Customs and ask for a dispensation as they are never automatic. There are some expenses that are not covered by a P11D.

Mileage: If any of the group's staff or volunteers are reimbursed for mileage incurred on the group's behalf, there could be a tax implication. Most employers pay a round amount per mile rather than reimburse the actual amount spent on petrol. The HM Revenue & Customs states that if the mileage rate paid is greater than an amount specified by them each year, tax is payable. The HM Revenue & Customs mileage rate is available from them.

Mobile phone top-up cards: When top-up cards are used it is not possible to reimburse the individual calls made on behalf of the group. The Inland Revenue see these as an alternative to cash and they are taxable.

Travelcards: Where local transport organisations offer tickets that allow unlimited travel for a period for a fixed price it is not possible to be reimbursed for single journeys carried out on behalf of the group. The HM Revenue & Customs also see these as cash alternatives and they are taxable. If the employee or volunteer can list the claimable journeys made using the travelcard and show that the full cost would have been more than the cost of the card, the cost of the travelcard can be claimed.

VAT and early years education

VAT is a tax charged on the final consumption of certain goods and services. The standard rate of VAT is normally 17.5% and groups will find that they pay VAT on most of their purchases. If the % rate of VAT is changed, the principles of VAT remain the same.

The provision of early years education, registered under the Children's Act 1989, is exempt from VAT. This means that VAT cannot be added to the fees charged by groups. It also means that, for most groups, there will be no need to register for VAT. This is good news in many ways as it removes the heavy administrative burden that comes with VAT registration, but, unfortunately, it means that the group cannot recover VAT on the purchases made.

The setting's other sources of income need to be considered before VAT registration can be ruled out completely. Grants and donations are outside the scope of VAT and so if these are the only other sources of income, VAT registration is not necessary. If the group is part of a larger business and there are other sources of business income, registration may be necessary. In this case, we recommend that you seek VAT advice from HM Customs & Excise (see page 106).

From now on we will assume that VAT registration is not necessary.

As a business providing an exempt supply (early years education) the group will incur VAT as a cost. This is the case regardless of whether the group is a charity. The VAT element of the cost is important to remember when budgeting, fundraising or making grant applications. Suppliers often quote the price without VAT (net) as they are selling to businesses that can reclaim the VAT. The VAT should be calculated and added to the cost.