Setting your Annual Budget:

A Guide for Home Care Cooperatives

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Special thanks to Margaret Lund, M Lund Associates

Fund For

Jobs Worth Owning

Who are we?

FJWO is a 501(c)3 nonprofit loan fund administered by the ICA Group, the oldest leading expert on employee ownership in the U.S.

We provide creative and flexible financing for worker cooperatives:

- Growth & expansion loans
- Start-up loans
- Lines of credit
- Refinancing

We offer training, coaching, and technical assistance to all our borrowers. Our goal is to offer you a supportive and positive lending experience!

Who are you?

Poll 1:

Are you:

- A cooperative board member
- A cooperative staff member/administrator
- Both
- Something else (developer, supporter etc.)

Why Budget?

"If you don't know where you are going any road can take you there." – ***Lewis Carroll***

Question – What gets in the way of making an annual budget?

Poll 2: (pick all that apply)

- Getting the regular work done leaves little time
- I am nervous about trying to “predict” the future
- I am scared - of “failing” at this task and/or scared of what I might find out
- I don’t feel I have the financial skills to do this task
- We have never done one, I don’t really know where to start
- It seems like a lot of work, I don’t see the point
- Nothing – we always do a budget!

What it isn't:

- Magical Fortune Telling . .

What it is:

A Tool of the Board & Management

- Specific statement of strategic direction and shared intent
- Instrument of alignment
- Accountability mechanism
  - For management to the board
  - For the board to the membership
- Early Warning System, detector of any problems

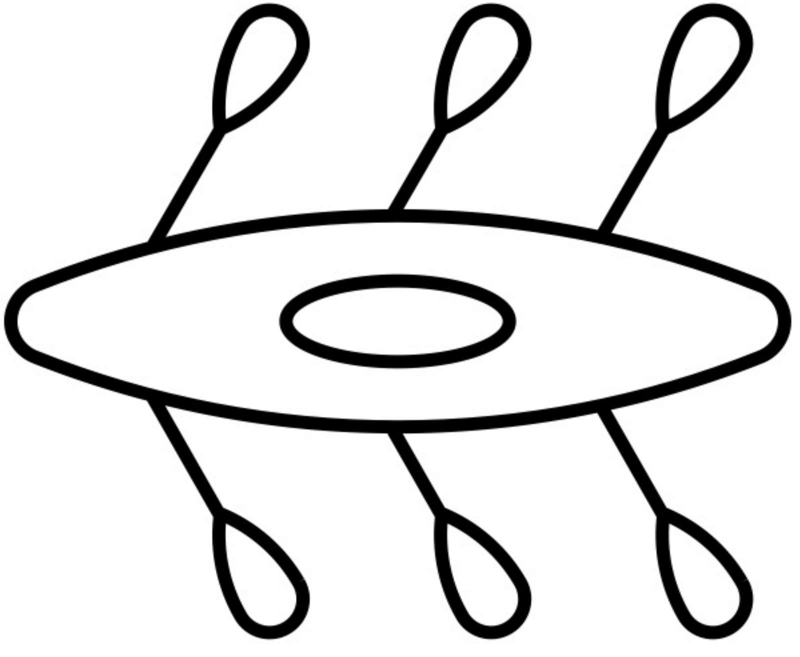
Whose job is it?

Poll 3:

Whose job is it to do the budget?

- Finance staff/Administrator
- Board of Directors
- Both, together, somehow
- I don't know

You are on the same team



Where do we start?

Types of Budgeting:

- Incremental Budgeting – based on last year
- Goal-Driven Budgeting – start with an important financial goal, and then work backwards to see what it would take
- Zero-based Budgeting – bring every expense entry down to zero and build it up
- *Some combination...*

In preparation, gather:

- Prior years' year-end and monthly P&Ls (including monthly billable hours)
- Current year's YTD and monthly P&Ls
- Your strategic plan (if you have one)
- Your hopes, dreams, aspirations, goals
- Any useful other data, such as industry benchmarks or info from a similar co-op you admire

P&L / Income Statement Format

Revenues

Less: Direct Costs

= Gross Profit

Less: Indirect Costs

= Net Income

Start with Revenue (example):

Revenues:	Annual	Avg. per Month	Billable Hours	Avg. Bill Rate
Public Pay Revenues	200,000	16,667	475	35.09
Private Pay Revenues	800,000	66,667	1500	44.44
Billable Mileage	15,000	1,250		
Total Revenues	**1,015,000**	**84,583**		

Revenue = Billable Hours *x* Bill Rate

Ways to Increase Revenue:

- Increase the number of hours
- Increase the average bill rate
- Add other sources in addition to base rate (i.e., evening/weekend premium, minimum hours, mileage reimbursement etc.)

Billable hours is the most important metric in terms of driving your budget.

What can make us more confident?

- Specific goal in terms of billable hours, broken down into sources, payer mix
- A specific strategy, timeline, process metrics to go after new business
- Target list of potential new clients
- A sound recruitment (and retention) strategy because caregiver capacity is another major revenue factor
- Policies such as minimum hours, higher rates for work that requires overtime
- Previous experience, current relationships
- Contracts (when possible)
- *What else…?*

Direct Costs (i.e., COGS)

Revenues:	
Public Pay Revenues	200,000
Private Pay Revenues	800,000
Billable Mileage	15,000
Total Revenues	**1,015,000**
Direct Costs:	
Caregiving Wages/Payroll	630,000
Payroll Taxes, SUTA/FUTA	59,850
Mileage/Travel Expense	40,000
PTO, Other Benefits	20,000
Caregiving Supplies	1,000
Total Direct Costs	**750,850**
Gross Profit	**264,150**
% Gross Margin	26%

Direct Costs = Billable Hours x Caregiving Costs per Hour

- Caregiving costs include:
  - Average wage rate (Remember overtime!)
  - Payroll taxes, PTO, and other benefits
  - Mileage/travel costs

- Revenue - Direct Costs = Gross Profit
- Gross Profit / Revenue = % Gross Margin

Gross margin has major effect on your break-even point.

Indirect Costs

Total Revenues	**1,015,000**
Total Direct Costs	**750,850**
Gross Profit	**264,150**
Indirect Costs:	
Administrative Wages, Taxes	109,500
Office Expenses	20,720
Marketing	20,000
Rent/Utilities	14,525
Insurance	13,500
Recruitment	10,200
Professional Services	7,600
Board/Membership Expenses	2,350
Total Indirect Costs	**198,395**
Net Ordinary Income	**65,755**
% Net Profit Margin	6%
Grants	-
Net Income	**65,755**

Indirect Costs (aka Fixed Costs)

- Do not typically change as billable hours change (within reason)
- Office payroll is usually the biggest indirect cost, followed by rent & utilities

Indirect Costs / Gross Margin =

Break-Even Revenue

Break-Even Point

Monthly Indirect Costs / Gross Margin % =
Break-Even Monthly Revenues

B/E Monthly Revenues / Avg. Bill Rate =
Break-Even Monthly Billable Hours

B/E Monthly Billable Hours / 4.33 =
Break-Even Weekly Billable Hours

Links Between Revenues and Costs?

- Higher bill rate decreases break-even point
- Higher wages increases break-even point
- Higher indirect costs increases break-even point

- *Think:* What is your billable hour goal? What expenses need to be invested in to meet that?
  - Client marketing, recruitment needs
  - Software, technology efficiencies
  - Admin to caregiver hours
  - Your competitive advantage – training, etc.

Annual *vs.* Monthly Projections

- Ultimately, you’ll want a monthly budget
- Sometimes, it’s easier to start with annual numbers and convert to monthly averages
- Then, you can adjust monthly numbers for seasonal variances and irregular expenses
- Monthly projections for revenue and expenses let you track your performance to budget every month

How do we know what our goals should be?

- Industry standards/benchmarks often help
  - In homecare, a big factor in gross margin is combination of private and public pay business
  - In homecare cooperatives, our gross margin may be lower than industry standard because of higher wages
  - Look for ratios for operations, too (i.e., ratio of administrative staff to caregiving staff/hours)
- Analog data also helps (groups of businesses like yours that are successful)

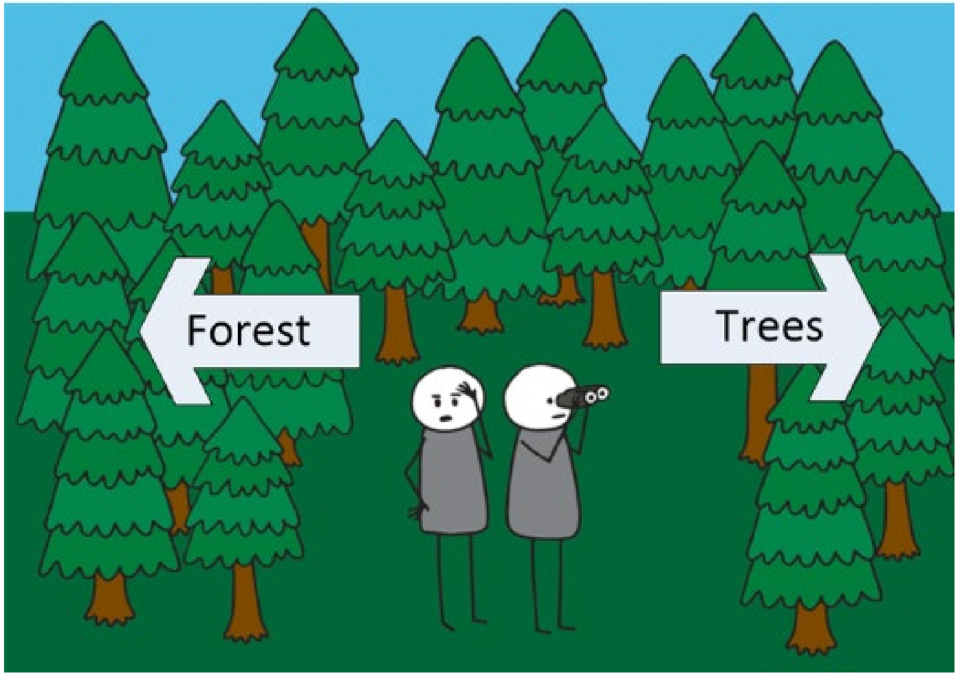
Think about your internal goals: *What do you want to achieve, and how could you make investments to get there?*

- Wages!
- Benefits!
- Investments in tech, website, software, etc.
- Office move
- *Other?*

Also, consider external factors:
What is happening in the world around you?

- Inflation (wages, supplies, etc.)
- Cost of gas, mileage
- Pandemic effects (grants, increased costs, etc.)
- Any local market changes or opportunities
- *Other?*

Budgeting includes both a lot of forest and a lot of trees…



What are the biggest drivers of financial performance? Boards should spend their time there, focusing most on the forest. Management needs to look at both the forest and the trees.

Now that we have a budget, what do we do with it?

- Compare budget to actual on a monthly and annual basis
- Discuss any important variances from budget
- If something is varying from the expected by more than 10% then you should tell a story
- Your friendly TA providers can help!

A Word about Accrual Accounting

- WHAT IS IT?????

A Word about Accrual Accounting

- Accrual accounting makes it easier to compare similar periods of time from a business analysis perspective

But!

- Profit is not the same as cash!
- Large lump expenses and customer terms affect cash more than profit
- Even a profitable company can be caught in a cash crunch
- After budget, should do a cash flow projection

Cash Flow Example

	November Week 1	November Week 2	November Week 3	November Week 4
Est. Revenues	*20,000*	*20,000*	*20,000*	*20,000*
Public Pay Collections			15,000	
Private Pay Collections	20,000	5,000	20,000	5,000
Deposits Received	5,000	5,000	5,000	5,000
Total Inflows	**25,000**	**10,000**	**40,000**	**10,000**
Payroll		30,000		30,000
Payroll Taxes				7,500
Rent & Utilities	1,210			
All Other Expenses	1,375	0	2,400	1,350
Total Outflows	**2,585**	**30,000**	**2,400**	**38,850**
Net Cash Flow	**22,415**	**-20,000**	**37,600**	**-28,850**
Starting Cash	**45,000**	**67,415**	**47,415**	**85,015**
Ending Cash	**67,415**	**47,415**	**85,015**	**56,165**
Accounts Receivable	25,000	40,000	25,000	40,000
A/P (Payroll & Bills)	20,915	9,415	25,515	5,165

Best case, worst case, making choices

- Budgeting in a learning experience
- Expect to go back and forth with your strategic plan for the year
- There is no “wrong” except maybe not trying!

Just for you! A Budget Template:

Your **Budget**																
				Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	TOTAL
			Avg. Bill Rate per Hour	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	
			Avg. Wage Cost per Hour	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	
			Avg. Taxes & Benefits per Hour	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	
			Avg. Caregiving Cost/Hr.	21.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50	
			Avg. Gross Profit/Hr.	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	
			Gross Margin	*38.57%*	*38.57%*	*38.57%*	*38.57%*	*38.57%*	*38.57%*	*38.57%*	*38.57%*	*38.57%*	*38.57%*	*38.57%*	*38.57%*	
		0	**Billable Hours**	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
			Actual Hours >>>													-
			Vs. Budget	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	
			# Clients													
			Avg. Hours per Client	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*	
			# Caregivers													
			Turnover Rate													
		0%	Caregiving Services	52,500	52,500	52,500	52,500	52,500	52,500	52,500	52,500	52,500	52,500	52,500	52,500	630,000
			Total Revenues	**52,500**	**52,500**	**52,500**	**52,500**	**52,500**	**52,500**	**52,500**	**52,500**	**52,500**	**52,500**	**52,500**	**52,500**	**630,000**
			Wages	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	342,000
			Payroll Taxes, SUTA/FUTA	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	45,000
			Total Direct Costs	**32,250**	**32,250**	**32,250**	**32,250**	**32,250**	**32,250**	**32,250**	**32,250**	**32,250**	**32,250**	**32,250**	**32,250**	**387,000**
			Gross Profit	**20,250**	**20,250**	**20,250**	**20,250**	**20,250**	**20,250**	**20,250**	**20,250**	**20,250**	**20,250**	**20,250**	**20,250**	**243,000**
Notes	*Monthly*	*% Increase*														
	10,000	0%	Administrative Wages	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
	1,000	0%	Administrative Taxes & Benefits	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000

Questions?

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