

Implementing Full Cost Recovery

Case Study: Kidzone Ltd.

The Challenge:

To establish the full cost of service delivery and fulfil the European Regional Development Fund exit strategy of increasing fees and adopting a more sustainable business model

Summary Points:

- A business needs to cover all costs and seek opportunities to sell services where full costs cannot be recovered through funding revenue.
- Communicate to users levels of subsidy supporting a service and the implications of losing that subsidy.
- Take a strategic approach to business planning and developing new business opportunities and partnerships.

What and Why:

Expand on what the challenge is and the activities associated with it.

The voluntary management committee of a not for private profit out-of-school club identified a funding deficit caused by the end of European funding. It decided that the organisation had to operate commercially, recovering the costs of service delivery and charging appropriate fees to enable business viability. Fees were usually set by looking at a combination of working tax credit allowances and a national average for fees in both the voluntary and private sectors. There was no costing behind the calculations and all units were effectively running at a loss. WYCAS (West Yorkshire Community Accounting Service) was brought in to identify true service delivery costs by going through the previous year's accounts.

How does the activity align with the organisation's mission / values / aims / objectives?

Kidzone offers high quality, affordable out-of-school childcare. Any fee increase could threaten the affordability of services. Kidzone was happy that it was still offering excellent value for money and affordable childcare, with its revised fee structure.

How will the activity improve the financial sustainability of the organisation in the short, medium and long term?

Whilst in the short term, full cost recovery has marginally improved the financial position of the organisation; an application for further ERDF funding was refused on the basis of the increased operational costs associated with full cost recovery. It's hoped that new funding streams will accept the true cost of service provision. The organisation has seen a shift in its revenue structure but it still needs to find 25% of its funding from grants. However, the increased knowledge of calculating costs and fee structures is allowing for a move into new markets and services.

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How?

- **What were the key steps in establishing the activity?**

WYCAS spent three half days in the organisation with two management staff and a Business Link adviser, undertaking a review of costs. This review led to the recommendation of an increase in fees.

- **What additional resources / skills were identified as being needed by the organisation to progress the activity?**

Parents were advised on the potential to offset a fee increase with tax credits and management staff on each site offered support to parents in applying for increased tax credits

Financial:

- Administrator is attending Bradford College to complete Level 3 of the Association of Accounting Technicians (AAT).
- Project Manager to enrol September 06 to start AAT.
- Ongoing support will be provided by WYCAS, and other training providers.
- Support from Business Link to attend courses.

Personnel (staff, volunteers, board / trustees): Management staff are developing business planning skills through assessing alternative operating models such as the development of a single site, establishing partnerships and setting up profitable units in more affluent areas.

IT:

- Staff needed information management training to organise detailed financial information.
- Existing financial systems are adequate.

Assets: The true costs of maintaining assets were identified.

Monitoring and evaluation: Monitoring and evaluation are undertaken through a registration form and following holiday play schemes. Kidzone monitors attendance figures and the management committee is now actively reviewing these processes.

Key Facts:

- **Organisation's name and trading subsidiaries:** Kidzone Ltd.
- **Organisation's mission:** "To provide quality affordable out-of-school childcare provision." resource to city dwellers."

FYE 2004 / 05 Turnover: £125k No. of paid staff: 4 f/t 18 p/t

% Income grant v trading : 70 : 30 No. of volunteers: None

Status: Company Limited by Guarantee Date of Inc. 15th June 2005

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Who's Involved?

- **How were stakeholders identified and brought on board?**

Staff: Management staff were behind the initiative, knowing increased income had to be secured.

Board: The board has been fully supportive of the drive to operate commercially and service demand has not decreased.

Funders: Due to the existing funder not accepting the increased claim costs associated with full cost recovery, the organisation is turning to other sources of funding rather than accept less and compromise the quality of management and administration. Key future stakeholders have been identified as Early Years, the guardians of the Extended Schools and Children's Centre schemes.

Service Users: Users have been informed that until now, services have been subsidised. However, no strategy was in place to communicate to users that an increase in fees was inevitable with the loss of funding. The fee increase was communicated at an AGM, by letter and on a notice board. Whilst parents were not happy with the fee increase, staff support to access increased tax credits and a valued service have maintained levels of demand.

Local Community: Management staff have been involved in a local forum whose remit includes making decisions on local needs for policing, safety, childcare, schools etc. At the forum, the organisation was identified as a preferred supplier for out of school care.

Commissioners: In new and emerging partnerships with the public sector, the organisation is clearly stating from the outset the level of fees that will be charged for services, based on full cost recovery.



Why Not?

- **What risks were identified in establishing activities?**

The main risks were around users and funders not accepting the increase in fees and / or funding requests. The organisation did not lose any clients as a result of increasing fees, it did, however, fail to secure further ERDF funding due to the increase in operational costs. Other funding streams will be approached but this will require more management time and proportionally less income.

- **How were these risks managed?**

By offering parents as much support as possible when increasing fees and ensuring that fees are still being offered at the lower end of the national average. Also by ensuring services are improved in line with an increase in fees.

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Moving Forward:

The organisation is aware of the need to overcome expectations on the voluntary sector to keep service delivery costs and management charges lower than are actually feasible in order to justify grant funding. The organisation will therefore continue to make grant applications on the basis of full cost recovery.

Kidzone, with the Extended School project, will consolidate any unit not on a school site by 2008. This will reduce Kidzone's overheads with the schools offering a peppercorn rent or no rent or contribution towards utilities. Pit Hill will become Kidzone Head Office with a fixed rent of £5,000 for the next 10 years to Bradford Council.

Opportunities exist to develop partnerships: Kidzone's latest project is a business agreement with a school in an affluent area of Kirklees. Kidzone is working with Kirklees Early Years and the school to draw down start up funding for the first 18 months. In addition Kidzone is currently working with Sure Start BHT, to provide services in the new children's centre in Holmewood, due to open in November 2006.

The organisation is considering establishing provision in a more affluent area to subsidise the provision offered in more deprived communities.



Background

Kidzone began in 1993 as Childcare Challenge, set up as part of the Bradford City Challenge Initiative. It offers childcare services on three sites across the BD4 area of Bradford. Funding for the project was initially secured from ERDF, enabling the organisation to offer heavily subsidised services. 'Extended Schools' and 'Children's Centres' are the two schemes through which future services will be funded.

The organisation's objectives are:

- To provide quality, affordable term time and holiday childcare for children aged from 4 to 13 years of age.
- To address the needs of local people through the provision of services which will enable parents to seek, access and maintain employment, training and education.
- To provide services which help communities find ways of regeneration.
- To increase community participation and involvement in the management and development of Kidzone.
- To work in partnership and co-operation with other organisations to ensure exclusivity, lack of duplication and fill any gaps in provision.
- To expand and develop the range of Kidzone work to respond to the needs of the community.

Researched, collated and compiled by the Y&H Regional Forum, 2006 on behalf of the CIB.