



ANNUAL NURSERY SURVEY

2016 - England



Nursery sector headlines

This seventh NDNA Annual Nursery Survey shows that underfunding of “free” childcare hours continues to undermine the nursery business model and threaten quality and sustainability of early years education.

According to Department for Education figures, the private, voluntary and independent sector currently delivers funded places for 674,000 two, three and four-year-olds in England, providing 96% of two-year-olds and 64% of three and four-year-olds with their free place.

Despite all the challenges that Government policy has brought, day nurseries continue to embrace change and consistently deliver high-quality early education for children. Ofsted’s national statistics show they are doing a fantastic job, with 86% judged as good or outstanding.

With the forthcoming 30 free hours’ childcare offer, the Government will become the private and voluntary nursery sector’s biggest customer for the first time.

But equally importantly, the private and voluntary sector is the Government’s biggest delivery partner for the free childcare scheme. Each depends on the other to make the Government’s promise of 30 free hours a success for parents.



At this point, success is far from guaranteed. Our survey reveals that fewer than half of nurseries are likely to offer places to meet forthcoming demand.

It’s clear that nursery owners and managers are keen to help hard-pressed families - but are too worried that funding levels will not cover their costs to commit.

The result may be that many tens of thousands of families eager to take up extended free childcare will struggle to find places unless action is taken.

Pilots of 30 free hours’ childcare per week, for three and four-year-olds of working parents in England, start this autumn with full roll-out to follow in 2017, under new legislation covered by the Childcare Bill.

But our survey found just 45% of nurseries, fewer than 5 in 10, currently say they are likely to extend the number of free hours on offer with the majority of nurseries unsure.

The survey reveals the funding gap is now the highest ever at £1.68 per hour on average per three and four-year-old place. Offering 15 free hours results in an average annual loss of £34,000 per nursery, money that must be made up through paying parents’ fees.

The Chancellor, George Osborne, pledged an increase in nursery funding in his Spending Review in November but the critical issue for nurseries is whether this will translate into a sufficient hourly rate, particularly in the face of the new National Living Wage.

Urgent steps must now be taken to bring about the funding reform promised by the Government, so an economically viable hourly rate for high-quality childcare reaches the front line.

NDNA recommends that early years funding must be ring-fenced with local authorities funded fairly at a consistent level per child and ‘top slicing’ of funding before it reaches nursery front lines strictly limited.

Schools and private and voluntary nurseries must see a new era of equal funding. New parent-held tax-free childcare accounts should be used as a mechanism for payment.

Overstretched schools and shorter-session providers will struggle to meet increased demand for free places – so this is a perfect opportunity for nurseries and schools to build partnerships and join up their services.

With the focus on supporting parents with the cost of childcare, it’s essential that the huge benefit

of investment in early learning isn’t forgotten - particularly for the most disadvantaged children.

Sufficient funding will not just secure the success of 30 free hours for three and four-year-olds, it will also enable nurseries to do much more to help the Government meet targets for two-year-old places.

Currently, take-up of free places for disadvantaged two-year-olds is just 58%, according to the Department for Education. Addressing shortfalls will enable nurseries to create more places and support more funded children.

The Early Years Pupil Premium is a positive initiative and nurseries are making creative use of the £300 per child this brings, but uptake is low with too many children missing out.

Access needs to be streamlined and promoted and the amount increased to £1,400, the sum primary schools receive, if we really want to make a difference.



Finally, no nursery can achieve high standards – or deliver on 30 free hours - without a great workforce.

Our survey shows recruitment and retention is heading towards a crisis point. A comprehensive Government workforce strategy and investment is key to the nursery sector’s future sustainability.

KEY ISSUES

Funding and sustainability

Nurseries are just about managing to offer three and four-year-olds their 15 hours' funded places because they "cross-subsidise" to plug the shortfall.

In practice, this means parents pay a higher rate for additional hours beyond the free 15 hours.

The average nursery has to absorb £34,000 a year due to this funding shortfall with 89% of nurseries making a loss on these places.

Doubling this entitlement to 30 funded hours for working parents of three and four-year-olds is going to increase this shortfall further but leave nurseries with no means of making up that loss.

According to our survey, only a third of three and four-year-olds currently attend for more than 30 hours. Department for Education statistics show the average child goes to a private sector nursery for 20 hours per week. The biggest risk of 30 free hours is that nurseries lose the ability to charge a viable rate and balance their books.

A similar picture is emerging for funded two-year-old places. As the Government encourages more disadvantaged families to take up their places, only 28% of nurseries plan to expand their offer. These children are the ones who most need high-quality early learning to improve their life chances, but due to poor funding levels, nurseries are nervous about offering more than the nine places on average per setting.

Government figures show there is a long way to go to ensure all entitled two-year-olds benefit from free places with take-up at just 58%.

In the drive to deliver on the 30 hours promise for three and four-year-olds, the importance of quality early education for two-year-olds must not be overlooked.



Threatens quality and sustainability of early years education...

NDNA nursery sector solutions:

- Ring-fence the early education funding block within schools funding so it can only be spent on the free childcare offer
- Ensure the new national funding formulas for schools and early years fund local authorities on a consistent level per child
- Cap local authority top-slicing at a minimal fixed rate nationally to maximise the amount of funding that reaches childcare providers
- Implement simple standard contracts between all local authorities and childcare providers to minimise bureaucracy for all and make it clear what's included in a free session
- Equalise hourly rates across private and voluntary nurseries and schools to enable delivery of free places to be more sustainable
- Commit to making a difference to the most disadvantaged children by increasing the Early Years Pupil Premium to at least the level received by primary schools, recognising the benefit of investing in children in their early years
- Simplify and promote access to the Early Years Pupil Premium to ensure all entitled children can benefit
- Use the 30 free hours pilots to improve efficiency and maximise the spending power of allocated funding by routing it via the individual Tax-Free Childcare Accounts being established by HMRC
- Review the overly complex early education and childcare funding system, to bring together the multiple funding streams parents have to navigate into one simple childcare account
- Support private and voluntary providers with capital funding initiatives to enable expansion of places to meet parental demand

Workforce and pay

Nurseries are faced with a challenge on staffing due to the National Living Wage for over 25s. Many will also maintain pay differentials to reflect responsibility and qualifications. This will push up the average payroll by 10% but with no additional funding to cover these costs, as the Government's promised increase in the funding rate does not take effect until 2017. Nurseries are therefore set to increase the fees that parents pay.

Nurseries tell us they are experiencing significant difficulties in recruiting and retaining staff because low funding rates and pressure to keep fees affordable push down pay. Nurseries want to reward staff better but all these pressures are making this difficult.

To increase standards and quality of early years education, the Government has introduced requirements for Level 3 practitioners to have GCSE maths and English at Grade C or above. This requirement is also making it difficult to recruit staff and apprentices. The number of Level 3-qualified staff is rapidly dropping, which is exacerbating the problem. There is a real danger that quality of services will suffer due to increasing numbers of Level 2 staff who have lower level skills.

FROM APRIL THE NATIONAL LIVING WAGE WILL PUSH UP THE AVERAGE PAYROLL BY

10%

INCREASED FUNDING DOES NOT TAKE PLACE UNTIL 2017

NDNA nursery sector solutions:

- **Early education funding must be sufficient to enable the sector to recruit and retain a high-quality workforce and pay their staff at least the National Living Wage**
- **To keep pace with inflation and protect viability and quality of childcare, add an annual 'National Living Wage Factor' increment to early years funding allocations**
- **Through the Department for Education's forthcoming workforce strategy, an investment fund should be set up to address clear progression pathways that will attract candidates at all levels, including the most academically able, to the workforce**
- **Aspire to every nursery setting being graduate-led with level 3 (or equivalent) as standard for all practitioners**

Business burdens

Business costs are continuing to put additional pressure on nurseries, most of which are small businesses. Their premises generally fall above the rateable value threshold for rates relief.

In 2015, following evidence from last year's NDNA Annual Nursery Survey, Childcare Minister Sam Gyimah called for local authorities to prioritise business rate discounts for childcare providers, including the private sector. Despite this, discounts have failed to materialise.

Utilities bills for businesses remain a pressure and many nurseries are having to find pension auto-enrolment costs in common with many SMEs facing staging dates over the next two years.

There is much uncertainty in the sector with lower expectations of making a profit and fewer expansion plans.

Business confidence has dropped by 6%, compared with NDNA's survey last year, with more nurseries choosing not to expand their businesses. Yet business expansion is key to delivering a choice of flexible, accessible 30 free hours childcare for parents.



NDNA nursery sector solutions:

- **Encourage more partnerships with schools. With schools under pressure to offer enough primary places, private and voluntary nurseries could offer a solution by working in partnership with academies, free schools and maintained schools to provide expert early years education, as well as wraparound care and drop off/pick up solutions for parents**
- **Give all nurseries, regardless of their sector, 100% relief on business rates, recognising their vital educational and social contribution**
- **Make VAT on childcare zero-rated, keeping fees down for parents and stimulating capital investment in nurseries**

SURVEY RESULTS

Key challenges

The top five challenges remain as 2015, though the recruitment and retention of staff has moved up the agenda and the introduction of the National Living Wage has driven the increase of wages to become nurseries' biggest issue.

The top five challenges are:

- Increasing staff wages
- Achieving a profit or surplus
- Delivering the funded hours sustainably
- Recruiting and retaining staff
- Business costs

Fees will increase – driven up by NLW and pension auto-enrolment

This year 83% of nurseries plan to increase fees for parents, with the average rise expected to be 4%. Last year, fees increased by an average of 3%. Nurseries tell us this is largely due to the pressures of the wage bill, driven by the introduction of the National Living Wage in April 2016 and the staging of pension auto-enrolment.



Occupancy

Nursery occupancy is similar to last year, at 72%, however, the range varies widely.

The busiest days for nurseries are Tuesday to Thursday with 49 to 50 children attending on average. Of the 4% of responding nurseries who open on Saturdays, the average number of children is similar to that of a weekday.



Business confidence

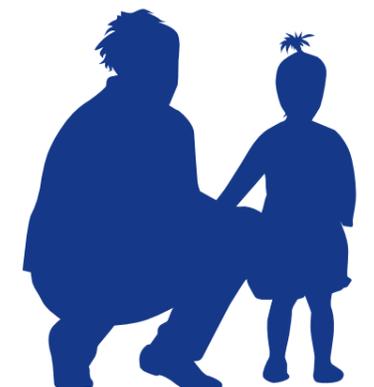
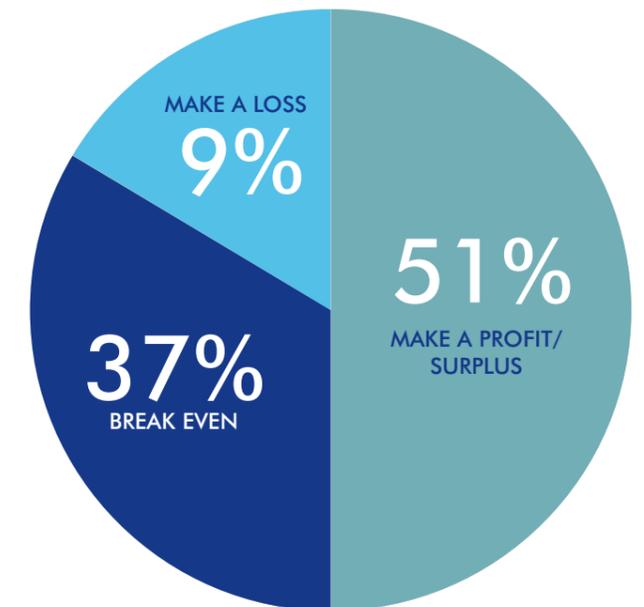
Only 43% of respondents were positive about the future compared with 49% last year.

This fall in confidence is reflected in expectations of profitability, with fewer (51% compared with 59% in 2014) expecting to make a profit or surplus and more nurseries (37% compared with 32% in 2014) merely expecting to break even. 9% expected a loss.

A minority plan to expand (19%) lower than last year's 24%. Expansion plans include maximising use of space and purchasing new sites. Low confidence in being sustainable, poor funding rates, a lack of finance and availability of staff are quoted as the main limitations to expansion.

Many nurseries have already extended their offering – the most common plans for the next 12 months are to extend opening hours or offer out of school care. About a fifth of nurseries offer pick up or drop off at local schools.

PROFIT EXPECTATIONS FOR THE YEAR



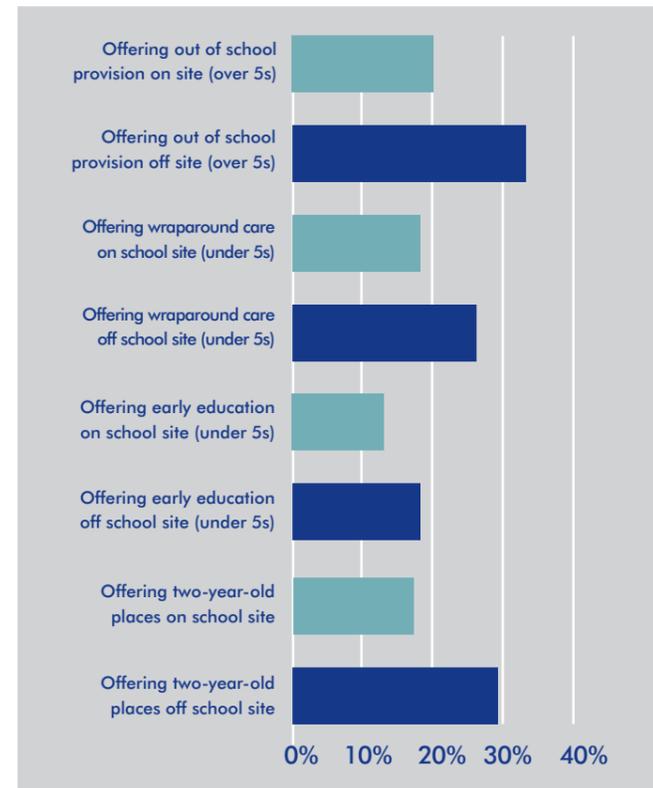
Partnership with schools

Fewer nurseries than last year (38% compared to 43%) currently work in partnership with schools. A further 10% would like to develop a relationship with their local schools.

The most common activities are offering out-of-school provision for over fives, wraparound care for under fives and early learning for two-year-olds both on and off the school site.

Where nurseries do not work in partnership with schools, barriers reported include a lack of response from approaches made to schools and concerns on both sides about competition between schools and nurseries.

WORKING IN PARTNERSHIP WITH SCHOOLS



Services offered by the 38% of respondents working in partnership with schools

"We're offering before and after school care on our site and a holiday club"



38% WORK IN PARTNERSHIP WITH SCHOOLS

10% would like to develop a relationship with their local schools

"We currently work with one infant school and are looking to work with another"

Cash flow

Local authorities are paying within the same timescales as last year, with 38% paying later than four weeks or more. Only 29% paid at the start of term.

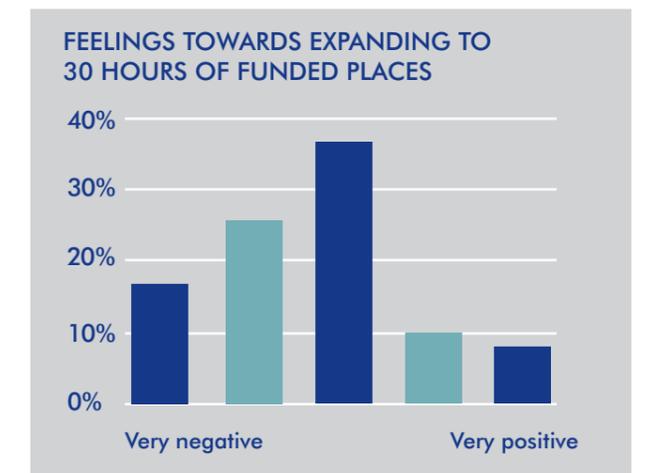


"Unless the hourly rate is increased significantly it will be very hard to implement and maintain the 30 hour free places"



Expanding funded hours to 30 per week

Only 45% of nurseries say they are likely or very likely to get involved in the scheme with a quarter unlikely or very unlikely at this stage to increase funded places. A third are unsure. Barriers to joining include inadequate funding and lack of space. Many don't believe they could sustain the funded hours at current rates of funding.



However, at the moment three quarters of nurseries are unlikely to pull out of the 15 hour per week funded scheme for three and four-year-olds.

Delivering funded places

Two-year-olds

A total of 91% of respondents are working with local authorities to deliver funded two-year-old places, 5% more than last year. Of those that do, the average number is nine children per setting.

Only 28% of nurseries are planning to offer more places into the future, with two thirds of respondents planning to continue with the same number of places.

At present, 5% of nurseries are choosing not to offer two-year-old places.

Hourly rates from local authorities are stagnating, with the vast majority not seeing any increase, despite rising costs.

The average hourly rate paid for these two-year-old funded places is £4.97, similar to last year. But more nurseries (54% compared to 46%) say that their costs are not covered by this rate. Their average loss is £1.26 an hour or £718 per child for the year. This would average out at £6,463 annual shortfall for a nursery delivering nine two-year-old places.

“The government is not paying enough money for us to sustain offering 30 hours free childcare per week.”

Two-year-olds



91%
DELIVER FUNDED PLACES

AVERAGE HOURLY RATE
£4.97

54%
NOT COVERING COSTS

AVERAGE HOURLY LOSS PER CHILD
£1.26

£718
ANNUAL LOSS PER CHILD PER PLACE
£6,463
SHORTFALL

“Good for families but sustainability with no hourly increase will be challenging if not impossible.”

Three and four-year-olds

Nearly all nurseries (97%) deliver funded places for three and four-year-olds, which shows how crucial they are in ensuring choice, access and flexibility for parents. Only 1% are opting out of this scheme currently.

The average hourly funding rate they receive is £3.83, similar to last year, showing a stagnation of funding in the face of increased wage and business costs.

In 89% of settings, funding is failing to cover costs, with the average loss per child £1.68 per hour or a £957 annual loss. The average number of funded children in a setting is 36, meaning this loss equates to £34,000 for the average nursery to have to absorb or pass onto parents.

Only about a third of funded three and four-year-olds attend nursery for more than 30 hours per week.

Change in three and four-year-old hourly rate in the last 12 months:



Three and four-year-olds



97%
DELIVER FUNDED PLACES

AVERAGE HOURLY RATE
£3.83

89%
NOT COVERING COSTS

AVERAGE HOURLY LOSS PER CHILD
£1.68

£957
ANNUAL LOSS PER CHILD PER PLACE
£34,000
SHORTFALL

Early Years Pupil Premium

The average number of children claiming this additional payment for their early years education is just under two per setting. Nurseries report finding it difficult to get parents to claim the EYPP so children are missing out on this additional support.

Nurseries are using the EYPP in a variety of ways including the NDNA Maths, SEND and Literacy Champions programmes which look to embed different ways of learning into their nursery. Others spend it on initiatives such as home learning support, Forest School and staff training to meet their specific needs.

Staffing and NLW

Nurseries will struggle with their payrolls when the new National Living Wage is introduced in April 2016 at £7.20 per hour for over 25s. Only 30% of settings are already paying all or most staff at this level. In over a third of nurseries who responded (37%), the majority of staff are paid less than the National Living Wage.

Payrolls are expected to increase by an average of 10%. Although the majority of nurseries (64%) don't expect to change their mix of staff as a result, a significant figure (36%) are concerned that if the funding were not sufficient, they could be driven to appoint younger, less qualified staff.

Business costs

The picture for business rates remained stable in England, with the average bill being £13,689. The average rateable value is £21,012 which is still well above the £12,000 threshold for rates relief.



Inspections

Nurseries are embracing Ofsted's new Common Inspection Framework and are performing well. Since the new Ofsted framework was brought in last September, 15% of nurseries responding had undergone an inspection.

Of those, 91% were awarded a good or outstanding judgement, above the national average.

Nearly all had improved or maintained their judgement. The majority (84%) agreed with the outcome but a quarter of those who didn't agree put forward a complaint. Three quarters of nurseries who had been inspected rated their experience with Ofsted as positive.

Survey details

NDNA's Annual Nursery Survey was conducted online in December 2015 and January 2016. The survey received 485 responses from nurseries across England. Just over half (52%) were single site nurseries, with the rest from nursery groups with two or more sites. The vast majority of respondents (92%) were private nurseries, with 7% from the voluntary sector and the rest were maintained nurseries.

Who we are

NDNA is a national charity representing children's nurseries across England, Scotland and Wales, giving them information, training and support, so they can provide the best possible care to young children. NDNA is the voice of the sector, totalling 21,000 nurseries and employing 250,000 people, an integral part of the lives of one million children and their families.

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Department for Education figures taken from the report Provision for children under 5 years of age: January 2015 available at gov.uk and Review of Childcare Costs November 2015.

Note: Figures may not add up to 100% due to rounding.

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