

# Business sustainability for childcare providers

## Overview

Daycare Trust has been working with local authorities to support providers in good financial planning and business management. We have helped providers become more aware of their business responsibilities and work towards increased levels of sustainability. We have also calculated the full level of subsidy being received which has enabled local authorities to review the conditions of this subsidy and the level in which they approve such support for individual providers in the future.

Our support provides local authorities and childcare providers with a baseline of critical financial data in which to improve financial and business management from. Through our work across England, Daycare Trust has enabled childcare providers to develop business plans, find their breakeven point and plan for funding cuts while access all funding streams available to them.

Our areas of business support have included:

- Debt management
- Boosting occupancy
- Business planning
- Financial planning
- Marketing strategy
- Feasibility Studies
- Sustainability planning

Outputs for providers include:

- completing a comprehensive assessment of their current position and clarity on their business vision and goals;
- Up to date SWOT and PESTLE analyses;
- SMART Goals and Objectives broken down by quarters;
- A financial plan for 24 months including cash flow;

- identifying support and training needs;
- identifying opportunities for development and how to act on them; and sharing tools and techniques to set up a yearly business planning cycle, including reviews.

This business support also reviews management and governance systems in place for providers. Recent Daycare Trust experience has shown that the roles and responsibilities of governance boards are not always fully understood and that this can have an impact on the decision making process for the setting and achieving business goals. All of the business support provided by Daycare Trust will take into account best practice standards in financial management.

The previous business health checks undertaken by Daycare Trust have included the following:

- 1) Analysing issues affecting sustainability
  - a. An in-depth look at current funding streams/ funding strategies
  - b. Budgetary management mechanisms
  - c. Fee structures/levels and optimum charging
  - d. Staffing structures, levels, ratios and costs
  - e. Maximisation of occupancy levels
  - f. Fee collection systems/ debt recovery processes
  - g. Uptake of free offer for 3 -4 year olds, and 2 year old pilot
  - h. Promotion of childcare funding support to parents
  - i. Expansion or utilisation of new spaces
  - j. Potential expansion or re-organisation of opening hours.

As a result of our work Daycare Trust has developed workforce development workshops and training specifically designed for childcare providers. Including:

- Strategic and Business Planning
- Financial management and future planning
- Debt management
- Boosting occupancy.

- 2) Issues impacting on governance/management
  - a. Current governance arrangements and sustainability options analysis
  - b. Current business practices, development of business plans
  - c. Making recommendations on how to become more sustainable in the future
  - d. Position in the local childcare market and opportunities for growth
  - e. Local marketing
  - f. Knowledge of existing and emerging legislation and policy.
- 3) Issues impacting on user groups
  - a. Ability to respond to the needs of parents/carers (flexibility)
  - b. Opportunities for commissioning external organizations
  - c. Use of centre's 'community' spaces.

## Findings

Throughout our business support for local authorities and providers we have identified recurring themes in the skill sets of childcare providers and the subsidy practices of local authorities. In order for childcare providers to be

able to minimise their dependency on subsidies and maintain service delivery there needs to be a review of staff skills and knowledge of business management.

Daycare Trust identified a number of recurring areas of weakness for childcare providers in relation to their business operations. These include:

- Lack of business awareness, familiarity of business terms and financial data
- Lack of business plan and knowledge to implement and update plans
- Inconsistent knowledge of deficit/debt and level of subsidy received
- Minimal use of and monitoring of annual budget
- Inability to find breakeven point
- Occupancy vs. vacancies levels and the negative financial impact of running at partial capacity
- Governance: roles and responsibilities of board, ownership of the financial position and future.

We have found that many of these areas of weakness result from a lack of financial and business documentation, accompanied by a lack of understanding by staff of the importance of business planning and monitoring. Further training is highly recommended for all childcare providers around business management and financial planning.

## Governance

There are common challenges in governance including a lack of understanding of the division of responsibilities between Board members and childcare managers. Boards and Management Committees often have very few members and a high turnover leaving one or two key people charged with carrying forward major changes and for dealing with problematic staff relations if they arise.

## Finance

In many settings there can be a lack of basic understanding of the key functions and requirements of financial management of a childcare social enterprise i.e. who is responsible, what it entails, the key tasks and how this relates to, and needs to be integrated into, overall business management. Rationales for fee levels are not considered in a logical way, salary comparators in the private sector seem ad hoc, and there is very little contingency planning for funding.

## Business planning and administration

Many of the childcare providers that we worked with did not have a comprehensive and up-to-date business plan, systems are not computerised, financial record keeping is not adequate, and marketing is not responsive to a rapidly changing market.

## Measuring results

Basic goal setting is not widely used and where the need for goals is acknowledge, the financial assumptions are not always correct. There is minimal use of Key Performance Indicators either overall or in relation to appraisal of senior management.

To overcome these areas of weakness Daycare Trust has provided two areas of support:

- Specifically designed workshops and training to increase provider's working knowledge and understanding of business management

One-to-one support for individual providers to develop a working business plan, improve their awareness of financial and business management and also reviewing potential new areas of revenue generation.

It is also through this one-to-one support that we were able to identify their breakeven point, review occupancy to identify a minimum number of children to remain sustainable and their overall operating costs.

As a result of our work outlined above we have developed a number of workforce development workshops and training that are specifically designed to assist in increasing providers understanding of business management and financial planning. Courses include:

- **Strategic and Business Planning** - This workshop looks at business planning for sustainability, business planning cycle, goal setting, situation analysis and monitoring your position in the market, promoting help with childcare costs and meeting the needs of parents/carers.
- **Financial management and future planning** - This workshop looks at financial projections and cash flows, budgetary management and risk analysis, fundraising strategies, reducing staff costs, establishing correct staff levels, setting and collecting fees/charges, maximising occupancy and valuing full space utilisation.
- **Debt management** - This very practical half day course looks at how to implement strategies on reducing debt; implementing a fair fees policy; calculating a break-even fee and ensuring business sustainability.
- **Boosting occupancy** - This half day course offers clear strategies on creating systems to monitor occupancy; develop a marketing plan and understand how and when to promote your service. This course can be combined with Debt management to make up a one day course.

## Case studies

Below are three case studies of the recent work Daycare Trust has undertaken in support of local authorities and childcare providers to work towards becoming more sustainable.

### Case study 1 - Inner city nursery

Since spring 2009 Daycare Trust has been working with an inner city local authority to review the business and financial management of selected nursery providers. It is important for this local authority as part of the National Childcare Strategy to enable nursery providers to develop an understanding of the procedure and processes for commissioning and the provision of business develop support.

This support has been provided in three stages. In the first instance a full business health check was undertaken on all identified nurseries. This included an in-depth look at their current funding streams, position in the local childcare market and opportunities for growth, fees levels and optimum charging, staffing structure, levels and costs, occupancy levels, opportunities and threats and governance.

The third and final stage of this support package was a financial planning workshop. This workshop was developed based on the areas of need highlighted as part of the business health checks and feasibility studies and will feed into the development of individual business plans for each of the nursery providers. The session included; understanding of the commissioning framework, understanding of the formal tendering process, business planning for sustainability, help with childcare costs, involving parents in the development of childcare services and debt recovery.

By starting with a comprehensive assessment of the current position of the nursery provision, Daycare Trust were able to offer tailored support to help them to address key issues affecting their stability and sustainability and provide systems and tools to enable the providers to continue this work themselves in the future.

### Case study 2 - Inner city Children's Centres

Since spring 2010 Daycare Trust has been working with an inner city local authority to review the business and financial management of selected Children's Centres.

Daycare Trust has been providing support to identified Children's Centres to improve the long-term sustainability and viability of the childcare provision. This support has been provided in three stages.

In the first instance a full business health check was undertaken on all identified Children's Centres, including:

- an analysis of the issues effecting sustainability e.g. funding streams, occupancy levels, fee structures, opening hours and commissioning
- Issues impacting on governance/management e.g. governance, business practices, marketing and legislation
- Issues impacting on user groups e.g. flexibility of offer to parents, opportunities for commissioning external organisations and use of centre's 'community' spaces.

Following this stage was a financial workshop developed based on the gaps in skills and areas of support that were highlighted as a result of the business health checks.

The workshop covered areas such as business planning for sustainability, budgetary management and risk analysis, fundraising strategies, reducing staff costs, setting and collecting fees/charges, maximising occupancy and commissioning.

To support the long term sustainability of the childcare provision a third and final stage of this project involved one-to-one support to develop working business plans. Each of these plans will be developed with the Children's Centre managers and key staff to ensure ownership of the document, its progress and implementation.

### Case study 3 - Metropolitan Borough Council Children's Centre project

In the summer of 2010, Daycare Trust worked with a Metropolitan Borough Council to review costs and models of their phase 1 Children's Centres childcare provision, provide an options paper for their future sustainability and develop a business support toolkit to enable the Centres to assess, plan and manage their childcare provision in the long term.

The project was delivered in two stages. In the first, full business health checks were carried out on five Phase 1 Children's Centres, which included assessments of costs, fees, occupancy levels and staffing and governance structures. A practical business plan was then drawn up for each setting, making recommendations which could include re-organisation of opening hours, strategies and tips for managing operational costs, alternative service modelling and addressing issues that impact on user groups.

Following completion of the business health checks, a solution seeking workshop was developed and delivered to Children's Centre staff focusing on the areas identified as being most beneficial. These included best practice in managing costs, increasing occupancy and developing a marketing strategy.

To support the long term sustainability of the childcare provision, a toolkit was created for the Phase 1 Children's Centres to use which included a summary of policy implications, a template business plan, 'how to' guides to financial planning and a directory of useful resources.

For further details about our business support contact

**Esther Burridge**  
Consultancy Manager

Daycare Trust  
2nd Floor, Novas Contemporary Urban Centre  
73-81 Southwark Bridge Road  
London SE1 0NQ

Tel: 020 7940 7510  
Fax: 020 7940 7515

Email: [eburridge@daycaretrust.org.uk](mailto:eburridge@daycaretrust.org.uk)  
Website: [www.daycaretrust.org.uk/london](http://www.daycaretrust.org.uk/london)  
Information line on 0845 872 6251  
or email [info@daycaretrust.org.uk](mailto:info@daycaretrust.org.uk).

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