

Using Centre Reserves

Playcentre Aotearoa Finance Update – 1 March 2021

Case study

What should we be using reserves for? Property vs operating?

A few weeks ago, I visited a centre that had quite significant property issues and one in particular was the roof of their building. They had already accessed the National property budget for a recent large project and asked if they would be in a position to apply for more funding for their roof. At this point having become familiar with the centres finances I asked, why aren't you using some of your centres considerable savings and just getting it fixed? She looked at me and said "Can we do that? Shouldn't we be saving it in case we need it to pay wages next year?" and "could we get some guidance of when we can or should spend our savings, as its not just me the Treasurer, but the whole group I need to convince".

Hence todays case study:

This particular centre operates 5 days a week in a central location and has over the years built up a healthy savings balance that sits at roughly \$60k. But, much of this has been built up on the back of deferred maintenance, which is very evident around the centre. A cold, leaky building isn't just a health risk, but can have significant financial consequences down the track as people choose not to join opting for a warmer prettier alternative ECE option elsewhere. First impressions do count.

But the centre has been operating in deficit and expects to spend more on employment to meet MoE licensing requirements – so she asks "isn't this what the savings should be held for?"

Honestly no; wages and other day to day operating costs should be the last thing you use your savings for, as these just keep reoccurring and growing and if operating costs exceed revenue for more than a short term then your centre will eventually deplete its savings with nothing to show for it, and on top of that the leaky roof or other property issues wont go away, they will just keep growing.

Capital improvements however is exactly what savings are for, these are long term items that bring value for years after their cost has occurred. A new roof will keep the centre dry for 15-20 years and so going into deficit for these tasks should never be seen as a bad thing.

Obviously don't spend to the point you are completely skint, but for a large centre with \$60k in the bank they should be quite comfortable to allocate \$30-40k of that to capital improvements.

“But shouldn’t the National property budget pay for this instead of us?”

She asked – well should we? The National budget is actually your money – its levies – if I spend it on your centre, I wont have enough for the centre down the road, who might be just as in need of a new roof, also be paying educators but only have \$5-10k in the bank. “Why cant you pay for both?” simple, levies are 6% for property which breaks down to less than \$1,500 per centre per year, so for every grant of \$10,000 we need 10 other centres to not request anything that year.

We have also decided that just like centres capital is important and so the Budget at AGM approved a further \$400,000 for property this year that will be paid for from savings. So we are applying the same principles we are asking centres, when extending your spend or going into deficit, do it for your building, its ok.