

Establish.TM

Need-to-know guide to
starting your own early
Childhood Education
Centre (ECE)



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Thinking of starting an Early Childhood Education Centre?

There's a reason so many Kiwis want to start their own businesses - New Zealand has a reputation as being one of the easiest countries in the world to start and run a business.

That being said, running your own business takes dedication. You'll experience your fair

share of hard work, long hours, fretful nights and unpredictable days while you get things going and start to make and maintain profit.

Starting an new centre or purchasing an existing ECE business is no different. This guide for first timers will help you go into the journey prepared.

Basic business tips to get started

Filling a need

There's a big difference between a good idea and one that's commercially viable. Sometimes starting simple by identifying a gap in the market is a good place to start.

- Is there a need in your area for more ECE services?

In markets that are already well serviced or overcrowded you'll find it difficult to attract and retain both staff and enrolments because competition is high. In that instance you could either find another location that does have a need, or ask;

- Is there an existing centre I could acquire or improve on?

Buying an existing, underperforming centre could be a way into the sector. Be sure to investigate thoroughly why it's underperforming though; if it's due to too much competition then like the above, perhaps seeking a different area is a better idea.

Financials

Whether you end up buying an existing ECE centre, converting an existing house into one or starting from scratch and building, not only do you need to work out how much it will cost to get started, you need to have a good idea of how long it will be until you'll be in profit.

You need realistic estimates of future income and costs to help you decide if your business is viable or not, and show you a quicker path to breaking even and long-term profitability.

A centre's earning potential is ultimately based on the number of children it can enrol and maintain. This is affected by how big it is and where it's located so it can help to engage a professional to help you make sense of it all.

Don't expect to make a profit straight away. It's common to operate at a loss when you first start out. As far as your business plan goes, you need to be able to make enough money to sustain your business during the initial period. A cash flow forecast will help you know if and how much you'll need to borrow to be financially prepared to start up.

Branding

Who or what will your ECE centre be about? Will it be unique or part of a franchise? Both have pros and cons worth thinking about. Thinking about your branding, marketing and protecting your business idea is all part of getting started.

Business structure

Will you be a company, sole trader or partnership? Again, each business structure comes with pros and cons to investigate. You'll also need to formally choose one before you begin.

Employer obligations

When you hire staff you'll need to know your legal requirements as an employer, and implement good management practices. Things to think about include health and safety, salaries vs wages, hours of work, professional development and performance reviews.

Applying for consent

Whether you're buying something existing or starting new, before committing to a site or premise for your early childhood education centre it's imperative you check what your local council regulations are and how they might affect your dream of starting an ECE centre.

Each territorial authority across New Zealand has its own rules about what activities (and the scale of them) are allowed in different areas. For instance, it is unlikely you'd be able to run an early childhood education centre from in a heavy industrial area.

Applying for resource and building consents can be an exceptionally tricky thing to navigate. We go into a bit more detail in our **Early Childhood Education Centre Building Guide** which you can [download for free from our website](#).

Get a RealMe® login

Because you'll probably need to deal with a few different government agencies it's wise to get a RealMe® login early in the process.

Register your business

Some formalities that apply to everyone in business include getting a New Zealand business number (NZBN), securing your name (and a trademark if you think it's necessary), registering your company with the Companies Office and registering for GST with Inland Revenue. The aforementioned RealMe® login will help streamline all this.

What service will you provide?

In New Zealand, there are several different types of services out there. Each one provides for varied levels of education, care, play and socialisation. Here's a few examples of different types of services and what each of them mean.

Early Childhood Education and Care Centres

These are defined in the Education Act 1989 as “premises used regularly for the education or care of 3 or more children (not being children of the persons providing the education or care, or children enrolled at a school being provided with education and care before or after school) under the age of 6 -

- by the day or part of a day; but
- not for any continuous period of more than 7 days.”

Home-based care

The Education Act 1989 defines this service as those that provide “education or care, for gain or reward, to children who are under the age of 5 years, or who are 5 years of age but not enrolled in school, in -

- the children's own home; or
- the home of the person providing the education or care; or
- any other home nominated by the parents of the children; and
- includes the provision of education or care to any child of the person providing the service who is
- under the age of 5 years; or
- 5 years of age but not enrolled in school.”

Playgroup

Meeting in different settings all over the country, playgroups offer parents or caregivers the opportunity to give their children valuable educational and social experiences together. It's a great place for parents to support each other too.

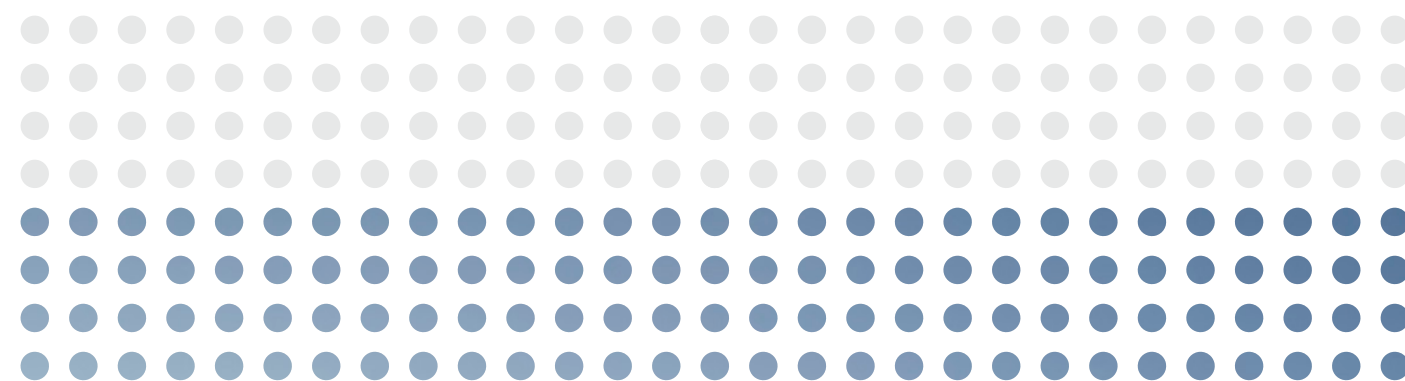
The Ministry of Education (MoE) have staff in their regional offices who work with parents wanting to establish a playgroup, helping them work towards the proper certification.

So, what's right for you?

Home-based care is the best option if you're wanting to earn income by caring for other people's children at the same time as your own; or you're wanting to care for just a small number of children on your own; or you're wanting to do either of these in a residential home setting; or you're looking for a flexible option that allows you to control your hours.

A playgroup is the best option if you're wanting to care for just your own child but at the same time interact with other children and their parents.

A ECE centre is the best option if you're looking to create a business out of childcare and education. This is a much bigger commitment than the other two options as it's not just about providing care and education, you also have a number of compliance and regulatory matters to keep on top of.



Starting new vs buying existing

Whether you want to start from scratch and create something that's your idea or find the idea of taking over and improving something existing, each has some appealing factors as well as plenty to be considered.

Buying existing

One of the key benefits of acquiring a centre as a going concern is that it provides you with certainty over the financials. Costs and income are known, which make budgeting straight forward and potentially less stressful. With an existing roll of children and staff already employed there's even more certainty. And because the building exists you can see it, inspect it and get a feel for what it would be like to run it.

However, with certainty can come complication and baggage so always find out why is the centre for sale in the first place. Is it struggling to fill its roll? Perhaps there are pre-existing tensions between staff and parents or staff and management that have seen it not work out. Buying an existing centre means you inherit these issues.

It's possible your staff may be resistant to change when it comes time to apply your own philosophy to the centre.

There may be building maintenance issues (or deferred-maintenance issues) to address. The centre may also be operating under limitations that don't meet your requirements.

Converting an existing building

There are two options for starting a new centre - building new or converting an existing building that isn't currently an ECE centre.

When it comes to conversions, it can be hard to beat the character and charm of a building constructed in a different era. Converted former residences offer a unique homely feel.

The main issue with conversions is meeting current regulations. An existing building puts limits on design options and can compromise the best layout of a site. This can be in relation to natural light, noise, parking, etc. The building itself may not be well configured internally to enable the type of teaching and care environment you are looking to create.

Any conversation must meet current Building Code requirements, which, depending on the state and age of the building, could involve a lot of re-construction work. Key issues relate to disabled access, cooking facilities, toilets, and fire access/egress.

Any conversion will also need to consider how it can meet the Ministry of Education's licensing criteria. For example, will the existing building's layout provide sufficient space and a suitable environment for children both inside and outside?

Will the configuration and layout of rooms enable there to be a separate sleeping area for children under two years old? Is it possible to provide a quiet/rest space for children over two years old? Can the building accommodate suitable spaces for food preparation, storage, meetings, staff breaks, and non-contact work? Yes, there are a lot of considerations!

Finally, even with the best due-diligence there are also 'known unknowns' and 'unknown unknowns'. Getting on site and starting works can occasionally unveil new challenges, e.g. asbestos, contamination, damaged internal structures or foundations, for example. Contingency plans can be made upfront but they can never cover everything.

Converting a building does not mean requirements cannot be met. It simply brings with it a greater challenge in finding design solutions. That does normally mean, however, added cost and uncertainty.

Building new

In our experience, of these two options, it is generally better off to build new. Compared to a conversion, a new-build provides much greater certainty, more often than not producing the best result both in terms of quality and cost.

With a new build, your ECE centre can be specifically designed for a site's individual characteristics - both its constraints and its opportunities.

Being able to design a centre from the ground up means council planning controls, Building Code requirements and licensing criteria can be accommodated from the outset rather than through a retrofit approach.

We generally find that new-build centres provide the best quality environment for children and staff. Spaces are warm in winter, cool in summer and provide good amounts of natural light. Modern eco-friendly materials and energy efficient designs can be specified. The site layout, and the configuration and orientation of the building can be designed to achieve optimal child numbers, maximum play space, achieve an efficient parking layout, control and contain noise, and get the best solar and ventilation control.

So, what's right for you?

Ultimately, it's about balancing certainty, cost and a modern high-quality centre with a desire to preserve or achieve a certain aesthetic or character by retaining an existing building. In our experience there are few situations where the former is outweighed by the latter.

Government funding

The Ministry of Education provides a certain amount of funding for early childhood education and care services. Funding carries eligibility criteria and has ongoing conditions and obligations your centre will need to meet.

Funding is provided through five mechanisms:

1. The ECE Funding Subsidy

This contributes towards operating costs of a centre and is calculated based on a per-child place basis up to a maximum of six hours per child and 30 hours per child-place week.

2. 20 Hours ECE

This subsidy is an alternative to the ECE Funding Subsidy and provides a higher rate of funding for three to five-year-olds up to a maximum of six hours per child per day and 20 hours per week. It is used in combination with the Plus 10 ECE subsidy so that it matches the ECE Funding Subsidy in terms of total hours funded.

3. Plus 10 ECE

This covers the 10 hours per child difference between the 30 hours of the ECE Funding Subsidy and the 20 Hours ECE subsidy. The funding for the remaining 10 hours is at the lower (for over two-year-olds) ECE Funding Subsidy rate.

4. Equity funding

The subsidy is in addition to the ECE Funding Subsidy and 20 Hours ECE subsidy and is available for licensed ECE services but not playgroups. There are four components to the subsidy:

- A - low socio-economic communities
- B - special needs and non-English speaking backgrounds
- C - language and culture other than English (including sign language)
- D - isolation

Eligibility for these components are based on the socio-economic and location indices that are determined by the Ministry every five years based on census statistics. Funding provided from this subsidy must be spent on measures directly related to the subsidy's equity objectives and requires reporting.

5. Annual Top-Up for Isolated Services

This assists small licensed services in isolated areas to maintain access to ECE. Funding is targeted to services with a limited capacity to generate Funded Child Hours due to isolation.

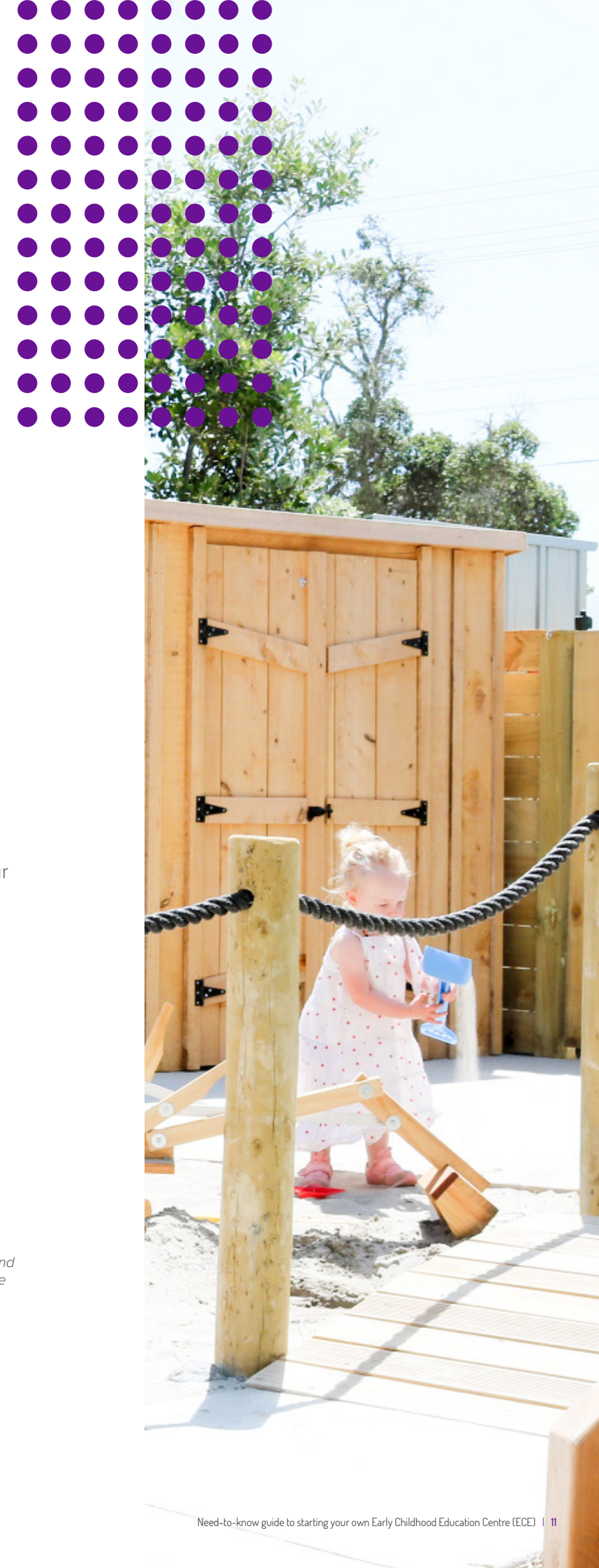
How is funding determined?

For a private centre, the main source of government funding will be either from the ECE Funding Subsidy or from the 20 Hours ECE and Plus 10 Hours subsidies.

Funding is also provided at different rates. The rate paid is per funded child hour and the figure determined by how many of the minimum required number of staff each hour are certified teachers. The highest figure is reached if at least 80% of the required staff are certified teachers.

The Ministry of Education requires detailed reporting of children, funded hours, and staffing for every hour of each day to calculate funding.

**Information is correct at time of publishing. Funding rules and criteria is amended from time to time and in the first instance you should refer to www.education.govt.nz to review the funding handbook and regulations.*



Future proofing your investment

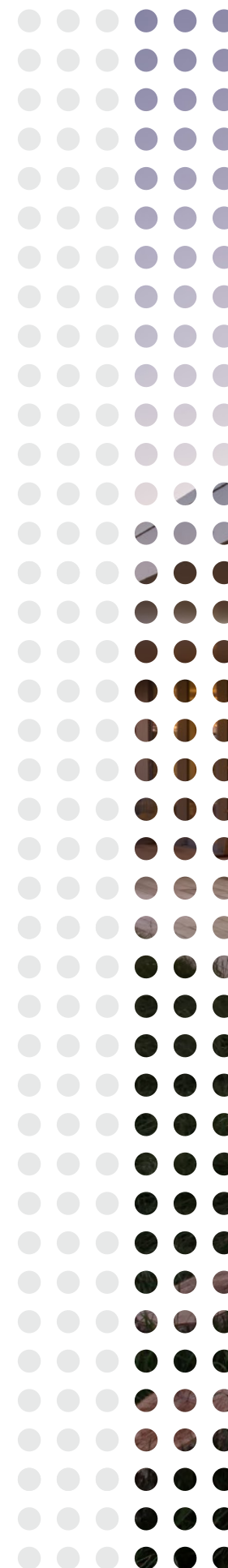
By now you might be ready to start really considering how you'll make your dream of creating an ECE centre work so before you're done reading this guide, let's just take a moment to skip ahead a few steps and think about what comes after you're up and running. What might the future hold for the sector and how can you prepare your business for this?

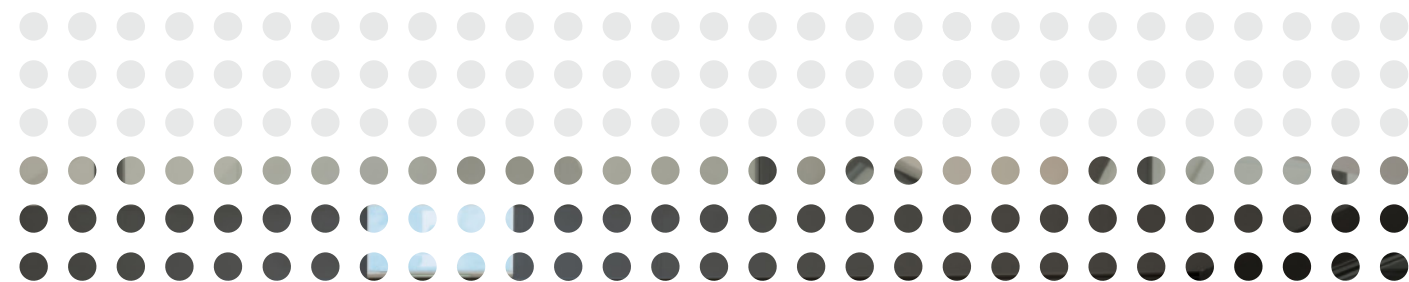
There have been a number of media articles recently about the shortage of qualified teachers in the ECE sector, funding difficulties, and the quality of the teaching environments our children are in. In 2018, **Radio New Zealand reported** on a seminar presentation at which it was pointed out that New Zealand's minimum standards were among the worst in the OECD. But minimum standards are just that - a minimum, the lowest requirement.

If you're buying an existing centre it's probably safe to assume the current minimum ratio for under-tuos of 1:5 will increase to 1:4. This is consistent with all of Australia. Increasing the number of teaching staff will also require a consideration of on-site parking requirements. These will vary across the country, depending on which council district plan applies in your area. You may also need to consider whether any resource consent you're operating under allows the centre to increase its staff numbers.

Another possible outcome is maximum group sizes. For centres and kindergartens that have an open-plan arrangement, this might necessitate changes to the internal layout in order to section off parts of the centre into smaller spaces.

At Establish we will always encourage new centres to be designed to exceed Ministry standards for quality.





Where to next?

We hope you've found this guide to getting started useful. As New Zealand's only full service consultants in the specialised area of ECE centre development we're here to help remove the complexities that can get in the way of getting your idea off to the best possible start.

Want a bit more advice? Get in touch.
Call 0508 ESTABLISH (0508 378 225) or email info@establish.co.nz

Or you can **download our FREE Early Childhood Education Centre Building Guide** for more information on the statutory framework, stages of development, site finding and feasibility, centre design and much more.

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