National Day Nurseries Association

*Brighter thinking for early years

Stop Underfunding - Start Building Futures

England

Key Findings:

- 95% of providers say the Government is underfunding early education and childcare places
- The shortfall is £1.87 per hour or £2,132 a year per three and four year old on a 30-hour place
- 85% of providers expect to operate at a loss or only break-even this year
- 39% of providers say they expect to operate at a loss this year and this rises to 46% in areas of deprivation
- The Government pays for 55% of early education and childcare hours across England rising to 72% of hours in areas of deprivation
- 41% of respondents had to increase fees to parents by more than 2%
- 34% have had to take out Government-backed loans
- The average nursery has lost almost £26,200 due to Covid-19 absences or closures
- Reintroducing business rates would see the average nursery hit with a bill of £12,640.

Introduction:

Childcare in the UK is a £6.7 billion sector that supports the national economy and is a key part of our educational infrastructure.

There are over 27,000 nurseries and preschools in England providing over 1.1 million childcare places. The early years sector gives children high-quality early education opportunities and enables parents to return to work or access training.

Research repeatedly confirms that good quality early education and care improves children's educational outcomes later in life. It is also essential in narrowing the attainment gap between disadvantaged children and their peers.

Our survey, taking views from over 1250 nurseries, shows that underfunding is a growing issue as the sector continues to face uncertainty around reduced income, ever-increasing operating costs and the impact of Covid-19. This is pushing more early years providers into the unsustainable position of operating at a loss.

The Government has set out ambitions to 'level-up' across the country as well as investing in a 'Plan For Jobs'. Without investing in building children's futures through early education, we risk a lost generation of young learners who will have missed crucial opportunities during the Covid-19 pandemic.

It is time to **stop underfunding and start building futures**.

Underfunding

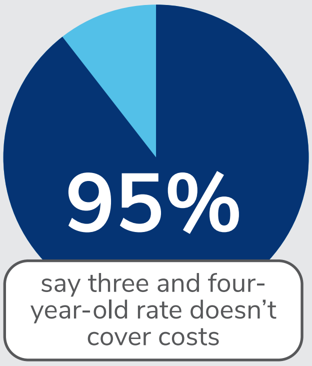
The funding that providers receive from the Government covers three different types of places:

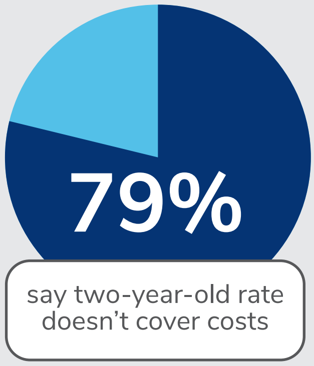
- 15-hour of funded childcare for two-year-olds from disadvantaged families
- 15-hour of universal early education entitlement for all three and four-year-olds
- Additional hours up to 30-hour a week for three and four-year-olds of working families.

The findings from this survey show that providers cannot cover their costs with the funding given by the Department for Education. The average rates received by nurseries were £4.43 per hour (p/h) for three and four-year-olds and £5.33 for two-year-olds.

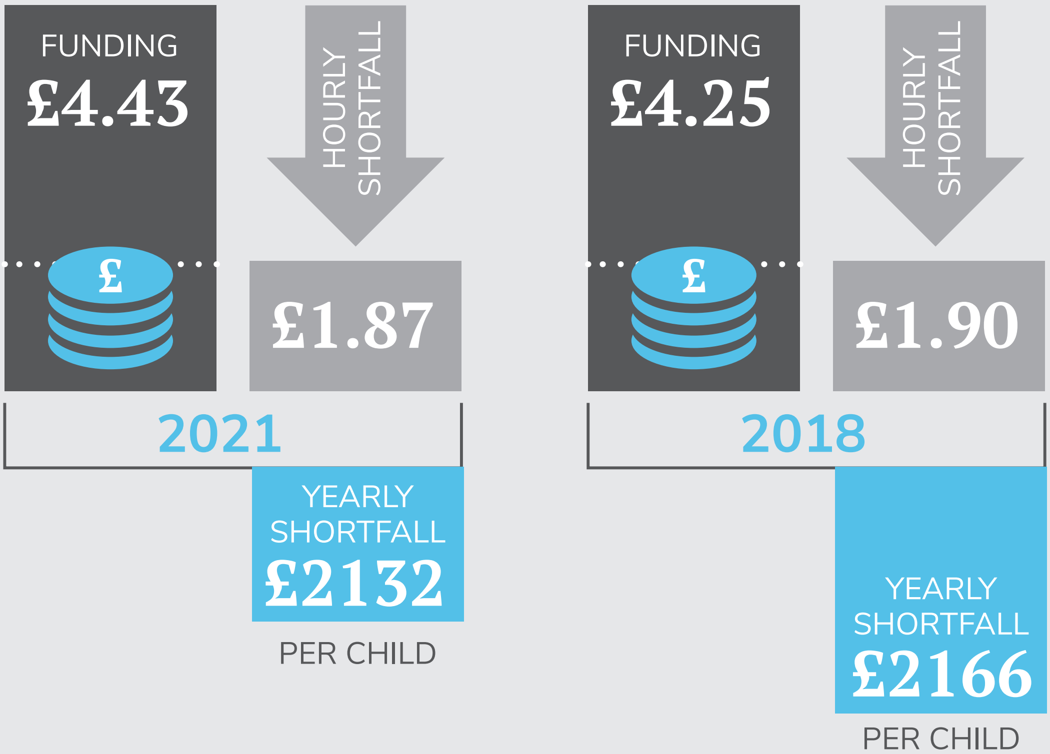
The vast majority of providers (95.4%) do not believe these rates cover their costs for three and four-year-old places. For two-year-old rates 78.8% said rates did not cover their costs. The average hourly shortfall is estimated to be £1.87 p/h for three and four-year-olds and £1.57 p/h for two-year-olds. This amounts to a £2,132 a year funding shortfall on a 30-hour place and £895 a year for a two-year-old getting 15 hours' funding a week.

When we asked the same questions in 2018, the average funding rate was £4.25 for three and four-year-olds. 87% of providers said this did not cover their costs and that the shortfall was £1.90 an hour. At the same time the average rate for two-year-olds was £4.99 which 54% said did not cover their costs by an estimated £1.82 p/h. Underfunding is an issue for more providers than it used to be.





Funding shortfall for three and four-year-olds

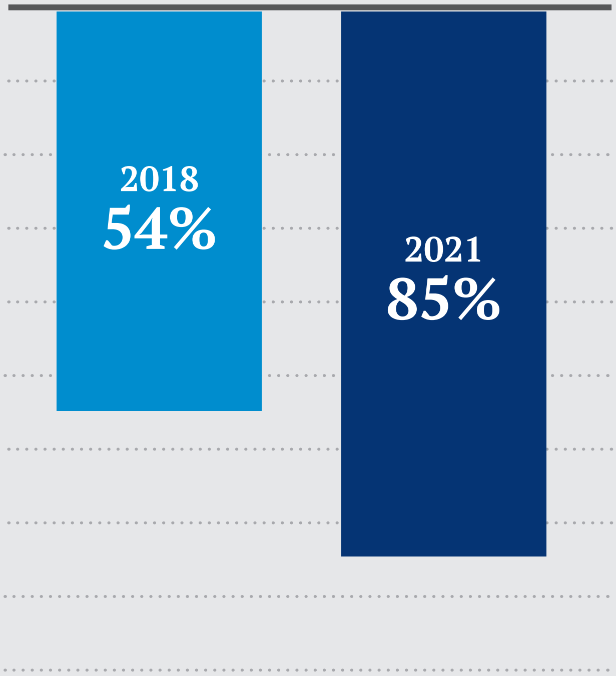


This survey asked providers about their expected financial performance this year and found that **85% believe they will operate at a loss or just break-even**. Of these, 39.1% believe they will operate at a loss and 45.7% say they will only break-even.

Before the pandemic hit, the [DfE's providers' survey in 2018] showed 54% of private providers and 74% of voluntary providers were either making a loss or at the point of breaking-even. The findings of this latest survey show that the position has become significantly worse for providers.

The proportions of settings operating at a loss suggests that more could face closure in the coming months. Operating at break-even levels means that there is no surplus to re-invest in resources, premises or staff development. This will hamper any educational recovery work and efforts to drive up quality in settings through re-investment.

PROVIDERS RUNNING AT A LOSS OR JUST BREAKING EVEN



Government is the largest purchaser of childcare hours – funding must meet all operating costs

Over the course of the pandemic parental employment patterns have been affected which has impacted on the demand for childcare places and hours. To gather information on this pattern we asked providers to break down whether hours were paid for directly by parents or were Government-funded. The average figures given by respondents was that 55.2% were Government funded and 44.8% were parent paid.

Analysis of the DfE's 2018 Childcare Provider Survey showed that at the time, Government funded places accounted for 46% of nursery income, with 45% from parent paid fees and 9% from 'other' income including extra services and fundraising.

The Government is the largest purchaser of early education and childcare from providers, and this share is growing according to this survey. Any underfunding of these places will have a greater impact on the sustainability of nurseries and the viability of children's places.

Voluntary run provider, South East

"We continually fundraise as we are a charity. The church where we are based subsidise us and do not charge any rent."

Providers in areas of deprivation are harder hit

NDNA's research has shown that settings in areas of deprivation are more likely to close than those in other parts of the country. To understand the position we looked at the responses from settings who are based in the 20% most deprived areas in England.

The data in the table below shows that providers in the most deprived areas received lower rates on average than those in the rest of the country. While a similar proportion of those in areas of deprivation believed that the three and four-year-old rate does not cover their costs, they were more likely to say that the rate for two-year-olds is insufficient than the national picture. This is crucial, as they are more likely to have children eligible for these places in their settings.

Question	In areas among in 20% most deprived areas of England	All areas
Average funding rate (three and four-year-olds)	4.34	4.43
Does your funding rate cover your delivery costs?	Yes: 6.1% No: 93.9%	Yes: 4.6% No: 95.4%
Average funding rate (two-year-olds)	5.13	5.33
Does your funding rate cover your delivery costs?	Yes: 15.2% No: 84.8%	Yes: 21.2% No: 78.8%
Ratio of Government funded to parent paid hours	72.28	55.45
How do you think your business will perform this year?	Run at a loss: 46.3% Break-even: 39% Generate a surplus: 14.6%	39.1% 45.7% 15.2%

This survey also showed that providers in areas of deprivation are more reliant on Government funding as a source of income and are more likely to be operating at a loss. These settings are more at risk of closure leading to a loss of places for children who have the most to gain from access to high quality early education and care.

Nursery owner, London

"Our nursery is in a disadvantaged area and our parents are not able to buy any extra hours. In our area parents were already struggling with the pandemic and many parents lost their jobs so we have lost a lot of business."

39.1%

OF NURSERIES IN ALL AREAS WILL RUN AT A LOSS THIS YEAR

This situation must be urgently addressed to prevent a widening of the attainment gap and to ensure parents in areas of deprivation can access the childcare places they need to be able to return to work.

The impact on parents – Government underfunding affects everyone

Our survey asked providers about the kind of financial measures that had been necessary in the previous 12 months, ranging from actions on prices and fees to other forms of financial support. The most commonly taken approaches were:

- 41.1% said they had to raise fees for non-Government funded hours by over 2%
- 34.3% had taken out Government-backed Covid-19 loans
- 22.8% said they had needed to increase the charges for consumables like meals, snacks and nappies, which sit alongside the funded childcare places
- Other measures included limiting the number of funded places available, not being able to support children with additional needs and taking out commercial loans.

Nursery owner, West Midlands

"We froze our prices to help parents and we have kept staffing within ratio with no extracurricular spending. We have used surpluses from previous years to maintain the provision but this may not be possible going forward."

As a result of Government underfunding, this survey suggests parents are facing higher costs for both funded and non-funded childcare places as providers try to remain sustainable. If providers cannot afford to deliver funded places due to underfunding, this may also limit the availability of places. Given the high proportion of settings not generating a surplus, the uptake of Government-backed loans is a cause for concern as loan repayments start.

Rising staffing costs

Like all employers, nurseries have faced year-on-year increases to the National Minimum Wage (NMW) and National Living Wage (NLW). Over and above the statutory minimums, nurseries and preschools have to be able to reward the higher qualified and more experienced staff that are essential to delivering high-quality early education and care.

In this survey, we asked providers about the difference between their staffing budgets in 2020/21 and 2021/22. The average staffing bill increase reported by respondents was 8.6%.

This figure will include the 2.2% increase in the NLW and the 1.5% - 3.6% increases in the NMW bands. It also includes the increases needed to maintain pay differentials for staff above those levels as well as reflecting the recruitment and retention issues that employers in the early years sector face.

Research by NDNA and the Education Policy Institute (EPI) found that in May 2021 up to 25% of the early years workforce was still furloughed in some capacity. The research also found early years settings experiencing a high turnover of staff, with as many as 6% of the workforce leaving in a three-month period – with job stress and low pay cited as reasons for quitting.

Covid-19 impact on income

Through this study we wanted to understand the impact of lost income on settings as a result of temporary closures as well as staff and children being absent due to Covid-19. We asked providers about lost income due to deferred, refunded or lost fees in the 12 months between June 2020 and July 2021.

187 respondents were able to provide data on lost and deferred income due to Covid-19 cases. The estimated total loss was £12.57 million. This was across 480 individual sites, suggesting an average loss of £26,179 per nursery. The figures could be much higher as some respondents provided lost income as a percentage or were not able to accurately estimate losses they had experienced in this period.

£26,200

AVERAGE ESTIMATED LOSS OF INCOME PER SETTING DUE TO COVID-19

Business rates relief – the wrong time to remove vital support

The Government has granted business rates relief to nurseries since March 2020. Between 01 March 2020 and 30 June 2021, nurseries received a 100% business rates holiday. From 01 July 2021 to 30 March 2022 a 66% discount on business rates has been applied.

In this survey we looked at the value of the 100% holiday and the impact this has had on the sustainability of early education and childcare settings. Providers told us that the average business rates bill under normal circumstances is £12,640.58 a year per setting.

We also asked what the impact on the business would be if nurseries had needed to pay business rates under the current climate.

- 26.7% of nurseries operating at a loss said business rates would push them into an unsustainable position
- 41% of nurseries that are at breaking-even point said it would mean them operating at a loss or even becoming unsustainable
- 40% of nurseries currently generating a surplus said this would be gone if business rates were reintroduced.

Business rates are an unfair tax on the space that nurseries provide for children to learn, grow and develop. Reintroducing this burden at a time of rising costs and reduced income for these settings will push more into loss-making positions and lead to others becoming completely unsustainable. This is not the right time to remove this vital support and a long-term solution for early education and childcare settings must be found, that recognises the vital role they play in our national system of education.

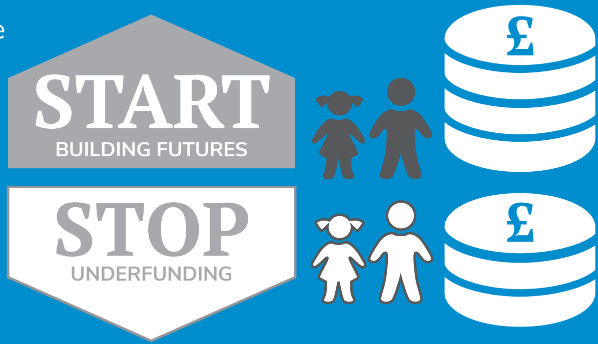
Annual average cost of re-introducing business rates

£12,640

Urgent Actions

The Government must stop underfunding and start building futures by taking the following steps:

- Children's futures must be a priority for educational recovery plans and the Comprehensive Spending Review 2021 by investing in early education and the early years sector
- The Comprehensive Spending Review 2021 should ensure funding rates that meet the costs of delivering high quality early education and care
- The Government must commit to funding rates that keep pace with rising delivery costs including National Living Wage and National Minimum Wage rates
- To bring the early years sector in line with other areas of education, the Government must abolish VAT and business rates on providers delivering publicly-funded places
- The Government must carry out a comprehensive review of early years funding to simplify the system to improve parental uptake of their entitlements, especially for, especially for two-year-olds and Tax-Free Childcare
- All allocations of early years funding must consider the needs of children with SEND across all settings.



NDNA also strongly supports the asks of MPs on the APPG for Childcare and Early Education, including catch-up premiums to address current underfunding.

National Day Nurseries Association

National Day Nurseries Association
Head Office: National Early Years Enterprise Centre, Longbow Close, Huddersfield, HD2 1GQ
01484 407070 / info@ndna.org.uk

@NDNATalk
/ndna.org.uk
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www.ndna.org.uk