

# 5.1

## BASIC FINANCIAL PLANNING

- Financing The Business
- Financial Planning
- Financial Statements
- Calculating Cost-Values And Negotiating To Win Exercise

# FINANCING THE BUSINESS

All businesses of whatever size will need some money (often called capital) to start up ('start-up capital') and to support the business during the early stages ('working capital').

There will probably be 3 types of spending to consider:

## 1 : The Business' Start-Up Costs

## 2 : Your Own Survival Budget

(and therefore the wage members working in the social business would need to be paid)

## 3 : The Business' Day-To-Day Running Expenses

You will need to calculate these costs separately and then make provision to cover them. Where possible, this should be done using your own resources or money raised from grants or supporters. Bear in mind that there could well be a long period when outgoings exceed receipts: for some businesses this situation could last six to twelve months.

If you do not have all the money you need, you will have to borrow. This will usually mean approaching a bank (they are still the major source of funding) or specialist social enterprise lender. A detailed business plan, supported by thorough market research, will be essential. Banks often require a financial contribution from

you and/or security - this can be a major stumbling block. Specialist lenders to social enterprises usually don't want these things but may charge a slightly higher interest rate.

An overdraft can be an alternative for day-to-day working capital, but this can be called in any time.

Remember that you are the customer and should 'shop around' - if one bank accepts your plan, then it is likely others will follow suit.

You will need to buy equipment depending on your type of business. Think carefully before you spend money, can you justify the expenditure? What is the best method of purchase? It would be wise to discuss this with your accountant - should you buy outright, use hire purchase or lease?

## Some Examples Of Start-Up Costs

- Equipment (information technology, communications, plant, tools, vehicles, etc)
- Fixtures/fittings/furniture
- Repairs
- Alterations
- IT and communications (computers, fax, phones, internet, email, etc)
- Professional fees
- Stock
- Insurance (public liability, employers, business, etc)
- Rent and rates
- Marketing (brochures, flyers, leaflets, logo and graphic design, etc)
- Trade association fees, memberships and subscriptions
- Consumables (stationery, printer cartridges, staples, etc)
- Licenses
- Training
- Wages/recruitment costs
- Security/health and safety equipment

## Personal Survival Budgets

Very few businesses make much money in the first year. This form has been designed to help those people planning to work in a social enterprise to work out how much they need to survive over the first twelve months.

Estimated Expenditure	Weekly	Monthly	Yearly
Mortgage			
Council tax and water rates			
Gas, electricity and oil			
All personal and property insurance			
Food, general housekeeping expenses			
Clothing			
Telephone			
Travel expenses (other than car)			
Hire charges (video, TV, etc)			
Entertainment expenses			
Subscriptions			
Car - tax and insurance			
Car - running expenses			
Car - service and maintenance			
Children's expenditure			
Saving plans			
HP repayments and loan repayments			
Contingencies			
Credit card payments			
Holidays			
Estimated Expenditure			
Income Coming In (NOT from business)			
Income Minus Expenditure = Survival Income Needed			

(This figure is the share of the businesses profits each person/employee would need as a minimum to survive - can the business afford it?)

# FINANCIAL PLANNING

Financial planning, record-keeping and control is so large a subject that you can only learn so much from a short training program. There are many books on the subject available from libraries or bookshops.

## Keeping Control

It is important to know how much running an organisation or business will cost and whether you can generate enough income to cover these costs. This is done by preparing a **budget** including wages, material costs, rent, power etc - the business' overheads. From this a **break-even analysis** can be worked out.

A **break-even analysis** is an estimate of future income and expenditure which will help you decide if the business will become profitable and when. It is vital in planning, especially deciding if you will need a loan or overdraft.

If the organisation is operating commercially these figures will help it calculate the selling price of its product or service. Adding together all the costs of operating the business and fixing a profit margin will give a total cost that can be matched to expected sales to produce a selling price.

Every business must calculate costs accurately, monitor changes (such as wage rises) and review its pricing policy. At least one member must have the skills to draw up budgets and cash flows though it is better if all members have good financial skills so they can cover for sickness and question reports. The organisation should discuss its financial situation regularly.

## Keeping Records

Accurate and up-to-date records of sales and spending are necessary to:

- Show where money comes from and where it goes
- Help planning and budgeting
- Foresee problems before they become a danger
- Draw up reports to members, funders and the bank
- Make out VAT, tax, PAYE and national insurance returns

Records must be appropriate to the size of the business, the time and skills of members and legal requirements. Some are as simple as a box for receipts but you will probably also need ledgers and cash books.

Some businesses sell goods or services on credit and it is important that they organise records in such a way that they can keep track of customers and what they buy, how long they will have to wait for payment and have some idea of how trustworthy clients are.

# FINANCIAL STATEMENTS

## Main Means Of Presenting Financial Information

The main statements useful in a business are the **profit and loss account** and the **balance sheet**.

The **profit and loss account** shows the cost of operating a business over time, together with adjustments for depreciation, bad debts and creditors.

A **balance sheet** shows what a business is worth on a given date. It is made up of what the business owns (like equipment) and money owed to it (assets) and money it owes (liabilities). Assets minus liabilities is the company's value.

This information can be used to investigate ways of improving performance or to obtain new loans, for expansion for instance.

## Using Information

Information must be managed properly and some skill specialisation will develop. To prevent an 'us and them' situation where a few members have more power simply because they deal with finances all the time, it is important to find ways for all members to be kept properly informed of the organisation's financial affairs. Information must also be presented in ways they can understand and respond to and this means the organisation should ensure democratic control and that members get a chance to put their point of view.

# CALCULATING COST-VALUES AND NEGOTIATING TO WIN EXERCISE

## The Shiverton Community Enterprise Centre

The Local Authority is opening a Community Enterprise Centre and is inviting community groups to bid to provide certain services. Each 'concession' is predicted to generate a certain amount of profit and is granted for a number of years. Each player or group of players represents one community group 'bidding' to run one or more of the services. The game requires one participant to act as the 'Council', to organise and manage the process of bidding and make the awards of the concessions.

After dividing into four players or teams, each is given a card that has their priority and must-win concession on one side; the six concessions, their cost and duration on the other.

The six concessions are:

Concessions	Profit	Duration	Min. Price
Canteen	£500 pa	5 years	£1,800
Creche	£4,000 pa	1 year	£3,000
Secretarial	£2,000 pa	3 years	£4,000
Cleaning	£800 pa	4 years	£2,000
Training	£3,000 pa	1 year	£2,000
Counselling	£2,000 pa	2 years	£2,400

### Team 1

Priority concessions are secretarial, counselling and training;  
Must-win concession is the training concession.

### Team 2

Priority concessions are canteen, cleaning and secretarial;  
Must-win concession is the secretarial concession.

### Team 3

Priority concessions are creche, cleaning and training;  
Must-win concession is the creche concession.

### Team 4

Priority concessions are counselling, canteen and training;  
Must-win concession is the counselling concession.



Each team has an allocation of £7,000 that they can spend to gain their must-win concession plus any other they care to bid for.

The first thing is for the teams to negotiate the bidding order. If no agreement can be reached, then the bids go from the oldest player/team member in each team to the youngest. Then the teams circulate, trying to find out the other teams' priorities and trying to make deals on bidding. 10 minutes maximum.

Each team announces its bid for the first concession. If no bid reaches the (secret) minimum price, the Council may go to the team making the highest bid and ask them if they wish to increase their bid. If not, the second highest can make a bid. If no team will increase their bid, the concession is not awarded. This process continues for each concession or until all teams have spent their money.

The winning team is the one making the most profit from its concessions as follows:  
 $(\text{total value concessions} + \text{money left}) - (\text{must-win cost} - \text{its minimum price})$

Answers can be found in the appendix on page 415