

snapshot research - comparison of the impact of the economic climate on nurseries

Over the past two years, NDNA has been regularly monitoring the impact of the ongoing difficult economic climate upon the nursery sector. This research has consistently illustrated that the downturn is having a mixed impact upon nurseries in terms of occupancy, sustainability and levels of parental debt.

Whilst the UK is technically no longer in recession NDNA continues to hear reports from nurseries regarding the impact of the economic climate. With wide-scale job losses in the public sector and continued pressure on household budgets from rising inflation, NDNA has continued to monitor the sustainability of the sector. NDNA carried out research in September 2010 and repeated this again in March 2011 to identify trends. This snapshot research illustrates and compares the changes and developments as a result of the economic climate during this six month period.

headline findings...

- Nurseries continue to face a mixed picture as a result of the economic climate
- **Occupancy levels are still varied** but more recently providers are reporting that occupancy has remained stable. However, some providers continue to report that occupancy is falling
- Nurseries are reporting that the **January 2011 VAT increase** is having a significant impact upon sustainability, yet equally many report that they are not planning to increase fees
- **Making improvements to free nursery education funding levels** is consistently reported as the number one way that nurseries believe the Government can support the sector.

summary

Previous snapshot research undertaken by NDNA indicated how the recession was leading to a **mixed picture** for providers. The early years sector is extremely responsive to the economy - both when it is healthy and parents need high-quality childcare and when the economy is in difficult times and parents may face problems paying for childcare or use it less. This research looks at the experiences of nurseries in a number of key areas at two separate points in time to gauge trends and changes.

occupancy

In March 2011 **64% of nurseries said their occupancy had increased or stayed the same during the past six months**. Research carried out in September 2010 indicated that less than half - 48% - were reporting that their occupancy had increased or stayed the same during the previous six month period. However, whilst this illustrates a more positive picture than in previous months, four in ten nurseries continue to report occupancy is falling.

general impact of the economic climate

Interestingly, in March 2011 fewer respondents (43%) felt changes in occupancy were a direct result of the economic climate (compared to 61% in September 2010). However in March 2011 more nurseries felt that the current economic climate was affecting other areas of their nursery business with 74% saying that the economy was impacting on their nursery in areas other than occupancy (such as running costs) compared to 61% in September 2010.

Respondents were then asked what aspects of the economic climate were having an impact. **Just over a third reported that increased running costs and a rise in VAT were causing issues.** As childcare is VAT exempt, settings pay VAT on a wide range of goods and services but are unable to offset this. This can represent a particular issue when a nursery is investing in areas such as capital expenditure where VAT can represent a highly significant cost.

“The VAT increase has had a large impact on us and the rising costs of goods and services has been difficult to manage.”

- respondent's comment on how the current climate has impacted upon their nursery

usage by parents

Three quarters of respondents reported that there had been no **noticeable differences in the patterns of care requested by parents** over the past six months, indicating that occupancy is beginning to stabilise, although a number of nurseries continue to report that occupancy is falling as a result of patterns in local employment. In March 2011 one third of respondents said that the most noticeable change was that more parents were requesting part-time care.

nursery businesses and staffing

One third of all nurseries questioned in March 2011 had undertaken measures in terms of staffing such as redundancies - a similar level to September 2010. When asked to detail what these measures were, almost all had employed a system of 'natural wastage' where staff who had left were not replaced.

However, nurseries continue to be cautious when looking at staff salaries. Although no nurseries in March 2011 had asked staff to take a pay cut, half had frozen staff wages or paid a below inflationary rise, which is consistent with the action nurseries had taken in September 2010. Respondents were then asked about their plans for the future. One third reported that they were intending to keep staff wages frozen for the next year, whilst 41% said that they were planning to give staff an inflationary rise.

economic opportunities and threats

Most nurseries - 72% - felt that the economic climate had not opened opportunities in the market for their nursery such as new patterns of care or increased demand. However, levels of confidence regarding business performance have remained consistent during the past six months:

- 6% said they were 'not confident at all' (3% in September 2010)
- 17% said they were 'not very confident' (16% in September 2010)
- 14% said they were 'neither confident or not confident' (26% in September 2010)
- **57% said that they were 'confident'** (50% in September 2010)
- 6% said that they were 'very confident' (5% in September 2010).

top challenges nurseries face

Nurseries were then asked to rate the greatest challenges their nursery business was facing as of March 2011 with the following results:

- **Paying staff increments for achieving new qualifications (66%)**
- Achieving a profit (62%)
- Controlling costs (61%)
- Delivering a sustainable free nursery education offer (47%)
- Managing parental debt (43%).

The top five challenges in March 2011 remain the same as those at September 2010. However, a number of these have **changed in priority** with those reporting parent debt as 'quite a challenge or 'very challenging' decreasing from 67% of all respondents in September 2010 to 43% in March 2011. Paying staff increments for achieving new qualifications has risen from 59% to 66%.

With nurseries reporting increased costs, respondents were then asked to share their plans for fees. These have remained consistent over the six-month period concerned, indicating that despite rising costs and inflation, nurseries are adhering to current plans:

	March 2011	September 2010
Plan to freeze fees	17%	8%
Plan to increase less than originally planned	39%	39%
Plan to increase more than originally planned	19%	39%
No change to existing plans	25%	38%

levels of support

Nurseries were asked to share how supportive they felt their local authority had been. As of March 2011, an increased number of nurseries felt their local authority had been less supportive - 56% reported that their local authority had been 'not very supportive' or 'neither supportive or unsupportive' in March 2011 compared to 38% in September 2010. In addition, nurseries reporting that their local authority had been 'supportive' decreased from 51% in September 2010 to 32% in March 2011. Linked to this, in March 2011 **74% of nurseries said they had experienced large cuts to early years funding** locally or expected large cuts to be made. The main area these cutbacks had occurred was with free training.

In September 2010 nurseries were asked to share how they felt Government could support them. The top answer was **improved funding for free nursery education sessions**. This remained the number one cited source of support in March 2011. However, a new area was also quoted in March - VAT exemption for childcare settings, indicating how the recent rise in VAT is being especially felt by nurseries during the difficult economic climate.

Notes to editors

This survey is not intended to be fully conclusive evidence. 37 nurseries participated in the focus questionnaire in March 2011 which was a repeat of the survey issued to the same group of nurseries in September 2010. The research was fully confidential but if you would like to arrange interviews with any respondents, or NDNA, please contact Senior Press Officer Hayley Wilson on 01484 40 70 66.