

## AUCS Inc. Board – Financial Policy 2.2

### Budget Principles

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#### 1. Budget Preparation

A draft annual budget for each Children's Centre must be presented by the Centre Directors to the Board for comment at the April meeting. A final Budget incorporating any feedback received, is to be presented to the Board for approval at the May meeting.

#### 2. Operating Margin (calculated as total profit or loss divided by total revenue)

The purpose of this ratio is to identify what "margin" AUCS is making on its total revenue base that will enable it to reinvest in the centres and also absorb any minor unforeseen financial pressures.

#### **The Budget target is an operating margin of between 1.5% and 4.0% excluding Capital Expenditure.**

Note: some budget lines of a minor capital nature already exist within the budget, which will have the effect of reducing the overall required operating margin. The impact on required fee income of maintaining an operating margin must be modelled and reported back to the Board with the draft budget.

The budget for each Centre shall incorporate the following items of expenditure:

- i) A levy payable to AUCS, sufficient to cover the expenditure budget for AUCS. The levy shall be calculated as a % of Total Revenue and applied to each respective Centre;
- ii) A Contingency, in order to provide some risk mitigation in the event of unforeseen expenses arising during the year. The contingency shall be calculated as a % of Total Revenue and budgeted in each Centre.

#### 3. Salaries as a Percentage of Total Expenditure

Given that salaries comprise the majority of expenditure, effective management of salary costs is critical.

#### **The Budget Target for Salaries as a Percentage of Fee Income is between 82.0% and 86.0%.**

Note: this percentage will be driven largely by each centre's staff profile, which will be impacted by the need to attract/retain appropriately skilled and experienced staff when positions become available. The target must be reviewed annually giving consideration to available trend data, known future costs and any available benchmark data.

#### 4. Current Ratio (calculated as current assets divided by current liabilities)

Current assets and liabilities are items that the Board anticipates will fall due within the next 12 months, such as creditors whom AUCS has an obligation to pay within their payment terms. A current ratio of at least 1.0 (but preferably greater than 1.0 to provide a safety margin) ensures that AUCS will have sufficient short-term assets to meet its short-term liabilities when they fall due.

#### **The current ratio budget target is between 1.2 and 1.5.**

Note: While the existing budget framework does not incorporate the preparation of a budgeted balance sheet, this target is considered prudent given the generic nature of this ratio and its relevance to good financial management in an organisation, including not-for-profit organisations.

#### 5. Out of Budget Expenditure

The Directors have authority for all Centre expenditure decisions within budget and in accord with *Governance Policy 2.1 Internal Accounting Procedures*. All out of budget expenditure must be approved by the Board.

#### **The target minimum for retained earnings for each centre is 5% of the total actual income of each centre based on the previous financial year.**