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# Social Enterprise Childcare



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Social Enterprise London is the heart and voice of the social enterprise sector in London. We promote community, best practice, advocacy & development - working directly with individuals, organisations and regional government to help them realise their vision through social enterprise.

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**Social Enterprise London**  
3rd Floor Downstream Building  
1 London Bridge  
London SE1 9BG  
E: [info@sel.org.uk](mailto:info@sel.org.uk)  
W: [www.sel.org.uk](http://www.sel.org.uk)

## // 1 - Social Enterprise Childcare

### // Introduction

In recent years, access to childcare has been recognised as one of the essential building blocks to a growing economy. For families and lone parents who need/want to work; good, affordable childcare is essential. For businesses to run smoothly, reliable childcare is a necessity. The Government has responded in a number of ways, such as the National Childcare Strategy and Every Child Matters. The issue this booklet seeks to address is where does social enterprise fit in?

The demand for places coupled with interventions made by the National Childcare Strategy has led to different types of organisations responding to the growing demands of the childcare sector. The focus on the sustainability of new and expanding childcare services, particularly in deprived areas where childcare is not traditionally profitable, has led to interest in the social enterprise model. The purpose of this booklet is to help guide those interested in this sector to use the social enterprise model effectively. The booklet will guide the reader through the social enterprise model, outline the background to the childcare sector, and make suggestions as to how organisations can take the first steps in using social enterprise in their long term strategy.

### // So what is a social enterprise?

A social enterprise is an organisation that provides services within a chosen market in order to achieve social aims. They strive to succeed as businesses by establishing a market share and making a profit. Social enterprises combine a unique fusion of solid business practice normally associated with the private sector such as innovation, market responsiveness, efficiency and entrepreneurial focus with a social purpose such as; improving local employment practices, a commitment to its users, equity and empowerment.

As with any entrepreneurial activity the creation of a service has been developed to meet a need, however with social enterprises this need is couched in a desire to be accountable and sensitive to the social support structures and the community affected by those needs.

## // 2 - Social Enterprise and childcare

Social enterprises share three main characteristics – a social aim, trade orientation and social ownership.

In the childcare sector, the social aim would typically be the provision of high quality and affordable childcare. The lack of affordable childcare is often seen as an obstacle that prevents people from taking up training and job opportunities. The Childcare Strategy for London 2003 highlighted the need for childcare in order to achieve key Government targets in increasing labour market participation amongst lone parents by 2011 and eradicating child poverty by 2020.

Childcare social enterprises often seek to achieve a variety of social aims that usually complement each other. Creating training or job opportunities for the unemployed, promoting employee ownership and participation or community empowerment are other social aims commonly pursued by social enterprises in the childcare sector.

Social enterprises are trade oriented. They are driven by their social aim but use commercial activity to achieve these aims. In order to be independent, childcare social enterprises have to achieve financial sustainability by adopting trading or commercial activities through the sale of childcare and related activities.

Social enterprises are socially owned and managed by groups, trustees or stakeholders. The composition of the ownership structures has given rise to various models of social enterprise. However, what is key is that rather than thinking in terms of private shareholders who take profit out of the organisation, the focus is on communities participating in the decision-making processes of the organisation. For a childcare organisation, the stakeholders could include schools, local businesses, parents and the local authority.

## // 3 – Context Analysis

This section takes a brief look at various categories or models of social enterprise childcare and attempts to explain what they are and how they work.

### // Co-operatives (co-ops)

They are based on the idea of mutuality and collective self-help and are set up to respond to social needs originating in the community, such as unemployment or lack of or insufficient provision of a social service. There are two common forms of co-ops: worker co-ops and mixed co-ops.

The growth of worker co-ops can be attributed to the need for job creation in a sector where childcare workers are traditionally low paid and lack professional status. One of the biggest challenges for the childcare sector is the recruitment and retention of qualified staff. This dilemma is compounded by the fact that many qualified workers leave the childcare industry to pursue more highly paid or better regarded careers in new sectors. Worker co-ops address this problem because they motivate groups of childcare professionals to set up an organisation in which they are stakeholders and can help deliver services over which they have greater control.

As well as worker co-ops, there are other co-operative models such as parent and mixed co-ops, which are co-operatives with a mixed group of stakeholders. Mixed co-ops usually form where there are insufficient levels of childcare facilities in the local area, i.e. supply is less than demand. For more information about co-operatives, see the contact details for Co-operatives UK in the appendix of the booklet.

### // Multi-stakeholder model

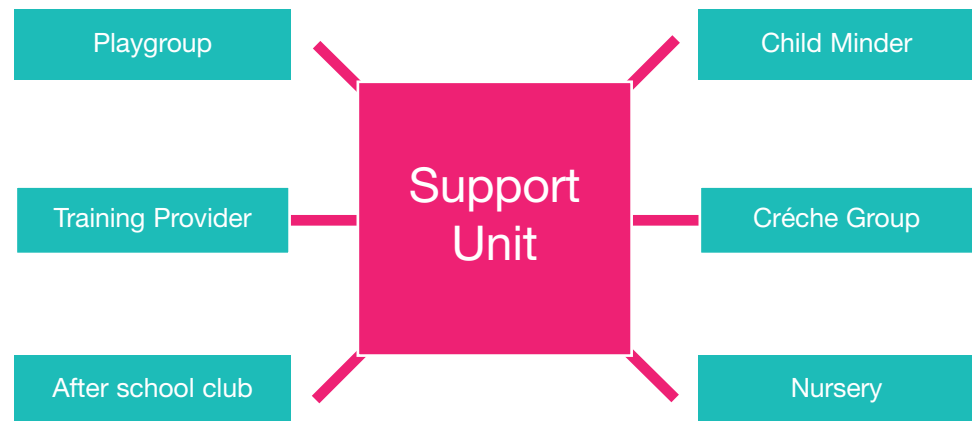
The multi-stakeholder model has evolved from community nurseries. As with community nurseries, multi-stakeholder childcare social enterprises are owned by two or more groups drawn from the local community. They can be individuals or organisations, with a genuine long-term interest in developing high quality affordable childcare in the area and typically include parents, staff members, private and public sector employers, registered social landlords, local colleges, local NHS Trusts, and regeneration initiatives. The idea behind such a large group of stakeholders is to broaden their social enterprise membership base. This in turn has an impact on the composition of their management boards that incorporate stakeholders with more varied business and social skills.

The current environment of cost reduction strategies at local authority level has put an additional strain on many organisations including nurseries, forcing them to look more closely at sustainability. Under such pressure, the organisation is much more likely to focus on creating financial sustainability and new income streams through the creation of specialist skills such as payroll systems for local childcare providers, training courses for childcare trainees etc.

## // Consortium model

This model is slightly different from those already described in that earlier in that the reason for its creation came about through the need to increase the scale to make a business viable. Often small organisations fail to win business because they're seen by the client as being too small to provide the depth and diversity or scale of services required. The concept behind this model is that groups cluster to offer specialisms and bid for certain contracts and funds that would otherwise be out of their reach. The model can take different forms, one example is shown here:

Diagram: Consortium model, organisational structure



The diagram shows how a consortium can be formed. There is the support unit in the middle which performs all the 'back-end' roles of an organisation such as financial management, payroll, human resources and marketing. These services are provided to the consortium members. In the diagram the members are the playgroup, child minder, training provider, crèche group, after school club and nursery. The support unit is financed in a number of ways including childcare contracts for the consortium, membership fees and grants.

There are many reasons why a consortium is set up which include:

- To provide "back end" support such as administration in a centralised manner to leave childcare providers free to concentrate on childcare work.
- To create specialist skills that can be shared between organisations such as providing multiple bid writers.
- To provide quality standards for all those involved.
- To support projects that can create profits that can be combined for large capital projects.
- To provide a negotiating arm in which to provide a strong voice mechanism. This arm can also negotiate large scale contracts with organisations such as local authorities.

- To provide effective marketing to create one brand, one mission and vision whilst reducing overall costs to everyone involved through combining resources.
- To provide economies of scale through bulk buying of supplies such as food and stationery and reducing agency staff costs through shared services.

Examples of consortium modelling include Icknield Childcare Consortium and the consortium run by Suffolk Social Services. Icknield Childcare Consortium opened in 2004 and operates from Icknield High School in Luton, Bedfordshire. The club provides wrap around care with a breakfast club for 80 children, an after school club for 80 children and a holiday play scheme for 150 children. The Consortium is able to support children with learning difficulties or disabilities and employs 15 staff members, as well as a host of trainers for various after school care programmes. Part of their success has been the buy-in from local schools to use the Consortium to provide much needed childcare services and being able to bring resources together to provide cost effective activities. Suffolk Social Services took part in the Equipe project, funded by the European Social Fund (ESF), and from this created The EQUIPE Beccles and Bungay Project, which looks at the consortium model for childcare. The aim is to bring small providers together to achieve economies of scale and support the sustainability of childcare in rural areas.

## // 4 - The childcare market

### // Introduction

The UK childcare sector is fragmented, with the range of childcare including childminders, day nurseries schools and classes, playgroups and out of school clubs and holiday schemes. The diversity of the sector means there are a variety of support organisations that can help a social enterprise. It's useful for the organisation to decide on the childcare type, to access the right specialist support. For example, day nurseries can contact the National Day Nursery Association. For childminders, the specialist support agency is the National Childminding Association. Playgroups can contact to London Play and other types of childcare organisations can refer to 4Children.

It is worth considering the current Government policy on childcare. The government has set out a series of measures to provide a comprehensive service for childcare within the ten year strategy, which includes:

- 3,500 children's centres by 2010, providing access for all families. Most children's centres will provide early education and childcare, although some will just provide signposting to childcare services.
- Free part-time early education places for three and four year olds extended from 12.5 hours a week, 33 weeks a year to 12.5 hours a week, 38 weeks a year by 2006. By 2010, the government hopes to offer 15 hours a week, 38 weeks a year, with the goal of 20 hours a week, 38 weeks a year being offered by most organisations to childcare end users.
- By 2010 all 5-11 year olds to have access to affordable school-based childcare all year round. All secondary schools will be open from 8am to 6pm during the week by 2010.
- A Transformation Fund of £125m a year, which started in April 2006, created to support investment by local authorities in quality, affordable and sustainable childcare

### // Market sectors and opportunities

This section describes the areas of the childcare sector currently experiencing the most growth and those that present viable opportunities for social enterprise models. These areas relate to residential, commuter and employer categories. The factors that influence the social enterprise's ability to trade in these markets include:

- Their demography
- The nature and character of communities
- The need for childcare
- The composition of the local childcare market
- The local authority agenda on the development of childcare, as set by the local education or childcare department

In considering opportunities, it is crucial for existing and budding childcare social entrepreneurs to understand the local market. It may be necessary to do some initial research in order to evaluate the viability of opportunities.

In most cases, in-depth business planning is necessary to obtain grants and raise finance. The business plan is also useful to convince potential members to be part of the social enterprise or partners to be involved in collaborative programmes. General business planning issues are addressed in Section Seven.

### // Childminders

Childminding is a widely used form of childcare for young children. According to figures, there are currently 75,000 registered childminders in England and Wales (source: NCMA, 2006). Childminders are self-employed and negotiate the terms and conditions of the care they provide directly with parents. Parents are usually charged on an hourly basis for the amount of childcare they require. Childminders work in their own homes and are usually mothers themselves. They may offer the service throughout the day and over the whole year. There is potential for developing childminding networks into social enterprises as they identify ways for individual child minders to work together. Additionally, different childcare organisations such as nurseries and childminders are finding ways of working together in cluster groups. This could lead to informal forms of wraparound care being offered to parents. For further information about childminding, it's worth taking a look at a specialist support agency such as the National Childminding Association (see the appendix for contact details).

### // Day nurseries

Day nurseries cater for pre-school children and are a common form of childcare for working parents. Children can attend part-time or full-time. There are 14,590 nurseries and 675,820 nursery places in Britain (source: Childcare providers still falling short on health and safety rules, The Times, 19 August 2006). They are run by private companies, individuals as sole traders or partnerships, by local authorities (state-maintained), or by voluntary, community or social enterprises. They are financed through fee income, grants or a combination depending on the how the organisation is legally constituted. Nurseries and childminders are both experiencing financial pressure and competition from the extended school programmes. The extended school programmes provide free childcare for three and four year olds at their local school which in turn forces other childcare providers to concentrate on providing childcare for the under threes. There are various sources of information such as the Daycare Trust and National Day Nursery Association (NDNA) (see the appendix for contact details).

## // Out of school clubs and holiday schemes

Out of school facilities provide sessional care for children between the parent's working day and the child's school hours. The number of providers according to figures for 2000 was 4,900, providing 152,800 places for children. These schemes provide care during one or more of the following periods: before school, after school, weekends and during the holidays. The out of school niche is of the childcare sector is one of the fastest growing sectors of childcare. This is a reflection of the government's agendas for wraparound care and extended schools. This is seen both as an opportunity for existing providers as well as a potential barrier, depending on how schools perceive the opportunities that childcare providers can bring to the negotiation table. An example of this could be the development of out of school facilities run by parents as consumer co-ops in the form of a consortium. The clubs could be based within schools and run by a separate management committee which consist of representatives from each school. The consortium would pool resources, equipment and staff, providing efficient use of core costs.

There are various barriers for which new and existing organisations have to find solutions to support themselves. These include:

- Access to premises: negotiation needs to take place in order to engage the schools, NHS Trusts, or other partners such as New Deals for Communities.
- Staff levels are an issue due to the shortage of qualified professionals. Employment levels for childcare professionals fluctuate, in general, because of the part-time nature of the work and the relatively low rates of pay.
- Sustainability: childcare social enterprises have to find the balance between social aims and financial objectives. For example, they may deal with parents who are on low incomes that need childcare but cannot afford the market rate. The organisation then needs to decide if it can subsidise the cost of that childcare place with a mixture of grants and service level agreements from the local authority.

In addition to the childcare types discussed above, there are also crèche facilities that provide supervised childcare for limited periods of time. Some are in permanent premises and are aimed at parents/carers who are engaged in particular activities, e.g. shopping, sport, training. Others are established on a temporary basis to care for children while their parents/carers are involved in time-limited activities, e.g. conference, exhibition.

Aside from the organisations mentioned in this section, there are a number of national organisations worth looking at, especially if the social enterprise is a start-up. 4Children is a national body that provides information and support for all kinds of childcare activity and is a keen lobbyist for the sector. London Play is a local childcare organisation that specifically looks at play organisations and how they can support them in areas such as quality provision and training. Start up childcare enterprises should also contact the local authority departments such as the early years team, CIS teams or the Sure Starts. They will have details of training, finance, business support and quality programmes that organisations can access.

## // 5 – Marketing childcare social enterprises

### // Understanding your local market context

- What localities and services do culturally specific providers cover?
- What childcare needs are there in the area?
- A demographic analysis of the communities
- What are the predictions for the future?
- What concerns have been raised about existing facilities and services?

This analysis should help to identify gaps in provision and give a sense of the potential level of take up. The gap analysis will suggest the types of childcare service that are needed. Additionally, the organisation should use local information such as Early Years childcare audits and development plans and Sure Start reports.

### // Understanding the market for childcare

Trends affecting demand

The increase in women in the workplace and changes in the way that people work has had an impact on demand for childcare places:

- More women return to work after maternity leave, in particular to pursue part time employment opportunities. The UK has the highest number of women in part-time employment than any other country in the European Union (EU).
- The number of lone parents returning to work is on the rise. Currently 48.6% of lone parents are now in work, 27.9% are in part part-time employment and 20.7% are in full-time employment.
- There are more parents that need childcare because they are in employment. For example, of the total workforce, 43% of working women have dependent children.
- Changes in working patterns mean that working hours can be outside the Monday to Friday, 9-5 week for parents in the UK. Almost two thirds of working families contain a parent who works outside the traditional Monday to Friday 9-5 and need childcare that is affordable and flexible.

Research in this area has raised some key points:

- The childcare gap: more than two thirds of Children's Information Services responded that parents have reported a lack of affordable childcare in their area. (source: Daycare Trust Childcare Costs Survey 2006, [www.daycaretrust.org.uk](http://www.daycaretrust.org.uk))
- The prohibitive cost of childcare in the UK, which is higher than in other European countries, may impact on demand because it restricts access to those who need it most. The Daycare Trust survey revealed that the typical cost of a full-time nursery place for a child under two is £142 a week in England, over £7300 a year; a rise of 27 per cent in five years. In London, the average price is £197 a week for a child under two, which is over £10,000 a year. (source: Daycare Trust Childcare Costs Survey 2006, [www.daycaretrust.org.uk](http://www.daycaretrust.org.uk))

- Recent growth in the number of childcare places has been stimulated by government economic policy. The National Childcare Strategy launched in 1998 contains a number of initiatives to increase the quality and access to affordable childcare facilities. The strategy has stimulated demand with the introduction of tax credits to help parents, particularly on lower incomes, to pay for childcare. The strategy has created funding streams to instigate the creation of places.

Many social enterprises are formed from partnerships. Partnerships are an increasingly viable and popular strategy for improving services in sectors including childcare. In practice, no single group can effectively address the range of needs required for delivering effective childcare services. The process of creating a partnership can take some time, but being involved in a partnership can help an organisation deliver effective childcare provision and provide input on the range of childcare services delivered in the area. Partnerships in the childcare social enterprise sector can be innovative and lead to a diverse range of childcare services, thereby improving the quality of care.

Partnerships can help with the quality of childcare by:

- Encouraging the recruiting, training and licensing of new and existing providers.
- Developing professional development systems for workers in the sector.
- Promoting the accreditation of existing childcare provision by developing accreditation standards for social enterprises delivering childcare services.
- Establishing networking facilities for social enterprises delivering childcare services.
- Establishing services that educate parents and families to become better informed childcare consumers.

Partnerships can also help with the local supply of childcare or other services by:

- Partnering with schools, local NHS trusts, Sure Start, New Deal for Communities and Neighbourhood Renewal programmes to develop, create and expand childcare.
- Recruiting providers such as childminders for the supply of childcare during the non-traditional hours, as emergency care.
- Co-ordinating with other community services, such as health and family support services to develop childcare.
- Brokering technical assistance in business areas such as personnel management, marketing, financial management and strategic planning.

Childcare social enterprises have a real opportunity to grow when linked to initiatives in regeneration and addressing barriers within employment and training. Being included in these areas means that there is potentially more money and interest to encourage quality affordable childcare in the local area.

## // Marketing Planning

Planning is important because it gives the organisation a long term perspective on what they are trying to achieve e.g. improve numbers of full time children attending or improving the quality of service. In order to do this, the organisation needs objectives. Marketing objectives should be SMART: Specific, Measurable, Achievable, Realistic and Time-tabled.

These are the broad methods by which the marketing objectives can be achieved. They are generally referred to as the marketing mix or as the four Ps: Product, Price, Place, Promotion.

By identifying the four Ps, the organisation can understand the different choices it has to adapt its service or product. Below is an example of what product, price, place, and promotion might look like for a childcare social enterprise:.

In a social enterprise these elements consist of:

- the childcare service itself (services are often referred to as product).
- the price you charge parents / carers or corporate customers.
- the place from which you operate – is it easy to access? Are there complimentary providers nearby? Is there parking space available?
- the way you communicate what you do (promotion).

By adjusting one or more of these elements, the organisation can achieve its marketing objectives. For example, if they want to persuade more people to use the nursery, they could:

- improve the quality of the service through accreditation (product).
- alter the pricing structure to allow low income families to access childcare places (price).
- improve the appearance of the premises (place).
- or communicate a block-booking service of childcare places to an employer (promotion).

### Communicate the plan

Everyone should understand the plan. It is advisable to make a presentation of it rather than to circulate written copies. If the plan is not effectively communicated, it will fail.

### Measure and review progress

The plan should be monitored as it progresses. Make sure the measures collected are meaningful to the success of the plan. If circumstances change, it should be revised to take advantage of unforeseen opportunities or to counter unforeseen threats. Details of how this should be done need to be included in the written plan. If the organisation aligns their targets to social outputs or outcomes, then it is also worth looking at impact measurement tools that can help chart an organisation's progress. New Economics Foundation (nef) have produced research in this area and SEL have also conducted research into impact measurement tools, of which details can be found on the website, [www.sel.org.uk](http://www.sel.org.uk).

## // Dos and don'ts for marketing planning

### Do

- Be clear on the organisation's strategic objectives.
- Adjust the plan to suit the size, culture and circumstances of the organisation.
- Consult on and communicate the plan.
- Be aware that it requires some time to create the plan.

### Don't

- Neglect to analyse information carefully.
- Spend too long on projecting future markets from past data.
- Forget the plan is a means to achieve objectives, not a rigid control mechanism. Let the planners alter the shape of the objectives.

Successful marketing will ensure that the organisation produces the right goods and services, at the right price, for the right people, at the right time, and in the right place.

Promotion, or sales promotion as it is often known, is part of marketing and involves the use of advertising, the offer of incentives, publicity and personal selling. Selling and marketing are not the same thing. Selling is the final step in the marketing process

For the small business, marketing in its broadest sense may seem expensive and time-consuming. For the social enterprise, it's a case of fit for purpose. Ineffective marketing will target the wrong people and convey incorrect messages about the organisation, the products and the services. However, the right process will ensure the social enterprise reaches its market and provide opportunities to develop income streams and thereby become financially sustainable.

## // Networking

Networking provides an opportunity to find new business opportunities. However, it is necessary to ensure you have enough resources to network, as generally, networking is left for one person to undertake. These resources include using staff, stakeholders and board members who could attend meetings, briefings and other sessions that would allow them to collect data, meet organisations interested in childcare and find potential customers.

Networking allows an individual, such as the business manager of the social enterprise to develop their business communication skills, in order to retain and gain customers and suppliers, and to expand the organisation's list of beneficial contacts.

Remember, networks are not static - if used, networks will expand, but if they are neglected, they shrink and so will the opportunities for the organisation.

In order to make best use of them, it's important to identify what kind of networks to engage with and what benefits the organisation will gain from them. For example, a childcare social enterprise might target the local authority networks and attend local childcare partnership meetings to find out where to go for funding and information. Alternatively, they may target local business groups to identify who to partner up with.

As mentioned, networking does not have to fall to one single person. There are staff members that often have to go on training or capacity building sessions and they can build networks from these sessions. The management board will also be attending meetings and can find out information on behalf of the childcare social enterprise.

## // 6 - Financial management

Social enterprises are created to be grant independent and to create new ways of deriving income. In reality most organisations have needs such as start up funding to pay for premises and costs such as staff recruitment and training. This section runs through the typical costs for an organisation, where they get the funds from and how to make the organisation financially sustainable in the long term.

One initial point of consideration is the legal structure of the organisation, which will affect the kinds of funding and finance available. For example, if an organisation is looking for a range of grant funding then it will need to have a legal structure that facilitates this, such as a company limited by guarantee or an industrial and provident society. A point to consider is that some grant funding will only be given to charities, e.g. certain charity foundations. However, with charities, the trustees are personally liable for any debts incurred by the organisation so if those involved do not want to have that risk, it's necessary to consider the advantages of being a charity versus the risks.

There are pros and cons which each legal structure. Explanations can be found in publications such as Keeping It Legal, details of this are on SEL's website. Remember, the point of the social enterprise is to be as grant independent as possible, so think long term to decide how the organisation will be financed.

For childcare organisations, key sources of finance includes:

- Retained earnings - i.e. a surplus carried forward from previous years
- Contracts with large childcare buyers e.g. local authorities
- Bank loans - there are specialist loan providers for social enterprises
- Community Development Finance Initiatives e.g London Rebuilding Society
- Grants

Building up these sources is not easy. There are, however, certain factors to keep in mind:

In order for the organisation to make money, they need to have an effective charging policy. To do this, it is useful to undertake detailed local market research including looking at local employment rates and wage levels to help form the business strategy. For example, one key piece of information is the fee parents and carers will actually be prepared to pay – this may not be the same level as it costs the organisation to produce the childcare. If that is the case, the organisation needs to decide how it can subsidise the cost. Otherwise it may have to remove itself from the market and rethink the strategy e.g. if the market has no demand for three to five

year old nursery care then the nursery would have to move out of that segment and offer childcare to babies and toddlers only. Also, by knowing the competition and who is providing complementary services to the social enterprise providing childcare services, the organisation can better position itself in the market. One example would be to identify where every three and four year old will have entitlement to a free part time early education place. This may reduce demand for nursery services – but organisations can then develop after school provision to provide wrap around care. So whilst demand for one service may fall, another service may emerge to keep the organisation sustainable.

As a social enterprise, the childcare organisation wants to minimise grants as a proportion of income and maximise trade revenue (i.e. the income from childcare fees and related services). At least 50% of the income should be from fees, where possible. If this is not the case, then the organisation needs to review whether it is financially sustainable. There is a possibility that the organisation is reliant on grants to subsidise the cost and that someone in the organisation may be spending most of their time completing and monitoring grant applications rather than providing childcare, which could be considered an ineffective way of using staff time.

Building assets is seen as one way of creating financial sustainability. This is a strategy that recognises that the possession of tangible assets (e.g. premises) or dedicated income (e.g. from training services) as the key to achieving self-sufficiency. If the childcare organisation is based in a dedicated space, they may find they have sufficient room to house other organisations e.g. Sure Start offices or complimentary services e.g. nursery and childminder networks that can provide additional income.

As mentioned earlier, social enterprises tend to identify more than one social aim, and in the example of childcare organisations, they tend to combine employment and training aims with their childcare objectives. Maximising partnerships with a training and employment programme can help bring in additional income sources. For example, the organisation can become an NVQ Assessor Centre and charge for placements to generate additional income. This is especially relevant given the demand for childcare at the moment and the need for more childcare practitioners, which has been highlighted in the Times article, “Summer holiday childcare hits £500 a week”, where the Daycare Trust conducted a survey and found that six in ten parents had difficulty finding childcare places especially in the south east of England. (The Sunday Times, 9 July 2006).

Diversifying income streams is another way of creating sustainability and this can be done through developing other secondary products and services. This allows organisations to cross-subsidise their activities – for example, running crèches in the evening as well as providing day nursery services. The more the organisation can diversify its services, the better equipped it is to deal with changes in demand.

It is essential to market the Childcare Tax Credit effectively. This is an important incentive for parents and carers on lower incomes who may be put off by high fees. However, it requires the childcare social enterprise to market the information to the parents so that they are aware of the incentive. The benefits for the organisation is that they can charge parents the full market value of the childcare place whilst the parent actually pays a subsidised rate because of the tax credit. Additionally, there are childcare voucher schemes, which are another tax scheme, and it is worth noting which schemes parents use in order to for the organisation to benefit from the scheme.

It is important not only to think about demand side issues but supply issues as well. Childcare is a labour intensive industry and therefore staff costs are usually disproportionately high compared to other sectors. One reason for this is the Ofsted regulations that dictate the number of children per adult ratio in childcare settings. The UK has one of the lowest ratios (for under one year olds the ratio is 3:1). This means that looking after children under two years of age is extremely costly compared to looking after children over two. According to the Labour Force Survey 2005, the average pay for senior managers was £8.80 an hour, and for supervisory staff £6.60 an hour. (source: Early Years and Childcare Providers survey, 2005, DFES). Although these figures may appear low, as an employer, it's necessary to take into account that the organisation will be employing quite a number of staff and the total staff wage figure could be very high due to the multiplier effect.

Another key cost is premises, which can run into millions of pounds if an organisation is purchasing a space. This is why many organisations work with the local authority to find a space they can rent at a peppercorn rent. In addition, there are the costs of fixtures and fittings which can average over £30,000 as well as the cost of refurbishing the space every few years. If an organisation can maximise subsidies from stakeholders e.g. Housing Associations providing free accommodation, this can reduce the total unit cost and these savings can be passed on to the customer, or act as surpluses for the organisation.

There are also operational costs such as overheads and in the case of the childcare sector, consumables such as food. A typical policy in the childcare sector is to put in £2.50 per child in the budget for consumables. This can change if the organisation's policy is to provide the food themselves. If parents bring in food for their children, which is typical for children with allergies or special needs, this would reduce the cost further.

The pricing strategy already discussed in the marketing section is worth reviewing again to consider whether the organisation is developing their pricing structure correctly. The pricing policy has to be understandable to parents as well as manageable and predictable in order to project the minimum income for cash flow purposes. The easier it is to read, the less chance there will be for disagreements and non payments in the future.

One method in which childcare organisations subsidise childcare places is by using differential charges. This can be based on the parents' income level or using sibling discounts (where you give discounts when there are two or more children from each family). Key to this method is putting limits on subsidised places. In practice, it becomes very complicated if the organisation has more than two or three bands of charges to manage. Places for under two's cost considerably more (per child) because of the higher staffing ratios - you can offset this by a higher charge for older children (e.g. instead of charging £200 for babies and £150 for over two years olds, the pricing could be £180 for babies and £170 for two year olds).

Other customers for childcare places include local employers and local authority departments such as Social Services or Sure Starts. They buy childcare places either to ensure their staff are available to work or to allow people to gain employment or training opportunities.

This document comes with an example of a budget on an excel spreadsheet. In the example given, the costs involved in running a childcare social enterprise are outlined. The scenario shows costs being higher than the income and most of the income being derived from fees.

The model is slightly more complex as it takes into account the social enterprise's environment. If, as in this example, the population has a certain level of social deprivation, the social enterprise could decide to subsidise some of the childcare costs as part of their social aims. That is why there are two price levels for the under two year olds and over two year olds.

However, it is important to note that social enterprises operate in all kinds of environments and as they are businesses, it is vital that the organisation analyses its market carefully for opportunities to price the service or product at full market value, and not rely on subsidies or grants.

The model also has labour costs accounting for over 50% of the total expenditure. This can increase or decrease depending on the number of childcare places taken up. If there is only 50% occupancy in the childcare setting, then it makes sense not to have a full complement of staff, especially if it is a start-up and the organisation is building up it's clientele.

Another area worth commenting on is the fact that there are core costs involved with a nursery such as insurance and utilities, and therefore the unit cost for each childcare place falls as more children attend the childcare setting. Therefore finding the optimal level in which an organisation can operate is essential. Generally, most nurseries find they can work optimally when they have 50 places or more. This is one reason for the upward trend towards larger nurseries.

## // 7 - Business planning issues

Many organisations find writing a business plan daunting. This doesn't have to be the case. Many people already have the plan inside their head. However, as with a marketing plan, the business plan needs to be communicated to stakeholders, particularly staff members. Therefore having a copy of the business plan is handy not only for those interested in putting money into the organisation but other stakeholders such as partners you might work with.

The purpose behind the business plan is that it is a live document. It contains the organisation's strategy in terms of development, focus and future activity. It can be as short or as long as the organisation needs it to be. The important thing is that people within the organisation and its stakeholders understand what has been written. It can, for example, be used as a template from which information can be used for funding applications. Therefore if staff members are filling in grant applications, it is very important the business plan is kept up to date.

Below is an example of a template for a childcare social enterprise business plan. As mentioned earlier, the organisation needs to have a live working document so there will be certain areas which are not relevant to some organisations. Therefore, do not add information on one particular point if there is nothing to be said. It is better to keep the plan short and sweet than over laboured. Finally, try not to create a business plan on your own if possible. If the organisation has several team members, then they will all have specialist skills or interests that can be used to create the business plan.

### **Executive summary**

- Describe the key objectives of the childcare social enterprise
- Describe the level of finance required for the organisation
- Provide details of the various stakeholders and management board
- Describe the benefits of the childcare social enterprise to its potential stakeholders
- Describe the current status of the childcare social enterprise

### **Market Research**

The market research areas should cover and seek to identify facts about;

#### **Population:**

- Demographic profile and trend
- Size of families
- Female activity rate
- Lone parents
- Ethnic backgrounds
- Average income
- Education/training levels
- Consumer habits
- Life expectancy

#### **Local health and environmental issues:**

- Nutritional habits of children
- Recurrent children illnesses or diseases
- Rates of drug or alcohol abuse among parents
- Green spaces
- Housing conditions
- Spatial management

**Local contacts:**

- Local authorities
- Local employers
- Schools
- Colleges/universities
- Community/neighbourhood groups or organisations
- Social landlords
- Regeneration programmes

**Other childcare providers:**

- The services they offer
- Their approach to childcare
- The families they target
- Their prices
- The possibility of providing complimentary services
- The possibility of collaboration
- Other issues

**Local childcare needs:**

- A description of the need for childcare in the area
- Potential customers for childcare social enterprise service
- Customers ability to pay
- Potential for developing them into stakeholders or members of the management committee:
- A description of the need for other related services (family support, community health services, training, etc.)

**Description of the service**

- Describe the organisation's services
- Outline any special features and benefits
- Outline a quality strategy for the delivery of childcare services

**Description of legal structure**

Outlines the typical legal structures adopted by childcare social enterprises, these options could include:

- Applying for charitable status
- Revising the constitution for an expanding organisation
- Developing a new constitution for the new organisation
- Developing a management board under an existing structure

### **Operational plan**

This should detail key objectives to be achieved by the childcare social enterprise and the time schedules involved.

- Ethos of the organisation
- Opening hours
- Age groups being cared for
- Equipment and other resources
- Details of premises
- Management controls for the delivery of effective childcare e.g. health and safety policies, accident prevention, equal opportunities, safe food handling, fire protection, preventing the spread of infection, parental involvement, handling complaints, protecting children's rights, encouraging staff training and development, promoting quality within the organisation.

### **The team**

Details of the team involved in running the organisation should be included here.

- Roles to filled, when and how they will be recruited
- Qualifications being sought and experience required
- Diagram depicting staff team relationships

### **Implementation plan**

This would describe the steps to be taken prior to starting up or expanding the social enterprise for example:

- Securing or extending capacity premises
- Liasing with Ofsted and local early years units regarding registration requirements
- Carrying out conversion and or building works

### **Marketing the childcare social enterprise**

Describes how the childcare social enterprise will be promoted to:

- Potential customers
- Potential stakeholders

Also look at various communication and advertising strategies for a social enterprise:

- Define the organisation's identity and ethos as a childcare social enterprise (mission, values, striking the right balance between social and business approach, quality focus)
- Identifying stakeholders that the organisation could use to promote the social enterprise e.g. local groups and partners

### **Pricing policy**

Defining the pricing structure and policy

- Outline the fee structure, describe the different bands for the various user groups if used
- Outline how fees will be collected
- Penalties for non-payment

### **Financial information**

Should provide information about the costs of starting or expanding the childcare social enterprise, including capital and revenue costs. This would be summarized in the following:

- Cash flow forecast and the assumptions underpinning the cash flow forecasts
- Profit and loss account
- Balance sheets

### **Risk analysis**

Describe what could go wrong in the organisation, how likely it is to happen and the contingency plans to deal with the problems.

### **// Getting started**

Before starting, it is useful to carry out a SWOT analysis - Strengths, Weaknesses, Opportunities, Threats. This will help to provide a focus for working out objectives and for drafting the plan.

SWOT analysis is a general technique, which can find suitable applications across diverse management functions and activities, but it is particularly appropriate to the early stages of strategic and marketing planning processes for an organisation.

In the case of a childcare social enterprise it could be used to analyse the local market, the need for childcare and the organisation's ability to exploit the market to create a profit. It is customary for the analysis to take account of internal resources and capabilities (strengths and weakness) and factors external to the organisation (opportunities and threats).

### **// List Strengths**

Strengths can relate to the organisation, to the environment, to public relations and perceptions, to market shares, and to people. "People" elements include the skills, capabilities and knowledge of the staff which can provide a competitive edge, as well as the reason for past successes.

For a childcare organisation, a skills list could include:

- Higher skill levels that provide an advantage over competitors e.g. special needs
- Your awareness of the market and potential opportunities

- A well-developed business network that ensures that you and your products are well-known e.g. being on the CIS website
- Effective cost control management systems
- Highly competitive pricing structure
- Well-trained staff e.g staff with a mix of NVQ 3 and 4 qualifications

### // List Weaknesses

This session should be an honest appraisal of the organisation. It is not unusual for “People” problems – poor communication, unskilled leadership, lack of motivation, too little delegation, lack of trust – to feature among the major weaknesses. However, this list should be used to identify where the organisation can make improvements.

For a childcare organisation, this list could include:

- Inadequate working capital
- Inadequate managerial skills
- Poorly trained staff
- Insufficient space for expansion to meet demand e.g. to expand for new baby places
- Ineffective marketing and promotion

### // List Opportunities

This step is designed to assess the socio - economic, political, environmental and demographic factors, among others, to identify activities that can bring about benefits for the organisation. Examples include new markets and government policy changes. Bear in mind just how long opportunities might last and how the organisation may take best advantage of them.

For a childcare organisation, opportunities could be:

- Changing tastes of customers in favour of items which are, or can be listed in your product range e.g webcams for parents to access to check their children in the nursery.
- New legislation generating an increasing need for your goods/services e.g. childcare vouchers.
- The arrival of a large business in the area which may require goods/services like those you supply.
- Closure of a competitor’s business.

### // Threats

This refers to actions or perceptions that have an adverse impact. Threats may include the level of unemployment or environmental legislation or an obsolete product range. For example, the introduction of extended schools and their offer of free three and four year old childcare places, can be seen as a threat to existing childcare providers.

For a childcare organisation, threats include:

- Price competition, which usually takes the form of lower prices or discounts offered by competitors.
- Increased prices for raw or finished materials e.g. nappies, food, milk.
- Legislation imposing new obligations or restrictions e.g. Ofsted regulations.

### Carry the findings forward

Make sure that the SWOT analysis is used in subsequent planning.  
Revisit the findings at suitable time intervals to check that they are still valid.

### Dos and don'ts for SWOT analysis

#### Do

- Be analytical and specific.
- Be selective in the final report.
- Choose the right people for the exercise.
- Choose a suitable SWOT leader or facilitator.

#### Don't

- Try to disguise weaknesses.
- Merely list errors and mistakes.
- Lose sight of external influences and trends.
- Allow the SWOT to become a blame-laying exercise.
- Ignore the outcomes at later stages of the planning process.

When conducting a SWOT analysis, remember to consider whether weaknesses can turn into strengths, or threats into opportunities. For example, an extended school appearing in the local area may represent competition to the childcare organisation. However, it may be possible that they would rather outsource some of the services and the social enterprise could be contracted in to provide these services.

### // Action plan for a childcare social enterprise

It is preferable to have an action plan to assess the organisation's progress.  
Here is an example of what it might look like.

#### Step 1

Describe the background of the childcare service, who the customers are and when the childcare service will start. If the service is already running give a brief summary of past performance include any key or influential elements that may aid the success of the service.

#### Step 2

Define the objectives of the childcare enterprise: develop a list of short-term, specific targets that will help to indicate progress towards longer-term ones e.g. recruiting a steering committee.

### Step 3

Perform a market analysis: The business plan should be able to persuade the reader or investor that the childcare service will secure a substantial market.

### Step 4

Describe the approach to marketing. The best way is in the form of a marketing plan. This will describe the strategy for approaching customers i.e. the parents and other users of the childcare service. It will also contain a description of the childcare organisation and supply the following details:

- The image, ethos and social aims of the childcare social enterprise.
- A description of the promotional and publicity material
- Key or unique service features that make the service stand apart from other providers of the area. It will also cover details of marketing techniques and methods used by other local firms.

### Step 5

Describe the registration process, consultations to be taken with Early Years and other stakeholders from the local community. It will also identify the various management structures for the facility and also include a brief section on contingency planning for the prospect that things may go wrong such as if the steering committee falls apart or if the finance does not come in on time.

### Step 6

The financial plan. Lay out exactly what is required of the investors. The financial plan is composed of figures of past, present and projected performance including any start-up costs, profit- loss statements, cash flow analyses and balance sheet data. Repayment of loans will be of key interest to the investor so include accurate break-even projections. It is also important to identify the financial controls being used in the organisation, especially when looking over borrowed and income generating funds. Make sure the sales forecast is realistic and provide reasons for the assumptions made. For example, can the business realistically support the level of borrowing needed to get a new product launched?

### Step 7

Demonstrate how management is both committed and capable. Describe your strengths and skills. An organisation chart should mark out capabilities as well as responsibilities. If there are weaknesses, propose how they will be dealt with.

### Step 8

Describe the ownership of the organisation. An investor will need to know the legal constitution of the organisation – e.g. company limited by guarantee, industrial and provident society. Show how much investment is already being made and by whom.

### Step 9

Include risks and problems and critical success factors. Do not omit the negative factors, both actual and potential. Demonstrate how the organisation can adapt to likely changes in, for example, information technology, markets or economic circumstances.

Provide a brief account of the critical success factors such as: the learning environment, specialists and technicians with their knowledge, networks, etc.

### Step 10

Draw up the conclusion. The conclusion summarises the key features such as strategic direction, strengths and unique benefits, projected (realistic) sales and returns. Include a proposed timetable of events to strengthen the image of sound planning. The conclusion sets the scene for the executive summary.

### Step 11

Provide an executive summary. Written last, but appears first. Include the unique features of the product(s) or service(s); the current, mid- and long-term direction of the organisation; the product/service benefits to the defined market sector; the qualities and skills of the people who will make it all happen; a financial statement of assets, sales/profits expectations and how much capital is required; and, as a conclusion, a statement of return for the investor.

### Dos and don'ts for writing a business plan

#### Do

- Keep it short, focused and readable
- Research the target readership
- Draft and re-draft to improve it
- Organise it effectively
- Consult as widely as appropriate
- Address fully any possible bones of contention
- Outline the qualities and skills of the management team
- Use diagrams and charts for clarity
- Use the simplest language possible to avoid misunderstandings. Provide an executive summary

#### Don't

- Be too optimistic in estimating income potential or enthusiastic reaction
  - Neglect to point out the 'obvious' benefits of the product or service
  - Use long words, technical jargon and complex sentences
  - Make assumptions on the reader's behalf
  - Neglect help from appropriate sources such as accountants or banks
  - Forget who you are writing for
  - Forget the contingency aspects of the plan
  - Fail to identify aspects of the business plan that need to be described in more depth
- As a general rule the plan should be not more than about 25-30 pages with the strongest focus on the management and financial elements. The executive summary should be no more than two to three pages.

## // Appendix Useful contacts

### // Training

The first point of call, as with any childcare information will be the local childcare information service / Sure Start / Early Years team. They tend to have different names across different boroughs or counties and it's a case of doing a search to find the right local authority department.

There are also specialists such as Newtec who are a centre of vocational excellence in childcare [www.newtec.ac.uk](http://www.newtec.ac.uk)

National Council for Voluntary Services (NCVO) has a range of courses as part of their Voluntary Sector management section that is worth looking at as well. [www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)

### // Government Bodies

Department for Education and Skills (DfES) [www.dfes.gov.uk](http://www.dfes.gov.uk)

Office for Standards in Education (OFSTED) [www.ofsted.gov.uk](http://www.ofsted.gov.uk)

Small Business Service (SBS) [www.sbs.gov.uk](http://www.sbs.gov.uk)

Sure Start [www.surestart.gov.uk/home.cfm](http://www.surestart.gov.uk/home.cfm)

### // National Childcare Organisations

ChildcareLink [www.childcarelink.gov.uk](http://www.childcarelink.gov.uk)

Daycare Trust [www.daycaretrust.org.uk](http://www.daycaretrust.org.uk)

4Children [www.4Children.org.uk](http://www.4Children.org.uk)

National Day Nurseries Association [www.ndna.org.uk](http://www.ndna.org.uk)

National Childminding Association [www.ncma.org.uk](http://www.ncma.org.uk)

Pre-School Learning Alliance [www.pre-school.org.uk](http://www.pre-school.org.uk)

London Play [www.londonplay.org.uk](http://www.londonplay.org.uk)

### // Business Support

Social Enterprise London (SEL) [www.sel.org.uk](http://www.sel.org.uk)

Co-operatives UK [www.co-opunion.co.uk/live/cme630.htm](http://www.co-opunion.co.uk/live/cme630.htm)

Business Link for London [www.bl4london.com](http://www.bl4london.com)

Greenwich CDA [www.gcda.org.uk](http://www.gcda.org.uk)

Hackney Co-operative Developments [www.hced.co.uk](http://www.hced.co.uk)

Tower Hamlets CDA [www.co-operation.coop](http://www.co-operation.coop)

### // Sources of Finance

Charity Bank [www.charitybank.org](http://www.charitybank.org)

Industrial Common Ownership Finance [www.icof.co.uk](http://www.icof.co.uk)

Local Investment Fund [www.lif.org.uk](http://www.lif.org.uk)

London Rebuilding Society [www.londonrebuilding.com](http://www.londonrebuilding.com)

Triodos Bank [www.triodos.co.uk](http://www.triodos.co.uk)

Unity Bank [www.triodos.co.uk](http://www.triodos.co.uk)

Futurebuilders England [www.futurebuilders-england.org.uk/content/Home.aspx](http://www.futurebuilders-england.org.uk/content/Home.aspx)