

School Management in a Pandemic: School Cash Burn Rate & Cash Runway

The **first step** to business planning in a pandemic is assessing your **cash burn rate & cash runway**

- **Monthly Cash burn rate** is the rate that a business uses up its cash reserve.
- **Cash runway** is how long your cash will last at your current cash burn rate
 - **Cash runway** is calculated as **Total Cash Reserve / Cash Burn Rate = Number of Months a Business can continue operating on current cash reserve**

Why calculate your Cash Burn Rate?

This will help you make strategic decisions about how long you can cover expenses while your school is closed. This is also important to determining if you can continue paying staff and for how long.

How do I calculate my Cash Burn Rate?

The following will guide you step-by-step through calculating your cash burn rate.

1. **Start by selecting your format.** If you are familiar with Excel, you can create your Cash Burn Rate in an Excel file. If you do not use Excel, you can also create this on paper using a calculator.
2. **Set up your template.** Create a spreadsheet (Excel or Paper) with the following row and column headers.

Cash Reserves			
Cash on Hand			
School Bank Account			
School Savings Account			
Total Cash Reserves	0		
CASH BURN RATE	Monthly - School Open	Monthly - School Closed (100% Salaries)	Monthly - School Closed (80% Salaries)
Cash Inflows			
School Fees expected to be received			
Sale of School Garden Produce			
Total Cash Inflows	0	0	0
Cash Outflows			
Teacher Salaries			
Admin Staff Salaries			
Utilities			
School bus fuel			
Groceries			
Total Cash Outflows	0	0	0
Free Cash Flow (or Cash Burn Amount if Negative)			
	-	-	-

Calculate Cash Reserves

- **Cash on Hand.** List the amount of cash you are holding at the school.
- **School Bank Account.** List the balance of your school bank account (current account).
- **School Savings Account.** List the balance of your school savings account (if you have one)

➔ **Sum these amounts in the first column to calculate your Cash Reserve balance.** Cash on Hand + School Bank Account Balance + School Savings Account = **Cash Reserve**

Cash Reserves	
Cash on Hand	75
School Bank Account	150
School Savings Account	500
Total Cash Reserves	725

3. Cash Inflows - Enter average Monthly Revenue when school is open, and expected Monthly Revenue (if any) when school is closed. Consider if there is a *high probability* that you will earn any additional revenue in the next month while school is closed. It is important that this is a realistic projection.

- Will you receive any **additional school fee payments** in the next month?
- Do you have **additional revenue streams** that you expect to collect on in the next month?

➔ **Sum these amounts in the first column to calculate expected revenue in the next month.**

CASH BURN RATE	Monthly - School Open	Monthly - School Closed (100% Salaries)	Monthly - School Closed (80% Salaries)
Cash Inflows			
School Fees expected to be received	1500	100	100
Sale of School Garden Produce	50	200	200
Total Cash Inflows	1550	300	300

4. Cash Outflows - Calculate your Monthly Expenses during standard School Operations. Review are of our monthly expenses. See *the below categories for reference*. Start by listing your **monthly expenses** for all items when your school is **operating** under the **standard month column**.

- Teacher salaries
- Owner salary
- Admin staff salary
- Support staff salary
- Utilities
- Cleaning and Sanitation
- Fuel / School Bus Expense
- Food (school canteen)
- School Materials
- License, Association Dues and Other Regulatory Fees
- Extra classes expenses
- Medicals/local travels/sports
- Miscellaneous
- Loan repayments or other

5. Calculate your Monthly Expenses during School Closure. Next, under the “School Closed” columns list expenses that are still essential when your school is closed. These lists will be identical with the exception of salaries.

Specifically consider the below points.

- List “0” for all expenses that will not be incurred while school is closed.
- **Salaries.** In order to retain staff you may want to continue paying full or partial salaries.
 - Consider listing the full monthly salary (100%) for your teachers under “100% salaries.”
 - You may want to list an alternative percentage of teacher salaries expense for comparison in the last column to evaluate different cash burn rates.

CASH BURN RATE	Monthly - School Open	Monthly - School Closed (100% Salaries)	Monthly - School Closed (80% Salaries)
Cash Inflows			
School Fees expected to be received	1500	100	100
Sale of School Garden Produce	50	200	200
Total Cash Inflows	1550	300	300
Cash Outflows			
Teacher Salaries	600	600	480
Admin Staff Salaries	300	300	240
Utilities	50	0	0
School bus fuel	35	0	0
Groceries	45	0	0
Total Cash Outflows	1030	900	720

 **Sum these amounts to calculate expected expenses in the next month.**

6. Calculate your Free Cash Flow / Cash Burn Amount. Subtract Total Cash outflows from Total Cash Inflows to calculate monthly free cash flow (positive amount) or cash burn (negative amount). **The monthly cash burn during school closure is the amount of cash that you will spend even while the school is closed.**

- In the below example, the **Cash Burn rate is 600** if salaries are paid at 100%. This means the school will spend down its cash by 600 on a monthly basis.
- The **Cash Burn rate is 420** if salaries are paid at 80%.

CASH BURN RATE			
	Monthly - School Open	Monthly - School Closed (100% Salaries)	Monthly - School Closed (80% Salaries)
Cash Reserves			
Cash on Hand	75		
School Bank Account	150		
School Savings Account	500		
Total Cash Reserves	725		
Cash Inflows			
School Fees expected to be received	1500	100	100
Sale of School Garden Produce	50	200	200
Total Cash Inflows	1550	300	300
Cash Outflows			
Teacher Salaries	600	600	480
Admin Staff Salaries	300	300	240
Utilities	50	0	0
School bus fuel	35	0	0
Groceries	45	0	0
Total Cash Outflows	1030	900	720
Free Cash Flow (or Cash Burn Amount if Negative)			
	520	(600)	(420)

➔ **Cash Inflows – Cash Outflows = Free Cash Flow OR Cash Burn**

- 7. Calculate Cash Runway.** To determine how much time you have until your cash runs out, we can calculate cash runway. The goal for your school is to make the cash runway as long as possible by reducing the monthly cash burn rate.

➔ **Cash runway** is calculated as **Total Cash Reserve / Cash Burn Rate = # Months a Business can continue operating on current cash reserve**

- In the above example Cash Runway if salaries are paid at 100% is calculated as $725 / 600 = 1.2$ months, or about **36 days**. This means the school could continue to cover essential costs for 1.2 months while it is closed.

Example

You own and operate a primary school in your village. 2 weeks ago, the Government ordered that your school is to temporary close following a virus outbreak in your country.

Before you school closed you had 250 pupils enrolled, all of which were paying US\$30 in school fees per term.

Your school has 8 classes, and employs 8 full time teachers who each earn US\$100/month. In addition to teachers, you also hire a school bursar (US\$100/month), a cook (US\$50/month), a security guard (US\$50/month), and a cleaner (US\$50/month).

Rent of your school grounds and premises is US\$1,000/month.

You have a loan that you drew to build a new classroom block last year. The termly repayments on the loan are US\$1,000.

During school time, learning materials usually cost around US\$100/month and utilities such as water and electricity cost US\$100/month.

You have cash in your savings account of US\$8,000, and currently have no physical cash at the school.

	Monthly School Open	Monthly School Closed
Cash Inflows		
School Fee Income	2,625	-
Other Income	-	-
Total Cash Inflows	2,625	-
Cash Outflows		
Teacher Salaries	800	800
Cook Salary	50	-
Security Guard Salary	50	50
Cleaner Salary	50	-
Bursar Salary	100	-
Learning Materials	100	-
Loan Repayments	250	250
Utilities (Electricity and Water)	100	-
Rent	1,000	1,000
Total Cash Outflows	2,500	2,100
Free Cash Flow (or Cash Burn if Negative)	125	(2,100)

The monthly cash burn rate during school closure is US\$2,100.

Given the cash on hand is US\$8,000, the cash runway is 3.8 months, or about 114 days. This is the amount of time that your school can continue to make its cash flow payments in the instance that the school remains closed (and therefore cash inflows are 0).

Your goal during this time should be to conserve cash. Some ideas that you could implement:

- Reduce labour costs by asking staff to take a pay cut while schools are out of session. If some roles are easy to replace upon resumption of school operations, you could consider eliminating some positions.
- Talk to your bank about a loan repayment holiday while your school remains closed.
- Talk to your landlord about the possibility of a rent holiday (or reduction) while your school remains closed.