**Early Years business and financial guidance**

School business managers, head teachers and their governing bodies should familiarise themselves with this.

**Business considerations**

In order to be able to test the potential financial viability and therefore potential sustainability of a childcare business, the following are key business considerations for school bursars to consider:

* Understand your market
* Understand your business
* Income generation capacity
* Expenditure and unit cost

**Understand your market**

* Who lives in the area that surrounds your childcare provision?
* Are there large numbers of families with young children?
* Is it an area where both parents of very young children are likely to be working? Or is it an area with high levels of disadvantage?
* What other childcare provision operates in the area?
* What type of early education/childcare places are needed in the area? Full day care places to support working parents? Sessional places for disadvantaged 2 year olds?
* Be familiar with the LBTH Childcare Sufficiency Assessment: [LBTH Childcare Sufficiency Assessment](https://www.towerhamlets.gov.uk/lgnl/education_and_learning/childcare_and_early_years_educ/Early_learning_and_childcare_funding.aspx).

**Understand your business**

**P.E.S.T.**

* PEST analysis is a useful tool for understanding how the things going on around your school may impact on your business and your plans.
* PEST factors are essentially external so it is useful to help you consider the environment in which your service is provided.

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| **Political**  E.g. 30 hours, pensions legislation, national living wage, national funding formula, Ofsted, Brexit.  **If you are going to take children under the age of 2yrs, you must obtain Early Year Registration as your school registration does not cover children under the age of 2.** | **Economic**  E.g. New Businesses, recession, Tax Free Childcare, Changes to benefits/universal credit |
| **Social**  Flexible working, weekend working, shift working and typical hours | **Technological**  Social Media, electronic payments via, email and internet. |

**S.W.O.T.**

* This is a useful tool to review your business and will help you to work out where you are now, before you start to plan for change, growth or expansion.

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| **Strengths**  Things that are good about your business, e.g. Ofsted rating, wraparound care etc. | **Weaknesses**  Things that could affect the success of your plan. Things that need to be prepared for, controlled or minimised |
| **Opportunities**  Areas that have potential for development. Things that could improve your sustainability, income etc. | **Threats**  The risks that could affect the success of your plan, e.g. high number of local provisions. Things that need to be prepared for, controlled or minimised. |

**Understanding the needs of your school community**

Think about the families who currently use your school and nursery:

* Will they be eligible for a free entitlement funded placement next term?
* How do they currently take their free entitlement?
* What arrangements do working parents who use your nursery currently make?
* Do you anticipate any changes in demand?

**Income Generation Capacity**

* How many childcare places can you make available?
* How many part-time and/or full time places?
* Are you able to offer these places for 50 weeks of the year?
* Have you thought about working with your local early education and childcare providers?
* Can you generate sufficient income for the year to fund all the full time places even if some parents lose employment in the autumn and therefore may lose funding in the following summer?
* How much income will these places generate in total? For funded places the fee rates per hour are set via the National Funding Formula.
* For paid-for places you will need to establish a fee structure, this should normally be above your unit cost (see below) but also at a competitive market rate. This must be agreed by your governing body.
* The total income you could generate from all the places available is the *Income Generation Capacity*

**Expenditure and Unit Cost**

* Once you have established the number of children your provision can take (and their ages), you can work out how many staff you will need to employ, how much you are going to pay them and this will allow you to establish a significant proportion of your projected expenditure (this will be anywhere up to around 80% of the total operational costs).
* Will you employ practitioners under Tower Hamlets pay and conditions? Will you set up a separate business? What pay levels will you consider?
* Establish all other associated costs with the childcare provision which will give you your total projected expenditure; once you have established your total costs you can calculate the unit cost- i.e. cost per place, per year/per month/per week/per day/per hour.
* If the unit cost is higher than the fee rate you will be making a loss. If it is lower you can generate a small surplus/make a profit. *NB If all the childcare places are available, but not filled, this will raise the unit cost considerably.*

**Breakeven Point**

* The breakeven point for a childcare setting is ensuring there is enough money and children locally attending (either from the free entitlement or paid-for) to cover the weekly, termly or annual costs of the business.
* The spreadsheet overleaf shows you how to calculate your breakeven point.
* The breakeven hourly rate is the amount of money you need to be charging to just cover your costs.
* Your breakeven rate should **not** be calculated on 100% occupancy. It should be calculated using your realistic occupancy figure. A more realistic figure would be 60% as you must allow for staff sickness, holidays, training, lunch cover etc.

**Occupancy Level**

* It is important for any childcare business to understand and monitor occupancy levels.
* You should work out what the actual take-up of places was and compare it with what your occupancy level could have been, if every single place had been full all the time.

**To calculate occupancy levels:**

1. Calculate the actual number of sessions being taken up each week (No of children on roll x no of sessions booked each week per child = sessions per week).
2. Calculate the capacity of the setting each week. (Number of places x two sessions per day x five days per week = capacity).
3. Calculate the occupancy figure. (Actual number of sessions taken divided by capacity of setting x 100 = % occupancy).

**Breakeven analysis**

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|  | | | | Working Example |
| Step 1 | Calculate your current **annual costs** |  | A | £700,000 |
| Step 2 | Calculate the **number of weeks** the nursery is **open** |  | B | 39 |
| Step 3 | Divide figure A by figure B to give the **Weekly costs** |  | C | £17,949 |
| Step 4 | Multiply the **Sessions per week** (e.g. 5) your nursery business offers by the **number of places available each session (**e.g. 32) this gives the total **number of places per week** |  | D | 900 |
| Step 5 | Divide figure C by figure D to give the **Breakeven fee per session** assuming full occupancy at each session |  |  | £19.94 |
| Step 6 | Calculate breakeven hourly rate |  |  | £6.65 |

**Calculation of Fees assuming 75% occupancy**

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| --- | --- | --- | --- | --- |
|  | | | | Working Example |
| Step 1 | Multiply figure D by 75% |  | E | 675 |
| Step 2 | Divide figure C by figure E to give the **Breakeven fee per session** assuming 75% occupancy rate at each session |  | F | £26.59 |
| Step 3 | Calculate breakeven hourly rate |  |  | £8.86 |

* The working example is information taken from a maintained Nursery School.
* For breakeven analysis, annual cost will include all rents, rates, staff salaries, supplies, services etc.