



# CHILDCARE PROCESS FOR BUYING A CHILDCARE CENTRE

Are you looking to enter the Childcare industry and buy a Childcare business? Or, qualified/experienced in the industry and wanting to buy your own Center? The steps listed below need to be undertaken in the order listed.

1. Creation - see an accountant - read recommendation below.
2. If no Childcare qualifications consider enrolling in a Cert IV or Diploma to show ECRU you are serious about learning. You are not legally required to have qualifications or experience in childcare to apply for a Provider number.
3. Lodge Provider Application in the name of the "Entity" e.g. Company/Company & Trust you have established.
4. Study - The Exam is hard.
5. Receive your Provider number - you have approximately two years to secure/open a business or it may be canceled.
6. Decide on a business to buy/establish. Lot less risk in purchasing an existing business for first time business buyers. Qualified staff/management in place/resourced/has been approved for Childcare by ECRU holds a Service Approval. No guarantee with a start up you will get a Service Approval.
7. Complete conditions of Business offer/contract - Transfer of Service etc
8. Congratulations - You now own a business in the Childcare sector. One of the, if not the, most in demand business you can Buy in Australia. Guaranteed Government Funding - Robot proof - High demand - Can be highly profitable.



## **Step One – Entity Purchase In**

The first step in purchasing a childcare business is deciding on the entity you wish to purchase the business in. That might be a Company, a Company & Trust or other entity structure. A company can be organised via ASIC or via your accountant. A company and Trust will require an accountant or a lawyer to establish. What is the best option for you should be discussed with your accountant.

If the Company has 3 Directors ECRU will probably insist all three Directors go through the exam/interview process. Therefore, if there is a person in the Company who is childcare trained or has Education experience it is best to only have them as sole Director.

They will then be the only person required to go through the approval process and will have a better chance of success. If there are multiple Directors of the Company and e.g. two Directors are required to sit the exam and one of the Directors fails then usually ECRU will fail both Directors. Shareholders are not required to undertake the approval process, however, they will be vetted.

ECRU requires the Director (person applying for approval to hold shares in the Company). What % will depend on entity structure and should be confirmed with ECRU prior to lodging Provider application.

## **Step Two – Enrol Childcare qualification**

If you are new to the Childcare industry it may assist the Provider approval process if you can confirm to the approval body ECRU - Department of Communities, that you are serious about childcare by being able to say you are enrolled in a Childcare qualification.

It is not a legal requirement to have qualifications or experience in childcare to buy a Centre. However, in recent times ECRU have not looked favorably on applicants (even if they have passed the exam) that cannot demonstrate in some way their dedication to the industry beyond paying for a business.

## **Step Three - Apply for Provider number**

To be able to own and operate a childcare business your entity purchasing the business must hold a Provider number. The persons associated with that entity e.g. Director/s must be ECRU approved.



This Provider number is applied for via the Department of Communities – Child Care section in the State you live in or the State you are buying the Childcare business in.

Once approved/received, the Provider number is valid for all of Australia. You can own multiple businesses around Australia under the one provider number.

The Provider number is attached to the entity e.g. Company - Company/Trust you have set up that will ultimately own the Childcare business or businesses.

The price is \$241 for 2022 -2023.

The Provider number once obtained does not last forever. If you have not purchased a center within a period of approximately two years from time of issuance the Department may cancel the number.

The application will require credit checks into the Company history and of ALL the Directors of the Company.

Sellers will rarely accept offers from Buyers that do not hold a Provider number due to the time involved to obtain and risk of the Buyer not being approved. The process (exam) is much harder since 01 May 2022. Resulting in a higher fail rate.

The time quoted by the Department of Communities for Child Care Provider Number is currently 120 days, however, the Provider approval process in July 2022 is taking 180 days or longer. Refer section 15 of the Act for more information.

## **Step Four - Provider Application Assessment/Examination**

Effective 1 May 2022, ECRU ( Education and Care Regulatory Unit) is now conducting on-line assessments for Provider Approval suitability in an exam format and subsequent interview.

The exam comprises 46 multiple choice questions to be answered in 75 minutes and no reading time. Several applicants have advised they did not finish in time.

You can flag and skip a question, going back to an answer later.



## Exam

75 mins

46 multiple choice questions (no short answers)

No outside material/ resources can be used.

You are provided with online access to the required documents for the assessment. Two screens set up, which are easy to use and navigate

Most of the questions were scenarios wanting the law and regulation reference

You need to be very confident in navigating your way around these documents

If you are unsure of an answer, you can flag it and return later.

Below is an overview of the documents and information that should be studied.

A very thorough knowledge of the Regulations and the ACT is required to be able to identify and know Regulation numbers and information quickly. Some of the questions relate to multiple regulation numbers e.g. is it 76/22/14 or 42/1/23 etc

What needs to be displayed for rating assessment

SQM inside - outside

Fencing

Ratio

Healthy eating

Forms documents how long keep - what need to be in centre - how maintained

Child protection

Who responsible what

Notification of incidents

Applicants sit the exam in the ECRU offices in Perth. Usually offer only one date per month. It is very important participants answer the questions as quickly as possible.

ECRU provides some reference materials, a pen and some paper.

A buyer may have their wife/sister/friend/Centre Manager of an existing business, as Company Director to obtain Provider number and have them as the Company sole Director.

Or, if there is a good manager in place at the center, who is willing to come on board as Company Director and hold the Provider, that might be an option. Once you own the center and gain experience, there is a far better chance you will pass the exam and be approved by ECRU in the future.



If you receive a pass mark which is above 80% then you will be called in for an interview.

The interview takes place around 4 weeks after the exam. The interview around an hour will again be on your knowledge of childcare.

## **Business Plan**

A business plan is required from buyers for ECRU.

A business plan is usually required to be submitted prior to sitting the exam. Where an applicant does not currently own a business or started to build a centre, then they will need to base their plan on what would be their ideal centre that they are hoping/planning to operate.

The business plan needs to incorporate:

- Costings
- Financial expectations
- Budget
- KPI's

There is a business plan template available via the ABB website under resources. There are also advisors on the ABB website that specialize in creating business plans for a fee. I would therefore recommend that all provider applicants commence their business plan as soon as they have lodged their Provider application, to ensure that it is ready to be submitted as soon as requested.

A Business plan will also be required by PRODA when a centre has been purchased or about to open. The PRODA business plan should be an extension of the Provider business plan.

“Study study and study” in the words of a successful applicant. Make sure you are very very familiar with the Regulations and the Act.

The Provider certificate will arrive in the post.

See resources below:

Applications and notifications forms - <https://www.acecqa.gov.au/resources/applications>



Business Plan Template

<https://advancebusinessbrokers.com/wp-content/uploads/2021/03/Buyers-Series-Business-Plan-Template-A.pdf>

## **Step Five - Receive Provider Certificate with number**

If the interview is successful you will be advised approximately 3 - 4 weeks later and receive your Provider number certificate in the mail.

## **Step Six - Buy a Business**

Once you have received your Provider number, you can then proceed with your purchase or look for a childcare business and advise the broker/owner you are already in possession of your Provider number.

## **Step Seven - Conditions of Business Contract**

### **Child Care Centres - Existing Child Care Providers**

Once you hold a Provider number the next step is the transfer of the existing Service Approval of the Centre being sold.

Finance must also be approved in writing by a finance provider prior to lodgement of Transfer of Service Approval.

The transfer of Service is legislated to be 42 days from receipt of correct application with the Department of Communities.

If the buyer is purchasing the Centre in a New company they will need to apply for a NEW provider number for that particular Company and may be required to complete the whole Provider process mentioned above, including sitting the exam.





## **CCS - Funding for parents with children in Childcare - PRODA**

If the buyer has a contract in place to purchase a business, and has applied for and received their Provider number, then as soon as their Provider number is issued, they should lodge their application for CCS funding. This application can take 42 days or longer.

If you are an existing Child Care operator already with a PRODA account and receiving CCS funding, then your new service/business must be added to your existing PRODA account.

For an existing Child Care operator or new applicant, ensure as the Buyer of a Childcare Service you have this completed in advance of settlement so there is no disruption in CCS payments to parents. This form to PRODA should be lodged at the same time as Transfer of Service or earlier if possible.

Any questions need to be directed to the relevant Government department.

Transfer of Service can only be lodged with a Provider number.

The current price is \$116 2022-2023.

## **Step Eight – Settlement**

Settlement on a childcare business usually occurs on a Friday (due to Government funding going Monday to Friday) usually two weeks after Transfer of Service is unconditional as per letter received from ECRU.

Please note childcare centers are hard to come by. They are in high demand and to enter the industry will require flexibility on the part of the Buyer in regard to location and price.

If the center has been operational and profitable for over two years a Buyer may be able to secure finance at 50% of the business price or 60% - 70% of the business & property price if purchasing both property and business at the same time. Finance brokers who specialise in finance for Childcare centers are under Resources on ABB website.



The price of childcare centers can range from \$100,000 to \$4,000,000 + for an individual center (no property) depending on net profit, location, size and age.

Currently individual businesses are selling in the Perth metro area for a multiple of 3 to 4.5 x net profit including add backs. Group sales can achieve 6 to 7 x net profit.

Regional locations e.g more than two hours from Perth CBD usually sell for multiples of 2.5 – 3 x net profit.

*We hope you have found the above useful.*

