National Day Nurseries Association

*Brighter thinking for early years

Nurseries and the impact of closures in the first year of the pandemic

Contents

Key findings

- Nursery closures increased by 35% in the year between 01 April 2020 – 31 March 2021 (232 closures) compared with the 12 months prior to this (172)
- The highest number of closures happened in the most deprived communities - 13.4% were recorded in postcode areas classed within the 10% most deprived in England
- A higher proportion of closures affected areas of deprivation in 2019/20 with 16.9% occurring in the 10% most deprived areas in England
- Closures took place in areas with the lowest funding rates - 38.4% of closures were in areas receiving the lowest funding rate of £4.38 in 2020/21
- 72.4% of closures were in areas receiving a funding rate of £5.00 or lower
- Over 11,000 children's places have been affected by these closures
- In this 12 month period Ofsted data shows a net loss of 442 nurseries and pre-schools from the childcare registers. Ofsted's childcare registers showed a net reduction of 3,025 providers across all categories from 01 April 2020 – 31 March 2021
- From 01 April 2020 to 31 May 2021 there was a total net reduction of 3,533 providers registered with Ofsted.

Urgent actions - summary

- Children's early education and the early years sector must be a priority for investment as part of educational recovery plans and the Comprehensive Spending Review 2021
- The Comprehensive Spending Review 2021 should ensure funding rates that meet the costs of delivering high quality early education and care
- The Government must carry out a comprehensive review of early years funding to simplify the system and ensure that funding follows children improving parental understanding of their entitlements and increase uptake for two-year-old funded places and Tax Free Childcare
- The Government must commit to funding rates that keep pace with rising delivery costs including National Living Wage and National Minimum Wage rates
- The money allocated to local authorities for early years places must be ring-fenced and the full allocation passed on to providers who are delivering the funded places
- The Government should bring the Early Years Pupil Premium, currently £302 a year, in line with the primary school pupil premium rates of £1,345
- Targeted employment support programmes through the Government's Plan for Jobs scheme to encourage more people to consider early years and childcare as a career and address the staff recruitment and retention crisis
- 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.

National Day Nurseries Association

Introduction

National Day Nurseries Association (NDNA) is the national charity representing children's private, voluntary and independent (PVI) nurseries across the UK as the strongest voice of the sector.

NDNA and our members want all children and families to flourish through excellent early years education and care.

The current challenges of delivering early education and childcare in a Covid-safe way, against an existing backdrop of chronic underfunding within early years, means the availability and quality of childcare is under threat. We campaign with our members to ensure the policy environment supports providers' sustainability to deliver the high quality, flexible and affordable childcare that families need and that will support better outcomes for children.

Currently in England all three and four year-olds are entitled to 15 hours of funded early education and childcare from the term following their third birthday during school term time – 38 weeks. In addition, any three and four-year-olds who have two parents in work - or one parent if a lone parent family – each earning between 16 hours a week at minimum wage and £100,000 a year are entitled to an additional 15 hours per week. This takes their potential entitlement to 30 hours of funded childcare for 38 weeks of the year.

NDNA has been monitoring closures of nurseries since the full roll-out of the 30 hours policy to parents from September 2017 and found that the rate at which nurseries were closing increased by 66% between 2017 and 2018 and then a further 53% between September 2018 and August 2019.

Through Freedom of Information requests to all English local authorities with responsibility for early years provision NDNA also found that £62 million of three and four year old funding for early years places was not spent by local authorities at the end of the 2019/20 financial year.

This means that millions of pounds of public money, which has been designated by the Government to deliver funded early education for our youngest children, is not reaching the providers on the frontline.

There were challenges in early years before the Covid-19 pandemic hit the sector, however operating safely in the pandemic has created new challenges and exacerbated existing issues. Lockdowns, positive cases and lower attendances have reduced levels of income for providers. During the first national lockdown, many providers operated as a fourth emergency service supporting key worker families and vulnerable children. Since then, early years settings have remained open for all children to minimise disruption to their early education and support working families.

At the same time, measures to keep children and staff safe in settings, like enhanced cleaning, keeping children in smaller groups, physically adapting nurseries and investing in outdoor spaces have seen the operating costs of providers increase.

NDNA has seen an increase in enquiries about the availability of business support for nurseries and staff redundancies during the pandemic as well as more reports of closures of nurseries. We have therefore collated data on the closures and checked these against Ofsted's early years register to present a fuller picture of what is happening to early years providers.

Closures analysis

The figures analysed in this report were collated through closures reported to NDNA directly, publicly available information and NDNA's membership database.

This report compares the number of closures in the period which included the height of the pandemic (01 April 2020 – 31 March 2021) with the previous financial year (01 April 2019 – 31 March 2020). Previous closures investigations have looked at the academic year from September to August.

The number of closures during the height of pandemic increased by 34.9% compared to the same period in 2020/21. Based on the information available for analysis we tracked 232 closures from 01 April 2020 – 31 March 2021. This compared with 172 in the same 12 month period for 2019/20.

Among the 232 closures, data on children registered for places in these settings was available for 167 of them (72%). These closures affected over 11,000 children (11,041). With data not available for the remaining 65 settings the true figure of children's places affected will be much higher.

This shows that nurseries were closing at a faster rate through the pandemic than before. During this period, nurseries and other childcare providers were able to claim support for staff unable to work through the Coronavirus Job Retention Scheme. They also received a 100% business rates holiday for the whole period. The Department for Education (DfE) continued to fund 15 and 30 hour places for eligible children in the spring and summer term regardless of whether they were able to attend at settings. However, from 01 January 2021 funding returned to being based on headcount in settings.

Providers lost from the Early Years Register

Ofsted has published data on childcare providers joining and leaving the sector covering the same period, 01 April 2020 to 31 March 2021. The overall figures on the register in the period go from 75,068 to 72,043 (-3,025) the category that sees most losses was childminders: 36,972 down to 34,787 (-2,185). Looking at the latest published figures from Ofsted, from 01 April 2020 to 31 May 2021 there was a total net reduction of 3,533 providers registered with Ofsted.

In the category of childcare on non-domestic premises, which covers nurseries and preschools, the number registered with Ofsted falls from 27,619 at the start of April 2020, to 27,177 at the end of March 2021, a net loss of 442.

This data shows that over the course of the height of the pandemic – 01 April 2020 to 31 March 2021 – the number of childcare providers registered with Ofsted has dropped. There has been a 1.6% reduction in the number of providers delivering childcare on non-domestic premises in this period.

This data set provides a concerning view on what is happening to providers in the sector, however, it is just one part of the bigger picture. To give a wider understanding of how this may be negatively affecting the availability of childcare places, the impact on areas of deprivation and how to address the future challenges, this report will look in more depth at closures for which NDNA has more information. This analysis will look at where settings are closing, the funding rates they receive and how this compares with closure rates in previous years.

Closures in areas of deprivation

The Ministry of Housing, Communities and Local Government collects local data on measures of deprivation across England. The Index of Multiple Deprivation (IMD) is the official measure of relative deprivation for the country. All neighbourhoods in England are ranked according to their level of deprivation relative to that of other areas. This means that there is no definitive threshold above which an area is described as 'deprived', however areas can be described as the 'most' or 'least' deprived depending on how they compare in the ranking.

The Indices relatively rank each small area in England from most to least deprived

There are 32,844 small areas (Lower-layer Super Output Areas) in England, with an average population of 1,500. Source: IoD 2019 Statistical Release

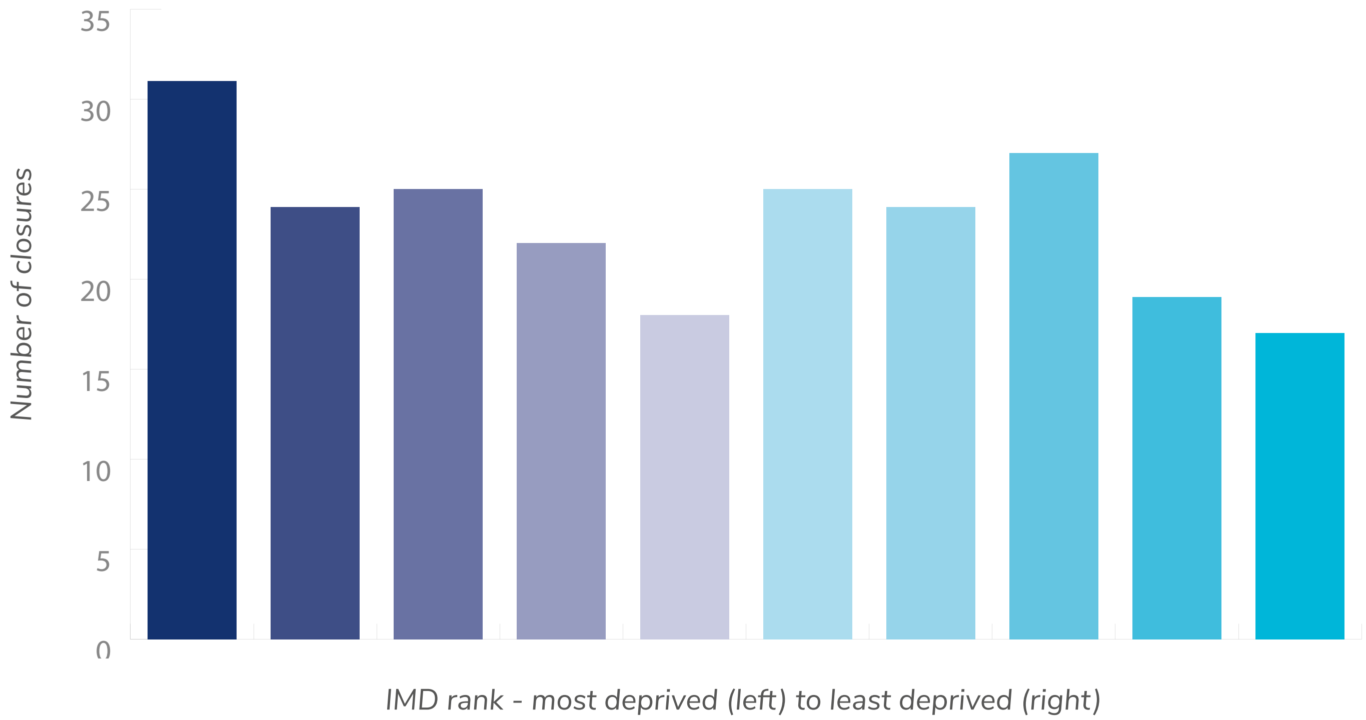
We have analysed closure data against information relating to an areas IMD ranking to show whether closures are happening in areas towards the 'most' or 'least' deprived ends of the ranking spectrum.

High quality early years education is the single biggest factor in reducing the attainment and inequality gap, this helps give all children the best start in life. The Government's own Social Mobility Commission found that 56% of people believed Covid-19 had increased inequality in the UK.

Researchers at University College London found that those struggling financially before the pandemic were more likely to believe they were worse off than those who had been comfortable before Covid-19 struck. At the same time, the Education Endowment Foundation said 96% of primary schools are worried about children's language skills when they start school.

The data analysis looking at postcodes of closed settings showed that the highest proportion were in the 10% most deprived areas in England. This meant that of all the closures, 13.4% were in postcode areas classed within the 10% most deprived.

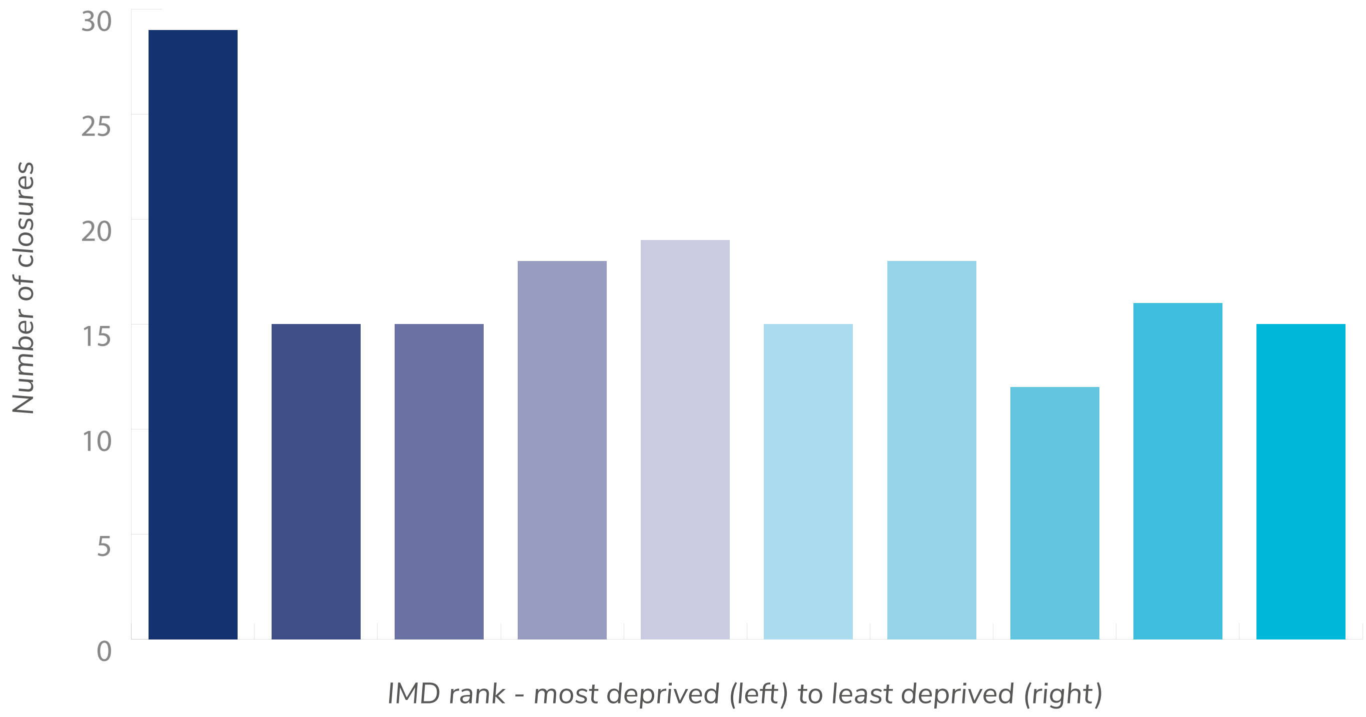
Closures by IMD rank 2020/21



During the height of the pandemic, 34.5% of all closures (01 April 2020 – 31 March 2021) were in areas that are among the most deprived 30% places in England, highlighted in dark blue in the table above. This compared to 27.2% of all closures that were in the 30% of least deprived areas, shown in teal blue.

It is worth noting that, at the height of the pandemic, the closures in the most deprived areas were a slightly lower proportion of the overall number compared with the year before. In 2019/20, 16.9% (29 out of 172) of closures were in the top decile according to the IMD. Other closures were more evenly spread across the other areas of deprivation, as seen on the following page.

Closures by IMD rank 2019/20



This may reflect that providers in areas of deprivation are more likely to have a higher proportion of children taking up funded hours only places, meaning they are more impacted by low hourly rates. During the height of the pandemic providers also saw their parent funded incomes being reduced, while funded hours income was largely protected for two out of the three terms in this period. This data suggests the importance of a mix of funded hours and parental paid hours for settings to remain sustainable.

Given the importance of access to high-quality early education and care, it's a great concern that nursery closures are particularly higher in deprived areas exacerbating the "poverty trap" and extending the attainment gap for children from the most deprived families.

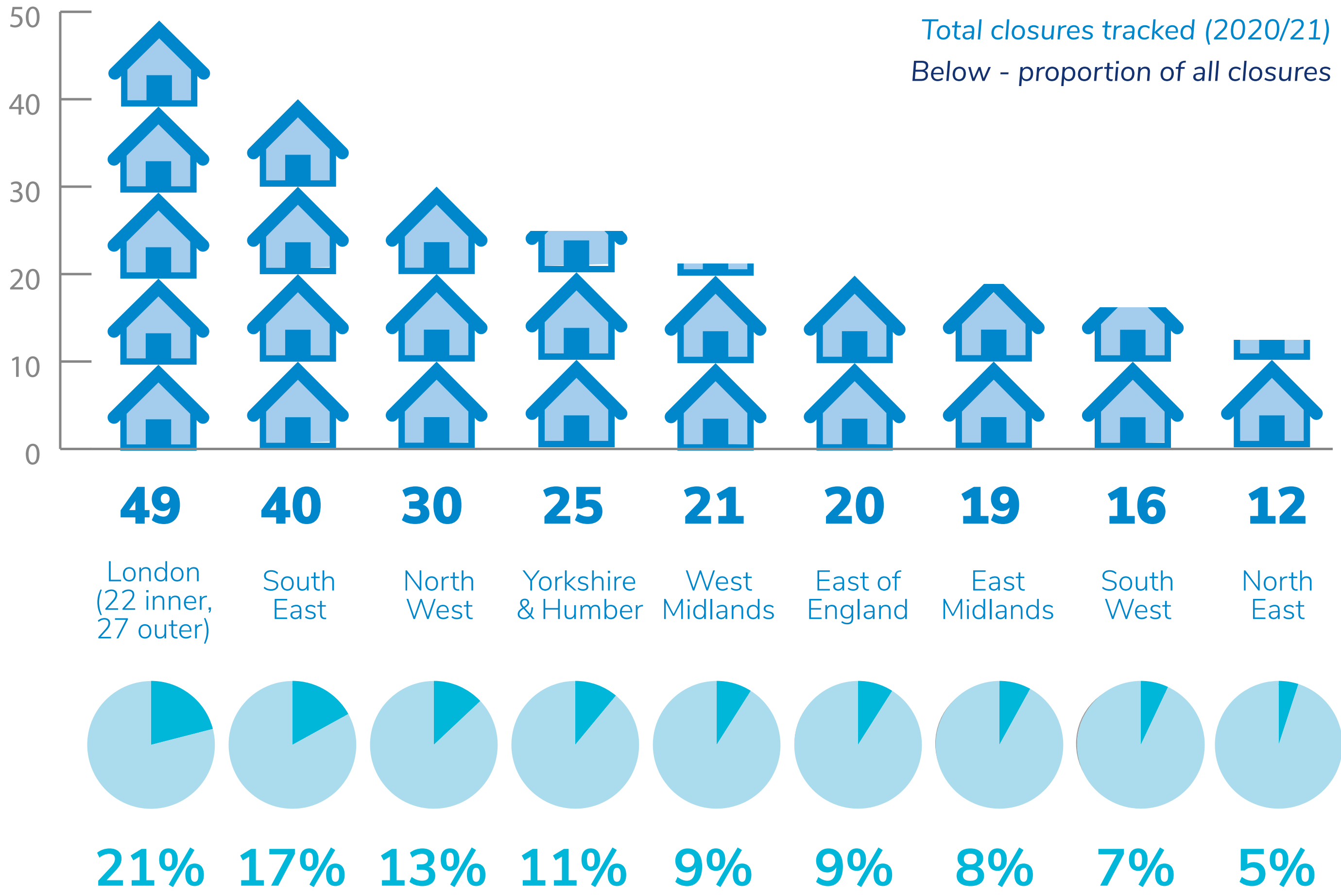
Closures and funding rates

NDNA has analysed the postcode data for closures and mapped it against the funding rates received by local authorities where closures occurred. It is important to note that a number of factors affect how much of the local authority rate a provider ends up receiving for delivering funded entitlement places. These include central budgets for administering funded places, available budgets for inclusion funds, deprivation and quality supplements as well as local authority contingency funds and underspends.

Looking at the lowest funding rates that local authorities receive under the early years national funding formula (£4.38 from March 2020) 38.4% of closures at the height of the pandemic were in areas receiving this rate. A total of 168 (72.4%) closures in the same period received a funding rate of £5.00 or lower. For the year prior to the pandemic, 142 (82.6%) closures of nurseries received hourly rates of £5.00 or lower.

This data shows that there were still a higher number of closures in the lowest funded areas in England, however more of the closures were also happening in areas receiving over the £5.00 per hour rate. This could be a result of the impact of Covid-19 on city areas like London, where the funding rate is higher, but also suggests that rising costs have made it harder for settings to remain sustainable, even in areas where the hourly rate is higher.

Number of closures by region – height of pandemic



A breakdown of closures into regions shows that 21% of all closures were in London, with the next highest region being the South East with 17.2% of all closures. London and the South East combined accounted for 38% of all closures during the height of the pandemic.

The latest official population statistics show that London (9m) and the South East (9.2m) amount to 32.2% of the population of England (56.5m). So, while we would expect to see more settings in these areas and so potentially more closures, London and the South East are over-represented in this closure data.

In the previous year, April 2019 – March 2020, the closures measured were more spread out across England. Closures in London were 15.6% of the total and combined with the South East accounted for 29.7% of the national total.

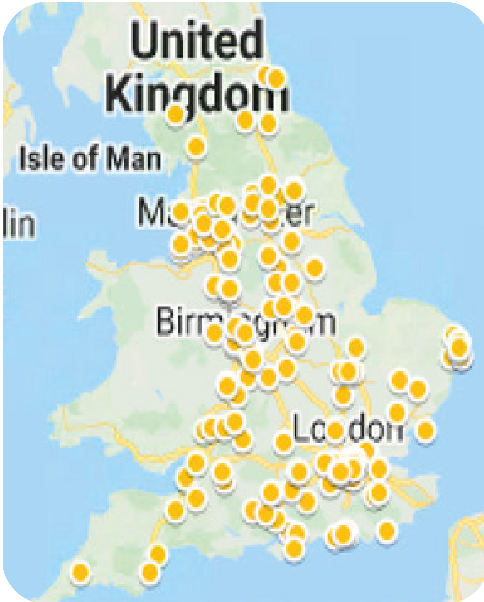
Addressing future challenges

The closure data for the last financial year follows an ongoing trend of nurseries struggling to remain financially sustainable over recent years. The rate at which settings are closing has accelerated since 2017/18 as reported by NDNA in 2018 and 2019.

Closure locations 2020/21

Looking ahead to the coming financial year we have identified a number of challenges that will make the position of nurseries and other childcare providers even less sustainable:

Closure locations 2019/20



- Ongoing reduced demand for places
- The end of the Coronavirus Job Retention Scheme in September 2021
- Recruitment and retention crisis
- Increases in National Minimum Wage and National Living Wage
- End of the Business Rates holiday.

Ongoing reduced demand for places

In the latest published data the DfE reported that 937,000 children were attending early years settings. This represents just 58% of the usual number of children attending settings during term time.

As part of a year-long study into the impact of Covid-19 on the early years workforce NDNA and the Education Policy Institute (EPI) have tracked occupancy in nurseries compared with usual ‘pre-Covid’ numbers. Respondents have told us that in February 2021 the number of children attending their settings was on average 28% lower than the year before.

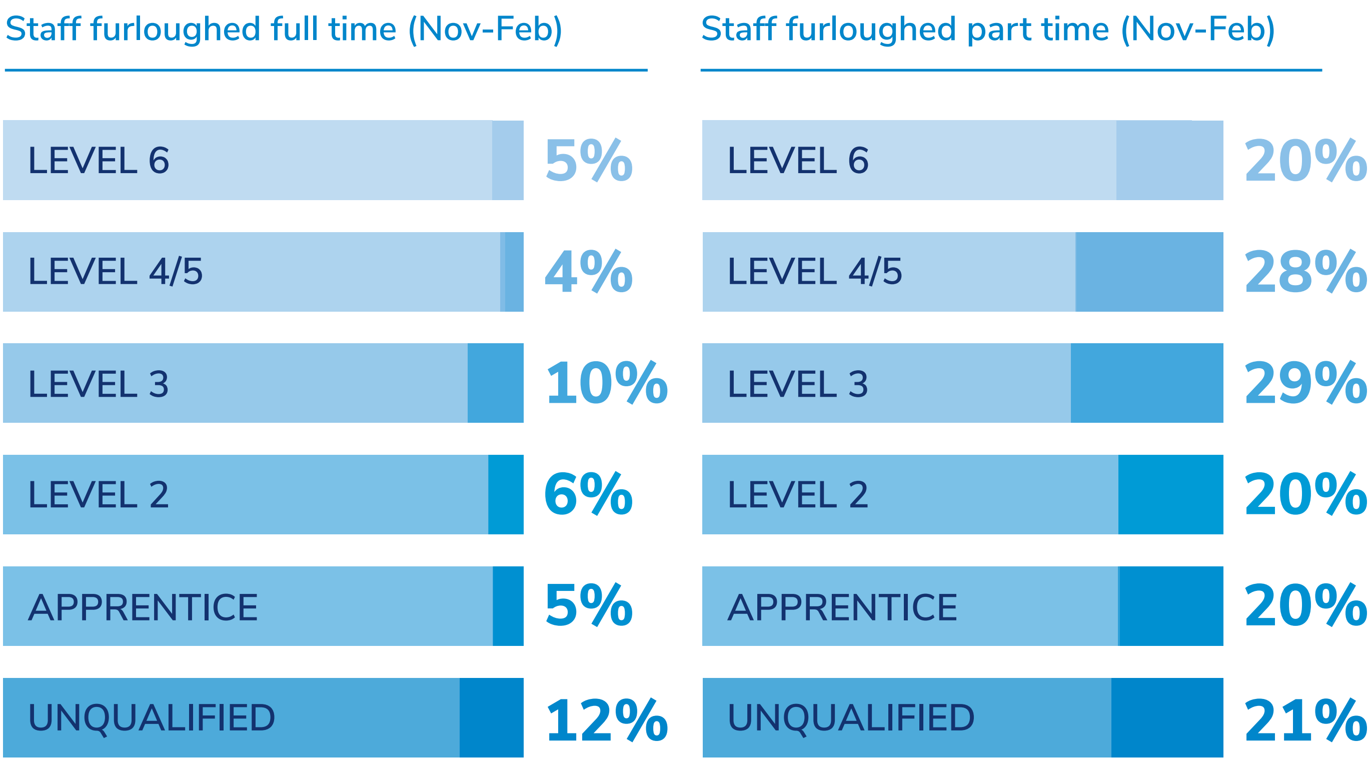
The take up of places for two-year-olds who are eligible for funded education has struggled to reach the DfE’s target of 73-77%. In July 2021 the Government reported that 62% of eligible two-year-olds were taking up funded places. The number of eligible two-year-olds registered to receive funded early education entitlements has fallen by 13% to 124,500 in 2021. At the same time, the number of three-year-olds registered has fallen 7% in 2021, whilst the number of four-year-olds registered has fallen by 2%. This difference is likely to be due to the greater stability in ‘expected attendance’ during census week for older children and as in the case for two-year-olds, parents may have delayed registering their three-year-old with a provider during the Covid-19 pandemic.

Vulnerable children's attendance was reported on by the DfE during the first national lockdown. For the week of the 18 June 2020 the DfE published statistics which showed that 19,000 vulnerable children were reported as attending early years settings. This was estimated to be 19% of the total number of children aged birth to four who were classed as Children in Need or having an Education, Health and Care Plan. By the week of 27 May 2021, data returned to the DfE suggested this figure had risen to 36,315. This is still only a small proportion of the total number of children in this category.

In addition to the continued reduction in the overall number of children attending settings, nurseries are seeing changes in demand with some parents reducing their non-funded hours within settings. This means settings are seeing a higher proportion of funded hours compared with parent-paid hours so the shortfall between the funding rates and their costs becomes more acute. If this becomes a longer term trend settings will see less income from parent-paid fees, making them less financially viable.

The end of the Coronavirus Job Retention Scheme

The current Coronavirus Job Retention Scheme (CJRS) is due to finish at the end of September 2021. During the height of the second wave of the pandemic – November 2020 to February 2021 - around 4 in 10 (38%) early years staff were placed on full or part-time furlough under the scheme. The end of the CJRS could also result in increased unemployment and a further economic shock which could impact on parental need for childcare places in the short term and eligibility for funded places as well. The latest national data showed that there were 3.4 million people being supported by the scheme on 30 April 2021. At the same time, 2.8 million people have received grants under the Self-Employment Income Support Scheme.



Proportion of early years workforce furloughed Nov 2020 – Feb 2021 - NDNA & EPI 'The Covid-19 pandemic and the early years workforce'

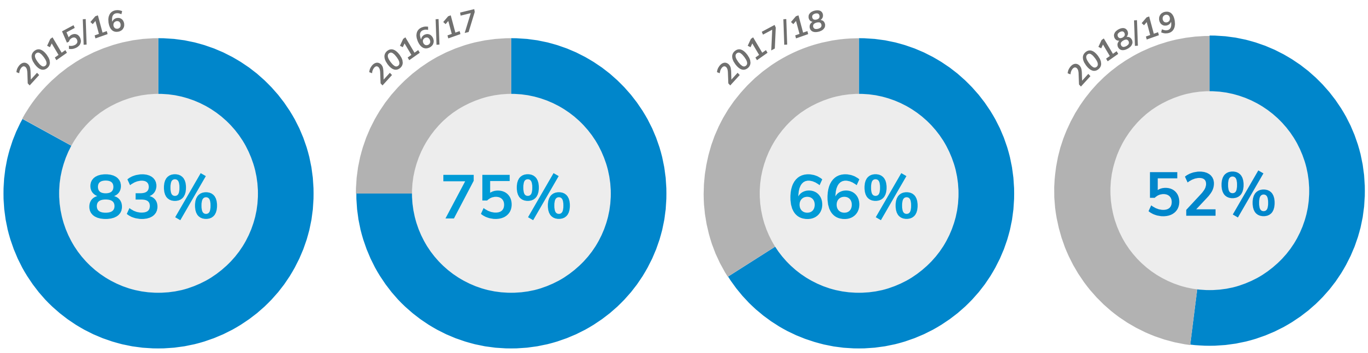
Recruitment and retention crisis

Nurseries are reporting challenges in recruiting staff with full and relevant qualifications that allow them to be counted in child:staff ratios under the Early Years Foundation Stage Statutory Framework.

A workforce crisis existed pre-pandemic with the numbers of Level 3 qualified staff falling in England. The fact that nurseries are currently over-staffing rooms and settings to cope with any staff illnesses, keep children in smaller groups and maintain social distancing is making it harder to adjust staffing to meet demand.

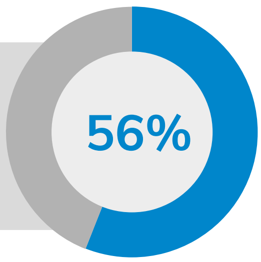
Level 3 qualified staff

Proportion of early years workforce in England with Level 3 qualification – NDNA Workforce Survey (England) 2019/20



Joint research between NDNA and the EPI found that the workforce initially shrank by around 9% between March 2020 – August 2020. This was followed by a small recovery, with settings reporting they employed 5% more staff at the end of November 2020 compared with August 2020. This was followed by a period where the overall number barely changed with settings reporting a 1% increase in the numbers of staff between November 2020 and February 2021.

In the latest round of research NDNA and the EPI found that 56% of staff covered by the survey had a Level 3 qualification as a minimum (46% had Level 3 as a highest qualification, 5% Level 4 or 5, 5% Level 6 or graduate level).



If nurseries are struggling to recruit and retain the staff they need now with reduced demand for places this issue will be exacerbated by returning demand for places from parents.

Increases in National Minimum Wage and National Living Wage

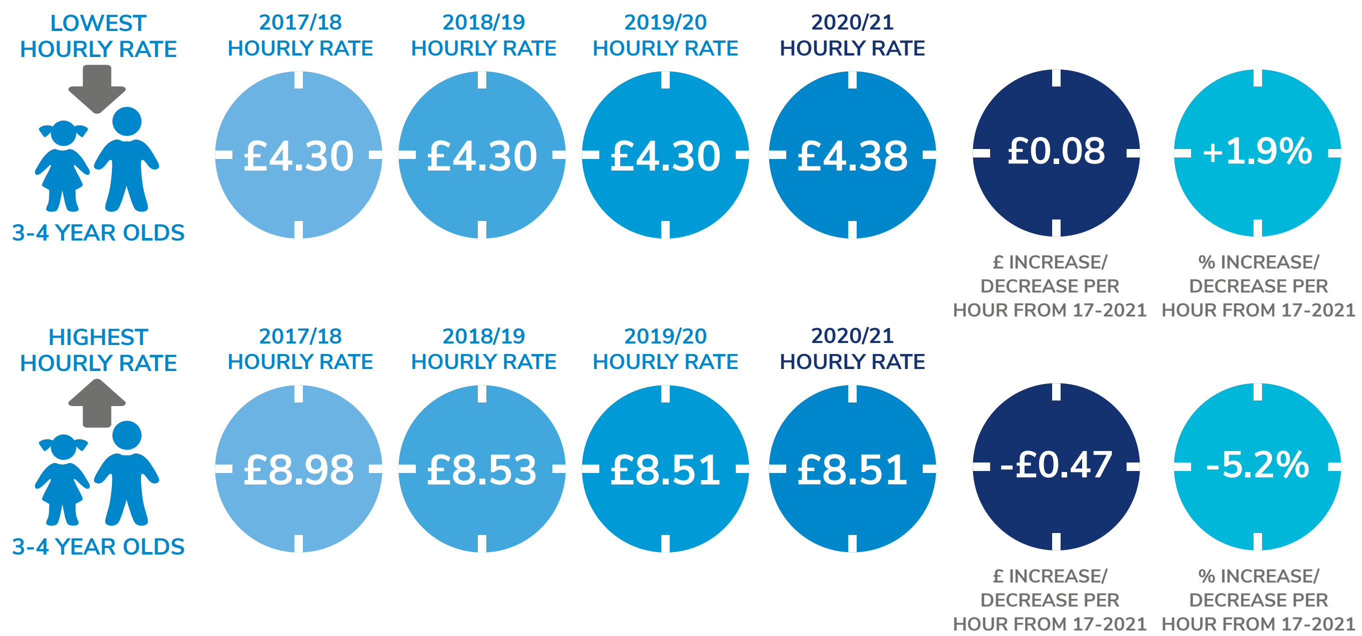
From April 2021 the National Living Wage (NLW) increased from £8.72 to £8.91, a 2.2% inflationary increase. The eligibility age has also been reduced to include 23 and 24 year olds for the first time, meaning for these staff, the minimum hourly pay they can receive has increased by 8.7% from the previous year.

	Rate from April 2020	Rate from April 2021	Increase
National Living Wage	£8.72	£8.91	2.2%
21 to 24-Year-Old Rate	£8.20	£8.36	2.0%
18 to 20-Year-Old Rate	£6.45	£6.56	1.7%
16 to 17-Year-Old Rate	£4.55	£4.62	1.5%
Apprentice Rate	£4.15	£4.30	3.6%

While the National Minimum Wage (NMW) and NLW rates have increased by between 1.5% - 3.6%, the additional funding allocated by the Government of £44m for 2021/22 allows for a rate increase of around 1.2%. Providers want to be able to recognise and reward their staff's experience, knowledge, skill and qualification level. However, without the funding to even keep pace with statutory minimum wage increases, they lack the financial headroom to reward staff above and beyond legal minimums.

The tables below track the increase in rates paid to local authorities between 2017/18 to 2020/21. In this period the rates received by local authorities in the areas receiving the lowest rate grew by only 1.9% over four years while those in the highest funded areas actually fell by over 5%.

Early years funding - rates received by local authorities



At the same time, the statutory minimum wage rates have increased by 14% - 23% across the different groups. The NLW and NMW increases for 2021/22 are not only higher than the hourly funding rate increases, but have to be seen in the context of previous years where staffing costs have far outstripped funding changes.

National Minimum Wage and National Living Wage rates

	2017/18 HOURLY RATE	2018/19 HOURLY RATE	2019/20 HOURLY RATE	2020/21 HOURLY RATE	£ INCREASE PER HOUR FROM 17-2021	% INCREASE FROM 17-2021
APPRENTICE	£3.50	£3.70	£3.90	£4.30	£0.80	23%
UNDER 18	£4.05	£4.20	£4.35	£4.62	£0.57	14%
18-20	£5.60	£5.90	£6.15	£6.56	£0.96	17%
21-22	£7.05	£7.38	£7.70	£8.36	£1.31	19%
23 & OVER	£7.50	£7.83	£8.21	£8.91	£1.41	19%

End of the Business Rates holiday

Nurseries were entitled to a Business Rates holiday along with retail, hospitality and leisure businesses until 30 June 2021. After this date providers will receive a two-thirds reduction in the rates they pay until the end of the financial year. This relief is subject to a £105,000 cash cap due to State Aid rules.

The impact of re-introducing business rates, even at a reduced level, needs to be examined and understood. As part of the government's review of business rates, due to be published in autumn, the status of nurseries as educational institutions should be reviewed to make them exempt from business rates and bring them in line with schools.

Urgent actions

- Children's early education and the early years sector must be a priority for investment as part of educational recovery plans and in the Comprehensive Spending Review 2021. This must not only focus on additional programmes but also increase funding for early years places to support providers working with our youngest children
- The Comprehensive Spending Review 2021 should be used to review early years policy and ensure funding rates meet the costs of delivering high quality early education and care
- The Government must carry out a comprehensive review of early years funding to simplify the system and ensure that funding follows children and is spent on their early education and care. This would also improve parental understanding of their entitlements and increase uptake for two-year-old funded places and Tax Free Childcare
- The Government must commit to funding rates that keep pace with rising delivery costs including National Living Wage and National Minimum Wage rates as well as higher operating costs due to Covid-19
- The money allocated to local authorities for early years places must be ring-fenced and the full allocation passed on to providers who are delivering the funded places
- To address immediate concerns for settings working with children from disadvantaged backgrounds the Government should bring the Early Years Pupil Premium, currently £302 a year, in line with the primary school pupil premium rates of £1,345
- Targeted employment support programmes through Government's Plan for Jobs scheme to encourage more people to consider early years and childcare as a career
- 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.

Useful links

- Coronavirus impact on the early years sector | NDNA & EPI study
- Latest research: Early years sector is heavily reliant on the furlough scheme (ndna.org.uk)
- Nursery closures rocket by 153% since 30 'free' hour policy began (ndna.org.uk)
- Department for Education statistics on attendance - https://explore-education-statistics.service.gov.uk/find-statistics/attendance-in-education-and-early-years-settings-during-the-coronavirus-covid-19-outbreak/2021-week-26
- Joiners and leaves in the Childcare sector – Ofsted Data: https://www.gov.uk/government/publications/joiners-and-leavers-in-the-childcare-sector
- Department for Education Statistics on education provision for children under 5 - https://explore-education-statistics.service.gov.uk/find-statistics/education-provision-children-under-5/2021

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
National Day Nurseries Association
@NDNATalk

www.ndna.org.uk