# Family Day Care Creating Our Future

## A guide for considering your business model

family day care services
EDUCATION & SUPPORT PROJECT

# Contents




Family Day Care Services Education and Support Project
1 Sloane Street, Summer Hill, NSW 2130
Phone: (02) 9779 9926
Fax: (02) 9779 9998
Email: info@fdcsupport.org.au
Web: www.fdcsupport.org.au
Facebook: www.facebook.com/fdcsupport
Twitter: @fdcsupport
Editor: Lisa Bryant
Design: Eddy Jokovich
Production: ARMEDIA
Printing: Mutual Printing



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# Where are we now?

**From July 2015, changes will be occurring to operational funding (Community Support Program funding) from the Commonwealth Government to Family Day Care services.**

## These changes will mean that:

- Ongoing operational support funding will be only available to eligible Family Day Care services.
- Services should access the Department of Education website to determine potential eligibility for CSP funding.
- Eligibility criteria will be assessed on the current circumstances of the service, as at April 2015.
- Family Day Care services that are eligible for ongoing operational support funding will have this funding capped at $250,000.
- Family Day Care services that are eligible for operational support in 2015 will be funded for 12 months.
- Successful services will be notified before the commencement of the new financial year.

## IT SOUNDS CHALLENGING… BUT WE CAN DO IT!

Family Day Care services can continue without ongoing operational funding and rise to challenges by planning for the future. Adjusting to new realities has been the hallmark of the Family Day Care program throughout its history.

# What are the next steps?

**Many Family Day Care Services will already have some ideas in place to ensure they survive and thrive, and we hope this booklet will spark some new ideas for all services.**

## What are the next steps?

1. **Assessment of your options** This booklet contains options on ways your service can deal with the reality of reduced or no CSP funding, along with some benchmarking so you can compare your service's operations with others, as well as some financial advice). It is important to assess which options will work for your Family Day Care service.

2. **Decision making** After considering the options that will work best for your service, identify which ones you will choose to implement (it may be a combination).

3. **Implementation** Once you have decided what you are going to do, you need to take the steps to implement your decision. Are there better ways of doing this than others? For example, should levy increases come in one hit or be phased in? How can you ensure educators are part of your implementation plan?

4. **Evaluation and recalibration, if necessary** Once you have implemented the first steps of your plan, you need to work out if your income is matching your expenditure; if not, decide what parts need to be tweaked.

watch out for

Family Day Care Services Education and Support Project commissioned research from the University of NSW – *Family Day Care at the crossroads Quality and sustainability in uncertain times*. This research includes some ideas that may help your service in its planning for the future. **Go to: www.fdcsupport.org.au/research**

# Where are we going?

## Quality education and care

**Over many years, the Family Day Care sector has strived to ensure children in our environments are receiving the best education and care possible.**

### The principles and practices that have influenced our quality delivery are:

- Ensuring educators and co-ordination unit staff are skillful and qualified by furthering qualifications and accessing professional learning opportunities.
- Reflecting and reviewing practices to embed the learning frameworks under the National Quality Framework.
- Considering what policies, processes and structures reflect contemporary practice and customising these to meet the diverse nature of Family Day Care.
- Due to the nature of the Family Day Care system, taking time to build strong, trusting and transparent relationships between staff, educators, families and community.
- In respecting the isolated nature of the educator role, co-ordination unit staff providing coaching, mentoring and support to educators.
- Taking the time to listen to the needs of families and connecting them with the educator that will best support the wellbeing and education of their children.
- Continuing to embrace the many changes our profession has faced over the last 40 years, from a welfare-based system in the 1970s, to ensuring practice embraces current early childhood education and care theory, and philosophies, business principles and cultural awareness.

**To continue along our journey of quality provision, we need to value the elements that make Family Day Care a special place for children.**

# Change management

**One of the first theories of change management says that change must involve people, rather than be imposed upon them. Positive change occurs when all parties are involved in the change management process.**

Family Day Care services have a history of implementing good change management processes for their educators, for staff, and for the families that use their services.

Change is something that always happens. Family Day Care services have adjusted to a lot of change through the years. Services must adapt to change, otherwise they will not be able to survive.

Change management is managing the impact these adaptions have on the people involved in the organisation.

### People often fit into the following four categories when faced by change:

1. The critic – often, these people will oppose the change
2. The victim – often, these people panic
3. Bystander – these are the people who ignore the change
4. The navigator or embracer – these people who work with changing circumstances.

### Change management is about trying to move everyone to become navigators

We know that some things help to make people navigators and to help organisations manage change.

### These are:

1. Communicating what will happen if your organisation does not change
2. Involving as many of the stakeholders as possible in decision making
3. Minimising uncertainty as much as you can
4. Celebrating any shifts you have in working towards the change
5. Continuing to explain why the organisation has to change
6. Being as transparent and clear as possible – if people don’t know what is happening, they will presume the worse and lose faith in the service’s management.

# Competition

**The number of Family Day Care services in Australia has expanded rapidly in the last few years. This has bought a new element to the sector – competition. Services now have to compete with other Family Day Care services to provide services to families and also to recruit and retain educators.**

The changes to eligibility for operational funding, which mean that some services may be competing to be the one remaining service in their area (and thus retain funding), will, no doubt, increase competition amongst services.

### In this environment services, need to ensure:

- Marketing to families is accurate, clearly spells out their service's points of difference and the costs that are involved.
- Marketing to, and recruitment and retention of educators is prioritised. Work must be done to ensure that educators feel a commitment to your service that transcends perceived financial, or other advantages, of another competing service.
- The benefits of quality Family Day Care provision are marketed to both educators and families.
- Communication to educators and families is accurate, plentiful and leaves no room for confusion about ongoing plans.
- All staff, educators and families are positive marketers for your service. What do you do as a service to make it easy for these groups to promote your service? What do you do to make sure they want to?

idea!

Consider entering into an agreement with competing services in your local area to determine how each service will behave towards the other. What is and isn't acceptable? If this is predetermined, life may be easier for both services.

idea!

It is the culture of a service, the quality of professional relationships and service philosophy that make people feel a sense of belonging to that service. Services that concentrate on these elements are often better equipped to compete than those that don't prioritise and promote these things.

# What will happen along the way?

## The case for Family Day Care

**Some Family Day Care services are operated by other organisations, such as councils, community services and church organisations that act as the Approved Provider and hold the governance responsibility for your Family Day Care Approved Service.**

It is important at this time when changes to the funding model of Family Day Care occurs that all parties come together and share as much information as possible. Take time to consider the impact and develop a plan for the way forward.

Approved Providers that have already started the planning phase to ensure their Family Day Care services are viable and thriving, have considered some of the following:

- Taking time to understand the financial implications of changes of funding.
- What they can do to assist the service financially.
- What efficiencies they can create to minimise any increases in management fees.
- If they have more than one Family Day Care service or other complimentary services, how can they support each other, reduce administration costs, share costs, i.e.: photocopier, rent, etc.

idea!

Frame the advantages of Family Day Care to your sponsor in financial terms. How much money goes in to the community through fees to educators? Does your service allow parents to work and spend income in your local government area? Talk up the benefits of FDC to the entire community.

idea!

Can you persuade your Approved Provider to cross-subsidise Family Day Care through some of their other programs, especially other childcare services, if they also operate these? Can you emphasise the importance of choice to families?

# How can we remain viable after the funding changes?

**Unfortunately, there is no magic solution. You may already have worked on it but here are some ideas.**

## The options are:

1. Reduce your service costs.
2. Increase your service's income by increasing fees and charges.
3. Increase your service's income through other means (fundraising, other grants, sales, diversifying).
4. Merging or amalgamating with another service.

**>>>>>>>>The next few pages go through each option.**

# Option 1

## Reduce costs

**Many Family Day Care services have become less reliant on operational funding over the last few years.**

You have already done a lot of work in considering efficiencies to manage changing funding structures. However, change is always an opportunity for us to consider new and different ways of operating, that we may not have considered before. Are there smarter (and cheaper) ways of doing the regular things in a different way? In considering reducing costs, the first thing a service needs to do is examine every part of their operation afresh.

### Advantages

- If you reduce your costs, you do not have to increase fees or levies.
- By not having to increase fees, you do not run the risk of losing educators to other services.

### Disadvantages

- There is a point where you can't cut costs anymore. Many of the elements of a traditional Family Day Care service, such as playgroups, have already been cut by services in order to contain costs.
- Cutting costs is sometimes chosen as an option because we are trying to protect others (families and educators) from financial hardship. If it costs a certain amount to provide the service, shouldn't families pay that cost? It is clearly hard when we know that increased fees will cause families to cut days or may be forced to remove their child from care totally, but if our fees and charges to educators and families really reflect the cost of providing the service, should our services be the ones that bear the weight of increased costs?
- Cutting costs can mean cutting out the things services do which ensure the service provides a quality service.
- Quality services are relationship based. The largest costs in Family Day Care are wage costs. If we cut the number of staff we employ, will quality drop?

idea!

Compare where your service sits in the amount of co-ordinator time per educator compared to other services. If it is higher, is there a reason for this? Can you eliminate the reason why you need to allocate more time with educators? For example, can you recruit more highly qualified educators; is your induction training not preparing educators?

Does your service provide support according to educators' needs or does it provide the same level of support to all educators? If you classify your educators on the basis of the support they need, can you then allocate your most skilled mentors to the ones that have the higher support needs?

Could you reduce costs by combining some functions with other Family Day Care services? Could you do joint orientation sessions for educators, share CCMS administration functions?

Could higher use of technology help? Could you do some support visits via Skype or Facetime on the iPad rather than home visits? Could you do online induction of educators? Could eliminating paper sign on sheets help? Should you recruit a younger or more technologically savvy admin assistant/co-ordinator that may have ideas about how to use technology well and the skills to do so?

Should you assess with an open mind whether your service would be better to employ its educators rather than contract them or vice versa? Many services are wedded to how they have always operated – maybe it is a good time now to re-assess?

Is letting go of your educators that do not supply a quality service, and therefore need more support, feasible? Is now the time to do it? (Bear in mind that some services that may need higher levels of support initially may become great educators in time.) Could you only recruit educators that you assess as needing low support?

Placing new families is expensive. Is it worthwhile tracking which of your educators have higher child/family turnover and considering letting these go?

Can you persuade your educators to market the service? Would this save on marketing costs?

Some functions that services undertake are time intensive such as CCMS administration and responding to emergencies. Can 'upstream intervention' cut the cost of these in the long term? (For example, having your admin staff visit educators to assist them implement efficient admin processes – could this cut the amount of time they spend processing timesheets, etc.)

Could you upskill your educators so they could do their own enrolments? Are there ways you can shave family placement costs by doing placements with groups of families at a time? Do all parts of the enrolment/placement process need to be done face-to-face? Can some be done via email, Skype or phone?

Are there savings you can make in provision of professional development for educators? Can you link up with other services or explore less costly forms of professional development by using your own staff to deliver packages developed by others by encouraging educators to upgrade their qualifications to Diploma level or by having more qualified and skilled educators mentor less skilled ones? (Remember that provision of ongoing professional development for both your own staff and for educators is necessary for provision of a high quality service).

Would making some of your co-ordinators specialists rather than generalists help to cut costs? Could some specialise in specific areas such as educational programs and practices, or health and safety, or environments, so their increased expertise could be reflected in faster imparting of knowledge to educators?

Could you cut out your playgroup? Some services are choosing to cut their playgroup to reduce costs. Others have already done so. Services are often doing this reluctantly – running a playgroup helps educators to engage with each other, allows co-ordinators to observe children and observe educator/child interactions, and is generally thought of as an indicator of quality. But playgroups can be expensive when you take into consideration the cost of staff, craft materials, food etc.

Some services have come up with a low cost alternative – 'model' excursions. What's a model excursion? The service does the risk assessment for the excursion to a local park, obtains council permission and invites educators who can get to that location easily (walking or via private transport). The service closes up their office for a few hours and all co-ordinators and educators can mix together, in the same way as a playgroup… but without the cost!

What about visiting some other services to see how they support educators? Some services visit educators weekly for the first few months and then monthly after that. Some services try and visit each educator fortnightly. Others only visit monthly. Is what you are doing now the only way of doing it?

# Option 2

## Increase income
### by increasing fees and charges to families and educators.

## Advantages

- Increased fees and levies reflect actual costs and the true impact of loss of CSP funding.
- Most increased fees will be passed on to families eventually, whether imposed on educators or families directly. 50 per cent of the cost of these will then be borne for most families by increased Child Care Rebate from the Commonwealth.
- Increasing fees means your service does not need to reduce costs and quality can be sustained.

## Disadvantages

- Educators may leave for a lower charging service.
- Families may cut days or leave all together.

idea!

Not all services impose parent levies but those that do appear to vary in cost from an hour per child per day rate (services we have surveyed vary from between 50 cents to 90 cents per hour). Some services impose an hourly rate, some, a daily rate, and some, a weekly rate. Some rates are capped, some are not. Some do not impose a family levy at all but have higher educator levies. Could you increase (or impose, or impose more) parent levies?

idea!

Enrolment charges appear to vary from $0 to $80 per child across Australia. Some are imposed as one-off fees or annually. Can you explore other options?

Look at the fees and charges that other services charge. Could you impose any of them that you do not already? Some possible ones:

**For parents:**

- Transport fees
- Enrolment fee (families)
- Playgroup fees
- Registration fees
- Waiting list fee
- Excursions
- Parent levies.

**For educators:**

- Induction fee
- New educator training fee
- Late attendance record fees
- Playgroup fees
- Training fee
- Annual Re-registration fee
- Transport fees
- Ongoing training fees
- Inspection fees
- Medical advice fees
- Professional development fees
- Educator levies (percentage, hourly or weekly).

Very few services now appear to not charge some sort of educator levy or fee. The differing ways services charge these are:

- Annual set price levy per educator
- Amount per day per child
- Amount per child per hour
- Percentage of income per day or year
- Weekly amount
- Percentage of hourly fees
- Amount per day of operation
- Weekly amount only for weeks educators submit timesheets.

# The ‘buts’ of increasing income…

**Increasing fees and levies can be a scary thing to think about. When first contemplating this, services often think…**

## But my families can’t afford a fee increase

- Childcare fee elasticity
  In 2012, a study was undertaken in relation to the NQF[1] which showed that a 1 per cent increase in childcare prices leads to a decrease in hours worked by 0.1 per cent. As one would expect, it showed that poorer families are more affected by price increases, as childcare forms a large proportion of the family budget. Another study at this time conducted by Access Economics[2] showed that childcare services’ have an ability to pass on increased costs without a significant impact on enrolments.

- Family Day Care can be positioned as a ‘boutique service’
  Is it possible to explain increased fees as part of the cost for the ‘boutique’ nature of Family Day Care? Many families are seeking a non-centre-based childcare environment for their children. Is it possible to explain that quality costs?

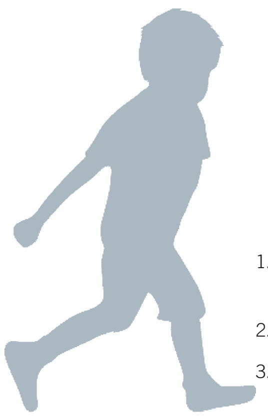
- The average Family Day Care fee per hour is not that much more expensive than other forms of education and care. ($7.90 for Family Day Care, $7.60 for Long Day Care, $9.05 for Occasional Care and $6.15 for Outside School Hours Care[3]).

## But educators will leave if we increase their levies

- Fees imposed upon them are only one element that impacts whether educators stay with your service. Culture of the service, perceived benefits of being part of your service are also part of the rationale for staying or going.

- If educators understand that most services will need to increase levies to recoup the lost funding, they are less likely to make the cost of levies part of their decision making.

- If educators can see that it is possible to pass increased levies directly on to families, and where services help them communicate the reasons for the need for increased fees, the impact on educators can be minimised.



1. Xiaodong Gong and Robert Breunig, Estimating Net Childcare Price Elasticities of Partnered Women with Pre-School Children Using a Discrete Structural Labour Supply-Child Care Model, Treasury Working Paper, 2012.
2. Regulation Impact Statement for Early Childhood Education and Care Quality Reforms COAG Decision RIS December 2009.
3. Child Care & Early Learning In Summary, December Quarter 2013, Department of Education.

# Should we increase educator or family levies?

**Should you increase levies on educators or families? Regardless of which way you do it, families will end up paying the increased levies, whether directly or via increased fees passed on by educators. There are some advantages and disadvantages of doing it each way.**

## Family levies

- Child Care Rebate (through which families receive a 50 per cent rebate of their out-of-pocket costs, up to a cost of $7,500) helps offset the costs of any fee increases to families.
- Through charging families, services do not run the risk of losing educators.

## Educator levies

- Families do not perceive the cost of levies on educators.
- As educator levies are part of the cost of an educator earning their income, they can be claimed on tax. It is good to let educators know this at the time of a new levy imposition.
- Can be offset via increased family fees.

# Is it a good time to rethink all of our charges?

- In most services, fees and levies to educators and families have been imposed over time. Is the loss of CSP funding a good time to relook at all the fees and charges afresh?
- How do our fees relate to our costs? Is there an actual correlation or have they been introduced to increase our income as our costs have risen, or to impose a cost for an actual service?
- Are there better ways of organising our fees? Can we increase fees in such a way that works better for educators or families or may not have the same impact as imposing a single new levy or increasing a single individual one?

# Is it better to have multiple smaller charges or one large charge?

### Does your service have multiple types of charges for educators?

Although this may seem to be a way of charging for services as they are used and of appearing to keep costs down, it can also appear as if a service 'charges for everything'. One larger levy, charged twice yearly, or a single constant hourly charge, may be a clearer way to do it.

Could there be advantages in setting your levies as a percentage of fees? That way, when fees go up, so does your income without the need for you to be continually increasing your levies.

# Should we introduce increased fees and levies gradually or in one hit?

### There are advantages and disadvantages in increasing fees in the one go, or gradually:

- Increasing fees or levies gradually reduces the impact on budgets
- Increasing in the one go reduces the appearance that you are always increasing your fees
- Increasing gradually gives educators and families more notice – this can help the change management process
- Increasing fees in the one go can stop simmering resentment by getting the reaction over and done with quickly.

# Marketing your fee or levy increases

**When large businesses increase costs, they think about ways to do it without it causing:**

- Customers to move to another supplier (families and educators are Family Day Care 'customers')
- Huge financial impost on customers at the wrong time of year. (Are there better times than others to do it?)
- Customer anger at the size of the increase (are two or three smaller increases better than one?)
- Anger because of lack of communication or advance notice (with all increases the longer the advance notice the better)
- Anger because it seems unreasonable or comes with no explanation. Explain about the reduced funding. This way, any anger may not be directed at your service
- Confusion. Communicate what is going up when or exactly what the new fee schedule should be.

Skillfully done, a fee increase can be communicated as of benefit to customers. What will they get in return for the increased fee? It makes good marketing sense to 'sell' fee increases as returning benefit to those they are imposed upon.

Are there new (no cost or low cost) services you can offer educators in return for an increased levy? Now would be a good time to do so.

# Option 3

# Increase income
## by other means.

**Is there other ways your service can make income? Can your service diversify what it does and cross-subsidise your traditional Family Day Care operations? You are providing services already to families with young children. What else do these families need? Could your service make money out of supplying this to them?**

## Advantages

- Makes a new income stream for the service.
- Means you may not have to increase fees and levies by as much.
- Means you may be protected from further funding cuts in the future.

## Disadvantages

- Providing a new service or product also increases costs.
- Families may trust you to provide education and care but may not be as convinced about other services you may wish to offer.
- Money making services sometimes fail.

idea! Subletting part of your office space or space you may have for play sessions. Is there a play group in your area that could use your space? Could another organisation share your office?

idea! Bulk purchasing and then reselling something that all families use, such as nappies, baby food etc.

idea! Many families buy toys and educational games for their children. Can you bulk purchase these and sell with a mark up?

idea! Can you sell your intellectual property to other Family Day Care services? Does your service have a great induction package? Would other services buy it?

# Option 4

## Merging or amalgamating

**Merging, amalgamating or taking over other services can have advantages in a funding situation where only one service in each regional area can be funded. (Although it is important to note that merging cannot guarantee funding.)**

### Advantages

- Merging two small services may allow the combined service to have economies of scale by reaching a critical mass of educators.
- Merging or amalgamating may enable two services to become the only service in an area and thus make it eligible for CSP funding.

### Disadvantages

- Loss of unique service identity.
- Differing fee structures and organisational culture.
- Merging to gain access to funding may not ensure funding.
- As funding for longer than one year is not guaranteed, merging may ensure funding for next year, but no longer.

idea! By merging, can you have a critical mass of educators that enables your cost per educator to reduce?

idea! If there is a second small service in your area, without which you would be entitled to funding, can you buy it or persuade it to merge with your service? (Of course, the disadvantage if this is that there is no guarantee another service will not set up which would make you ineligible for funding.)

idea! Could you offer incentives to educators from small services in your region to join your service? An initial outlay may be high but may guarantee your funding.

idea! Do you have a clear majority of educators in the one area? If not, remember that your service's location then becomes dependent on where your head office is. Would moving help?

idea! Would letting some educators go and recruiting others in a slightly different area are mean that you are more likely to get funding?

# Quality provision: is it time to rethink the basic elements?

**If Family Day Care services keep operating the way we have been operating but with reduced funds, we have no option other than to increase fees or levies. Should we instead think about changing some ways of doing things? Is it time to think about what services we supply are really part of quality provision?**

# Rethinking quality provision

**What elements of quality provision vary between services? What parts may need to be re-thought? Obviously, each service is different and has different ways of operating in response to the needs of its community, its history, its philosophy, its educators and the families using the service.**

But is it time to rethink some of the ways your service may be doing things?

For example:

- **Educator support** – hours of support per educator varies widely from service to service. Are there different ways of providing support which cost less?
- **Professional development** – how can you provide professional development for your educators at lower cost?
- **Policy development** – could some functions your service has to spend time on such as policy development be jointly done for a group of services as a way of reducing costs?
- **Administration** – are your administration methods streamlined?
- **Family placement** – could this be done more efficiently and simply?
- **Educator induction** – could you do this with another service? Could you do this online?

## How can you still ensure quality, with lower costs?

# First of all, some benchmarking

| | Service 1 |
|---|---|
| **Service Operator** | Community based |
| **Location** | Inner Regional |
| **Co-ordination Unit Staffing** | |
| **Total Staff Hours** | 258 |
| **Manager Hours** | 67.5 |
| **Co-ordinator Hours** | 116 |
| **Administration Staff Hours** | 75 |
| **Playgroup Staff Hours** | 8 |
| **Other** | |
| **Allocation of Hours of Home Visiting Staff** | |
| **Co-ordinators undertake additional roles (e.g. waiting list, Educator recruitment)** | Educator induction, waiting list, placement of children, Home visits, accompany Nominated Supervisor on initial inspections and Annual Educator assessment visits |
| **What is your calculation to determine the home visit hours allocated for resource and support visits per Educator?** | 1.5 hours per educator per week (approx.) |
| **Fees Charged** | |
| **Total number of Registered Educators** | 31 |
| **Total number of Registered Relief Educators/Educator Assistants** | 0 |
| **Number of Educators** | 30 |
| **Number of children in care** | 282 |
| **Number of child hours** | 3144 |
| **EFT** | 90 |
| **Current Educator Levy** | .38% per hour |
| **Educator Levy** | As above |
| **Current Parent Levy** | 95 cents per hour per child |
| **Parent Levy** | |
| **Orientation Fee** | Not charged |
| **Enrolment Fee** | Not charged |
| **Waiting List Fee** | Not charged |
| **Educator Training Fee, e.g. per session, annual fee, weekly fee** | No charge |
| **Other fees charged, e.g. late attendance record fee, playgroup fee** | Playgroup $1 per family/educator |
| **Range of fees charged by Educators to families** | Standard Hours $5.65 min $10.00 max |
| **Educator Support** | |
| **Approximate number of monthly face to face home visits – what is the minimum target visits to educators, e.g. 1 per month** | Home visits conducted on a 6 weekly cycle |
| **Number of staff operated playgroup/play sessions per week** | 2 |
| **Approximate number of educator group professional development per year delivered by your services FDC staff** | 4 |
| **Approximate number of educator group professional development per year delivered by external providers** | 2 |
| **Other** | |
| **Do your Co-ordinators use their own vehicles for home visits etc. or does your services have vehicles that are provided?** | Service has 3 vehicles |
| **If Co-ordinators use their own vehicles, how is the mileage calculated?** | |
| **How do your co-ordinators document Educator Home visits?** | Home visits documentation completed on iPads |

**The following table provides some benchmarking. What are other Family Day Care services doing? How much are they providing? What are they charging educators/ families? And importantly – how does your service compare?**

| Service 2 | Service 3 |
|---|---|
| Council sponsored | Council |
| Inner Regional | City |
| | |
| 202 | 195 |
| 40 | 35 |
| 79 | 112 |
| 40 | 48 |
| 18 | 0 |
| 25 | |
| | |
| New educator interviews and environment check, back up for family interviews | Educator induction, Home visits, accompany Nominated Supervisor on initial inspection, contributing to newsletter, Educational Leader |
| Total co-ordinator hours divided by no. of educators 79/44 = 1.80 Individual educator hours/1.8 = no. of educators per co-ordinator allocating approx. 1.5 hours per visit | no |
| | |
| 44 | 83 |
| 2 | 3 |
| 38 | 78 |
| 285 | 458 |
| 4557.75 | 7406 |
| 131 | 212 |
| $20 per week | |
| $22 per week | $12.00 per week working |
| $1.10 per hour | |
| $1.15 per hour | 0.92 |
| $190 for new educators | $220.00 |
| $55 | $55.00 |
| Currently 15 children with more interviews booked in | 0 |
| No fee, in house or service pays the cost | 0 |
| None | Late attendance records = $4.20 |
| $7-$10 (this does not include the parent levy) 41 educators also supply all food which is included in this cost. | |
| | |
| 3–4 weekly home visits, plus may see at play sessions and communicate regularly on the phone and numerous emails – Target 3 weekly | Monthly home visits. Extra support provided when required and for new educators |
| One staff person facilitates play session 4 mornings a week 9.30–11.30 different CDCs help set up each morning with the play session facilitator. | 0 |
| 10 sessions (monthly) plus regular 1 on 1 sessions with educators when required | 4-6 |
| 1–2 per year | 3-4 plus an educator forum |
| | |
| Service has vehicles provided, which the Service incorporates this into the budget | Service currently has two vehicles |
| Service Co-ordinators have a lease back vehicle that all staff use each day. $70 per week payed by the service co-ordinator for the lease | If staff use their own vehicles – as per current award |
| iPads – including photos | Combination of paper based forms and tablets |

| | Service 4 |
|---|---|
| **Service Operator** | Council |
| **Location** | Inner Regional |
| **Co-ordination Unit Staffing** | |
| **Total Staff Hours** | |
| **Manager Hours** | 35 |
| **Co-ordinator Hours** | 51 p/w (2 staff @ 30 + 21) |
| **Administration Staff Hours** | 31.5 p/w |
| **Playgroup Staff Hours** | n/a |
| **Other** | |
| **Allocation of Hours of Home Visiting Staff** | |
| **Co-ordinators undertake additional roles (e.g. waiting list, Educator recruitment)** | Waitlist, recruitment, induction, parent enquiries, processing attendance records, contributing to newsletters, excursion transport, emergency relief, attending annual registration and risk assessment checks. |
| **What is your calculation to determine the home visit hours allocated for resource and support visits per Educator?** | No. Meet at minimum at least one visit per month per Educator, however, support and visits are provided according to individual Educator need and (their own) QIP goals and educator requests. |
| **Fees Charged** | |
| **Total number of Registered Educators** | 17 |
| **Total number of Registered Relief Educators/Educator Assistants** | 1 |
| **Number of Educators** | 16 |
| **Number of children in care** | 130 |
| **Number of child hours** | 1868 |
| **EFT** | 54 |
| **Current Educator Levy** | $9.00 per week |
| **Educator Levy** | $9.30 per week |
| **Current Parent Levy** | $0.90c per child per hour |
| **Parent Levy** | $1.00 per child per hour |
| **Orientation Fee** | $350.00 flat fee<br>$200 – Assistant Educator |
| **Enrolment Fee** | $42 |
| **Waiting List Fee** | Not charged |
| **Educator Training Fee, e.g. per session, annual fee, weekly fee** | |
| **Other fees charged, e.g. late attendance record fee, playgroup fee** | See attached proposal fees schedule for FDC |
| **Range of fees charged by Educators to families** | Service range $6.20 – $12.50 (standard hours) |
| **Educator Support** | |
| **Approximate number of monthly face to face home visits – what is the minimum target visits to educators, e.g. 1 per month** | 1 per month (plus see additional info above) |
| **Number of staff operated playgroup/play sessions per week** | Nil |
| **Approximate number of educator group professional development per year delivered by your services FDC staff** | Networking Meetings – may or may not include professional development discussion/presentation by FDC staff. Approx. 9 per year + additional as needed |
| **Approximate number of educator group professional development per year delivered by external providers** | 1 from Professional Support Co-ordinator plus another. Circulate information about other opportunities. |
| **Other** | |
| **Do your Co-ordinators use their own vehicles for home visits etc. or does your services have vehicles that are provided?** | 2 service vehicles |
| **If Co-ordinators use their own vehicles, how is the mileage calculated?** | n/a |
| **How do your co-ordinators document Educator Home visits?** | Still form based (hardcopy or filled in on computer). Have iPad but not using it yet. |

| Service 5 | Service 6 |
|---|---|
| Community based | Community |
| City | Rural / remote |
| | |
| | 128 hrs |
| 38 | 28 hrs |
| 114 | 48 hrs total (1 co-ordinator 20 hrs and the other 28) |
| 68 | 32 hrs |
| 25 | none |
| Director full-time (oversees FDC, + 2 other programs)<br>1 full-time Educational Leader, 1 full-time Recruitment and IHC Officer | Placement Officer – 20 hrs |
| | |
| Waiting list, data entry of new families, family contacts | No |
| 1.5 hours<br>1 hour for a visit and half an hour travel time | No we do not we go by our policy of 1 visit a month of up to 2 hours and we spend time on resources and support (phone calls, referrals etc) due to demand. |
| | |
| 150 | 30 |
| 0 | 0 |
| 148 | 29 |
| 1051 | 213 |
| 16.215.75 | 2915.25 hrs |
| 464 | 309 |
| 35 cents per hour per child | 20 cents |
| 35 cents per hour per child | 25 cents |
| 80 cents per hour per child | 80 cents |
| 80 cents per hour per child | 90 cents |
| $250 | None |
| Not charged | $40.00 first child and $20.00 each additional child. |
| Not charged | None |
| Part of levy payment educators may attend 2 training sessions a semester; book into further training if they wish at the cost of $11 p/h. | None – as our Educators pay for each training session that they attend but when enrolling to become an educator the training fee is $150. |
| None | Incomplete or incorrect attendance record fee |
| $4.55 to $12.20 per hour (average $8.18) | $6.50 – $13.00 |
| | |
| 1 visit per month | 1 per month |
| 1 part-time operates 5 playgroups across city per week and 1 co-ordinator operates 1 playgroup per week | We do not do these at present time |
| Provided by sponsor | 4 |
| 45 | 8 |
| | |
| Our services has one vehicle and staff then use their own | We have 2 vehicles provided for staff |
| by engine size | If for the occasional time that a staff has to use their own car than it is calculated 78 cents per km |
| Carbon visit pads | They write a report on our home visit forms which we keep a copy and the Educator receives a copy as well. |

| | Service 7 |
|---|---|
| Service Operator | Council Sponsored |
| Location | Metropolitan |
| **Co-ordination Unit Staffing** | |
| Total Staff Hours | 161 |
| Manager Hours | 35 |
| Co-ordinator Hours | 77 |
| Administration Staff Hours | 49 |
| Playgroup Staff Hours | n/a |
| Other | 0 |
| **Allocation of Hours of Home Visiting Staff** | |
| Co-ordinators undertake additional roles (e.g. waiting list, Educator recruitment) | Recruitment, Educator Training, Waiting list and enrolments, In Home Care, Co-ordinate inclusion support, develop resources |
| What is your calculation to determine the home visit hours allocated for resource and support visits per Educator? | No |
| **Fees Charged** | |
| Total number of Registered Educators | 55 |
| Total number of Registered Relief Educators/Educator Assistants | 0 |
| Number of Educators | 49 |
| Number of children in care | 321 |
| Number of child hours | 6642.5 |
| EFT | 183 |
| Current Educator Levy | $20 per week |
| Educator Levy | $25.00 per week |
| Current Parent Levy | .50 cents per hour per child |
| Parent Levy | .55 cents per hour per child |
| Orientation Fee | $280.00 |
| Enrolment Fee | $40 |
| Waiting List Fee | 0 |
| Educator Training Fee, e.g. per session, annual fee, weekly fee | Educator annual re-registration fee $30.00 per annum |
| Other fees charged, e.g. late attendance record fee, playgroup fee | Late attendance records $11.00 per record |
| Range of fees charged by Educators to families | $6.00–$9.00 per hour – varying minimal hours up to 10 per day |
| **Educator Support** | |
| Approximate number of monthly face to face home visits – what is the minimum target visits to educators, e.g. 1 per month | 1 per month |
| Number of staff operated playgroup/play sessions per week | 0 |
| Approximate number of educator group professional development per year delivered by your services FDC staff | 4 |
| Approximate number of educator group professional development per year delivered by external providers | 2 |
| **Other** | |
| Do your Co-ordinators use their own vehicles for home visits etc. or does your services have vehicles that are provided? | 1 services vehicle – access to Council fleet cars |
| If Co-ordinators use their own vehicles, how is the mileage calculated? | N/A |
| How do your co-ordinators document Educator Home visits? | Electronic mobile devices and later transferred to individual Educators Home Support File on TRIM |

| Service 8 |
|---|
| Community based |
| City |
| |
| 279 |
| 60 (2 people working 8 day fortnights) |
| 138 |
| 74 |
| 7 |
| |
| |
| Waiting list, Newsletter, training, playgroup roster, Educator recruitment/induction, policy development, In Home Care, Educational Leader, various working parties |
| 2.5 hours per visit. Based on available funding and staff hours |
| |
| 96 |
| 5 |
| 94 |
| 836 |
| 9600 |
| 271 |
| $12 per week |
| $12 per week |
| 90c per hour per child capped at $45.00 |
| 90c per hour per child capped at $45.00 |
| Fee educators $150 |
| $30 + $10.00 for each additional child (includes a hat for each child and a literacy pack) |
| None |
| N/A covered by levy |
| Playgroup $2 per child<br>Late ROCS $5 per sheet (rarely charged) |
| $5.50 to $12.00 (only one at $12) |
| |
| From July, 1 visit every 5 weeks, plus planned playgroup visits |
| 3 per fortnight plus 2 music and language session every week in the educator homes |
| 12 |
| 3 plus educator forum |
| |
| Own vehicles |
| Paid as per the Award currently 76 cpk |
| Using iPads, processes and forms currently being updated. |

# Case studies

**What are other services doing? Often, the best advice comes from other services. Here are a selection of case studies of services sharing what they are going to do with reduced Community Support Funding or no Community Support Funding.**

# Case study 1

## NSW regional small private service with 15 self-employed educators

### ➔How long has the service been operating for?

Under one year.

### ➔Will it be eligible for CSP funding?

No. Under current circumstances, the service anticipates it will lose just under $2,000 per week – which is the approximate amount needed for service salary costs.

### ➔How will the service increase income?

- The service is looking to become a specialist socially disadvantaged service. Its aim is to focus on recruiting at least five new Indigenous educators and families in the hope that this may enable it to become eligible for ongoing Community Support Program funding.
- The service will increase its educator levy and will now introduce a parent levy for the first time.
- The service is also exploring becoming an RTO as a way of diversifying its income stream.

### ➔How will the service cut costs?

- The service is currently not renting an office as it operates from the provider's home office.
- The service does not believe that it has any cost cutting options that can be realistically considered.

### ➔Service's description of their service

A specialist service for disadvantaged families within the local community focussing on the provision of Family Day Care by Indigenous educators.

### FURTHER COMMENTS

This service realises that recruiting indigenous educators/families won't guarantee eligibility for CSP funding if they are not deemed to operate in a socially disadvantaged area – which they are not. They are also aware that becoming an RTO will not compensate for the loss of CSP funding. The service believes that by recruiting five more educators they will marginally increase the service's income and this will help address the funding shortfall even if it does not make them eligible for CSP funds.

The Provider of this service has direct contact with educators by phone and all educators are visited at least once fortnightly by the Provider. The Provider does not employ additional staff.

# Case study 2

## South Australian metropolitan small private service with 19 self-employed educators

### ➔How long has the service been operating for?

Under four months.

### ➔Will it be eligible for CSP funding?

Possibly. Service thinks that under current circumstances, they will receive a reduction of funding because of the funding cap after July 2015. Educators are classed as contract seasonal workers.

### ➔How will the service increase income?

- Recruit more educators
- If not successful in gaining CSP funding, they will be increasing levies to recoup lost funding
- The service is also exploring becoming an RTO as a way of diversifying its income stream
- Looking at publishing a quality framework curriculum handbook to sell overseas.

### ➔How will the service cut costs?

- The service does not believe that cost cutting options are possible.

### ➔Service's description of their service

A service in infancy still developing.

# Case study 3

## Western Australian metropolitan large local government managed and operated service with 100 self-employed educators

### ➔How long has the service been operating for?

16 years.

### ➔Will it be eligible for CSP funding?

No.

### ➔How will the service increase income?

- Looking at amalgamating with a neighbouring local government service – this would increase the number of educators to 160.
- Amalgamation will allow economies of scale.
- Remove administration levy and only have one (increased) educator levy. This will be simpler to administer but still be reflected in childcare fees, as well as being a tax deduction for educators.
- Have employed a business consultant to review operating model options.

### ➔How will the service cut costs?

- Reviewing budget.
- Reducing staff hours by way of natural attrition.
- Economies of scale.

### ➔Service's description of their service

A not-for-profit local government community service required to operate on a break-even budget.

### FURTHER COMMENTS

The service believes it is important to keep educators informed and consulted throughout the whole process of change and/or transition so they do not feel threatened and leave the service.

# Case study 4

## A metropolitan medium community-based organisation with 50 employed educators

### ➔How long has the service been operating for?

35 years.

### ➔Will it be eligible for CSP funding?

No – the service will lose approximately $200,000.

### ➔How will the service increase income?

- Childcare fees are all the same and paid directly to the service. They will be reviewed if required. At present, childcare fees are only charged to cover the educators' salaries. A separate family administration fee covers the co-ordination staff salary costs. This will remain the same at this stage. Childcare fees are usually only increased with educator award salary increases but now may need to be slightly increased in light of the loss of funding.

### ➔How will the service cut costs?

- Our Family Day Care service has now been brought under the same management umbrella as other education and care services (e.g. long day care, outside school hours care and preschool services) operated by the same organisation, allowing economies of scale by sharing premises, job sharing, resource sharing, etc.
- Combining services has enabled some decreased staffing levels and associated costs but only as a result of natural attrition at this stage.
- At present, the service prides itself on fortnightly visits, which may need to be scaled back a little.

### ➔Service's description of their service

Not-for-profit NGO, board managed, employed educator status with above Award rates of pay.

### FURTHER COMMENTS

Services could combine with other like-minded children's services by sharing workloads, resources, staff and premises that could lead to efficiencies and economies of scale, thereby reducing operating costs.

# Case study 5

## A metropolitan large for-profit service unit with educators in the surrounding area, 70+ educators and 20 more waiting to be registered

### ➔How long has the service been operating for?

Five years.

### ➔Will it be eligible for CSP funding?

No.

### ➔How will the service increase income?

- In the process of developing an app to sell to other services for use by co-ordinators on visits for reporting back to administration offices.
- Will definitely have to increase current both parent and educator levies. Current charge $0.60 per hour per child family levy and $10 per educator per fortnight educator levy.

### ➔How will the service cut costs?

- Will no longer be able to provide the level of support visits and services provided to educators. Currently visit each educator at least fortnightly but this will no longer be feasible.

### ➔Service's description of their service

Large privately operated for-profit service but with a community-based service delivery philosophy.

# Case study 6

## A model of organisational sponsorship

This small service employs two part-time staff and is sponsored by a local Council in a rural area.

Although the Council's budget had been under pressure in recent years, it remains committed to Family Day Care provision, and provides the small co-ordination unit with some financial support. In addition, the unit receives around $40,000 in CSP. Like most other services, this service also charges families an administration levy. This is currently set at $3.30 per day for the first child in a family only, to maintain affordability for large families. Also, like many other services, a levy on educators was charged, set at $20 per fortnight.

With this level of support, a co-ordinator has been able to visit educators every two or three weeks. The co-ordinator monitors the program, including safety and hygiene and coverage of the NQF and EYLF. The worker also spends time doing activities with the children, builds relationships, and role models to educators. After each visit, the field worker completes a field visit report. The service also runs a small equipment and book library.

Travel costs are required for field visits, as many of the educators are located in surrounding villages and towns. The service recently lost Regional Travel Assistance Grants. However, the service continues to be resilient, largely because it receives financial support from Local Government. It is also resilient as its funding base is diverse, being spread across council, government, educators and families.

The service is fortunate in that it is likely to remain eligible for CSP funding, as it is in a rural area which is not serviced by other Family Day Care operators. It was considered unlikely that another operator would set up in the area, as it would not be financially viable, largely because of the costs of travel to visit educators working in surrounding villages and towns. Because of the small number of educators serviced, it was expected that funding would not be affected by the introduction of a $250,000 cap.

The information on pages 36–40 is reprinted with permission from Cortis, N., Blaxland, M., Brennan, D., & Adamson, E. (2014). *Family day care at the crossroads: quality and sustainability in uncertain times* (SPRC Report 24/2014). Sydney: Social Policy Research Centre, UNSW Australia.

# Case study 7

## A model of scale and business efficiency

This large not-for-profit service operates over a number of areas and has grown rapidly in recent years. A combination of low levies and professional support are seen as key to attracting educators. The service is linked to a large community service organisation, but operates as a stand-alone business unit. The co-ordinator has considerable experience in efficiently managing not-for-profit services with constrained budgets. Fourteen co-ordinators support approximately 250 educators who, in turn, care for 2,800 children. Co-ordinators are widely dispersed to ensure proximity to educators and to reduce travelling costs.

Two senior co-ordinators (one city-based and one in a regional location) provide an additional layer of support and the nominated supervisor is on call at all times.

The business model for this service assumes four hours of support per educator, per month. Thus, a co-ordinator working a 38-hour week would support and monitor 38 educators. Many co-ordinators are employed part-time and support a smaller number of educators.

Currently, educators are charged a weekly fee of $3, plus 35 cents per hour per child enrolled.

The service has not raised its levies in advance of the Commonwealth Government changes, but accepts that it will need to do so once it loses operational funding (which is currently in the vicinity of $1 million per year).

The combination of efficient management and economies of scale are expected to keep this large, dispersed service sustainable.

# Case study 8

## A model of shared administration

This medium-sized service consists of a manager, four co-ordinators and an administrative support worker. The service supports 50 educators through fortnightly face-to-face visits, of two hours in duration. The service is part of a large community-based organisation that also provides long day care and outside school hours care. It receives a small amount of income from parent fees and from its sponsor organisation. Following the changes scheduled for July 2015, the service expects to lose all CSP funding. The impact is expected to be substantial, as CSP provides around 80 per cent of the co-ordination unit's income.

The service will attempt to remain sustainable, in part, through achieving efficiencies in shared administration. The model seeks to reduce costs and 'work smarter' by combining the Family Day Care co-ordination unit with the co-ordination unit for school aged care. The two functions are currently being run separately, and some overlap had been identified prior to the announcement of changes to CSP funding. Sharing administration with other ECEC services provided by the organisation is hoped to reduce the costs of Family Day Care.

There is organisational commitment to developing this model. Senior managers are keen to retain the Family Day Care service, as they see it as important to how the organisation achieved its mission.

Notwithstanding, combining administration of the Family Day Care and out-of-school hours care services requires the organisation to take on some risk, and there is likely to be a loss of dedicated Family Day Care staff. The loss of CSP funding is expected to push face-to-face visits to educators back from fortnightly to monthly. There is also expected to be more reliance on IT for communicating with educators. However, the service was hoping that in developing this model, it would avoid raising fees to families.

# Case study 9

## An entrepreneurship model

This private service operates in a metropolitan area, and serves 60–70 educators. Around 80 per cent of educators are from Culturally and Linguistically Diverse backgrounds (CALD), including those that have newly arrived to Australia.

Because of the location criteria, this service is likely to lose its operational funding. Currently, the service charges educators $0.69 per hour, matching the CSP funding they receive. It does not charge family levies. Consequently, without CSP funding, the service budget will halve, which may result in closure of the service.

Being committed to its educators and families, the service is considering several strategies, guided by a new business model which it is in the process of developing. One option is to raise fees to educators. Family fees were deemed not to be an option. A second option was expanding into outside school hours care services.

Thirdly, to avoid raising fees by the full $0.69 per hour which would be lost from CSP, the service was considering diversifying its income by opening a retail outlet selling nappies and other early childhood items to parents and educators. This business would also be open to the public. This provides a model of entrepreneurship, involving a diversification of the services income base which could be adopted by other services, whether or not they are private providers, or community or government-based. Other services may also wish to consider using their networks of educators and families as a basis for retail sales, including early childhood or other items or seek other business opportunities such as offering training services for educators and other early childhood professionals, and providing nanny services.

# Case study 10

## An amalgamated model

This service is part of a larger community-based service providing a range of services for children and families ranging across several metropolitan areas. Family Day Care is one of a number of ECEC services provided, and is highly regarded within the organisation. A high proportion of educators are from CALD backgrounds and are self-employed.

This service has grown in recent years through acquisitions of struggling services, including following a request from a government-run service to take on its Family Day Care service. Being acquired was attractive for smaller services which were struggling with the high expectations on co-ordination units, and for councils who were rethinking their role as providers of Family Day Care. The amalgamations have provided cost savings through economies of scale. Locally-based services have been maintained with an overarching management structure and shared administration. In addition, resources such as a toy and book library are shared across local areas. Reasonable rents have been negotiated with councils. The Manager works flexibly across areas, resulting in some efficiencies.

This model could be expanded to maintain localised service provision, and local service identities, following the loss or reduction of CSP funding. Notwithstanding, the amount of income that will be lost following the changes to CSP funding means that despite their efficiencies, they would need to raise levies on educators or families. The organisation is considering subsidising fee increases for the first year, so they could be gradually phased in.

# Thinking about finances

**In making a decision on what is best for your organisation, you need to understand why you spend money, how to reduce costs and how to price.**

**The following section, prepared by Westpac's Financial Education arm, the Davidson Institute, explains how to assess these three core issues for your service.**

# The financial impact

To remain viable after changes to CSP funding, Family Day Care services will need to increase prices to educators/families or reduce costs.

In making a decision on what is best for your organisation, you need to understand why you spend money, how to reduce costs and how to price.

# Why we spend money

Basically, we spend money to provide value to our customers. A question to be asked is: 'What causes my customers to buy my goods and/or services at a value (price) that will make me a profit?'

It is important to start with who are your customers? Your service's customers on one level, are educators. Your ultimate customers are the parents, who are the customers of the educators.

What value do you provide to the educators? The answer to this question (while at the core, it will be the same for every Family Day Care service), will be different for each. It starts with what services do you provide? At what level of quality?

At the core, the services are ensuring Family Day Care:

- Is delivered by suitable personnel
- Is in a safe care environment
- Meets the National Quality Standard.

The organisation may offer other services, which could include things such as:

- Legal advice
- Regulatory compliance advice
- Quality monitoring
- Quality improvement advice
- Administrative Assistance
- Advice for families
- Referring families to educators
- Enrolling families
- Administering government subsidies
- Helping families understand early education and care
- Linking children and families to health and other services such as speech pathology
- Recruiting educators
- Inducting educators
- Assisting educators to establish business
- Assisting educators to operate business
- Processing timesheets and payments for educators

- Assessment of educator's homes
- Ensuring access to professional development (required under the Regulations)
- Developing professional development
- Delivering professional development
- Mentoring educators
- Assisting with planning and documenting of educational programs
- Emergency support
- Helping educators monitor child wellbeing and development
- Provision of equipment such as cots, prams, car seats, cars and buses
- Book libraries
- Toy libraries
- Provision of play sessions for educators and children.

Note: Some of these points are required to meet the National Quality Standard.

Are there any other services that your educators or families would value? Add these to the list of services.

Next, think about how you conduct those services.

What is the level of quality, the level of service (this may be how often do you visit educators homes)? How old is your equipment? How convenient are you to deal with? Can you provide services at this level consistently?

All these services you provide at the level of quality you decide, cost you money. Do your customers (educators and ultimately families) value what you do? Will they pay you enough to continue providing them? Before you can answer the question on reducing costs or increasing prices, you first have to be clear on what services will you provide and at what level of quality.

# Reducing costs

Now you know what services you are providing and at what level, we can look at costs.

There are only four ways to reduce costs:

- Improve productivity/efficiencies
- Reduce over capacity
- Cut services or the level of quality
- Increase prices.

Remember, we spend money to bring our service to market to satisfy the needs and wants of our customer. Cost cutting for the sake of cost cutting is fraught with danger. If we cut the value received by the customer, what will that do to the future of your organisation?

## 1 → Improve productivity/efficiencies

The question here is how productive or efficient are the resources you use in the business. Resources include physical things like stock, equipment, motor vehicles, premises and people. It also includes non-physical things such as marketing, systems and processes, logistics, production and administration.

You can reduce costs if you can find a better/smarter way of doing things, by streamlining your processes, using new technologies and ideas, finding cheaper suppliers or reducing errors in paperwork. It could be working out routes for home visits which cut down on mileage and allow more visits in a day.

Remember, if you improve productivity/efficiency in your organisation, this will reduce your costs of providing your services, which will increase your profitability or allow you to offer a lower price.

## 2 → Reduce over capacity

Over capacity is when you have more physical resources than you need to meet the current and near-term forecast needs of your customers.

It can be caused by a number of reasons, including:

- Improvements to your productivity/efficiencies (as discussed above)
- Too much space
- Resources from services no longer provided
- Educators and/or children numbers down due to economic or outside circumstances
- Technology has changed and you still hold old equipment
- You hold it for safety/just in case
- You simply made a mistake in acquiring the resource.

If you have over capacity and do not need the resource in the foreseeable future, get rid of it, or find a way for it to earn cash for you. Unused resources cost you money. If you get rid of it, it may free up cash or space in the process and be able to improve productivity or reduce your costs and increase your profitability.

## 3 → Reduce services or quality to the customer

Once efficiency/productivity gains have been implemented and excess capacity eliminated, you now have to look at cutting back the number of services and or the level or quality of that service.

There are two questions to ask:

(i) What value does this resource add to my current or future customers? Remember, you should not cut the costs to maintain (such as training or maintenance) or protect (such as insurance) these resources.

(ii) Will the customer pay for it?

If the customer does not perceive the value, then you must educate your customer of the value through marketing or sales staff. This may cost you more money to start with.

If the customer does not value something you do (that means they will not pay for it), stop doing it.

### 4 → Increase prices

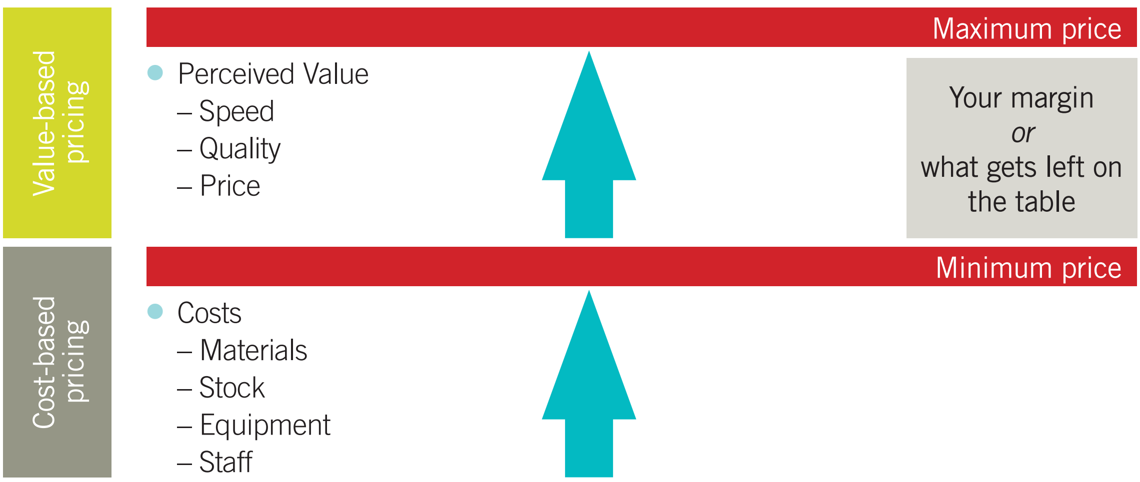
If you cannot increase productivity/efficiency, get rid of over capacity or reduce the services you offer, then, increase your price.

When faced with a cut in funding, we quite often look to reducing costs to stay in business. However, it may be better to increase your prices. The reality is, if we are providing value for our customers, they have to pay for it.

We spend money to make money. Cost cutting can only be achieved when we know what outcome we want to achieve. The outcome generally is to satisfy our customers' needs in such a way that we make a profit.

## Pricing

When we look at pricing, there are two ways to look at it; a cost-based approach and a value-based approach.



The cost-based approach works out all your costs to provide your services, plus minimum profit required and, based on the volume of service expected to be delivered, works out a price. This is the minimum price you can charge. It is important to know this price as your organisation will be in trouble if customers will not pay this price. In this section, we will use a variation of a tool called breakeven to show how this works.

There is one small problem: customers do not care how much it costs the business. They care about how much it costs them.

For example, when buying prams, there is the choice between $150 Steelcraft Eclipse or around $1,900 on a Baby Jogger. Does a Baby Jogger cost more to build than the Steelcraft Eclipse? Probably. But does it cost $1,750 more to build than the Steelcraft? No. So the cost to build the pram is not driving the customer's decision to buy. It is the customer's perception of value. This illustrates that different customers are willing to pay different amounts. A higher socio-economic area may be prepared to pay more for more services or a perceived better quality service compared to a lower socio-economic area.

The key word here is 'customer'. Not all customers perceive value in the same way. Therefore, it is imperative we understand who our customer is, what factors they consider when determining value and what comparisons change their perception of value.

Part of comparisons is, of course, what other Family Day Care services are charging. Make sure you know what services and what level of quality other Family Day Care services you may be competing with are providing when making price comparisons. You may be providing more services and better quality, which means you can charge more.

The most important point with pricing is to believe in the value you provide and price accordingly.

# Pricing using breakeven

Breakeven is the point where a business makes no profit and no loss. It is generally used to discover what volume of sales you need to get over before making a profit.

It can also be used to see the impact of cost changes on a business and pricing changes.

We are going to use it to help us determine the price we need to get to cover our costs.

There are simple steps to determine breakeven:

1. Determine the unit of measure for volume
2. Classify our costs between variable and fixed
3. Calculate the variable cost per unit of measure
4. Calculate the price by volume trade off.

## 1 → Determine the unit of measure for volume

To start, you must understand your volume measure. This is determined by the main activity your business undertakes to deliver a sale. It could be the product, hours, metres, litres, kilometres, or customers, amongst other things.

In the case of an Family Day Care service, the volume measure would be number of educators. For educators it would be child hours. This is because the majority of the activity of Family Day Care services are driven by the number of educators rather than the number of child hours.

The volume measure is required for two reasons:

- To help understand which costs vary in relation to a level of activity. These are known as variable costs
- To help you understand which costs give you the capacity for the activity, known as fixed costs.

## 2 → Classify costs

We start with your profit and loss statement and ask how do your costs behave in relation to your main activity.

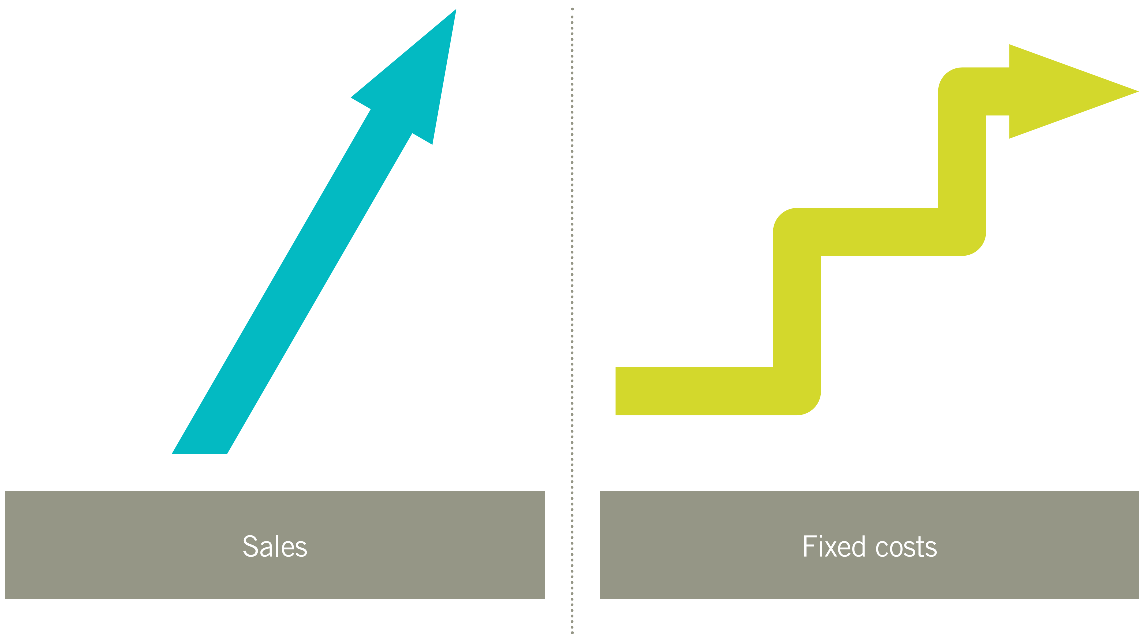
**Variable costs.** The sale or activity cause these costs to happen. If activity increases – i.e. you put on more educators – these costs go up. If activity decreases – i.e. you have less educators – these costs go down. Costs that are considered variable may be different from service to service, due to how they are set up.

These costs may include:

- Purchases
- Consumables
- Catering and food
- Childcare equipment
- Art and craft
- Play sessions
- Motor vehicle mileage
- Motor vehicle fuel and oil
- Motor vehicle repairs and maintenance
- Casuals and contractors
- Bank charges and merchant fees
- Labour (Note: some labour is fixed, you need minimum staff to open the service. The rest of the staff may be variable. Split your wages and other employment costs between fixed and variable.)

**Fixed costs** are all the rest of the expenses. If you are not sure if they are fixed or variable, call them fixed. Another way to look at these costs is they are the resources needed to provide the capacity to support a certain level of activity. As your sales or activity go up, these costs go up in a step like fashion.

As an example, one co-ordinator may be able to resource and support 10 educators. If you have one educator, you still need one co-ordinator. As soon as you go over 10 educators, the cost goes up and then stays the same until you get to 21 educators.



These costs may include:

- Marketing expenses
- Employee expenses (wages, superannuation, workers compensation insurance, recruitment, training, etc.)
- Motor vehicle costs (insurance, registration, depreciation, leases)
- Depreciation
- Equipment hire/leases
- Asset purchases
- Cleaning
- Computer expenses
- Consultancy fees
- Fees and permits
- Gifts
- Fundraising expenses
- Licensing fees
- Internet expenses
- Management fees
- Entertainment expenses
- Meeting expenses
- Organisational development
- Postage, freight and courier
- Printing and stationery
- Publications and information resources
- Telephone and fax charges
- Travel
- Rent
- Security expenses
- Subscriptions
- Utilities (electricity, gas and water).

There is one more piece of information needed in order to calculate our price: profit. The profit figure needed is the minimum profit required to make running the business worthwhile. If you are a not-for-profit, you should still aim for a surplus. The surplus should be enough to replace assets (e.g. motor vehicles) when they wear out. So the figures you need to determine the breakeven point are:

| | |
|---|---|
| | Current Volume (No. of Educators) |
| | Total Revenue |
| less | Total Variable Costs |
| = | Contribution Margin |
| less | Total Fixed Costs |
| = | Profit or Surplus |

## Example

Here is an example. A city-based childcare provider with an average of 57 educators results in the following figures.

| | | |
|---|---|---|
| | Current Volume (No. of Educators) | 57 |
| | Total Revenue | $612,882 |
| less | Total Variable Costs | $11,250 |
| = | Contribution Margin | $601,632 |
| less | Total Fixed Costs | $583,034 |
| = | Profit or Surplus | $18,598 |

To calculate the current revenue earned per educator, use the following formula. This will tell you what you currently make per educator. If you do not change anything about your organisation, you will need to collect at least this to stay in the same position you are in now.

| | | | | | | |
|---|---|---|---|---|---|---|
| Current Revenue per Educator | = | Total Revenue / Current Volume | = | $612,882 / 57 | = | $10,752 |

If you are going to change the number of educators or your costs, the following calculations will help you determine the total revenue needed per educator.

**First**, calculate the variable cost per educator. (Note: if you are changing costs or number of educators use the expected total variable cost and the expected number of educators.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Variable Cost per Educator | = | Total Variable Costs / Current Volume | = | $11,250 / 57 | = | $197.37 |

**Second**, calculate expected fixed costs plus projected profit/surplus.

| | | |
|---|---|---|
| | Total Fixed Costs | $583,034 |
| plus | Projected Profit | $20,000 |
| = | Fixed Costs + Profit | $603,034 |

**Third**, calculate fixed costs and profit/surplus per educator.

| | | | | | | |
|---|---|---|---|---|---|---|
| Fixed Costs + Profit per educator | = | Total Fixed Costs + Profit / Projected Volume | = | $603,034 / 57 | = | $10,579 |

**Fourth**, calculate revenue required per educator

| | | |
|---|---|---|
| | Variable Cost per educator | $197.32 |
| plus | Fixed Cost + Profit per educator | $10,579 |
| = | Required revenue per educator | $10,776 |

For your organisation, work out your variable costs and fixed costs based on your current costs. Make any adjustments based on known cost changes and any changes you will make to the service you offer.

While this method just comes up with one price, you can break this price down further. If you break it down by service offered, you will need to break your costs down by service. You may break the price down by time (week or day). You may break it down by child hour.

Whichever way you break it down, this calculation will give you an idea of the total you need to receive to continue to offer your services. If the educators or parents will not pay this, as mentioned, you will need to cut services or the quality of the services offered. Before you do so, explain to your customers what they will be losing if they will not pay the price.

Here is a table for you to work out your situation.

| | | |
|---|---|---|
| | Current Volume (No. of Educators) | |
| | Total Revenue | |
| less | Total Variable Costs | |
| = | Contribution Margin | |
| less | Total Fixed Costs | |
| = | Profit or Surplus | |

To calculate the current revenue earned per educator, use the following formula. This will tell you what you currently make per educator. If you do not change anything about your organisation, you will need to collect at least this to stay in the same position you are in now.

| | | | | | | |
|---|---|---|---|---|---|---|
| Current Revenue per Educator | = | Total Revenue / Current Volume | = | ____ / ____ | = | |

If you are going to change the number of educators or your costs, the following calculations will help you determine the total revenue needed per educator.

**First**, calculate the variable cost per educator. (Note: if you are changing costs or number of educators, use the expected total variable cost and the expected number of educators.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Variable Cost per Educator | = | Total Variable Costs / Current Volume | = | ____ / ____ | = | |

**Second**, calculate expected fixed costs plus projected profit/surplus.

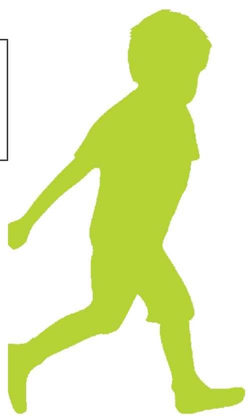
| | | |
|---|---|---|
| | Total Fixed Costs | |
| plus | Projected Profit | |
| = | Fixed Costs + Profit | |

**Third**, calculate fixed costs and profit/surplus per educator.

| | | | | | | |
|---|---|---|---|---|---|---|
| Fixed Costs + Profit per educator | = | Total Fixed Costs + Profit / Projected Volume | = | ____ / ____ | = | |

**Fourth**, calculate revenue required per educator.

| | | |
|---|---|---|
| | Variable Cost per educator | |
| plus | Fixed Cost + Profit per educator | |
| = | Required revenue per educator | |



# Find out more

## Research

The Family Day Care Service Education and Support Project commissioned some research from the NSW Social Policy Research Centre about the changes in funding to Family Day Care services. The report of this research is *Family Day Care at the Crossroads: Quality and sustainability in uncertain times*. The research was intended to identify models of funding and operating co-ordination activities, elements of practices which were successful, and possible strategies to respond to the withdrawal of operational funding after July 2015.

The research explains the background to the funding changes and explores service options. To read the report, go to:
**www.fdcsupport.org.au/research**

## FAQs

The Family Day Care Service Education and Support Project has a section on the project's website for Frequently Asked Questions (FAQs). These questions have been answered for services by the Department of Education. If you have a question and you cannot find the answer here, please email the project at: **info@fdcsupport.org.au**

## Individual support

The Family Day Care Education and Support Project has been funded to provide one-on-one support and advice to Family Day Care services that feel they cannot navigate what changes they need to make by themselves. If you believe your service is in this situation, or if you believe your service may have to close, please email us at: **info@fdcsupport.org.au** Please note that the number of services we can assist with individual support is limited. Services will be assessed on the basis of need before individual service support is supplied.

## Other support

Some states and territories have some government support available to small businesses, either free or at low cost.

NSW – Small Biz Connect:
**www.smallbusiness.nsw.gov.au/supporting-business/small-biz-connect-advisory-program**

WA – Small Business Development Corporation:
**www.smallbusiness.wa.gov.au**

QLD – Business and Industry Portal:
**www.business.qld.gov.au/business/support-tools-grants/support/small-business**

family day care services
EDUCATION & SUPPORT PROJECT

## CONTACT

Email: info@fdcsupport.org.au
Phone: (02) 9779 9926
Fax: (02) 9779 9998

This project is being managed by NSW Family Day Care Association (lead agency), in partnership with Family Day Care Association Queensland.

NSW FAMILY DAY CARE ASSOCIATION INC.

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For more information go to:
**www.fdcsupport.org.au**