

SCHOOLS FORUM

Call for Evidence: review of the cost of providing childcare

21 September 2015

| Content Applicable to; | | School Phase; | |
|--------------------------------|---|------------------|---|
| Maintained Schools | X | Pre School | X |
| Academies | X | Foundation Stage | X |
| PVI Settings | X | Primary | X |
| Special Schools / Academies | X | Secondary | X |
| Local Authority | X | Post 16 | |
| | | High Needs | |

Purpose of Report

| Content Requires; | | By; | |
|-------------------|---|--|---|
| Noting | X | Maintained Primary School Members | |
| Decision | | Maintained Secondary School Members | |
| | | Maintained Special School Members | |
| | | Academy Members | |
| | | All Schools Forum | X |

1. This report sets out the local authority's response to the recent consultation on the cost of providing childcare

Recommendations

2. That Schools Forum notes the response and the potential financial implications

Background

3. The Government has committed to increase the average rate paid to providers of early education and childcare and launched a 'Call for Evidence' in June to '*improve their understanding of what factors contribute to the cost of providing childcare*'
4. Whilst Leicestershire is not a significant provider of early learning and childcare, it has a responsibility to ensure a sufficient supply of childcare places and

through Dedicated Schools Grant (DSG) funds all places for the Free Entitlement to Early Education (FEEE).

5. Responses to the call for evidence were required by August 10th and the Department for Education (DfE) have stated that they will report in the autumn.

Implications

6. Local authorities are required to maintain a formula for funding FEEE, any increases in the rate would bring an additional cost burden, there is no explicit commitment within the July Budget announcement which makes provision for additional funding to local authorities to meet the cost of any increased rate.
7. The Childcare Act currently progressing through parliament proposes to increase childcare provision from the current 15 to 30 hours for working parents, this introduces further potential financial implications.
8. A further July Budget commitment was the introduction of the Living Wage, the childcare sector will be significantly impacted by its introduction.

Conclusion

9. Given the magnitude of these issues, whilst not a significant provider of childcare, Leicestershire has submitted a response which is attached at Appendix 1.

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Call of Evidence

The Family and Childcare Trust conducted a survey in 2015 and identified that the average cost of childcare for children aged 2 and over in the East Midlands is £107.74 per week for 25 hours. This averages at £4.32 per hour.

Leicestershire had not increased the Free Early Educational Entitlement (FEEE) rate for 5 years, but in 2015 there was an increase of 3.7%. Feedback from providers indicates that this has impacted on areas such as staff wages, training and development and investment in equipment and resources.

Currently the basic FEEE rate in Leicestershire is £3.58. There are supplements for deprivation and quality (Ofsted grade). The hourly FEEE rate therefore varies between £3.59 and £3.75, dependent on circumstances.

Considering the average childcare costs for the East Midlands, the current funded rate will not cover the cost for the childcare.

Current Situation

Many sessional preschool settings have limited opening hours and are unable to open for any longer in their premises. Most of their income is derived from funded sessions. There has been a trend for some of these providers to use reserves in order to remain sustainable.

Since April 2015, 30 sustainability checks have been undertaken with providers in Leicestershire. 16.7% (5 out of the 30) say that current fees do not cover their costs.

In some instances, day nurseries have restricted the number of FEEE places in their settings in order to capitalise on income through their fees for additional hours.

Surveys indicate that providers are charging parents for additional hours at an increased rate to meet the cost of their business.

In discussions with managers and leaders, it has become apparent that the fees for additional hours are usually set at approximately £5.00.

Future Challenges

Some preschools have reported that they are unable to sustain the current levels of funding, particularly with the statutory auto-enrolment pension contribution (minimum of 1% rising on an annual basis) being introduced shortly.

Settings now have to budget for increased costs in staff training.

Inflation and interest rates are set to rise over the next twelve months.

Providers face increased charges for rent, heating and consumables, particularly for those operating from Church Halls and Community buildings.

Impact of the Living Wage on Childcare Providers

The Summer 2015 Budget introduced a National Living Wage (NLW) of £7.20 per hour for over 25s, from April 2016 rising to £9.00 per hour by 2020. This will have a major impact on the sustainability of settings within Leicestershire – particularly with the proposed introduction of 30 hours of free childcare for eligible parents in 2017.

The most recent Workforce Audit was carried out in Leicestershire in 2014. This found that there were 3,414 people employed within the Early Years Sector. 2,730 (80%) of staff working in the sector were over 25 and would be eligible for the increase to the Living Wage.

There is a current FEEE budget for 2, 3 and 4 year olds of £21,946,439. The increase in costs due to the introduction of the NLW is shown in the table below. This is based on 80% of total provider costs being attributed to salary costs at the current minimum wage and expectations on how the increase to £9.00 will be phased. This calculation does not include any additional costs from the increase to 30 hours provision for working parents.

| Year | Living Wage increase £ April | Living Wage increase % | Total extra cost @ 80% provider wage spend £,000 |
|------------|------------------------------|------------------------|---|
| 2015/16 | £6.50 | | |
| 2016/17 | £7.20 | 11% | £1,900 |
| 2017/18 | £6.65 | 6% | £1,170 |
| 2018/19 | £8.10 | 6% | £1,200 |
| 2019/20 | £8.55 | 6% | £1,300 |
| 2020/21 | £9.00 | 5% | £1,200 |
| Total Cost | | | £6,800 |

The Workforce Audit in 2014 identified that Leicestershire had:

- 122 settings who employ an Early Years Professional/Teacher
- 107 Qualified Teachers who work in childcare
- 158 Nurseries and 228 Preschool/playgroups

1. An increase to the NLW will mean that the setting would have to consider an increase in wages across the whole business. Currently wages account for between 70% (Nurseries) and 80% (Pre-schools) of the total expenditure of the business. Further increases would be very difficult for the business to absorb.
2. The majority of income for preschools is from FEEE – this will have a huge impact on those preschools having to use their reserves to fund the additional wage bill. The settings that do not have reserves will become unsustainable

very quickly, having to close. This will impact on the Local Authority as it will become increasingly difficult to meet the sufficiency duty around providing funded places for 2, 3 and 4 year olds.

3. Fees will have to be increased in line with the NLW in order for the businesses to remain sustainable. However the current Dedicated Schools Grant is insufficient to meet this additional cost if the funding does not meet with the wage increase, day nurseries may choose not to be part of the funding scheme, once again impacting on the Local Authority's duty for sufficient free childcare places. However irrespective of whether providers choose or not to be included in the scheme the local authority will not have sufficient funding to meet its obligations.
4. If providers raise their rate for additional hours, parents may opt to choose to use more informal childcare arrangements. This could impact on school readiness, particularly in areas of deprivation.
5. Providers have historically charged for non FEEE hours at an hourly rate in excess of the rates paid by local authorities. With an extension to 30 hours of provision this will further reduce their financial sustainability.
6. Settings may not be able to employ/retain the higher qualified staff e.g. Early Years Professionals / Teachers (EYP/T) as the budget for employing the higher level of staff will have to be offset by the NLW for over 25year olds. The impact could be that the quality of these settings may not be maintained.
7. With the imminent introduction of the 30 hours of funded childcare for eligible working parents, providers will potentially incur a further loss of revenue.