

City of Bradford Metropolitan District Council

# Early Years & Childcare Service

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**Business Support Team**  
**Bradford Early Years and Childcare Service**  
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# CONSIDERING SETTING UP A DAY NURSERY?

## The Basics

Day Nurseries care for and educate children aged 0-5. They are usually open all day, although a few are beginning to open evenings, weekends and overnight although this is still rare. There are different types of nurseries including private, community and workplace nurseries. However, all nurseries are registered/inspected by OFSTED.

## Average Statistics (Source: National Day Nurseries Association)

- Over 750,000 children are cared for by day nurseries
- In total 1.7 million children use daycare
- There are over 12,000 day nurseries in England and Wales
- An estimated 25% of nurseries also provide out-of-school care for 5-11 year olds

Weekly costs vary, but average prices for a full time place per week in England are £100 - £170. Typical rates in Bradford and the Surrounding District are as follows for the over 2s (baby rates tend to be approximately 15-20% higher due to the higher costs involved with this age group through staffing etc.):

<b>Sessional Rate (Morning/Afternoon)</b>	£12 - £15 per session (e.g. 8am-1pm, 1pm – 6pm)
<b>Full Day Rate</b>	£25 - £27 per day (e.g. 8am – 6 pm)
<b>Full Week Rate</b>	£110 - £130 per week (e.g. 8am – 6pm, 5days a week)
<b>Out-of-School Care</b>	£10.00 - £20.00 per day (e.g. 8am – 9am, 3pm – 6pm)

## Most Profitable Nursery Model

There are significant economies of scale to be gained within day care. Hence, generally speaking the larger the number of places, the more profitable a nursery will be. Average occupancy needs to be approximately 80%+ to cover costs, so for example a 60 place nursery usually needs to have at least 48 children attending regularly.

## Planning to make your business work

There are certain elements which are key to making your business work and the planning stage is the best time to check all these are in place before you become busy with the childcare side of the business:

- Necessary skills (see the next section “Do you have what it takes?”).
- Vision and planning (both financial and general).
- Broad understanding of the long-term government policy on childcare and its potential effects on your business now and in the future.
- Understanding the need of potential/existing customers in your area/sector – investment in ongoing marketing.
- Ongoing, affordable and assured use of quality premises.
- Pool of reliable, quality staff (trained or in-training).
- The establishment of wide community links (support, pool of customers, no objections).
- A pro-active management approach – not waiting until an issue becomes critical to deal with it.
- Being realistic about finances and the time a new business requires to reach reasonable occupancy.
- Development of a reputation for providing quality childcare;

## CONSIDERING SETTING UP A DAY NURSERY? (Ctd.)

### Do you have what it takes?

Before you seriously consider establishing a day nursery, take some time to consider how this will impact on your life and whether you have the right personality / skills / experience to make it a success. Here are the main attributes needed within a nursery, i.e. either yourself or a partner/manager need to be able to demonstrate these to be sure your business will succeed:

#### Personal Qualities:

- Vision – knowing what you want to achieve;
- Self-sufficiency (an absolute must-have for any self-employment);
- Initiative
- Determination
- Resilience (coping with inevitable setbacks);
- Responsibility (for staff, children, parents and the business);
- Imagination (overcoming challenges).
- Leadership qualities (being able to guide and motivate a team)

#### Expertise/Experience

- In business;
- In childcare;

#### Business Skills

- Management – of the business and the staff;
- Organisational – creating effective systems for every part of the business etc.
- Financial – book-keeping, payroll etc.;
- Marketing – understanding the customers needs, addressing them and promoting the business;
- People – communication with staff, children, parents, authorities etc.

If you believe that within your existing structure (i.e. yourself and your partner/manager) there is a skills shortage in any of these areas, now is the time to admit this fact and buy in additional professional help (e.g. hire a bookkeeper/accountant, use a payroll service etc.). Don't wait until a problem rears its head before deciding you don't have the skills/experience/knowledge to address it! Remember, as the advert goes "Prevention is better than the cure!"

# STEP 1 – CHOOSING YOUR BUSINESS STRUCTURE (For-Profit Organisations)

## 1.1 Selecting the right structure

This information pack is designed for people wishing to start a nursery business to make a profit for themselves. If you are planning to open a nursery business on a not-for-profit basis, please contact the Business Support Team (contact details on page 35) for a not-for-profit nursery information pack.

However, whichever type of business you opt for, the most important thing for all yourself, staff, parents and children is the business' survival. The principles of ensuring a business survive are the same regardless of what you intend to do with the profit or operating surplus as it is often referred to in not-for-profit organisations.

### **Sole Traders**

- Most common way of starting a business (e.g. plumbers, builders etc. are often sole traders).
- Quick and effective setting up.
- One person sets up, owns and taking responsibility for the business.

#### Advantages:

- Can trade under own name or a business name.
- Can employ staff and borrow money.
- Retains complete control over how the business is run (still subject to Ofsted / legal obligations).

#### Disadvantages:

- Owner is personally liable for finances of business and any debts incurred – personal property can be seized by creditors to recover losses. This result in personal bankruptcy.
- Feeling of isolation in running the business alone. Even if good staff, the book still stops at the owner alone.

### **Partnerships**

- Two or more people owning the business together (e.g. solicitors, dentists etc. are often partnerships).

#### Advantages:

- Good for sharing the responsibility of ownership.
- May feel like a safer option – sharing the risk.
- Good for raising more capital than one person may be able to afford.
- Relieves isolation of running the business alone.

#### Disadvantages:

- Joint decision-making can be difficult – potential personality clashes etc.
- Profits should be shared equally regardless of input, time, etc. unless stated in the agreement.

## 1.1 Selecting the right structure (Ctd.)

### Company Limited by Shares

- More formal version of a partnership but with an unlimited number of partners with a share in the company according to their investment (many different types of business opt for this structure).
- Profits are shared proportionately among the shareholders.
- The business has a separate legal entity, i.e. the company owns the property and other assets.
- The directors, management and employees therefore act as agents of the company.
- Company only closes via winding up, liquidation or order of the Registrar of Companies / courts.

#### Advantages:

- Company will continue to trade even if directors, managers change.
- Liability of the shareholders is limited to the value of the shares they hold.
- Only property owned by the company can be used to repay debts, not shareholders' personal assets (except in the case of fraud)
- The company name is protected as it has to be approved by Companies House.
- Tax benefits – the company pays corporation tax on profits but this is at one rate and is often less than income tax.
- It may be easier to arrange finance for a company as any loans can be secured against company assets.

#### Disadvantages:

- Specific regulations on book-keeping records and accounting systems for public scrutiny.
- Initial costs can be high:
  - registration fee of £20;
  - legal fees for assistance in setting up the company;
  - recurring fee (currently £15) for submitting annual returns;
  - recurring administrative costs, incl. auditing fees to comply with the Companies Acts.
- It may be more difficult to remove capital invested.

### Co-operatives

- Allows all members to have a say in the running of the organisation;
- Several versions according to the common interest of the group of people setting it up:
  - User (Parents') Co-operative
  - Worker Co-operative
  - Marketing / Service Co-operative (group of businesses coming together to market/deliver services)
  - Neighbourhood Co-operative
  - Community Co-operative

#### Advantages:

- Can hold property in company name and take/defend legal action;
- Committee members are protected by a contract from personal liability (unless acted fraudulently);

#### Disadvantages:

- Drawing up can be time-consuming and expensive if a model one is not used;
- Annual returns and accounts submitted to public scrutiny;
- Cannot become a charity therefore external funding may be difficult to obtain.

## 1.2 Setting up the business structure

### **Sole Traders**

Setting up as a sole trader is very straight forward

- Inform the local tax office within 3 months of commencing work (Inland Revenue contact details on page 34).
- Decide on a business name if this is to be different from your own.
- Check with the Local Authority Planning Dept. to ensure the premises you have selected are suitable for use as a childcare facility.

### **Partnerships**

Two types are suitable for a childcare business:

- A full partner shares in the profits/losses in an agreed proportion and be part of the management.
- A sleeping partner plays no part in the running of the business but will still share in the profits/losses as agreed.

Instruct a solicitor to draw up a Partnership Agreement to include the following:

- Name of the business and its activity;
- Date of commencement of the partnership and how long it will last;
- Name of the partners;
- Capital and interest of the partnership;
- How the profits will be split;
- Management and control of the business;
- Holiday entitlement of each partner;
- What happens on retirement, death or if a partner wishes to leave;

Both partners should also registered as self-employed with the Inland Revenue (see Sole Traders).

### **Company Limited by Shares**

Setting up a company is best done by a solicitor or accountant.

- Register with the Registrar of Companies (for more information please contact Companies House – details on page 34) which takes about 3 weeks for a registration fee of £20 or a same day service for £100. You will be required to give the following details:
  - the organisation's constitution in the form of a Memorandum and Articles of Association (refer to the Companies House website for template documents);
  - details of its directors, company secretary and members;
  - its registered office.

Alternatively, you can buy a ready-made company from an agent which takes around 5 days. Look under Company Registration Agents in the Yellow Pages.

### **Co-operatives**

- The organisation will need seven founder members and a set of rules;
- Co-operatives can also be companies or partnerships, or registered as a co-operative society under the Industrial and Provident Societies Acts 1965-75;
- Registration is quicker if applied for through a promoting body such as the Co-operative Union or The Industrial Common Ownership Movement (ICOM).

## STEP 2 – GETTING TO KNOW THE REGULATIONS

### 2.1 Ofsted Registration and Inspection

There are 14 National Standards that all childcare settings must adhere to ensure the welfare of the children they are caring for. These are the basis on which your setting will be inspected by Ofsted. In addition, you must let Ofsted know of any changes to your service. These are specific to the sector of childcare you are in (please refer to the “National Standards for under 8s day care and childminding” provided at the New Providers Information Session).

**Standard 1 Suitable Person** – Adults providing day care, looking after children or having unsupervised access to them, are suitable to do so.

**Standard 2 Organisation** – The registered person meets the required adult to child ratios, ensures that training and qualifications requirements are met and organises space and resources to meet the children’s needs effectively.

**Standard 3 Care, Learning and Play** – The registered person meets the children’s individual needs and promotes their welfare. They plan and provide activities and play opportunities to develop children’s emotional, physical, social and intellectual capabilities.

**Standard 4 Physical Environment** – The premises are safe, secure and suitable for their purpose. They provide adequate space in an appropriate location, are welcoming to children and offer access to the necessary facilities for a range of activities which promote their development.

**Standard 5 Equipment** – Furniture, equipment and toys are provided which are appropriate for their purpose and help to create an accessible and stimulating environment. They are of suitable design and condition, well-maintained and conform to safety standards.

**Standard 6 Safety** – The registered person takes positive steps to promote safety within the setting and on outings and ensures proper precautions are taken to prevent accidents.

**Standard 7 Health** – The registered person promotes the good health of children and takes positive steps to prevent the spread of infection and takes appropriate measures when they are ill.

**Standard 8 Food and Drink** – Children are provided with regular drinks and food in adequate quantities for their needs. Food and drink is properly prepared, nutritious and complies with dietary and religious requirements.

**Standard 9 Equal Opportunities** – The registered person and staff actively promote equality of opportunity and anti-discriminatory practice for all children.

**Standard 10 Special Needs (including special educational needs and disabilities)** – The registered person is aware that some children may have special needs and is proactive in ensuring that appropriate action can be taken when such a child is identified or admitted to the provision. Steps are taken to promote the welfare and development of the child within the setting in partnership with the parents and other relevant parties.

**Standard 11 Behaviour** – Adults caring for children in the provision are able to manage a wide range of children’s behaviour in a way which promotes their welfare and development.

**Standard 12 Working in Partnership with Parents and Carers** – The registered person & staff work in partnership with parents and carers to meet the needs of the children, both individually and as a group. Information is shared.

**Standard 13 Child Protection** – The registered person complies with the local child protection procedures approved by the Area Child Protection Committee and ensures that all adults are working and looking after children in the provision are able to put the procedures into practice.

**Standard 14 Documentation** – Records, policies & procedures required for the efficient & safe management of the provision & to promote the welfare, care & learning of children are maintained. Records about individual children are shared with the child’s parents.

## 2.2 Business Legal Issues

In addition to the legal requirements around Ofsted and childcare regulations, nurseries as employers should also be aware of their legal responsibilities in other areas, in particular:

### Employment Law

Although you must ensure that, as a business, you meet the statutory requirements at the very minimum, any additional benefits, pay scales etc. you choose to offer should be according to what can be afforded by the business. The following are areas of employment governed by the law:

- Pensions
- Pay and Benefits
- Contracts of Employment
- Displace and Grievance
- Equal Opportunities (Gender Act, Equal Opportunities Act, Race Discrimination Act, Disability Discrimination Act)
- Health and Safety Act
- Dismissal, Redundancy and Resignations
- Insurance

Many of these areas are also affected by case law as well as by the actual Act. This means that the rules can change whenever a new case is heard affecting that area. In all cases, you should ensure you adopt a policy which is made available to all members of staff at the minimum, but best practice suggests both a strategy and a person responsible for this area would be advisable. More information on employing staff can be found in Section 6.

### Taxation

*PAYE / NI* - Childcare business are liable for the PAYE and N.I. of their employees if the staff earn above approximately £90 / week, but the business needs to register with the Inland Revenue even if the employees earn less than this level.

*Business Rates* - All businesses are be liable for business rates, although if the premises are rented/leased, the owner of the building may be paying this as part of the rent. Charities and not-for-profit organisations can get a discount of 90 – 100% on business rates depending on the local authority agreement in place in the area.

*VAT* - childcare is VAT exempt regardless of turnover level (except capital projects – although this can be reclaimed if no fees charged for a number of years, e.g. Margaret McMillan Playgroup).

*Corporation Tax* – this stands at approximately 21% (according to the thresholds set by the Inland Revenue, similar to income tax) or an organisation must prove it operates on a not-for-profit basis.

### Recordkeeping

Since nurseries process personal details (regardless of whether these are computer or manual records) of the children they care for, they are bound by the Data Protection Act. Therefore it is best practice to have a policy to address how these records are protected, which can be read by parents and staff alike. In addition many nurseries will also need to register with the Information Commissioner although there are certain exemptions which mean some nurseries do not have to do so. For more details on this issue, please refer to the attached Information Sheet for Childcare Settings regarding Data Protection

Legally records should be kept for the following time periods:

- tax details – 5 years;
- salary details – 6 years;
- insurance certificates – 40 years;
- accident books – 40 years;
- personnel records – no set time;
- commercial records – no set time;
- health and safety records - no set time (but a long time in case of law suits);
- children's records – 21 years 3 months (legal precedent set by a successful case, see Ofsted standards).

There may be other legal issues which crop up specific to individual businesses but are too complex to be covered in this information pack. However, if you do require any advice on a specific issue, please contact the Business Support Team (contact details on page 34) and we will be happy to sign post you to the relevant support or information.

## STEP 3 – UNDERSTANDING YOUR CUSTOMERS' NEEDS

### 3.1 Why do I need to do market research?

All new businesses or those thinking of offering a new or amended service should undertake market research, otherwise the whole business or project is based on “guesstimates” and a “fingers-crossed” approach to marketing, finances and success. Getting regular feedback from your customers even once you are established will help improve your service, thus help keep existing customers and attract new ones.

There is no guarantee to business success particularly in the childcare sector, however the risks of failure can be reduced by good market research and planning before a business or new service begins. This research will help you decide if the business has a chance of success and be useful in finalising the type of service you should offer.

Market Research then forms an integral part of your business plan, both to show external funders there is a need and a business case for your service, as well as basis on which to plan the type of services you should offer and who to market it to.

### 3.2 What information will I need to collect?

#### Who are your potential customers?

- Where are they?
- How many are there potentially?
- What core services do they need?
- What additional services would they like?
- How often would they use your service?
- How is best to reach them?
- Who else will be competing for their business?

#### What is the best location for your business?

- What are the advantages/disadvantages of the area?
- What are the local traditions of childcare in the area (e.g. extended family, non-working parents etc.)
- Are there good transport links to the location or is it on a main road so visible to passers-by?

#### What should you charge for your services?

- What can people in the area afford to pay for childcare?
- What are people in the area willing to pay for childcare?
- What are the competition in the area charging?

#### What is the competition for childcare locally?

- Who and where will your local competition be?
- What type of services are they offering?
- What do they charge for comparable services to the ones you are considering?
- Do they offer discounts?
- What age range do they cater for?
- What hours are they open?
- Are they a successful business, if so what makes their service so popular?
- Where do they advertise and what do they say in their adverts?
- Is there any potential for collaboration on services or advertising?

### 3.3 How can I collect the information?

Bradford Early Years and Childcare Service's Children's Information Link (contact details on page 35) among other organisations (e.g. Daycare Trust, National Day Nurseries Association) have a wealth of information regarding the childcare sector nationally and specific to the Bradford district area (e.g. number of children in the area, number levels of family incomes, unemployment rates, levels of deprivation, types of housing, number of childcare providers, location of schools / employers etc.). In addition, you can get some of the statistical information about your area from the website [www.neighbourhood.statistics.gov.uk](http://www.neighbourhood.statistics.gov.uk).

Bradford Early Years and Childcare Service will also be able to help you with information regarding local competition, although you may find that many local childcare providers will be willing to help with information sharing especially if you are looking to offer a different service. Such informal networks are invaluable both at the setting up stage and in the future, particularly for passing on potential customers when one setting is full etc. Find out if they have waiting lists as this will give you an idea of the demand for childcare in your area.

These figures will help you in deciding the best location for your new business and the type of service which may be required in that area. However, there is no substitute for qualitative (i.e. not simply numbers-based) research and information. Consulting with a wide range of people in the community that your nursery would serve is important in answering many of the questions above. Try to involve the following groups of interested parties:

- Parents of varying aged children
- Schools in the area
- Professionals working with parents in the area (e.g. health visitors, social workers etc.) re. the childcare needs of local families
- Local employers re. childcare needs of the workforce

Various methods of gathering this information can be used, e.g.:

- Questionnaires;
- Face-to-face consultation with individuals;
- Focus groups;
- Public meetings.

The greater the number of people you speak to or involve, the better the spread of results may be, giving you better an idea of the service you need to offer and the demand for it. Such involvement is also a great way to start spreading the word in the community with your potential customers of your new business.

## STEP 4 – CREATING A BUSINESS PLAN

### 4.1 Why do I need a business plan?

Planning is essential to any business, however large or small. As the old adage goes “Failing to plan is planning to fail”. The basic principle of business planning is answering the following questions in a greater or lesser detail according to the size and complexity of your business:

- What position is your nursery in now? (e.g. are you just starting out or are you converting an existing business (e.g. a playgroup) into a nursery?)
- Where do you want your business to go? (would you like to expand in the future, what services would you like to provide etc.?)
- How do you plan to get there? (e.g. expansion by moving into new premises, taking on more staff etc.)

This helps you see the whole picture rather than getting caught up in the detail of one area of the business only. A business plan is also key to success for a number of other reasons, e.g.:

- Such details may be required by external funders, e.g. banks, who will ask you to complete a similar exercise if applying for a business loan or overdraft; or other potential investors/partners/shareholders.
- A business plan can help with Ofsted and any Quality Assurance system you may decide to go through in the future.
- The rate of change in the childcare sector means no business can't stand still.

It can also help you to:

- Direct the quality of the services your business provides;
- Manage the performance of the business
- Identify areas where your business may need to improve
- Prepare for the future and forward plan
- Establish criteria against which you can manage

A business plan should then result in an action plan which ensures things are turned into reality. An action plan should be structured as follows:

- Goal - What are your aims for the future?
- Objective - What are you trying to do?
- Action - How will you achieve your objectives?
- Responsibility - Who's responsible for achieving the action?
- Timescale - When will each action be completed?

### 4.2 How to make the plan work for your business

- A business plan is a living working document which needs to be used by all involved in the business on an ongoing basis and continually reviewed.
- Input from both staff, managers and yourself as the owner is key - give copies of the business plan to your staff and ask for their feedback.

## 4.2 How to make the plan work for your business (Ctd.)

- A fresh pair of eyes can often come up with ideas you may not have considered and this will also make the staff feel they play an important role in shaping the business in the future.
- Make sure any actions arising from the business plan are (SMART – specific, measurable, attainable, realistic and timed) otherwise they will not be of any use and may not be actioned.
- Also ensure that any goals have a named person responsible for them, to make sure they get done!

## 4.3 What details should a business plan contain?

There is no right or wrong way to develop a business plan, providing it answers the questions asked above regarding the status, direction and plans of the business. However, key elements should be:

- A SWOT analysis – i.e. looking at the businesses Strengths (what it does well), Weaknesses (what it doesn't do well), Opportunities (gaps in the market, potential services etc.), Threats (your competition, possible changes in legislation etc.)
- Business Aims (what needs to be achieved) and Objectives (how to achieve this)
- Your services
- Your premises
- The local market for childcare
- A marketing strategy
- Management of business
- Financial Information

A copy of a suggested business plan is enclosed in the pack.

## STEP 5 – CHOOSING YOUR BUSINESS PREMISES

Premises are a key part of a nursery business and as such could make or break your business. Make sure that you do plenty of research before finalising which premises you will use. Several points must be considered - answering the following questions will help you decide if the premises you are considering are right for your business:

### 5.1 Location

- Contact Bradford Council's Planning Department on 01274 434193/434194/433806 to ascertain whether planning permission is required (this depends on the previous use of the building and its location).
- What is the reputation of the area you are considering? (affluent, disadvantaged, inner city, rural, desirable?)
- Is there a reasonable pool of local potential customers, e.g. local housing estates with young working families?
- Are there any established childcare providers already in the area?
- Are these established businesses full or near their full occupancy?
- If demand for places may not come entirely from the local area (e.g. if the area is very rural, has few families, is disadvantaged with a low proportion of working parents or if competition is high) you will need to consider attracting potential customers from outside the area. Therefore, think about the following:
- Would the area you are considering at be off-putting for parents from out of the area?
- Is it on a commuting route to a major town or city?
- Is it near any local large employers, especially those who are on a recruitment drive meaning potential new customers moving to the area or at least passing through it each day? (keep an eye on the Telegraph & Argus jobs section each week for clues)
- How much will transport cost you to the location (e.g. for school pick ups etc.)
- How close are the premises to your suppliers or will a some of your supplies be ordered on-line / via mail order?

### 5.2 Building

- Will the premises be visible from a main road to attract passing potential customers?
- If not, will there be an opportunity to signpost from the main road (banner, road sign etc.)?
- Does the location appear safe, is there vandalism, boarded up houses etc. in the immediate area?
- Is there plenty of street lighting and somewhere safe to park (think of the safety of the children, parents and your staff)
- Can the building made completely accessible for both adults and children with special needs if this isn't the case already? (this isn't just good practice, it is also the law under the Disability Discrimination Act, the final part of which came into force in October 2004).
- If there any remaining doubts about the security of your chosen premises, consider cctv or other security measures for added peace of mind for yourself and your customers/staff.
- What will you need for your premises (e.g. equipment, fixtures and fittings etc.)
- Does the building have good heating, lighting and ventilation or potential to create it?

### 5.3 Size

Ofsted lays down minimum size requirements for childcare. The sizes appropriate to the indoor play area for full day care are as follows (outdoor play space usually adjoins the premises and should be safe, secure and well-maintained. In exceptional circumstances where outdoor play space cannot be provided, children should be safely escorted to local parks/playgrounds/ equivalent):

- Under 2 year olds                      3.5 square metres per child
- 2 year olds                                2.5 square metres per child
- 3+ year olds                                2.3 square metres per child

Therefore, the size of your chosen premises will have a significant impact on the financial success of your business. On the issue of space per child it is worth bearing in mind that the over 2s are most profitable since the ratios of staff to children (1 member of staff to every 3 children) and the amount of space required (as above) are lower, thus making the costs per child lower. However, you need to attract babies as a marketing tool (it is at the baby stage that most parents will be choosing childcare for the first time) as they will hopefully stay with the business for longer.

## 5.4 Layout

There are also rules around the separation of baby rooms from the toddlers as follows: “there should be a separate base room for children under two. However they should be able to have contact with older children and can be transferred to an older age group once they reach the age of 18 months if that is appropriate for their individual development.” “Provision should also be made (space or partitioned area) for children who wish to relax, play quietly or sleep, equipped with appropriate furniture.” The space also needs to be designed ergonomically so that staff can move easily and quickly between rooms and the kitchen, toilets etc. thus maintaining the ratios of staff to children. In addition, ensure every area is accessible to those with special needs and disabilities. For good practice purposes, consider a layout which allows different areas for a variety of activities, e.g. messy play, quiet time etc. as well as the opportunity for outdoor play. For more detail please refer please refer to the “National Standards for under 8s day care and childminding” provided at the New Providers Information Session.

## 5.5 Ownership

You could consider leasing your premises as this would give the advantage of a lower initial outlay and the option of terminating the contract if the business doesn't work out or if you have any other reason for wishing to close. In addition, some leases include the provision of certain services or costs (e.g. business rates, maintenance etc.).

However, owning your premises would give you a more secure footing with greater peace of mind, although you would be responsible for all costs and maintenance and would need a commercial loan/mortgage/other source of capital for the upfront purchase of the building and the lack of flexibility of moving should the premises turn out to be unsuitable for an reason.

Above all, ensure your premises are affordable and don't make your service prohibitively expensive for potential parents.

## 5.6 Funding the Start-Up and Initial Costs

As a private for profit organisation, there are two ways of financing the start-up and initial costs, i.e.:

Equity Financing - This is new investment by you, your family, partners, banks, shareholders etc in return for shares and hence some control of the business as well as profit from it.

Debt Financing - This can be term-lending (for a fixed period of time) or an overdraft (for an indefinite period of time but can be required to be repaid “on demand”) with the debt being secured against the assets of the business. In which case it is essential the business is able to pay back the capital borrowed as well as the interest incurred to avoid having its assets taken by the lender.

## STEP 6 – WORKING OUT YOUR FEES

### 6.1 Estimating your Costs

It is absolutely key to your business success to calculate / estimate your costs before working out your fee structure. Many childcare providers fail to do this then find themselves in the unenviable position of discovering that their costs are not being covered by their fee income. To avoid this situation, ensure you consider all potential costs including which could be incurred in your first year of business. These should include the following costs:

**Staffing Costs** – these can amount to up to 70% of your total expenditure and are influenced by legislation around staff ratios as well as the qualifications needed (please refer to section 7 for more details on staff as well as the “National Standards for under 8s day care and childminding” provided at the New Providers Information Session).. Don’t forget National Insurance Contributions, Pension Contributions, Sick Pay and Holiday Pay, as well as payroll administration (either by an administrator or using a payroll company), recruitment and training costs (staffing and wage structures are covered in more detail in Section 7 – Employing Staff).

**Premises** - rent/mortgage, business rates, utility charges, buildings insurance, maintenance.

**Insurance** - Public Liability, Employer’s Liability, Motor Insurance etc.

**Administration** - stationery, telephone, bookkeeping, accountant fees, IT costs, internet charges, Ofsted registration, administrative help.

**Materials** - toys, entertainment, outings (although outings may be charged for additional to the fees) etc.

**Food** - as this cost is completely variable and depends on the number of children attending as well as the type of food offered and the supply/season, it would be best to keep this as a separate category which can be amended.

**Marketing** - advertising, design, brochure/leaflet printing costs, staff/administrative costs for parents’ evenings, open days, P.R. etc.

**Transport** - vehicle maintenance, tax and MOT etc.

**Capital costs** - equipment and premises or the refurbishment thereof, this items should also incorporate depreciation as this gives you tax breaks as well as helping you to plan for replacing the items (your accountant will be able to advise you on how depreciation works in practice).

### 6.2 Calculating your Breakeven Fee

When asked the question, many established childcare providers have not really considered what fees they need to charge based on a certain number of children (occupancy levels). Here is a simple way of calculating both of these. To calculate your **fees** assuming **80%** average occupancy (e.g. 24 children attending in a 30-place setting):

Step 1	Calculate your estimated <b>ANNUAL COSTS</b> , e.g.	£180 000 (Figure A)
Step 2	Calculate <b>THE NUMBER OF WEEKS THE SETTING IS OPEN</b> , e.g.	51 (Figure B)
Step 3	Divide Figure A by Figure B to give the <b>WEEKLY COSTS</b> , i.e.	$£180\,000 \div 51 =$ £3 529 (Figure C)
Step 4	Multiply the <b>HOUR PER WEEK</b> your setting offers (e.g. 50) by <b>THE NUMBER OF PLACES AVAILABLE EACH HOUR</b> (e.g. 30) to give the total <b>NUMBER OF CHILDREN HOURS AVAILABLE PER WEEK</b>	$50 \times 30 = 1500$ (Figure D)
Step 5	Multiply the Figure D by 80%	$1500 \times 0.80 = 1200$ (Figure E)
Step 6	Divide Figure C by Figure E to give the <b>BREAKEVEN FEE PER SESSION</b> assuming 80% occupancy at each session	$£3529 \div 1200 =$ <b>£2.94</b>

Although it is not advisable to charge by hour, it is essential to know how much the minimum hourly rate should be.

## 6.3 Fee Structure

A pricing strategy is the way in which you set your charges for the services you will offer ensuring you cover the costs (as illustrated in Section 6.2). A pricing strategy should recognise that:

Parents want a choice of fees / services according to their needs or they may look elsewhere;

To maximise profits it is necessary to maximise income;

Offering a range of services (day care, school sessions, collections/drop off) can result in a range of fees.

When deciding on a fee structure there are a number of factors which should influence your decision on what and how to charge:

- What are your competitors charging, but don't forget to examine what services their fees cover.
- Consider quality versus price; too cheap will leave parents asking why you are cheaper than your local competition (what is you aren't doing or as well as your competition?), whereas too expensive may price you out of the market for some parents.
- Charge to discourage what you don't really want to offer – e.g. parents arriving after you have closed, late payment of bills etc. (as these have cost implications through staff overtime or bank charges / cash flow issues).
- Start with a basic price and add on services up to an all-inclusive price (e.g. including meals, outings, collection from school etc.).
- Consider company rates for local employers which will hopefully encourage the employer to let you advertise on site and encourage word-of-mouth recommendations (see Step 8 – Marketing your Business) , but once again never drop below your breakeven fee).

Suggested fee options could be:

**Per session** (e.g. morning / afternoon) - although this will affect your ability to take full time children, so make sure you can fill all the sessions in a week where possible.

**Per day** – although once again this will affect.

**Per week** – giving you continuity of children.

**Block pricing** (e.g. per month) – if you have shift working parents you could consider offering flexibility of sessions as be a good marketing tool, although it would affect your juggling empty spaces at irregular periods.

**Discounted options** (e.g. for siblings) - but never drop below your calculated minimum breakeven hourly rate.

Another couple of points to remember:

- Good financial practice suggests you should charge full fees when a child is off sick or on holiday when your nursery is open as you will find it difficult to fill these spaces and you will need to employ and pay your staff at these times regardless of occupancy levels .
- Booking in advance helps you to fill capacity and try to allow you a chance to fill any gaps you may have.

Once you have created a fee structure, perform some real calculations based on real occupancy scenarios (i.e. different numbers and combinations of children / sessions) to check how this pricing strategy will affect your income.

However, remember you will almost certainly not reach your planned occupancy (e.g. the 80% or similar used in your breakeven calculations) for at least the first year if not longer (so ensure you have a contingency fund to cover the inevitable losses of the early stages). Also many settings never reach full occupancy due to children turnover through leaving to go to school.

Don't forget to factor into your calculations the amount of profit you are aiming to make, although depending on local competition and market forces, you may have to accept that you will only make a profit once your occupancy increases above a certain level.

Above all be willing and able to explain your fee structure (see Step 6.4 Pricing Policy) and stick to your guns – this is your business, you have calculated the necessary fees and they are not negotiable!

## 6.4 Pricing Policy

Once you have decided on your pricing strategy, you need to create a written pricing policy which can then be handed to parents and staff alike to help overcome any discomfort when discussing the issue, since money is often a subject people feel uncomfortable with. The policy should include:

- How much you charge per session, day etc.
- What service is included in this price (e.g. meals).
- Fees for additional services (e.g. school collection / drop-off).
- Extra charges (e.g. late collection of a child, late payment of a bill).
- Charges for missed sessions (due to illness or holiday) – where possible this should be at the full price as you will struggle to fill a place at short notice or for just a week / fortnight, but you will nevertheless still have your staff and other costs to pay.
- Any discounts available and the circumstances in which they apply.
- Payment terms - paying in advance is advisable in all cases (at least weekly, but preferably monthly).

A couple of tips on breaking the news of a fee increase to parents:

- Try to give them plenty of notice of an increase by informing them at least a couple of months in advance.
- Explain that to maintain a good quality setting the increase is necessary, but will only happen once a year at a set time.

## 6.5 Parental Debt

The majority of childcare settings of varying types have one thing in common – parental debt. This can be a potentially crippling issue for some settings whose cash flow is in a critical state. Many settings feel uneasy with financial decisions, but settings should always keep in mind that the survival of the group for future generations is paramount and should not be put in jeopardy by some parents not paying fees. To help to avoid this problem, here are a few pointers:

- Introduce payments in advance. Half-termly or even termly works for some settings, but aim for at least weekly payments. This allows you to ensure that any parent removing their child without notice would not do so owing the setting any outstanding fees.
- Ensure every parent signs a “contract” requiring they give a fixed amount of notice before their child leaves the setting. Notice can range from a week to a term, depending on your setting’s individual circumstances. This allows you to do forward planning in terms of occupancy numbers, waiting lists, admissions and staffing.
- Adopt a clear payment, debt and notice policy to incorporate the above points (see Step 6.4 Pricing Policy) and illustrate at which point you would be forced to exclude a child due to non-payment of fees. This allows you to inform the parents of the principles and the reasons for their introduction. It will also put your setting on a more professional footing with the parents.

## 6.6 Nursery Education Fund

As a childcare provider you can apply to BEYCS to provide 3 & 4 year old education. The current funding is for all children the term after the term in which they become 3, for 5 x 2.5 hour sessions per week for 33 weeks a year at £7.93 per session. The requirement on the childcare provider is to deduct from the parents’ invoices the equivalent of 2.5 hours fees at their current fee rate for every session claimed from the local authority. If there is any surplus, this must then be used to improve the provision of education in the setting. In order to be able to offer this service, you will need to have a series of assessments from BEYCS to ascertain that the correct level of education can be provided, this will also involve an additional Ofsted inspection. However, other than additional training for staff to bring them up to the required level, being able to offer this facility is free and is an excellent marketing tool in attracting new parents especially those who may not have considered full day care or nurseries previously. For more information on this subject, please contact Narinder Williams, Monitoring & Administrative Officer – NEF, BEYCS on 01274 431965.

## 6.7 Childcare Vouchers

From this April, a new tax incentive was introduced to allow employers to help staff with their childcare costs. It allows employers to pay up to £50 a week towards approved childcare for each parent with a child aged up to 15 (16 with special needs), this amount is exempt from both tax and National Insurance Contributions. For more information please refer to the attached information sheet.

## STEP 7 – EMPLOYING STAFF

### 7.1 What staff do I need?

Ofsted lays down minimum requirements for the number of staff required for the number of children to be cared for. The ratios appropriate to full day care are as follows:

- Under 2 year olds      1 member of staff for every 3 children
- 2 year olds              1 member of staff for every 4 children
- 3+ year olds            1 member of staff for every 8 children

In addition, at least 50% of your staff must be qualified to at least NVQ Level 3 in Childcare and there must always be a minimum of 2 staff on duty at any one-time in each room.

Hence a 48 place setting divided into the following rooms should employ the following staff as a minimum:

- baby room of 12 places - 2 qualified and 2 unqualified members of staff;
- a toddler room (up to and including age 2) of 20 places - 3 qualified and 2 unqualified members of staff;
- an older room (age 3+) of 16 places - 1 qualified and 1 unqualified members of staff.

Although, there is no set ratio for caring for children aged 8 - 14, services for these children in the same setting must not adversely affect the care of the younger children.

### 7.2 Creating a staff and wage structure

A staff and wage structure can play an important role in recruiting and retaining the highest quality staff. Various structures can be adopted including:

- Hierarchy based on roles, e.g. manager – deputy – senior nursery officers, nursery officers, assistants;
- Structure per room (e.g. babies, toddlers etc.) with some staff (e.g. cleaner, cook, manager etc.) in overlapping covering all rooms.

When creating a wage structure, bear in mind the following points:

**Minimum Wage** - See section 7.7 on this subject.

**Local Pay Rates** - what is the going rate paid by your competitors (both in similar settings and other types of childcare but with similar qualifications)?

**Your Business Finances** – what can your business afford over and above the national minimum wage including benefits and conditions of service? Ensure that the wage structure does not make your service prohibitively expensive to your potential customers.

**Pensions** – if you have more than 5 employees, you must give them access to a stakeholder pension, but best practice would be a contributory scheme (ACAS and the Inland Revenue will be able to provide you with more guidance on this subject, their contact details can be found on page 34).

**Part Time Work** - This can offer a greater degree of flexibility for both the setting and the staff, but please be aware that for Working Tax Credit purposes many part-time employees will be looking for a minimum of 16 hours work per week.

Above all, you must ensure that your wage structure is transparent, known to all employees and fairly implemented with an inflationary rise each year for all. This will help retain high quality staff and avoid any potentially very damaging tribunals or legal problems in the future.

### 7.3 Job Descriptions and Person Specifications

A job description is an opportunity for both you as an employer and your potential employees to understand what the job entails and what is expected. It should relate directly to your staff structure. Keep each job description same each time (unless role and responsibilities change) but change person specification each time recruit to complement existing skills of team.

A person specification describes the qualifications, experience, achievements, skills (both directly related to the job and transferable, i.e. more general) and personal qualities that the job will require. However, for equal opportunities reasons, make sure you do not include age, race, physical ability or gender.

### 7.4 Employment Contracts

A contract of employment defines the employment relationship between the employer and the employee. It is a legally binding document and all employees must have one within 8 weeks of starting their employment. Ensure everything possible is written down in this or in the staff handbook (if you have one) which should then be referred to in the contract. This avoids confusion, misunderstandings, bad feelings within the workforce and potentially expensive employment tribunal costs. It would be worth introducing standard terms and conditions in order to ensure everyone is treated the same. If you are unsure what to include the contract, seek advice either from a solicitor or ACAS (contact details on page 34).

### 7.5 Recruitment and Selection

Firstly it is important to decide who will take overall responsibility for the recruitment process, will it be yourself, a partner, a manager or someone else (e.g. an agency) Getting this process right is essential, since in most businesses the staff are the greatest asset, this is particularly true in the childcare sector, where staff are also usually the most costly part of any childcare provider's business. Here are a few tips to good recruitment and selection:

- Use personal networks (friends and relatives of staff, parents etc.) to find potential applicants
- Identify other potential groups of recruits (e.g. colleges, parents, job centre, students, train in-house).
- Advertise the vacancies in the setting, with CIL, EYCS, sports centres, schools, colleges, (offering child-related courses), job centres, church / community centres, village halls, local shops, parish magazines etc.
- Only use local papers as a last resort as they tend to be expensive and not long-lasting.
- Choose application forms over cvs as this will make it simple to compare each applicant.
- Use an answer machine to take contact details and then send out application packs.
- Have a panel of approximately 3 people and shortlist against person specification (based on best scores out of 3 panellists).
- Use an interview panel of between 3 and 5 and interview ideally between 4 and 5 candidates.
- Tell the successful candidate first and get their acceptance before telling unsuccessful ones in case there is a problem with candidate, references etc.
- Take up at least 2 references and check suitability as well as obtaining a criminal record check which is a legal requirement (at a cost from the Criminal Records Bureau - contact details on page 34).
- For the induction, make sure the new member is super-numery at first, i.e. additional to the staffing ratios so they have time for a sound induction and training / settling-in period.
- Give a probation period with intensive supervision and don't be afraid to extend this period if you are at all unsure about the person.

## 7.6 Retention

Recruitment and selection can be a costly and time-consuming exercise, so you need to make sure you keep your staff happy. Continuity of staff is also important for the sake of the children (continuity of care), the business (quality of service and reputation) and the remainder of the team (high turnover can be unsettling).

Keys to a loyal, hard-working and motivated workforce:

- Good wage structure (although financial motivation is not always the main reason to stay with a company);
- Other financial incentives incentive schemes / performance related pay (e.g. employee awards with gifts etc.);
- Staff benefits;
- Good terms and conditions
- Good procedures re. induction, training and development opportunities, supervision, appraisals etc.
- Human resource management (i.e. someone who has the time to listen to the staff and their needs)
- Promoting a healthy work-life balance.
- A proactive not a reactive management strategy (use of policies etc.).

## 7.7 National Minimum Wage

The national minimum wage was introduced to provide employees with decent minimum standards and fairness in the workplace. It applies to nearly all workers and sets hourly rates below which pay must not be allowed to fall. It helps business by ensuring companies will be able to compete on the basis of quality of the goods and services they provide and not on low prices based predominantly on low rates of pay. The rates set are based on the recommendations of the independent Low Pay Commission.

The National Minimum Wage has just increased (in October 2005) to the following rates:

<b>Employee aged:</b>	<b>Over 21</b>	<b>18 - 21</b>	<b>16 - 17</b>
<b>Per hour:</b>	£5.05	£4.25	£3.00

Subject to confirmation by the Low Pay Commission in February 2006, the rates from October 2006 will increase to the following rates:

<b>Employee aged:</b>	<b>Over 21</b>	<b>18 - 21</b>	<b>16 - 17</b>
<b>Per hour:</b>	£5.35	£4.45	TBC in February 2006

## 7.8 National Insurance Contributions

Employees and employers are legally obliged to pay National Insurance Contributions providing the employee is :

- age 16 or over;
- under State Pension age; and
- earning above the Earnings Threshold (ET) (currently set at £94 per week for 2005/06).

Detailed guidance on National Insurance Contributions can be found in the Inland Revenue's Employer's Pack, Employer's CD-ROM, or by visiting the employer's section of the Inland Revenue's website. You can also obtain further help from the Employer's Helpline (details at the end of this pack).

The Inland Revenue is currently in the process of encouraging all businesses to file their NICs on-line as this will become a legal requirement by 2010. In order to speed-up this transfer, they are currently offering financial incentives for any businesses who begin to file on-line. They will deduct the following amounts from your NIC account over the next five years:

- file online for 2005-06 (return due by 19 May 2006) and get £250
- file online for 2006-07 (return due by 19 May 2007) and get £150
- file online for 2007-08 (return due by 19 May 2008) and get £100
- file online for 2008-09 (return due by 19 May 2009) and get £ 75

## 7.9 National Insurance Contributions (Ctd.)

The tax-free payment becomes available after you successfully file your return online. The Inland Revenue will then credit it to your payment record and you can offset it against future payments you make to them. Or you can claim it back and get a cheque from them. Also, if any setting is using an external Payroll Service for their wages, they are still eligible for the discount which would be passed on via their NI account in the same way as those dealing directly. If any setting is interested in this scheme, the Inland Revenue are running workshops to instruct businesses on how to file on-line. You can register and/or find more information on their website:

[www.hmrc.gov.uk/employers/onlineguide\\_smallemp.htm#6](http://www.hmrc.gov.uk/employers/onlineguide_smallemp.htm#6).

## 7.9 Holiday Entitlement

The Working Time Regulations 1998 set down the minimum annual leave provisions for workers although some employers may provide more generous contractual holidays. Workers (including part timers and most agency and freelance workers) have the right to four weeks paid leave each year (since 23.11.99) and payment for untaken statutory leave entitlement on termination of employment. Details of holidays and holiday pay entitlement should be found in either the employee's written contract, where there is one or a written statement of employment particulars given to employees by their employer

## 7.10 Sickness Entitlement

### Dealing with short term sickness

Organisations should:

- have clear rules on the provision of certificates to cover sickness absence;
- ensure employees are seen by their supervisor on return to work;
- ask the employee to consult a doctor where there is no medical evidence to support frequent self-certificated absences;
- ensure that employees are told if their level of sickness absence is putting their jobs at risk.

### Dealing with long term sickness

Organisations should:

- maintain regular contact with the employee;
- seek a medical opinion from the employee's GP or from the company doctor;
- consider whether alternative work is available;
- keep the employee fully informed if employment is at risk;
- consider how long the job can be kept open;
- ensure that, where employees are dismissed, they receive either wages throughout the period of notice to which they are entitled or wages in lieu of notice as a lump sum;
- inform the employee of any right of appeal.

## 7.11 Maternity Entitlement

### Who pays?

Statutory maternity pay (SMP) is paid by the employer but the employer may claim back 92% of the SMP paid out by deducting that percentage from National Insurance contribution payments due to the Inland Revenue. Small employers may claim back 104.5% if their total National Insurance liability in the previous tax year was no more than £40,000. Employers can get more information on SMP from the Inland Revenue employers' helpbook 'Pay and time off work for babies due or born after 6 April 2003' - orderline 08457 646 646. Employers may also call the Employers Helpline on 08457 143 143 for advice on SMP.

### Who qualifies for ordinary maternity leave?

All pregnant employees, regardless of their length of service, are entitled to a period of 26 weeks ordinary maternity leave provided that certain notification requirements are met.

## 7.11 Maternity Entitlement (Ctd.)

### What must a woman do to obtain the right?

To take advantage of ordinary maternity leave the pregnant employee must inform her employer no later than the end of the 15th week before the week her baby is due:

- the expected week of childbirth - by means of a medical certificate if the employer requests it
- the date she intends to start her leave (in writing if the employer requests it).

### When can ordinary maternity leave start?

Maternity leave can start no earlier than the beginning of the 11th week before the expected week of childbirth. A woman has the right to work right up to the day of birth if she wishes. However, if she is absent from work because of a pregnancy related reason in the four weeks before the expected week of childbirth, her maternity leave will start automatically from the first date of absence.

### What is the new obligation for employers?

An employer must notify the employee of the end date of her leave within 28 days of receiving her notification.

### What is additional maternity leave?

All pregnant employees who have 26 weeks continuous service by the beginning of the 14th week before the expected week of childbirth, have the right to an additional period of maternity leave. This additional period of leave begins at the end of ordinary maternity leave, for 26 weeks totalling 52 weeks maternity leave. During additional maternity leave, the employee has no statutory entitlement to benefit from her normal terms and conditions of employment, however, some contractual benefits and obligations remain in force (for example, contractual redundancy rights and notice).

### Where can you get more information?

Both guides for employers and employees are available on the Department of Trade and Industry website. The Tiger website [www.tiger.gov.uk](http://www.tiger.gov.uk). The Maternity Alliance can also provide advice on maternity issues. Their information line is 020 7588 8582 and website [www.maternityalliance.org.uk](http://www.maternityalliance.org.uk)

## 7.12 Redundancy Entitlement

Employees have the right to a lump-sum 'redundancy payment' if they are dismissed because of redundancy. The amount is related to the employee's age, length of continuous service with the employer, and weekly pay up to a maximum. The employer must also provide a written statement showing how the payment has been calculated, at or before the time it is paid. Any dispute about whether a redundancy payment is due, or about its size, can be determined by an employment tribunal. This protects the employee and can ensure that they get the redundancy to which they are entitled. It does not protect the employer and does not remove the need for prudent reserves. If they are unincorporated the committee members retain personal liability.

If the employer has cash-flow problems so serious that making the redundancy payment would put the future of the business at serious risk, the Redundancy Payments Service (RPS) can arrange to pay the employee direct from the National Insurance Fund. If the employer is insolvent, the RPS makes the payment and the debt is recovered from the assets of the business.

### Who qualifies for a redundancy payment?

A payment is due only if the worker is an employee. For example, the self-employed, freelance agents or partners do not qualify. The employee must have at least two years' continuous service. Service before the age of 18 does not count.

## 7.12 Redundancy Entitlement (Ctd.)

### Who does not qualify for a redundancy payment?

The following groups of employees do not qualify (relevant to childcare):

- those who would reach the age of 65 before the date of dismissal;
- those who work for a company with a (non-discriminatory) normal retiring age of less than 65, and who have reached that age;
- those on fixed-term contracts of at least two years' service who have waived their rights to redundancy provided that the fixed-term contract has not been agreed, extended or renewed after 1 October 2002, in which case the waiver would be invalid;
- apprentices who are not employees at the end of their training.

### What are the payments?

For each complete year of service, up to a maximum of 20, employees are entitled to:

for each year of service at age 18 or over but under 22 - half a week's pay;

for each year of service at age 22 but under 41 - one week's pay;

for each year of service at age 41 or over but under 65 - one and a half weeks' pay.

The DTI have an excellent web site ([www.dti.gov.uk/er/redundancy/ready.htm](http://www.dti.gov.uk/er/redundancy/ready.htm)) covering a range of topics including redundancy and a ready reckoner to calculate their potential redundancy liability. Below are a couple of examples of potential redundancy amounts.

Age	No. Years Service	Weekly wage	Redundancy
26	4	£78	£312
34	9	£104	£936
47	12	£128	£1920
58	19	£145	£3988

### Further Information

ACAS (the Advisory, Conciliation and Arbitration Service) is an excellent source of information and advice regarding personnel issues. Their contact details can be found on page 34. Additionally, the Pay and Employment Rights Service is an independent charity providing advice, information, training and consultancy on pay and employment rights. Their contact details are also on page 34.

## STEP 8 – MARKETING YOUR BUSINESS

### 8.1 Developing a Marketing Strategy

Many people mistake marketing for advertising, but it is much more than simply an advert in a paper or a shop window. It is made up of four main parts:

- the service you can offer
- your staff's experience and the facilities of the setting
- your fees
- communicating all of the above to potential customers.

#### **The Service You Can Offer**

As part of your market research (Step 3 Understanding Your Customers' Needs), you have asked the community what they are looking for in childcare, what are their "must haves" (e.g. safe/caring environment, special diet, opening times etc.) and "would likes" (activities, outings etc.). Now you must decide what can you offer? (both tangible and intangible services) e.g.:

- Days / times of opening (incl. holiday times?);
- Ages / needs of children;
- Activities / equipment / facilities;
- Additional Services, e.g. school runs etc.

In among this decision process, it is important to identify a thing called a Unique Selling Point, something (or a combination of different things) your business can offer to give parents a reason to choose you over the competition (e.g. special extended opening times, extra services, outings, particular activities, catering for special diet, addressing cultural needs etc.).

#### **Your Staff's Experience and the Facilities of the Setting**

You have also had the opportunity in Step 5 to select your business premises and think about how these will work for you, as well as considering your staffing needs in Step 7.

#### **Your Fees**

In Step 6, you calculated your fees and the fee structure and policies.

You are now in a position to decide on the message you want to get out to your potential customers. Make sure it is:

- clear / concise / informative / creative;
- stands out from the rest;
- refresh old adverts – make sure they are smart and up-to-date
- it tells them WIIFM – what's in it for me? (talk of benefits not just features);
- assume parents need to be told everything – even the obvious;
- use emotive words e.g. safe, secure, happy, friendly, caring, healthy;
- aim for advertisements to entice but not sell – raise the parents' curiosity levels but don't tell them everything in the advert, otherwise they may not feel the need to visit the setting, which is vital;
- leave out prices and vacancies – discuss such subjects face-to-face.

It should contain the following:

- Your business name, colour scheme, logo;
- Your advert;
- Type of services offered;
- Location;
- Opening times;
- Activities;
- Skills / qualifications of staff;
- Your Unique Selling Point

## 8.2 Choosing Your Preferred Type of Advertising

Particularly in the early stages of a new business, advertising is key to a business's chances of success or failure. Getting the business known in the community and beyond.

Before you embark on any advertising, you must create an advertising budget, allowing enough time for it to take effect. Have an advertising plan to keep a track of your expenditure and activity, e.g.:

<b>Dates:</b>	From 01/06/05 to 30/06/05	
<b>Objective:</b>	Increase fee generated revenue by 15% by July 2006	
<b>Action:</b>	Increase awareness of the business through marketing	
<b>Date:</b>	<b>Activity:</b>	<b>Cost:</b>
12/06/05	Leaflets in local health centre	£50
18/06/05	Open Day	£70
26/06/05	Distribution of flyers to new housing estate	£80

Your budget will dictate your chosen type of advertising, but remember some of the best type of advertising is not necessarily the most expensive. Here are some suggested types of advertising:

- Word-of-mouth / recommendations (e.g. friends, family, colleagues etc.).
- Posters / notices / cards in:
  - local shops (esp. children's shops) / post offices / take-aways / supermarkets
  - employers' notice boards
  - local health centre / dentists
  - Citizen's Advice Bureaux / leisure centres / libraries
  - toddler groups / schools
  - women's centres / churches /community centres.
- Links with other playgroups (who may be full), local health visitors etc.
- Leafleting outside schools, to local housing estates (especially if new – may be families new to area).
- Listings in:
  - Children's Information Service (automatic but keep details up-to-date)
  - Yellow Pages (free line entry if change to business line rental)
  - Phone book (business section) / Thomson Local.
- Adverts in:
  - local press (although this can be costly and short-lived)
  - church /community magazine
  - on community radio / website.
- Consider also:
  - business cards for employees and in the group
  - having uniforms with logos for the staff / children
  - car /other stickers
  - holding open days / fairs / family fun days / parties for toys/children's clothes etc. both to raise awareness and profile in the community (as well as through PR in the local press) but also funds.

Whichever type of advertising regardless of its cost, make sure you measure the results by asking potential customers how they find out about your service.

## 8.3 Additional Marketing Material

Once you have begun to advertise, you need to be prepared for the next stage of attracting new customers. Here are a few steps to creating a professional impression on potential customers:

### Telephone Enquiry

In order to ensure that all your staff / partners know what to say when answering a telephone enquiry as well as being sure yourself that you mention all the key points, it is an idea to have the main points listed on a sheet next to the telephone.

### Initial Leaflet

Following the initial telephone enquiry, send out an initial leaflet summarising the main aspects of your business (one-page probably, still enticing but not selling).. This allows you to take the person's details and get back in touch with them for monitoring purposes if they don't proceed any further, you can then see if anything in your approach or service offer needs changing. It also creates a professional impression.

### Comprehensive Brochure

During the visit of potential customers, give parents a comprehensive brochure, which is something concrete to remember your setting by and once again make you look professional. Try to include:

- Front Cover with logo
- Contact Details
- Company History
- Your Service
- Experience and Qualifications
- References and Positive comments from parents
- Photographs of children (with permission from parents)
- Registration and documentation

Put it in a nice binder, colourful, fun but professional. Look at competitors packs to see what you think works and doesn't work.

### Company Website

These days very few companies don't have a website and it is another great way to communicate with your potential customers. If you want to set up a website, contact your internet provider who will be able to give you advice and guidance and recommend suitable sites. Alternatively there are specialist companies who will project manage a website creation from design through to actually making it functional for users.

## 8.4 Meeting New Parents

During the telephone enquiry the objective is to encourage the potential customers to visit your setting. Arrange appointment time when you are not rushed or short of staff, this is your main chance to convince the parents your setting is the one to choose. Before you arrange any visits, think about the following points:

- Greeting procedure
- Plan your tour of the premises;
- Leave parents and children to settle in;
- Be aware of your "selling points"
- Show a scrap book of photos of children playing (with parents' permission) and their work, any references, certificates etc.;
- Build trust:
  - highlight your experience;
  - show you care and understand the needs of their child;
- Invite questions and be ready to handle objections;
- Compensate for "weaknesses" but don't make a big deal of it;
- Explain your fee structure (include this in your comprehensive brochure);
- Don't pressurise for a quick decision but don't promise to hold open the place.

## 8.5 Keys to a successful professional relationship with the parents

Remember, it is 10 times easier to keep an existing customer than recruit a new one – so keep your current customers happy!! All childcare business are in a unique position in that they have two lots of customers, the parents and children and both need to be accommodated. Here are a few suggestions to ensure you have a good working relationship with the parents and ensure you comply with regulations regarding complaints procedures:

- Formal and informal feedback to parents (e.g. notice board, newsletters, children's profiles, parents evenings, chats etc.)
- Comments book;
- Customer satisfaction survey (preferably at least once a year);
- Loyalty voucher scheme - the reward for booking many session could be an extra session at your discretion (i.e. when you have a vacancy), this is particularly interesting in the run-up to Christmas for shopping trips etc.);
- Recommend-a-friend scheme - once again the reward could be extra sessions when you have spare capacity (as this doesn't cost you anything);

## 8.6 Marketing Collaboration

Some settings recently have begun to see the benefits of collaborating with other local childcare settings of all types in their area to provide marketing for the local area regarding all under-fives services in the area. This idea helps share costs and workload as well as experience and expertise.

## STEP 9 – PULLING IT ALL TOGETHER & KEEPING YOUR EYE ON THE BALL!!

### 9.1 Managing Your Business

Managing a childcare business requires a whole range of skills and expertise (see Section entitled “Do you have what it takes?”). It’s always difficult to find a balance between providing a quality childcare service and ensuring that the business activities are looked after too. It is important to remember that in your childcare business if you have good quality childcare, but poor business activities or good business activities, but poor quality childcare, your business may fail. A sobering statistic to bear in mind: “43% of all childcare businesses fail, not because of the quality of their childcare, but because of the quality of their business management”. An effective manager needs to ensure they do the following:

#### People Management

- Provide leadership and direction;
- Set clear guidelines for staff and monitor performance;
- Build teamwork and team spirit;
- Develop individuals;
- Communicate effectively with staff;
- Motivate people to work well and meet targets;
- Involve people in decisions and problem solving;
- Provide advice and support, praise and encouragement;
- Tackle poor staff performance.

#### Business Management

- Establish objectives and ensure resources are in place to achieve them;
- Make decisions and act upon them;
- Develop and agree policies and processes;
- Put things right and solve problems;
- Introduce new ideas.

Training and support around both childcare and business / management is available for various sections of the Early Years and Childcare Service. Please refer to the contact details on page 35.

### 9.2 Adopting Policies and Processes

In every business it is important to have policies and processes which describe the framework of how your business plans to work, as they help resolve uncertainty and reduce the risk of things going wrong as well as ensuring the aims and objectives of the business are achieved. In childcare businesses, they are crucial since many are required under Ofsted regulations.

- A policy is a statement of how the business deals with certain issues;
- A process defines the way your business actually implements the policy.

Below is a list of some useful policies & processes to consider. This is not an exhaustive list and does not attempt to address the Ofsted requirements, these can be found in the Ofsted Guidance to the Standards for Full Day Care which will be given to you during the Getting to Know the National Standards Session.

#### Policies:

- Admission of Children
- Child Protection
- Customer Complaints
- Data Protection
- Health and Safety
- Late Collection of Children
- Late Payment by Parents

#### Processes:

- Settling Children In
- Daily Routine
- Staffing (incl. wage structure, recruitment, selection, training & development)
- Registration
- Parent Communications
- Information Management

## 9.3 Budgeting and Forecasting

Good financial management is essential not only before you commence your business, but throughout its operation, as it helps you look :

- at the past and learn lessons for the future;
- at the present to make sure things are running smoothly;
- and to the future to plan and ensure business sustainability,

Financial management systems include all aspects of your daily business, i.e.:

- **A budget** - this document shows you the amount of income and expenditure that you anticipate in every area of your business (e.g. fees, staffing or by room type, e.g. baby room, toddler room etc.) for the coming year as a total and also by month.
- **A forecast** - a monthly forecast report shows total income and expenditure that has actually occurred compared to the budget. This then allows you to “forecast” the performance for the rest of the year, thus indicating any problem areas which may need addressing.
- **Cash flow statement** - this shows cash “flowing” in and out of your business each month and should also be budgeted annually and forecast monthly and weekly where possible. A cash flow statement will show any peaks or troughs in both income, expenditure and bank balance, to ensure there is always sufficient funds to cover bills etc. and to give you a chance to react to any problems before they happen.
- **Monthly statements of income and expenditure** - this lists income and expenditure in detail and allows you to see exactly where your main sources of income are and where your money is being spent each month. It will be needed to be passed onto your accountant for end-of-year reporting and auditing.
- **Financial records** - registers, customer invoices, supplier invoices etc. which should be kept for varying times according to legal requirements (see Section 2.2).
- **Profit and Loss Statement and Balance Sheet** - these documents show the position a business is in (i.e. profit or loss made and the assets in the business) at the end of each financial year and will usually be prepared by your chosen accountant from financial records you provide them with.

Example templates of these documents can be found at the end of this pack.

## 9.4 Addressing Profit Shortfalls

There are a number of steps you can take if your business' is failing to make the profit you want / breakeven:

- Increasing your income by increasing the number of children, or the number of sessions / services you provide (but without contravening Ofsted Standards regarding space per child and staff ratios as well as the number of children you are registered to care for);
- Reducing your costs by decreasing your spending, but ensure this does not affect your quality thus losing customers – look first at non-essential and low priority items / activities, act quickly but avoid panic measures. This is only a short-term, quick fix solution.
- Increase your income by increasing your charges (only after careful financial consideration) or changing your pricing strategy, although this should really only be done once a year at a regular time, as a cost of living
- increase otherwise you are in danger of alienating your customers by pricing your self out of the market;

Remember it is possible to do all of these things in greater or lesser measures, they are not an either/or solution. However, for long-term sustainability, concentrate on marketing, quality and pricing. Make sure you speak regularly to parents so you can deal pro-actively with future vacancies.

## 9.5 Addressing Cash Flow Problems

There are also a number of steps you can take if your business' cash position looks difficult:

- Increase sales;
- Collect any outstanding debts;
- Negotiate different payment terms with your suppliers;
- Control costs;
- Speak to your bank / other investor for an overdraft extension or further investment.

## 9.6 Monitoring and Evaluation

“What gets measured, gets done!”, i.e. all businesses should carefully select and monitor key information giving the opportunity to check on business performance and act proactively to any potential problems before they become critical. Follow these steps to create an effective Management Information System:

- Define which information is important for business success and why.
- Devise a system for collecting and presenting this chosen information including nominating a person responsible for the task (e.g. yourself or your manager/deputy or split by type of information).
- Analyse the information regularly.
- Act on the information promptly when the it shows things aren't going to plan!

You need to consider carefully which information is most important to your business (known as Key Performance Indicators or KPIs, i.e. more than just the profit of a business), examples to consider may be:

**Child Occupancy** (from your register, parents' payment records, waiting list) - helps you monitor if the number of children you expect to have will cover your costs and on which days/times of year will your occupancy reach a low.

**Cash Flow** (from your cash flow statement) - allows you to monitor whether you have enough money to pay the bills.

**Money owed to your business** (parents' payment records or a list of outstanding invoices) - will ensure that you can avoid debts affecting your cash flow and ultimately your profits, getting on top of the issue before it becomes a real issue (see Section 6.4 Fees and Parental Debt).

**Actual Income/Expenditure versus Planned** (Budget and Forecasts - see Section 9.2 Budgeting and Forecasting) - Shows where you expected to be financially compared to the reality, allowing you to adjust your forecasts for the rest of the year and address any issues as early as possible (see Section 9.3 Addressing Cash Flow Problems).

**Staff Turnover** – shows how contented your staff are, thus avoiding costly recruitment and selection (see Step 7.6).

**Staff costs per child** – helps to see the actual staffing costs per child and how important occupancy is.

**Total costs per child** – helps to see the total costs and whether they seem excessive versus fee income.

### Example of a Table Summarising the Management Information System:

INFORMATION	WHERE FROM?	RESPONSIBLE PERSON	HOW OFTEN
Child Occupancy	Register; Parents'	Deputy	Monthly
Cash Flow	cash flow statement	Owner	Monthly
Money Owed to Business	Parents' payment records or a list of outstanding invoices	Manager	Weekly
Income/Expenditure versus Planned	Budget and Forecasts	Owner	Monthly
Staff Turnover	Staff records	Manager	Once a quarter
Staff costs per child	Monthly expenditure sheets	Owner	Twice yearly
Total costs per child	Monthly expenditure sheets	Deputy	Monthly

Where possible see if you can compare your efforts and results with local competition (known as benchmarking).

## 9.7 Customer Satisfaction Surveys

It is important for all businesses to stay in touch with their customers and their needs, however successful they may be. Good business practice suggests you should undertake a formal Customer Satisfaction Survey on a regular basis at least once a year (examples are included in this pack). This way you can add new services, improve existing ones and build on your successes for your customers. Try to include questions which cover the following issues:

- The quality of service;
- Areas of your service most important to the children;
- Friendliness of your staff;
- Suitability of your facilities;
- Your opening hours
- Where they found out about your service;
- Why they chose your setting and not another local one;
- What additional services they would like to have
- Why do parents leave early?

Once you've compiled the answers, give the parents (and staff) feedback and let them know what changes you are going to make to address these issues. You may not be able to implement every suggestion, but parents will appreciate that you're committed to continually improving the standard of service you provide.

## 9.8 Customer Complaints

See customer complaints in a positive light, as a chance to continually improve your service. Introduce a complaints procedure which is known and available both to staff and parents alike. Include the following:

- Find out nature of complaint have a form for recording
- Remain polite and calm and unemotional
- Don't give an immediate response, look into issue and get back to them
- Make it a priority and see it through to its conclusion
- Record complaint and solution and learn from it
- Make sure one person is responsible for complaints handling.

## 9.9 Staff Surveys

It is also important for all businesses to know how they're staff are feeling to avoid high staff turnover and low morale. It would also be good business practice to undertake both a formal Staff Survey on a regular basis at least once a year. This way you can address any issues which may be affecting your staff before they become a real issue, as well as building on the things you are doing right and making the staff feel they are being listened to. Try to include questions which cover the following issues:

- How they feel about working at the nursery?
- What are the best / worst aspects of the job / organisation?
- What do they feel could be improved?
- How do they feel management interact with and include the staff in the decision-making process?
- Do they have any suggestions as to how the business could be improved for staff or customers?

## 9.10 Quality Assurance Schemes

Keeping parents and children happy isn't down to good luck, but good management and high quality standards. Becoming part of a Quality Assurance Scheme can involve additional work and training but will give you an added marketing tool and parents added confidence in your service. For more details as well as help to support you to do all the things suggested here as your business grows, contact Jean Tallis, Under-Fives Development Co-ordinator, Bradford Early Years and Childcare Service, her details can be found on page 35.

## TRAINING OPPORTUNITIES

### Early Years Planned Training Courses/Seminars

We have an ongoing programme of childcare and business-related courses which change every 6 months and are published in our bi-annual training prospectus sent to every setting. Over the next year we will be offering a number of courses related to finance and book-keeping, legal issues, marketing, recruitment and retention of staff, dealing with parents, leadership and management. In addition, attached is a flow chart illustrating the information and training process which new providers go through in order to become registered for full day care.

### Other Training Seminars

Within the Business Support Team of Bradford Early Years and Childcare, we are able to arrange other specific training seminars if there is a demand for this from sufficient settings. Current possible training seminars are as follows (if any of these seminars are of interest to your group, please contact the Business Support Team (contact details on page 34)):

**ACAS** - Personnel issues, e.g. holidays, redundancy, discipline and grievance etc.

**WYCAS** - Financial issues, e.g. bookkeeping, accountancy, wages etc.

**Inland Revenue** - Tax issues, e.g. Working Families Tax Credit, employee tax, N.I. contributions etc.

## FURTHER SOURCES OF INFORMATION AND SUPPORT

### Organisations / Websites:

**ACAS** - Aims to improve organisations and working life through better employment relations, by providing up-to-date information, independent advice, high quality training as well as working with employers and employees to solve problems and improve performance. They currently provide six free e-learning packages on:

- absence in the workplace
- contracts and written statements
- discipline and grievance
- information and consultation
- redundancy handling
- working parents

Telephone 08457 47 47 47, website [www.acas.org.uk](http://www.acas.org.uk)

**Cash Online** ([www.cash-online.org.uk](http://www.cash-online.org.uk))- info regarding finances and budgeting with free info sheets to download.

**Companies House** - Companies House is responsible for company registration in Great Britain. It also has a key role in providing information about British companies. Telephone 0870 33 33 636, email enquiries@companies-house.gov.uk, [www.companies-house.gov.uk](http://www.companies-house.gov.uk).

**Criminal Records Bureau** - For applications for criminal record checks. Tel.: 0870 9090 811, [www.crb.org.uk](http://www.crb.org.uk).

**Daycare Trust** – The national childcare charity working to promote high quality affordable childcare for all. Tel. 020 7840 3350, Fax 020 7840 3355, e-mail [info@daycaretrust.org.uk](mailto:info@daycaretrust.org.uk), website [www.daycaretrust.org.uk](http://www.daycaretrust.org.uk)

**HM Revenue and Customs** (Formerly Inland Revenue) - For information and support on tax and NI issues. New Employer Helpline 0845 60 70 143, website [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

**National Day Nurseries Association** – A national charity which aims to enhance the development and education of children in their early years, through the provision of support services to members. It is dedicated to the provision, support and promotion of high-quality care and education for the benefit of children, families and communities. Telephone 0870 774 4244, Fax: 0870 774 4243, e-mail: [info@ndna.org.uk](mailto:info@ndna.org.uk), website [www.ndna.org.uk](http://www.ndna.org.uk)

**Office for Standards in Education (Ofsted)** – Responsible for the regulation of early years childcare. Helpline 0845 601 4771. Complaints line 0845 601 4772. E-mail [yne.rc@ofsted.gov.uk](mailto:yne.rc@ofsted.gov.uk), [www.ofsted.gov.uk](http://www.ofsted.gov.uk).

**Pay and Employment Rights Service (PERS)** - An independent charity providing advice, information, training and consultancy on pay and employment rights. Their contact details are 01924 439381 [www.pers.org.uk](http://www.pers.org.uk)

## **BRADFORD EARLY YEARS AND CHILDCARE SERVICE - CONTACT DETAILS**

For further information on Ofsted registration / the process of establishing a new childcare setting, please contact:

Nichola Wood (New Providers Support Officer)

Tel.: 01274 431456

E-mail: [nichola.wood@bradford.gov.uk](mailto:nichola.wood@bradford.gov.uk)

Christina Low (New Providers Adviser)

Tel.: 01274 435290

E-mail: [christina.low@bradford.gov.uk](mailto:christina.low@bradford.gov.uk)

For further information and support around business issues, please contact the Business Support team on:

Adèle Baines (Business Support Officer)

Tel.: 01274 431959

E-mail: [adele.baines@bradford.gov.uk](mailto:adele.baines@bradford.gov.uk)

Susan Moreau (Business Support Manager)

Tel.: 01274 431380

E-mail: [susan.moreau@bradford.gov.uk](mailto:susan.moreau@bradford.gov.uk)

For further information and support around full day care support once you have become registered or if you are interested in undertaking a quality improvement system, please contact:

Nicky Waite (Childcare Support Officer)

Tel.: 01274 431030

E-mail: [nicola.waite@bradford.gov.uk](mailto:nicola.waite@bradford.gov.uk)

Jean Tallis (Under-5s Development Co-ordinator)

Tel.: 01274 431030

E-mail: [jean.tallis@bradford.gov.uk](mailto:jean.tallis@bradford.gov.uk)

For information on childcare provision in the area, please contact the Children's Information Link on 01274 437503, [childcare@bradford.gov.uk](mailto:childcare@bradford.gov.uk)