England
National Day Nurseries Association

2018 Nursery Survey
England

www.ndna.org.uk

*Brighter thinking for early years

Executive Summary

Government needs to wake up to the reality of 'free childcare'

It has been a landmark year for the early years sector. In September 2017, English nurseries began offering 30 hours of government-funded childcare for three and four-year-olds.

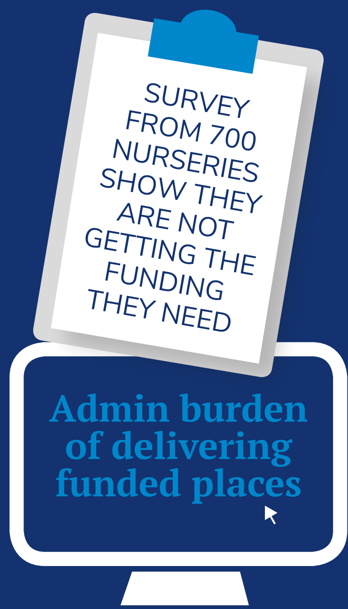
Our survey, taking views from over 700 nurseries, shows the sector is struggling to deliver places sustainably. This is because the funding system is not working and nurseries are not getting the level of funding they need.

NDNA and the childcare sector are passionate about the value of early years education. Expanding high-quality childcare is good news for parents, children and the economy. Nurseries themselves are a major employer, particularly of women, and many enable parents to return to, and stay in, work.

The way government funds the 30 hours 'free' childcare policy is not up to scratch. Outdated and complex funding arrangements are putting huge strains on nurseries which have unintended consequences for the sector.

Whether this is nurseries having to restrict the number of places offered to parents, hold back from hiring highly qualified staff, or charge extra for services, nurseries are having to alter their services in a way neither they nor parents want.

NDNA has consistently warned of these risks since the 30 hours policy was announced in 2015. Action is needed more than ever before – and our survey results show why.



This year's findings demonstrate the toll underfunding is taking on nurseries across England. Higher operating costs, including increases in wages, pension bills, and business rates, coupled with the administrative burden of delivering funded places and Tax-Free Childcare, are piling pressure on the sector. If funding shortfalls are not swiftly reversed, quality of care will be at risk and the overarching aims of childcare policy damaged, including social mobility for the most deprived young children.

These concerns have not just been echoed by the early years sector, but have been reiterated by senior politicians across Westminster. The House of Commons Treasury Select Committee has urged the government to think again and pay providers a higher hourly rate, one that more accurately reflects their costs, to avoid damaging consequences.

Government has a genuine opportunity now to work together with the sector not only to improve funding, but also to change the childcare funding system to make it more efficient and effective. With the upcoming Budget this autumn and preparations for a Spending Review in 2019, ministers can seize the initiative to secure the better funding that nurseries need and deserve.

Then nurseries can focus on what they do best – providing high quality care for children and parents.

2018 COSTS

TOTAL BURDEN

£1.90 shortfall

Average shortfall for three and four-year-olds this year per hour

30 hours 'free' childcare: parents and nurseries picking up the shortfall

The government's flagship 30 hours 'free' childcare policy promises working parents support with childcare costs. However, the policy is not free, but subsidised by nurseries and parents.

The overwhelming majority of settings say the hourly rate does not cover the costs of providing quality childcare. The policy's rollout is directly threatening the viability of many in the sector.

Funding rates for 2018/19 in England are frozen across 70% of local authorities and 21 local authorities are seeing funding drop. Among them are some of the most deprived areas in the country, including Liverpool, Sunderland, Bradford and Stoke-on-Trent. A total of 47 local authorities receive the lowest possible rate of £4.30, with 22 of these areas being in the North of England.

In order to cope, nurseries are having to increase fees. The rate of fee increases is growing as nurseries must offset greater losses on hours of funded childcare. Furthermore, many nurseries are having to make additional, or optional, charges to parents with children in funded places. As a result, more disadvantaged families with children in 15 hours places are having to pick up the costs. This inadvertently transfers the burden onto disadvantaged children who need support the most.

Strikingly, almost a third of our respondents intend to limit the number of funded places they offer in the future. Despite government's recent funding reforms, nurseries are still not seeing the funding rates they need at a local level. Many say they cannot cover their costs or continue to operate sustainably.

The government has allocated more capital funding but that is not the answer. With government funding rates for nursery places flat-lining until at least 2020, the government needs to allocate more funding and create a viable hourly rate. If they do not, the consequences present a risk to nurseries' sustainability, and a threat to the availability of places for parents.

87% cannot cover their costs **2018**

85% cannot cover their costs **2017**

71% will be increasing their fees to offset losses

TWICE AS MANY NURSERIES WILL LIMIT FUNDED PLACES

AVERAGE FEE INCREASE 4.6%

Top three concerns

We asked nurseries what their biggest challenges are in 2018:

1 INCREASING STAFF WAGES

Staff wages and rising inflation are directly affecting nurseries' ability to deliver the 30 hours. NDNA members reported payroll increases of 7% from April 2017. Increases in the National Minimum Wage and National Living Wage, national insurance and pension contributions have pushed up staffing costs by a further 6% from April 2018.

2 ADDITIONAL ADMINISTRATIVE BURDEN FROM EXTENSION TO 30 HOURS' FUNDED CHILDCARE

More frontline staff are having to devote time helping parents to navigate a complex and often unreliable system. A number of nurseries are employing extra staff specifically for this reason. A number of providers also find their council funding arrives late or is unpredictable which causes serious cash flow problems.

3 MAKING A PROFIT OR SURPLUS

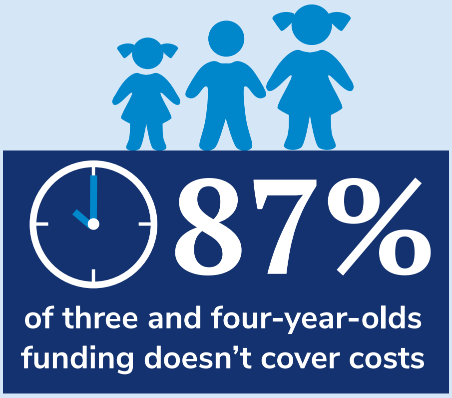
Low funding rates, higher staff costs, rising business rates and higher utilities costs – coupled with funding shortfalls – are affecting business confidence among nurseries. In the medium to long term, this presents a risk to nurseries' quality and sustainability, threatening the availability of childcare places for parents.

Continued shortfalls in funding are fuelling these concerns for nurseries. Against a backdrop of more funded hours at an underfunded rate, it is misleading for the government to call the policy 'free' as costs are being incurred throughout the system.

NDNA Recommendations

INCREASE THE HOURLY RATE FOR FUNDED TWO, THREE AND FOUR-YEAR-OLDS' PROVISION YEAR-ON-YEAR

Funding should be increased in line with the National Living Wage and the cost of living. Nurseries said funding rates that fall short of the costs of delivering childcare is the greatest risk to their business' sustainability.



EXEMPT NURSERIES IN ENGLAND FROM BUSINESS RATES

Since 1st April 2018, all nurseries in Scotland have been exempt from paying business rates. Business rates relief has also been extended for many childcare providers in Wales. NDNA urges the government to adopt a similar policy in England so nurseries would not have to pass this growing cost onto parents in the form of higher fees.

0%
BUSINESS RATES

GOVERNMENTS ACROSS THE UK SHOULD BRING IN A 'CHILDCARE PASSPORT'

NDNA believes there needs to be a complete overhaul of the childcare and early education funding system. A Childcare Passport would be a single, parent-held account, bringing together all childcare funding schemes including: funded early years entitlements, Tax-Free Childcare, Childcare Vouchers and Tax Credits/Universal Credit. A complex administrative system with ever increasing paperwork is taking qualified professionals away from their roles. Government needs to simplify the process.

INCREASE INVESTMENT IN THE SECTOR TO SUPPORT THE TRAINING AND DEVELOPMENT OF NURSERY STAFF

As revealed in our Workforce Survey earlier this year, qualified staff are leaving the nursery sector. Many have lost their passion due to constant policy and sector changes. In order to maintain high quality provision, and continue delivering the 30 hours sustainably, more investment is crucial. As set out through the Department for Education’s Early Years Workforce Strategy, the government must provide:

- Careers advice that attracts new recruits and financial support to do this
- Better funding for qualifications at level 2 and level 3 for all ages and to support continuing professional development
- Adequate funding to enable settings to retain and develop staff
- Earlier diagnosis and adequate funding to support children with SEND.

FUNDING REQUIRED FOR BETTER:

CAREERS ADVICE

QUALIFICATIONS

RETENTION & DEVELOPMENT OF STAFF

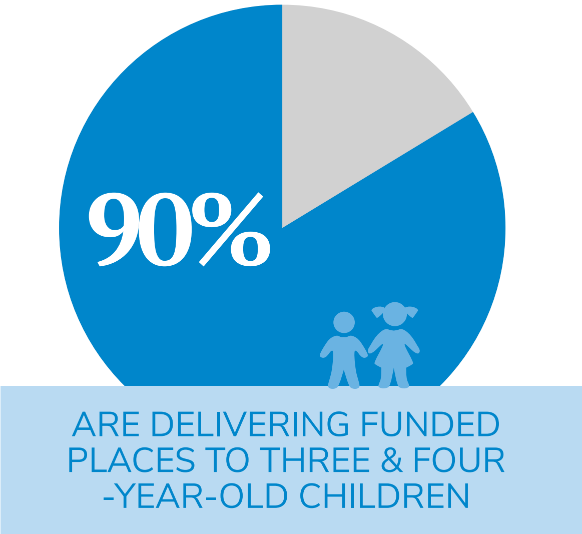
SUPPORT FOR CHILDREN WITH SEND

To see our workforce findings, go to: www.ndna.org.uk/workforcesurvey

Key Issues - **Funding**

Three and four-year-olds

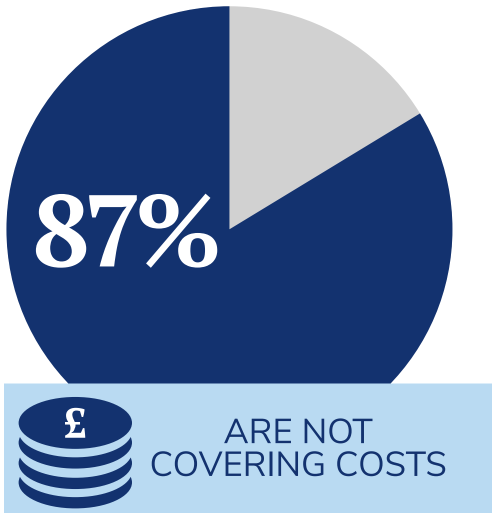
Our survey results show that, since the introduction of the 30 hours in September 2017, the majority of nurseries (90%) are providing funded places for three and four-year-olds. However, as providers have reported, they are only able to do so by limiting the places they offer and by charging parents for extras. Nurseries have also explained they feel under pressure to provide the 30 hours, as they are worried they will lose vital business if they do not.



Most significantly, 87% of settings say the hourly funding rate does not cover their costs, an increase from last year's survey.

While our survey results showed the average hourly rate nurseries receive has increased – £4.25 in 2018 compared to £3.94 in 2017 – the average shortfall per child, per hour, has risen. It now amounts to £1.90 or an annual loss of £2,166 per child, per year for 30 hours a week during term time. This is a marked increase from our 2017 survey, where the average hourly shortfall came to £1.68 or £958 per year.

By doubling the number of funded hours without increasing the hourly rate, the government has more than doubled the average annual shortfall providers incur.



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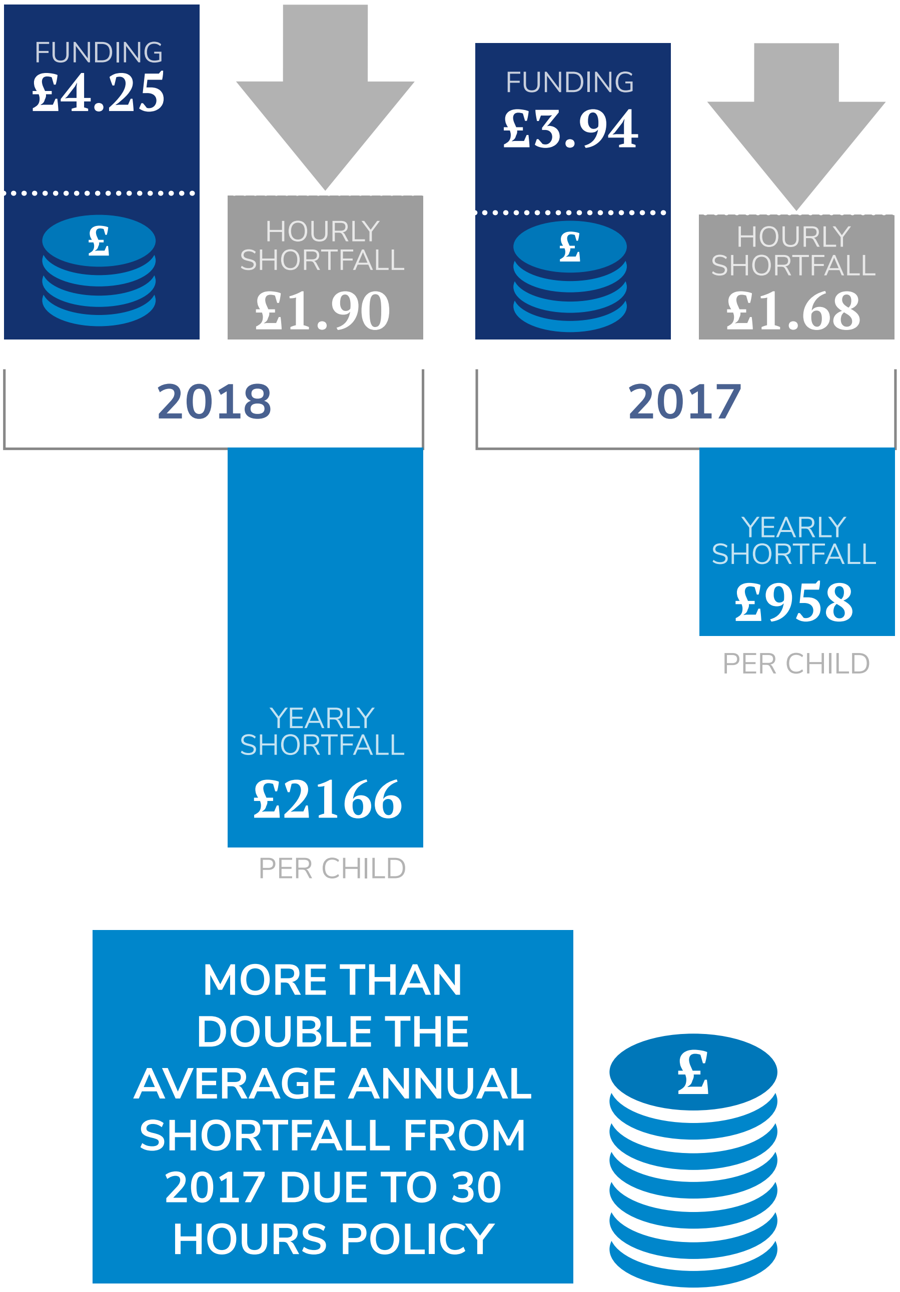
Funding shortfall for three and four-year-olds

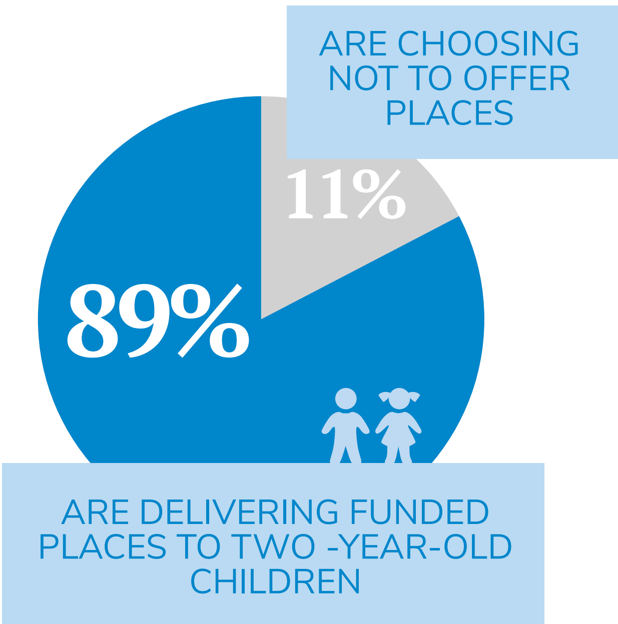


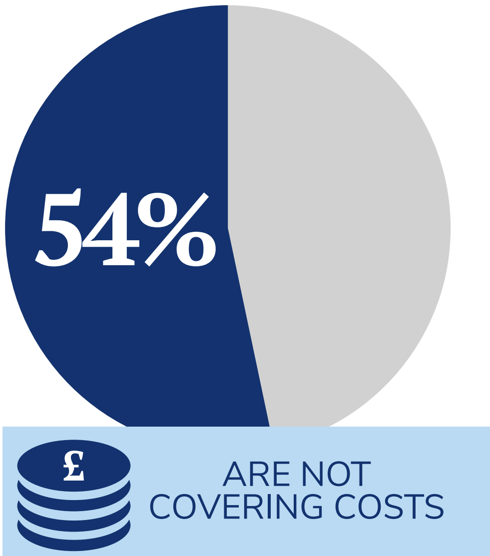
Two-year olds and social mobility

The majority of respondents (89%) are delivering funded places for two-year-old children from less affluent backgrounds. We are now seeing increased numbers of nurseries choosing not to offer this – 11% compared to 9% in 2017 – and 14% are intending to reduce the number of places they offer. Higher staff-child ratios and additional support for some two-year-olds are the key reasons for this, as nurseries struggle to keep costs down.

Our respondents said a reduction in places for disadvantaged two-year-olds is partly a result of the flagship 30 hours policy. In time this may harm the government's social mobility agenda as those who need early education the most are unable to access it.

The hourly rate for funded two-year-olds does not cover costs for over half (54%) of nurseries, no change from 2017's figures. The average hourly rate received is £4.99, a decrease from last year's £5.04. This has an average reported hourly shortfall of £1.82, equivalent to an annual loss of £1,037 per child, per year, for 15 hours per week funded entitlement for disadvantaged two-year olds.





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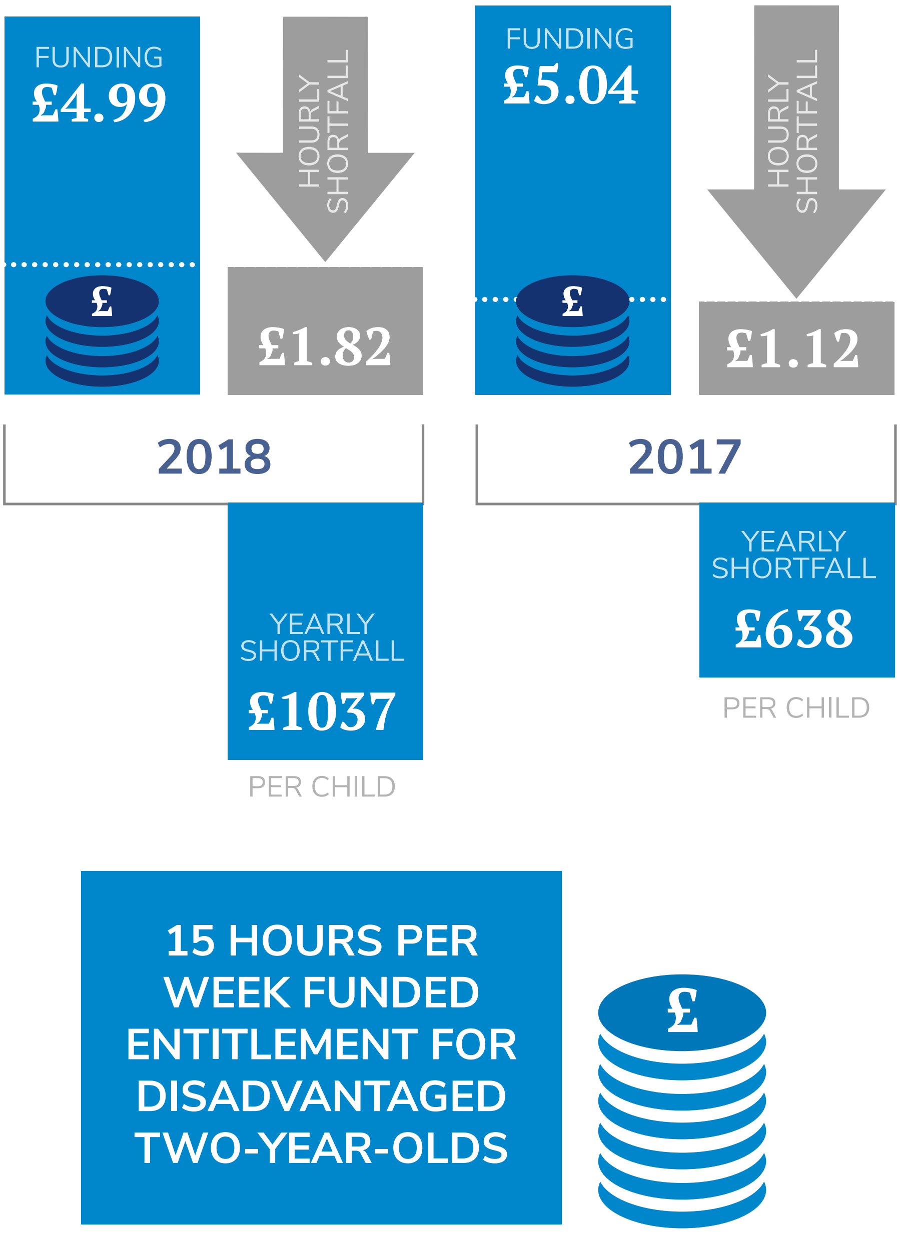
Funding shortfall for two-year-olds

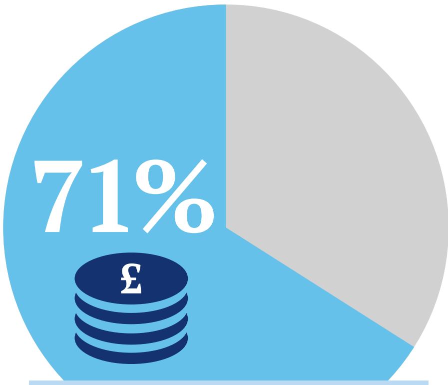


Fees and charges

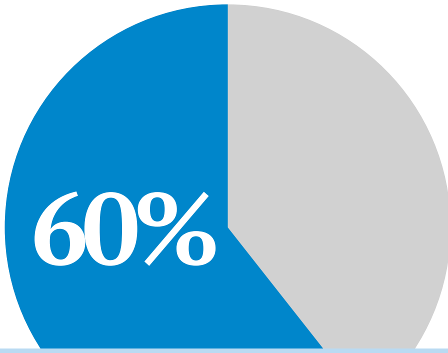
Over half of nurseries plan to increase their fees to cover costs. While the overall number of settings planning to do so has reduced – 71% this year compared to last year's 83% – fee increases are set to be larger. Respondents anticipate rises to average 4.6%, a marginal increase from 2017's 4.5%.

Furthermore, our survey results show that more nurseries are having to make additional charges to cover their costs. In our 2017 survey, respondents said being allowed to make mandatory charges would enable them to offer the 30 hours.

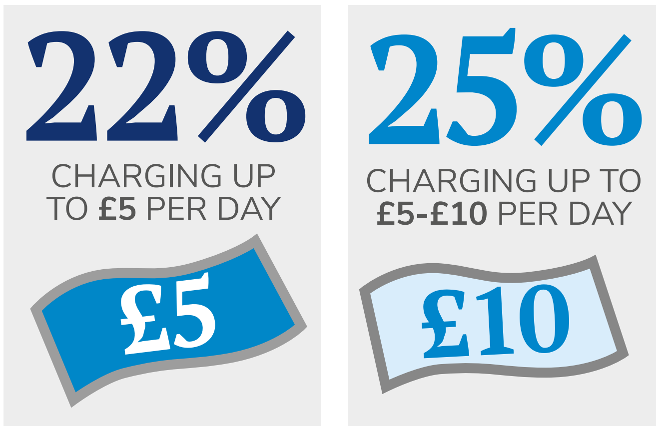
One year later, well over half (60%) of nurseries are making charges to parents for their child's funded place. Over a fifth (22%) of settings are charging up to £5 per day, while a quarter are charging between £5 and £10. This can average up to £50 a week for some parents, and around £200 a month.

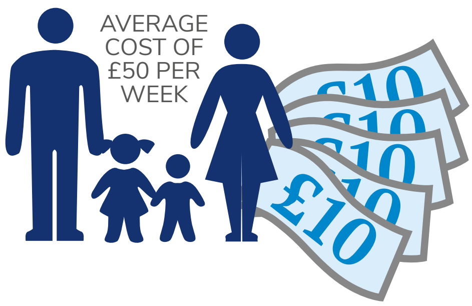


OF NURSERIES FEE INCREASES WILL BE LARGER



OF NURSERIES ARE MAKING CHARGES TO PARENTS FOR THEIR CHILDS FUNDED PLACE

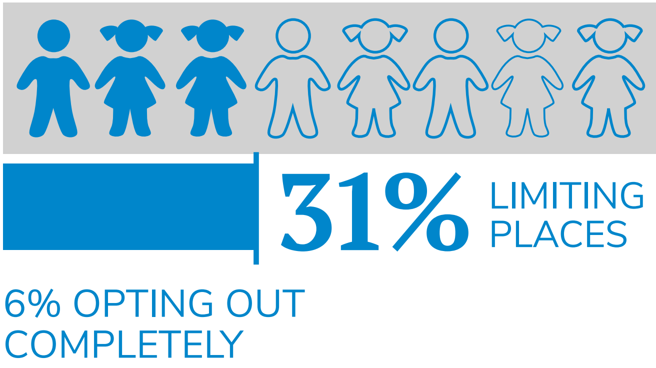




Future plans for the 30 hour offer

Respondents were divided when asked about their plans for the 30 hours childcare scheme. Almost a third of nurseries (31%) said they plan to limit the places they provide, with 6% wanting to opt out of the scheme altogether. The majority (63%) will continue to deliver places in the same way, with many charging parents for extras to cover their costs, limiting the number of places, and many increasing their fees.

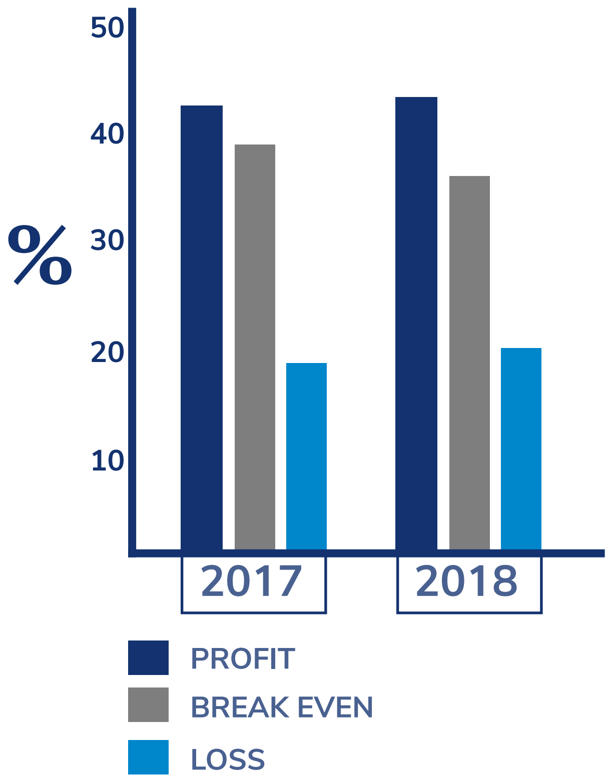
Significantly, respondents said that increasing the hourly rate for all funded places would have the most impact on the sustainability of their businesses in the sector.



Business burdens

The majority of nurseries (52%) report increases in their business rates bills, with figures averaging at 14.5%. Respondents told us that being exempt from paying business rates would have the second highest impact on the sustainability of their business, after an increase in the hourly rate for all funded places in line with increasing costs.

Our survey highlights declining business confidence, with more nurseries expecting to make a loss. Around a fifth (19%) of nurseries predict a loss in 2018, an increase of 2% from last year's survey. The number of respondents who expect to make a profit or surplus has remained at 43% from last year.



Workforce

Increases in the National Minimum and National Living Wage rates continue to put pressure on nurseries' staffing costs. In fact, increases in staff wages was cited as the most pressing challenge for the sector this year. The additional administrative burden reported by nurseries resulting from the 30 hours and Tax-Free Childcare schemes places further strain on staff. Respondents told us that, on average, staff spend seven hours per week administering the scheme, while one in four settings said it can take up to 10 hours or more. This takes qualified professionals away from delivering the quality childcare they are trained to do.

Our workforce survey report shows nurseries are losing staff to public sector roles in favour of better pay and conditions. The cost of replacing these staff members is high, as are the agency fees to cover the shortfall in the short-term. It also revealed employers are more cautious in their approach to recruitment, keeping children on waiting lists until there are sufficient numbers to recruit an additional member of staff. Nurseries told us this is due to tighter income restraints arising from shortfalls in funding.

1 IN 4 SETTINGS
10 HOURS +

UP TO
60 HOURS

Increased administrative burdens

Survey respondents highlighted a new challenge emerging in the sector this year: the significant administrative burden of supporting parents with the 30 hours and Tax-Free Childcare schemes. The overwhelming majority (85%) of nurseries said this additional admin was the most significant challenge with regards to delivering the schemes.

On top of this, more than half (58%) of respondents said that managing the complexity of the system was the biggest challenge they face.

A further 44% of nurseries said their main difficulty was reconciling payments with local authorities. Almost a third of respondents received late payments from their local authority, with the average waiting time amounting to four weeks. One in three nurseries told us they have had to wait four weeks or more. This could have a significant impact on small businesses who are increasingly reliant on local authorities.

NDNA believes local authorities should pay nurseries four weeks in advance to support providers with cash flow to ensure nurseries' sustainability.

What do nurseries need?

Key recommendations

Our key recommendations to the government are:

1. Increase the hourly rate for funded two, three and four-year-olds provision year-on-year.

2. Exempt nurseries in England from business rates.

3. Governments across the UK should bring in a 'Childcare Passport'.

4. Increase investment in the sector to support the training and development of nursery staff.

Survey Details

The survey was conducted online in March and April 2018, and received 709 responses. The majority of respondents (90%) were private sector nurseries, with 8% from the voluntary sector and 2% maintained sector. Note: figures throughout the report may not total 100% due to rounding.

England
National Day Nurseries Association

Who we are

NDNA is a national charity representing children's nurseries across England, Scotland and Wales. At NDNA we don't just provide nursery membership, lobby government and offer training, we are dedicated to making a difference. We are the voice of the sector, which totals 21,000 nurseries and employs 250,000 people – an integral part of the lives of one million children and their families.

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