

PACEY’s Submission to the Cost of Providing Childcare Review

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Introduction to PACEY

PACEY is the Professional Association for Childcare and Early Years. We represent 30,000 professionals working in childcare and the early years – including childminders, nannies, nursery workers and students. Since 1977 we have worked with government, local authorities and others to raise standards and ensure our members are recognised for the vital role they play in helping children get the best start in life. We provide training, resources and publications, and offer advice and peer support through our nationwide network of PACEY local volunteers.

PACEY welcomes the Government’s review into the cost of providing childcare. We have long called for a review of the level of funded early years education (EYE) places so that it addresses the current shortfall and fully supports a diverse, high quality childcare offer for families. PACEY members are concerned not just about the level of funding, but also about a range of additional barriers many of them face in delivering the EYE entitlement, including inflexible payment procedures and red tape. For many childminders, a perceived lack of demand and the ban on related children are also significant barriers. Below we set out all of these barriers in detail and provide a list of measures which we believe would facilitate the delivery of the entitlement, something that is increasingly vital in view of its proposed doubling to 30 hours per week to working parents of 3- and 4- year-olds.

A workforce at tipping point

The Government's funding review has come at a critical moment for the childcare and early years sector. In February of this year, PACEY carried out a survey (Building Blocks: the state of the childcare sector in England) of 2,365 childcare professionals (childminders, nannies, nursery workers and managers) and 180 parents across all nine regions of England.¹ We discovered a childcare workforce at tipping point – highly motivated by the work they do, and highly respected and relied upon by parents, but on the verge of making decisions about whether their businesses are viable for the future.

Increasing quality, but uncertainty about the future

The quality and qualifications of the childcare workforce have never been better. The overwhelming majority – 85% – of early years registered providers are now 'good' or 'outstanding' according to Ofsted, an 18% increase in five years.² Childminders in particular have made great strides. Nearly three-quarters of the childcare workforce now hold a relevant Level 3 or higher qualification, a 12% increase since 2005.³ In our Building Blocks survey, nine out of ten (93%) parents were satisfied or very satisfied with their childcare and 87% were willing to recommend their provider to others.

In spite of these achievements, Building Blocks revealed a sector that is deeply uncertain about its future. Just over a quarter of both group and home-based providers felt less or much less confident about their future business than 12 months ago. Almost 70% of all childcare providers said they had no plans to grow their businesses in the next year; over a quarter of them were less confident in the future of their business than they were a year ago; and a fifth of childminders were uncertain as to whether they would still be working in childcare in twelve months' time.⁴ These findings suggest there is a major disparity between the Government's ambitions for the free entitlement and the sector being able to deliver on them.

Rising costs and low wages

One of the chief reasons for the pessimistic outlook of many childcare professionals is that costs are rising while wages remain low. Over half of childcare providers reported in Building Blocks that costs have increased for *all* elements of care provision over the last 12 months.⁵ For instance, 75% of providers reported that the cost of food provided for children in their care had increased. Around 63% of all providers reported an increase in transport and training costs.

In spite of rising prices, childcare providers have been reluctant to increase their fees, with many freezing them for a sustained period.⁶ This is reflective of the highly localised markets that many

¹ For the full survey results, go to www.pacey.org.uk/buildingblocks.

² Ofsted (2015), Early Years: The report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2015, <https://www.gov.uk/government/publications/ofsted-early-years-report-2015>.

³ A. Simon, C. Owen et al. (2015), Provision and use of preschool childcare in Britain, Institute of Education.

⁴ Other studies have pointed to the mixed views on the financial viability of childminding, see M. Callanan (2014), Study of Early Education and Development: views and experiences of childminders, Department for Education, www.gov.uk/government/publications/childcare-provision-views-and-experiences-of-childminders.

⁵ These elements include: food used during provision; resources used in the setting; training; transport; insurance; decorating or repairs to the setting; and membership fees for professional bodies.

⁶ S. Mathers, N. Eisenstadt et al. (2014), Sound foundations: A review of the research evidence on quality of early childhood education and care for children under three - Implications for policy and practice, Sutton Trust

providers operate within. They face the constant challenge of balancing competitiveness with quality provision, knowing full well that higher costs can drive families to use unregulated informal care. Childminders in particular, who live in the communities they serve, can find it difficult to raise their rates when they know it will adversely affect the clients with whom they have developed a close relationship:

*I have not increased my fees for 5 years, no cost of living increases for me. I am feeling I need to increase my fees, but my parents who are not entitled to WFTC [Working Family Tax Credit] etc. would struggle, especially the ones with two or three children here with me. –
Childminder, Yorkshire and Humberside*

Childcare remains a persistently low paid occupation, with the Low Pay Commission suggesting that 41% of the childcare workforce is paid less than £7 per hour.⁷ Our Building Blocks survey found that the average income before costs for group providers in the last 12 months was £167K pa, and for home-based providers it was £14K pa. One in five group settings and one in 15 childminding settings reported a loss in the last 12 months. This corresponds with research commissioned by the Department for Education which reported that 46% of full day care providers and 64% of sessional settings break even or make a loss.

In view of rising costs and persistently low pay, it is perhaps unsurprising there has been a 5% decrease in the childcare workforce in Britain since 2005.⁸ Without more sustained investment in the workforce, there are serious questions about the long-term sustainability of the sector.

The need for a high-quality workforce

The low fee paid for the free entitlement not only impacts on the sustainability but also the quality of childcare providers. It means many settings have limited resources to invest in the ongoing professional development of their staff. Local authority support for providers is waning, particularly now there is only a statutory duty to support those with a 'requires improvement' grade from Ofsted. PACEY is concerned that the planned extension of the free entitlement could seriously damage providers' ability to invest in quality, leading over time to fewer 'good' or 'outstanding' providers. This would not only be bad for children, but lead to increased demand on local authorities. It is imperative that the fee for the free entitlement includes a component that recognises ongoing CPD investment. PACEY's view is that the free entitlement should only be delivered by 'good' and 'outstanding' providers. At the very least a higher premium should be paid to providers who hold these Ofsted grades.

Alongside this, PACEY is calling on the Government to implement a workforce strategy that supports everyone working in childcare and early years to continuously improve their skills and supports pathways for career progression. This would ensure reduced turnover of staff, improved reward and ultimately higher quality for children and families. Recent changes to qualification requirements for Early Years Educators are a positive first step and could be part of a joined-up approach that supports everyone working in the sector to be recognised as skilled professionals, better-rewarded and therefore motivated to remain in their chosen profession.

& Oxford University, www.suttontrust.com/researcharchive/sound-foundations. Also see M. Callanan (2014), Study of Early Education and Development: views and experiences of childminders, Department for Education.

⁷ A. Simon, C. Owen et al. (2015), Provision and use of preschool childcare in Britain, Institute of Education.

⁸ A. Simon, C. Owen et al. (2015), Provision and use of preschool childcare in Britain, Institute of Education.

Barriers to delivering the early years education entitlement

Below we outline what we have found to be the four key barriers to offering the EYE entitlement for PACEY members: insufficient hourly rates; delayed payments and red tape; lack of demand and the ban on claiming EYE entitlement for related children.

Whilst the first two barriers apply to all childcare providers, the final two are barriers for childminders specifically. Group settings offer the majority of funded early years education (EYE) places for 2-, 3- and 4-year-olds. Childminders are particularly underrepresented in the delivery of the entitlement. For example, only 3% of 2-year-olds and 1% of 3- and 4- year-olds who are taking up a free place do so with a childminder.⁹ This is despite the fact that childminders offer around a fifth of all early years places in England.¹⁰

Insufficient hourly rates

The largest barrier to offering the EYE entitlement is that many childcare providers, including childminders, day nurseries and pre-schools, simply do not find it to be economically viable. Hourly rates are set by local authorities and can vary substantially between and within them. They are frequently lower than the provider's normal rate. In a 2014 survey of primarily childminders, half of providers reported that EYE funding generally covers the cost of providing a place, while the other half said it did not.

I am lucky in North Yorkshire as we get a high rate of funding as childminders. If I didn't get at least my usual hourly fee per child, I would not be able to take funded children, as my business would be unsustainable. –Childminder, Yorkshire and Humberside

It simply doesn't match my hourly rate at the moment so I am reluctant to do it and the local system is a nightmare to navigate and not designed for childminders. –Childminder, East Midlands

We do not receive enough funding to cover all our costs: wages, rent, utilities, business rates etc. cost us thousands each month! –Nursery Manager, East of England

Despite not increasing my pre-school hourly rate for the past 4 years there is still a 46p an hour shortfall for each child, this would be as much as £2.46 if my fees had been increased! –Nursery Manager, West Midlands

The difference in rates between neighbouring local authorities can be confusing, and is especially a challenge when a provider is caring for children from two different authorities:

I have one child on Wiltshire funding which is a third more than Somerset pay for the same service! –Childminder, South West

Across the country, providers have reported that hourly rates for 2-year-olds are much more likely to be in line with their own rates than those for 3- and 4-year-olds:

⁹ Department for Education (2015), Provision for children under five years of age in England: January 2015, Statistical First Release, www.gov.uk/government/uploads/system/uploads/attachment_data/file/437598/SFR20-2015_Text.pdf.

¹⁰ Ofsted (2014), Registered childcare providers and places in England August 2014, www.gov.uk/government/statistics/registered-childcare-providers-and-places-in-england-december-2008-onwards

Why do I get paid less when children turn 3? I receive £4.85 per hour for 2-year-olds, which drops to £3.50 per hour for 3- and 4-year-olds. They are the same children, I have to keep the same ratios and they are still from disadvantaged homes. –Childminder, North West

The hourly payment for 3+ funding does not meet our costs. To date we are losing £2.74 per child per session. –Nursery Manager, East of England

These views are reinforced in independent research. Last year's SEED report on childminders noted that two-year-old funding levels were similar or higher than childminder's hourly rates and were 'generally felt to be adequate'.¹¹ Likewise, the funding levels for 3- and 4-year-olds were 'less satisfactory with levels often lower than the levels they charged privately'.

In order to make up for the funding shortfall, larger settings such as private day nurseries may cross-subsidise their free places through charging higher fees for non-funded hours, or retract the number of funded places, both undermining the Government's aim to increase the affordability, accessibility and quality of early years education. If the number of free funded hours is increased to 30 hours per child per week, this flexibility will be diminished, as providers will find it much more difficult to cross-subsidise places.

Smaller providers such as childminders often charge the same rate for all children and therefore do not tend to cross-subsidise places in the same way. However, some make up for the shortfall by charging for food or optional classes; by requiring an administration fee or only offering funded places during quieter times of the week. This 'creative accounting' by some childcare providers can mean that funded places are not truly free. However, it is not something many relish doing:

Because it's less money than my hourly rate, I don't like having to then change invoices to charge for food, and getting parents to sign declaration forms is hassle each time. – Childminder, South East

I only get £3.66 per funded hour and my current rate is £4.00 per hour. I have to include food, trips etc. for this lower rate as I believe all children should be treated the same whether funded or not! –Childminder, South East

Due to the low hourly rates, many home-based settings are clear that it is currently unsustainable to offer more than one funded EYE place at a time:

My local council pay a flat rate for funded 3s and 4s which is 50p lower than my hourly rate. Although parents would be happy to pay, top-ups are not allowed, I am therefore expected by the council to subsidise each child by approximately £300 per year. This is manageable now as I only have one child funded, but if more parents wish to access funding I will be put in a very difficult position financially and may have to reconsider if I offer funded places...The council want me to offer funded places so that they can claim to offer funding in a wide range of settings, but do not value my setting enough to pay my hourly rate. –Childminder, East of England

¹¹ M. Callanan (2014), Study of Early Education and Development: views and experiences of childminders, Department for Education.

The effect is to restrict the number of places available to families who would benefit from the benefits of home-based childcare.

Delayed payments and red tape

Another barrier to offering the EYE entitlement for all settings, but particularly smaller ones, is a perception that the system involved in administering it – notably the payment structure – does not work for them.

Most nurseries, and childminders in particular, are accustomed to weekly or monthly payments. Local authorities, on the other hand, generally disperse EYE payments in arrears on a termly basis in line with school administration systems. This can cause cash flow problems, particularly for small businesses operating on very low or no profit margins:

Payment system not practical with one payment per term and no notice period – creates big cash-flow problems, so I'm not keen on taking on more funded children. The one I have is here full time. –Childminder, South East

Because we get paid in the middle of the term it means that both of my 15-hour funded children are 'free' until then. I'm providing for them until I am paid. I would not take on more than two at the same time as I would not have any income for over a month, putting my bills at risk of not being paid on time. –Childminder, South West

The payments come in very late from the local authority. For example, the spring term second part payment is due to be paid on the second last week of the term! –Nursery Manager, London

Providers can find themselves particularly out of pocket if a funded child changes setting in the middle of the term or does not turn up:

My contracts state that if I am available to work but the child doesn't attend I still get paid. But the council will only pay for the hours the child attends, which means I am left out of pocket if I have already bought food and resources. –Childminder, Yorkshire and Humberside
Schools in our area offer 3-year-old places and often take children before they are 3. Some children do a month with us, and then the schools claim them, which we don't get paid for. We also get very little just £3.50 per hour – Nursery Manager, North West

In addition, excessive paperwork, red tape and administrative errors are also common complaints, particularly amongst childminders:

Incorrect payments, delayed payment, overly complicated application process and severely underfunded due to the formula used. –Childminder, South East

The forms are clumsy for a childminder to fill in as they are written for pre-schools. There is now no confirmation of receipt either by text or email and we only know if the papers were 'lost in the post' when payment does not arrive. –Childminder, East of England

PACEY has also heard numerous reports of problems with sharing EYE payments between two providers, for example a childminder and a nursery:

*I share funding for one child with a nursery, the payments were made incorrectly one term and could not be sorted until the following terms. –Childminder, South East
...where funding has been shared nurseries have over claimed, resulting in my money being stopped until the matter has been resolved, even though I have not been at fault. –
Childminder, South East*

These ‘process’ challenges will be as important to resolve as the funding itself if the Government wants to encourage more providers to take up delivery of the EYE and to encourage partnerships between settings.

Perceived lack of demand

A key barrier childminders in particular face in providing the EYE entitlement is a perceived lack of demand for funded places. In our 2014 survey of primarily childminders, we found that just over half of respondents (56%) reported that no parents had asked them about it. A large majority (85%) had never tried to claim EYE funding. Providers graded Ofsted ‘outstanding’ were more likely to offer EYE places. Whether this is due to parent and local authority preference, past local authority practice or a greater understanding of the funding system or a combination of other factors, PACEY believes that quality is linked to providers’ ability to work with the system of childcare funding. Many childminders have reported that parents looking for funded places are being directed to group-based rather than home-based-settings by local authorities, children’s centres and health visitors:¹²

The local authority and children's centres are not promoting registered childminders as an alternative to nursery settings. – Childminder, North East

Childminders seem to be at the bottom of the list for referrals. One parent said no one gave her a number for childminders yet the nurseries could not meet her hourly needs and she found a childminder herself that could take the funding. – Childminder, South East

Despite being on the 2-year-old funding register locally both currently and prior to the national roll-out and having an ‘outstanding’ rating with Ofsted, I have never had any children signposted to my services. – Childminder, South East

The great majority (85%) of respondents to our 2014 survey reported that not a single child looking for a funded place had been referred to their setting by their local authority. Around 10% said one had, and 2% said two children had been referred that way.

There is also the view among some childminders that many parents might not be aware of the benefits of a home-based setting:

Parents are unaware how good a service can be for their child - developmentally, educationally, socially and emotionally...Most parents just do not realise there is an alternative to a group setting. – Childminder, East of England

¹² This perception was also picked up in the recent SEED report on childminders, see M. Callanan (2014), Study of Early Education and Development: views and experiences of childminders, Department for Education.

Those childminders who do look after funded children tend to have cared for them from a young age, before they were eligible for a free place:

I have never had funded children come to me through the local authority. The children have been with me from a young age and come into funding. – Childminder, South West

Ban on related children

One of the single biggest motivations for becoming a childminder is the ability to work whilst simultaneously staying at home and caring for one's own children. However, childminders are not permitted to claim the entitlement for their own children or offer it to relatives, whom they may already be looking after:

I am unable to offer the 2- or 3-year funding to my niece or nephew who have been attending my setting as childminder children for over a year. – Childminder, East of England

The ban on related children is unique to childminders and is a significant barrier to engaging more in the delivery of the free entitlement.

Facilitating delivery of the early education entitlement

Below we set out the key reforms that need to be made in order to facilitate delivery of the EYE entitlement. In particular, we note that too few childminders are currently delivering funded places, reducing the choice and availability of places and settings for families.

The 2014 SEED report argued that the number of childminders offering funded places might increase if the funding for three and four year-olds was increased; the payment structures were designed to minimise cash flow difficulties; and clear information is disseminated on the accreditation process and eligibility criteria.¹³ PACEY concurs with this analysis and calls on the Government to ensure local authorities provide more competitive hourly rates; improved payment and administrative systems; and clearer information for everyone on who can offer the entitlement and the benefits of different types of settings. In addition, we are asking that the Government overturn the ban on delivering funded places to relatives.

More competitive hourly rates

PACEY welcomes the Government's commitment to raising the amount that providers are paid to deliver the EYE entitlement. We hope the funding review will lead to a more competitive hourly rate for all providers, which in turn we believe will lead to an increase in the number, type and quality of free places available to parents. Some local authorities are already paying a fair rate, often pulling money from other budgets to do so.

When we asked childcare providers what the shortfall was between the EYE funding rates in their area and their own average charge, a majority (71%) said it was £1.00 or less (32% said it was 50p or less and 39% said it was between 50p and £1 less).¹⁴ This chimes with other research that shows that

¹³ M. Callanan (2014), Study of Early Education and Development: views and experiences of childminders, Department for Education.

¹⁴ Around 16% said it was between £1.00 and £1.50 less, 6% said it was between £1.50 and £2.00 less and 8% said it was over £2 less.

the 2-year-old funding rate in many authorities is more in line with private fees.¹⁵ Indeed, many providers have told us that the 2-year-old rates are adequate.

Some local authorities award childcare providers with a so-called 'quality supplement' for higher qualifications and/or better Ofsted ratings, something PACEY applauds. For example, in central Bedfordshire, providers are paid the EYE hourly rate according to qualifications, with a staggered increase from Level 4. One of our members reported that as a Level 6, she can cover her hourly rate. There is evidence that childminders support such quality supplements as a fair and effective way to incentivise improvements.¹⁶

Research has shown that the biggest impact on a child's development is the quality of care they receive. PACEY supports tying funding to quality improvement, such as minimum staff qualification levels, commitment to ongoing professional development and restricting delivery of EYE to settings rated 'good' or 'outstanding' by Ofsted.

Improved payment and administration systems

It is clear that many smaller providers, and childminders in particular, do not feel that local authority payment schedules meet their needs as small businesses. This deters many of them from offering the EYE entitlement at all, or taking on more than one or two funded places. Too many local authorities only provide one payment per term, in arrears. There is, however, some evidence of good practice. Some local authorities pay providers 60-75% of the full payment up front, with the remaining 25-40% paid at the end of the term. Local authorities should also consider the viability of providing weekly or monthly payments.

It is also vital that local authorities ensure that their payment systems permit sharing between two providers. This will be increasingly important when 3- and 4-year-olds of working parents become entitled to 30 hours of childcare per week. Around half of families already use more than one type of childcare.¹⁷ Many childminders successfully split funded places with other settings such as local nurseries:

The cross-funded places [part with a pre-school, part with a childminder] really work – we're all working towards the same goal. I share information with the other key workers so we have as complete a picture as possible about each child. – Childminder, East of England

This 'shared care' can be beneficial for children as they move from a small setting to a large group setting as they prepare for school and we applaud systems that enable this type of flexibility. Parents have also benefitted from flexible systems which allow payments to be 'stretched' over 48 weeks rather than just term-time.

Finally, local authorities should review their administrative systems to ensure that registering to provide the EYE entitlement is as easy as possible. We know some local authorities such as Bedfordshire have developed web-based systems which are easy to use. Authorities may need to provide additional training to those providers who are less IT literate.

¹⁵ M. Callanan (2014), Study of Early Education and Development: views and experiences of childminders, Department for Education.

¹⁶ M. Callanan (2014), Study of Early Education and Development: views and experiences of childminders, Department for Education.

¹⁷ A. Simon, C. Owen et al. (2015), Provision and use of preschool childcare in Britain, Institute of Education.

PACEY also calls on the Government to review and simplify the ‘basket of measures’ providers must meet locally to qualify to deliver the EYE entitlement. Whilst streamlined by DfE a few years ago, some local authorities are continuing to require providers to jump through unnecessary and burdensome hurdles in order to provide funded places.

As we highlighted above, PACEY would like the system to better reward quality, for example restricting delivery of the EYE to providers who have achieved a ‘good’ or ‘outstanding’ grade from Ofsted, or paying a higher premium to providers who hold these Ofsted grades.

Better information to increase demand

There is an urgent need to provide clear, concise information to childcare providers, local authorities and parents about exactly who is eligible to provide the EYE entitlement, and what the benefits are of different settings. There is some evidence that providers are unclear about eligibility requirements; these need to be made as unambiguous as possible. Local authorities need to be sure that they are signposting parents to a range of different childcare providers, highlighting the benefits of each.

PACEY has called on the Government to improve information provision about childcare to parents, not only about funding but also regarding the importance of quality. When we asked parents what they looked for first in their childcare choices, proxies for quality such as qualifications and Ofsted grading came in lower down the list than proximity, cost and opening hours.

Removing the ban on related children

Childminders are the only type of childcare providers who are not permitted to offer the EYE entitlement to relatives. This discourages many from offering funded places and is seen as manifestly unjust. We urge the Government to overturn the ban before the EYE entitlement is expanded to 30 hours.

PACEY believes there are already sufficient safeguards in place to ensure government would not be ‘paying parents to parent’ if it allowed childminders to deliver funded places to relatives. These include the registration process with both Ofsted and the local authority. Many of the latter in particular require a number of additional steps to be taken if a provider wishes to deliver the EYE entitlement. The same standards of care are required of all childminders, whether they care for a related or an unrelated child. For an additional reassurance, however, government could limit the number of related children for which a childminder could claim the free entitlement, for example to two or three children.

Conclusion

PACEY looks forward to the results of the funding review and applauds the Government for committing to raise the rate paid to childcare providers. However, better funding is only part of the picture. In addition to more competitive hourly rates that incentivise quality, there is also a need for improved payment and administrative systems; better information for providers, local authorities and parents; and an overturning of the ban on related children. If these four factors are addressed by government and local authorities, PACEY is confident that many providers will rise to the Government’s challenge of delivering high-quality funded places for a large number of 2-, 3- and 4-year olds, ensuring a diversity of providers and settings for families.

We also call on the Government to commit to a regular assessment of childcare provider finances, in the same vein as the existing childcare and early years providers survey. Childcare providers cannot be supported to grow and improve the quality of their services without an understanding of their financial position and sustainability.

Sitting above all this, government needs to recognise that despite the multitude of guidance it has issued to local authorities in recent years, many local authorities continue to operate payment and administrative systems which deter childcare providers from delivering funded places. There are no doubt many reasons for this, but PACEY asks government to reflect on whether it has all the policy levers it needs to ensure these systems are improved, thereby enabling the full realisation of its childcare and early years policy.