

## BUDGET RESOURCE

### *Creating a Budget Step-By-Step and Budget Planning Tips<sup>1</sup>*

#### **PART ONE: Step-By-Step Budget Planning**

**STEP 1:** **Explore basic budget planning questions.** Use the answers to these questions as a foundation for budget planning. **(See Handout: *Basic Budget Planning Questions.*)**

**STEP 2:** **Make a Wish List.** Ask: What would you do if finances weren't an issue?

**STEP 3:** **Cost out the Wish List.** Use one of two strategies:

1. Add percentages from the previous year, if available.

OR

2. Estimate costs of new activities if information from the past isn't available. Research estimates thoroughly.

**STEP 4:** **Allocate income.**

1. Separate restricted and unrestricted funds (i.e. funding from grants is almost always restricted. It must be applied to the budget category specified in the funding request).

2. Make realistic income projections (e.g. don't figure parent fees at 100% - develop an actual utilization rate – 80 to 90%).

**STEP 5:** **Set Priorities.** Your Wish List of expenses will most likely be more than available income. To decide what's most important, ask:

1. What needs to happen now?

2. What can wait?

3. What can be started as a pilot project?

4. What could be reorganized to be more cost effective?

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<sup>1</sup> Adapted and excerpted from *School-Age Child Care Technical Assistance Paper Number 4: Money Matters: Financial Management of School-Age Child Care Programs*. Commonwealth of Pennsylvania, 1985.)

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- STEP 6: Adjust and Balance.** Adjust items that have some flexibility. Be sure to include contingency factors to cover unexpected expenses in some categories.
- STEP 7: Approve.** Use appropriate review processes involving groups, agencies, boards, etc., which carefully review and analyze the budget to ensure it's realistic and accomplishes the program's Mission.
- STEP 8: Monitor and Amend.** Set up periodic review structures that help the program anticipate under or over spending and make appropriate adjustments as needed: monthly monitoring, quarterly and half year reviews, etc.

**PART TWO: Budget Planning Tips**

- 1. Leave a comfortable margin of error when forecasting.** Overestimate all costs and understate all projected income by 10 percent or more.
- 2. Recognize the cost of administration is part of almost anything you do.** For example, the program director may need to spend additional time arranging new field trips. Other new activities may require photocopying or specialized staff training. Be sure to think about all the steps that need to be taken along the way to implement a new program; always build in a percentage of the projected cost of any new program or project for administration.
- 3. Don't skimp on personnel costs.** Since personnel costs are such a large part of any child care program budget (usually between 70 and 85 percent of all expenses) and are not fixed costs, budget makers are often tempted to cut corners when setting salaries and benefits. Since qualified, dedicated staff is the key ingredient to insuring a quality program, short-run savings may very well not add up in the long run, and may even cost you your reputation. Also remember that time spent meeting with parents, purchasing and making materials, arranging for field trips, and planning may not be spent directly with the children, but should be reflected in the budget. Cutting corners on non-teaching time, or expecting staff to donate it, leads to "burnout", high turnover rates, low morale, and in many cases, is illegal.

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**4. Include in-kind donations of goods or services in the budget wherever possible.** Examples of in-kind donations include:

- Paper supplied by a neighborhood printing company.
- Visits by the librarian for weekly storytelling.
- Regular volunteers, including parents.
- The unbilled portion of an audit supplied by a CPA at a reduced rate.
- Uncompensated time contributed by the director and other staff over and above the regular work day.
- Utilities or janitorial services contributed by a school department.

To make these items part of the budget, an estimated dollar value must be calculated for the donation under Revenues. It should be balanced by including an “in-kind donation” line item on the Expense side of the budget.

**5. Determine Your Cost Per Child.** To ascertain your monthly, weekly or daily cost per child, use the following formula: *Divide your total estimated operating costs by the # of full time equivalent (FTE)\* children and then divide again by the number of months, weeks or days of operation*

\*FTE is a percentage measurement calculated against the total hours of service provided to a full day student. For example, if your full day is 10 hours and your part-time is 5 hours (5 hrs divided by 10 hrs or 50%), then 2 part-time enrollments are equal to 1 full day enrollment (2 times 50% = 100%).

If your enrollment varies, you might need to determine whether accepting an additional 4 students will offset your increased operational costs. The cost per child will help you make this assessment. If you use the cost per child to help determine tuition fees, be certain to consider the effects of underutilization. Boost your tuition fees by 5% to 15% above your calculated cost per child to insure that enough income is generated to cover the times when enrollment is not at capacity.

**Additional Resources:**

“Cost of Quality- Out of School Time Cost Calculator.” The Wallace Foundation. n.d. Web. 12 May 2010. <http://www.wallacefoundation.org/cost-of-quality/Pages/default.aspx>