



# HANDLE WITH CARE

CHALLENGES FACING SMALL CHILDCARE PROVIDERS

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# ABOUT FSB

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The Federation of Small Businesses (FSB) is the UK's leading business organisation. Established over 40 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. FSB is also the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed. Our lobbying arm starts with the work of our team in Westminster which focuses on UK and English policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.

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# FOREWORD

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There is undoubtedly a sound economic case for investing in high-quality childcare. Alongside representing an invaluable investment in our children's education and development, it allows parents to work thus benefitting families, businesses and the wider economy.

A large portion of the childcare sector in England consists of small and micro businesses and the self-employed; for this reason their voice must be heard. Our research shows that many of our members running nurseries, pre-schools and childminding businesses are feeling the pressure as a result of the rising costs of doing business combined with significant recent changes in Government policy; in particular, the introduction of 30 hours free childcare for an estimated 390,000 eligible families in England.

While it is undoubtedly the case that businesses in all sectors have experienced an increase in operating costs (in particular, the cost of employment), the early years childcare sector is particularly hard hit as it is characterised by high staffing levels and relatively low pay. This is leaving some childcare providers struggling to make ends meet.

This policy paper explores the scale of the challenges facing small childcare providers and makes recommendations on how the sector, and the small businesses within it, could be better supported.

While we highlight small childcare providers' concerns about a policy that leaves many of them operating at a loss, it also finds that delivering a high-quality early years offer is a source of great pride to every childcare professional interviewed. Indeed, many of the childcare providers we spoke to said they would prefer to shut their doors forever, than provide a service to parents and children that they didn't believe to be of high-quality.

With small firms making up the majority of the childcare provision available in the marketplace, the right policy, funding and support must be available to enable them to deliver a high-quality, affordable and transparent offer to parents. Without this we not only risk the closure of small businesses that are the linchpins of their local communities, but also compromise the longer-term sustainability of the sector.



**Jane Walton**  
FSB Education Policy Chair

# INTRODUCTION

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The childcare sector has witnessed a number of policy changes in recent years that have led nurseries, pre-schools and childminders to rethink and redesign their offer to parents. One of the most significant of these changes occurred on 1 September 2017 when the Government doubled the number of hours of free childcare that working families with three- and four-year-olds are entitled to, from 15 to 30 hours per week. It was estimated that this would be worth up to £5,000 per child per year, and aimed at helping parents manage childcare costs and working patterns, with around 390,000 working families in England thought to be eligible.<sup>1</sup>

At the time, an independent evaluation of the early rollout of 30 hours free childcare for the Department for Education (DfE) found that 83 per cent of childcare providers were willing and able to double their current 15 hours offer.<sup>2</sup> Yet, less than a year on from the national rollout, small childcare providers are facing significant challenges to delivering this offer in the context of increasing business pressures.

Small, single-site providers with limited scale economies make up the majority of the 89,000 providers of childcare in England.<sup>3</sup> As such, ensuring the 30 hours free policy meets providers' needs is essential to sustaining a well-functioning childcare system that benefits the economy and provides parents with affordable, high-quality childcare that allows them to balance their jobs and family lives.

Drawing on interviews with small childcare providers currently offering the 30 hours free, this policy paper explores their personal experience of offering the entitlement and the challenges they face as a result. It also makes a series of recommendations to Government aimed at providing better support to these businesses to achieve longer-term sustainability, which will help the childcare sector as a whole.

In March 2018, telephone interviews were held with nine individuals that own and run small childcare businesses in England, and currently offer the 30 hours free to parents. Their businesses are located in Dorset, Essex, Greater Manchester, Oxfordshire, East Anglia and Wiltshire, and include pre-schools, nurseries and childminders. Some business owners interviewed had more than one site or 'setting' or type of childcare they provide. Each interview explored the nature of the interviewee's business and the type of childcare provision they offer; the composition of their staff, and their training and qualifications requirements; business costs, including the impact of National Living Wage (NLW)<sup>4</sup> and pension auto-enrolment; and the reasons for their decision to offer the 30 hour free to parents, and the impact of this decision on their business.

An expert interview was also conducted with the Pre-school Learning Alliance, the largest early years membership organisation in England.

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1 Gov.uk press release, 30 hours free childcare launches, Department for Education, 31 August 2017. Available at: <https://www.gov.uk/government/news/30-hours-free-childcare-launches>

2 Department for Education, Evaluation of early rollout of 30 hours free childcare, Research Report, August 2017. Available here: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/642007/Evaluation\\_of\\_early\\_rollout\\_of\\_30-hours\\_free\\_childcare.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/642007/Evaluation_of_early_rollout_of_30-hours_free_childcare.pdf)

3 Department for Education, Childcare and early years providers survey, Official Statistics, February 2017. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/593646/SFR09\\_2017\\_Main\\_Text.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/593646/SFR09_2017_Main_Text.pdf)

4 The National Living Wage was introduced in April 2016 and sets the minimum wage for workers over the age of 25. With the aim of reaching 60 per cent of median earning by 2020. The Minimum Wage for workers below the age of 25 has also seen increases.

## KEY RECOMMENDATIONS

- 1. The Government should urgently commit to reviewing local authorities' funding rates for 30 hours free, and to carrying out subsequent annual reviews to reflect ongoing changes in the cost of doing business.** Rising staff costs and a significant shortfall between the funding they received from their local authority and the fees they charged parents, is leaving many providers having to find ways to address the gap and supplement their income. The Government should urgently commit to reviewing local authorities funding rates for 30 hours free. This must be followed up with annual reviews that reflect ongoing incremental increases in the cost of business.
- 2. The Government should create a new 100 per cent business rates relief for childcare providers in England.** A number of small childcare providers, particularly those running private day nurseries, highlighted the impact of rising business rates on their overall running costs. Although local councils have the power to grant discretionary rates relief they are unlikely to do so as they would have to meet half the cost at a time when budgets are already being squeezed. The Scottish Government introduced a 100 per cent relief for childcare nurseries in 2017/18. FSB believes the UK Government should create a new 100 per cent business rate relief for childcare providers in England, with central government fully funding the costs of any childcare provider relief and for local councils to be fully reimbursed.
- 3. The Government should provide clearer information for parents on the Childcare Choices website on 30 hours free and different charging models that providers may use, in order to uphold the reputation of the sector and improve transparency of the policy.** Statutory guidance for providers of 30 hours free gives information on the different charging models providers may want to consider as part of their offer to parents. This includes the ability to charge for consumables or additional activities. Most of the business owners we spoke to believe there needed to be greater transparency with parents about these extra charges. Government should be clearer in all of its communications about the charging models that providers may choose to use; beginning with updating and improving the information available on the Childcare Choices website in order to help improve transparency of the policy.
- 4. The Government should consult with childcare providers and sector representatives on the current rules around entitlement to explore where greater flexibility that benefits both parents and providers might be possible.** Evidence from our provider interviews suggests that the 30 hours free entitlement is at risk of not being as responsive as it could be to the needs of all working parents, such as those who may be working shift patterns. Parents that require more flexible childcare cannot benefit from 'free' entitlement for those hours that are out of scope, and providers cannot offer this care. FSB believes there is a need to seek the views of the sector on the current rules around entitlement to explore where there could be greater flexibility that benefits both parents and providers.

- 5. The Government should reduce the cost of mandatory training required by childcare professionals and ensure it is flexible to limit the impact on the business and its provision.** Our interviews found that small childcare providers are investing considerable time and money in training their staff. However, training remains one of the most significant business costs. FSB believes that the Government should urge local authorities to review their training offer to small childcare providers, particularly for those delivering the 30 hours free, requiring that they find and facilitate access to free mandatory training courses (such as paediatric first aid or safeguarding training) at a minimum level for a site or childminder.
- 6. HMRC should improve the usability of the childcare service website and the customer service support available to parents to register for childcare entitlements.** Small childcare providers that are already struggling to manage the shortfall in funding for the 30 hours free entitlement are also having to invest their own time, and that of their staff, in supporting parents to navigate the Government Gateway childcare service website and register them for their childcare entitlements. To limit the administrative burden being passed onto childcare providers, HMRC should improve the usability of the childcare service website, and the customer service support available to parents to register for childcare entitlements.

# THE 30 HOURS FREE

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There is a clear economic case for investing in high-quality childcare. As well as an investment in children's wellbeing, education and life chances, it allows parents to work, raising individual's earning potential and household incomes and investing more money in the economy.

Official figures show that there are 89,000 providers of childcare in England at present; 25,500 group-based providers, 17,900 school-based providers and 46,600 registered childminders.<sup>5</sup> In addition, there are an estimated 452,100 early years staff in either group-based providers, school-based providers or working as childminders.<sup>6</sup> Crucially, group-based providers typically employ 11 members of staff and school-based providers have an average of five members of staff, making the typical childcare provider a microbusiness.<sup>7</sup>

In September 2010, DfE introduced a universal entitlement to 15 hours of free childcare per week for all three- and four-year-olds in England. This could be taken up in playgroups and pre-schools, nursery schools, nursery classes in primary schools, children's centres or with childminders. In 2013, this policy was extended to include two-year-olds from disadvantaged families. In 2015, the Government outlined plans to increase some families' entitlement to free childcare, doubling the number that working families with three- and four-year-olds are entitled to, from 15 to 30 hours per week. In September 2016, the new entitlement was piloted and it was fully implemented in September 2017.

An evaluation of the early rollout of 30 hours free found that only 12 per cent of all registered providers reported that they did not plan to offer the extended hours.<sup>8</sup> However, an online survey<sup>9</sup> by the Pre-school Learning Alliance, conducted and published prior to the beginning of early rollout in April 2017, found that around a fifth (19.2%) of providers planned to opt out and that 37 per cent of respondents were still uncertain whether or not they would deliver the extended entitlement.<sup>10</sup> The survey also found that funding concerns played a significant role in provider decisions over whether to deliver the extended entitlement – this was the most common reason given for choosing not to do so, cited by over half (58.3%) of those planning to opt out of the extended offer.<sup>11</sup> Meanwhile, this complaint was not unearthed by DfE's evaluation who concluded that they found 'no evidence that financial implications were a substantial barrier to the delivery of the extended hours'.<sup>12</sup>

In December 2017, a survey by the Pre-school Learning Alliance, conducted after the implementation of 30 hours free, found that of 1,662 pre-schools and childminders in England, just 35 per cent are delivering 30 hours places 'completely free' to all parents, and 28 per cent are delivering no fully free places.<sup>13</sup> According to the Alliance, many providers are limiting the number of places they offer and plan to raise fees and charges, while a fifth warn that their business will not be sustainable in a year's time.<sup>14</sup>

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5 Department for Education, Childcare and early years providers survey, Official Statistics, February 2017. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/593646/SFR09\\_2017\\_Main\\_Text.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/593646/SFR09_2017_Main_Text.pdf)

6 Ibid

7 Ibid

8 Department for Education, Evaluation of early rollout of 30 hours free childcare: Research Report, August 2017. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/642007/Evaluation\\_of\\_early\\_rollout\\_of\\_30-hours\\_free\\_childcare.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/642007/Evaluation_of_early_rollout_of_30-hours_free_childcare.pdf)

9 This survey was conducted online between 23 March and 30 March 2017, and received 1,332 responses.

10 Pre-school Learning Alliance, Sector views on early years funding and the 30-hour offer, April 2017. Available at: [https://www.pre-school.org.uk/sites/default/files/30-hour\\_and\\_funding\\_survey\\_-\\_pre-school\\_learning\\_alliance.pdf](https://www.pre-school.org.uk/sites/default/files/30-hour_and_funding_survey_-_pre-school_learning_alliance.pdf)

11 Ibid

12 Department for Education, Evaluation of early rollout of 30 hours free childcare: Research Report, August 2017. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/642007/Evaluation\\_of\\_early\\_rollout\\_of\\_30-hours\\_free\\_childcare.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/642007/Evaluation_of_early_rollout_of_30-hours_free_childcare.pdf)

13 Pre-school Learning Alliance online survey, press release, December 2017. Available at: <https://www.pre-school.org.uk/parents-pay-price-30-hour-offer-childcare-providers-are-forced-limit-fully-free%E2%80%99-places-new-survey>

14 Ibid

# CHALLENGES FACING SMALL CHILDCARE PROVIDERS

This section will examine the key challenges that are impacting small childcare providers and their ability to provide a high-quality childcare offer to parents. These include increases in overall business running costs, investment in training and development and the impact of delivering the 30 hours entitlement. In this section we focus on the interviews with small childcare providers.

## 1. The rising cost of doing business

The small childcare providers we interviewed for this project said that rising business costs – including utilities, rent, business rates and staffing - are a significant challenge facing their businesses. FSB's Small Business Index has previously found that the majority (56.6 per cent) of business owners have seen a significant increase in operating costs in the last quarter.<sup>15</sup> As one business owner said:

*"We have to meet so many requirements to be childcare providers...on top of this, our utility bills have almost doubled and pensions and the rising minimum wage is having a significant impact."*

FSB member, nursery, 24 staff, Bolton

### Business rates

In April 2017 the Valuation Office Agency adjusted non-domestic rateable values to reflect changes in the property market. This was the first revaluation in seven years, and some of the businesses we interviewed said that they have experienced a significant increase in their rateable value:

*"We're in a large converted house. This year my business rates have gone up from £10,000 to £17,000. It's causing a lot of financial problems. We were made promises by the local authority that they would help us, but they have gone back on this and they're blaming Government underfunding."*

FSB member, nursery, 24 staff, Bolton

One childcare provider highlighted that the investment made in their property in order to improve the facilities they are able to offer children and parents has led to a significant and unintended increase in their business rates:

*"The other big cost is business rates, one of our sites' rateable value increased from £27,000 rateable value to £57,000 rateable value. That was a site we had refurbished and invested in improvements, we can accept a certain increase. It is a massive difference."*

FSB member, nursery, 90 staff across two sites, West Midlands

Other businesses highlighted that even without changes to their rateable value, their property and business rates represents one of their most significant business costs:

*"Our building is our biggest overhead. Business rates are ridiculous."*

FSB member, nursery, 47 staff across two sites, Norfolk

*"We're paying £1,000 in business rates per month. It's all relative, and while this may not sound like a lot, this is significant."*

FSB member, nursery, 16 staff, Bolton

<sup>15</sup> FSB, Small Business Index Quarter 1 2018, FSB 2018. Available at: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-sbi-q4-2016--jan-11-2017.pdf?sfvrsn=0>

## Staffing costs

Among all our small childcare provider interviewees, staffing costs were said to be having the greatest impact on overall operating costs. According to research by the Government, staff account for 72 per cent of the average childcare provider's overall costs, and although the percentage contribution of staffing costs to a businesses operating cost varies, staffing costs still represent the biggest business expense. In addition, according to the National Day Nurseries Association (NDNA) annual Childcare Workforce Survey 2018, 86 per cent of nurseries have lost staff in the last 12 months and a further thirty four per cent of practitioners surveyed said they were considering leaving the sector.<sup>16</sup>

The Pre-school Learning Alliance highlighted that rising staffing costs are placing significant pressure, particularly on small childcare businesses:

*“Not only do staffing costs take up a large percentage of overall costs, but ongoing wage increases mean that there is a constant and increasing pressure on providers. Without a rise in government funding, this pressure will continue to build and will have a significant impact on providers’ long-term sustainability.”*

Shannon Hawthorne, Pre-school Learning Alliance

Traditionally, childcare is a comparatively low paid sector, with average pay levels below the national average. The Office for National Statistics estimate that the average median hourly pay across all sectors and businesses in England in April 2017 stood at £14 per hour<sup>17</sup>; this is significantly lower in the childcare sector. Ceeda, which is conducting a live large-scale research project on the early years sector, estimate that in September 2017 the average pay rate was £8.45 per hour.<sup>18</sup> The business owners we interviewed recognise the average low level of pay across the industry and expressed a desire to see that change, but highlighted the pressure between keeping parents fees affordable and managing costs within the business.

*“It is a low pay industry, and we need the people that do it for their love of the job. They should be getting paid a decent wage, but unfortunately the economics of the thing are such we can’t pay them a massive amount of money.”*

FSB member, nursery, 19 staff, Oxford

*“You don’t come into the sector for money, you only do it for the love of the children. That is not always fair.”*

Small business owner, pre-school, 20 staff across two sites, Essex

*“Isn’t it terrible that I can earn more working in a supermarket than looking after the most precious thing in the world?”*

FSB member, nursery, 24 staff, Bolton

<sup>16</sup> National Day Nurseries Association Childcare Workforce Survey 2018, March 2018. Available at: [https://www.ndna.org.uk/NDNA/News/Reports\\_and\\_surveys/Workforce\\_survey/Workforce\\_survey\\_2018.aspx](https://www.ndna.org.uk/NDNA/News/Reports_and_surveys/Workforce_survey/Workforce_survey_2018.aspx)

<sup>17</sup> Office for National Statistics (ONS), Annual Survey of Hours and Earnings, 2017. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisionaland2016revisedresults>

<sup>18</sup> Ceeda, About Early Years: summer snapshot, September 2017. Available at: [http://www.aboutearlyyears.co.uk/media/1091/ceeda-aeey-summer-2017-snapshot\\_issue-1.pdf](http://www.aboutearlyyears.co.uk/media/1091/ceeda-aeey-summer-2017-snapshot_issue-1.pdf)

The average levels of pay have meant that increases in the NLW and the introduction, increase and subsequent planned increase of minimum employer contributions to auto-enrolment of pensions have had a significant impact on the sector. It has been estimated that the introduction and subsequent rise of the NLW has seen wages increase in the past two years by around nine per cent.<sup>19</sup> These increases are posing a significant challenge for many of the businesses we interviewed:

*“With the introduction of the National Living Wage and pension auto-enrolment, the staff costs have already gone up by about two - three per cent. We are now planning for the changes in the new pension arrangements, and we’re expecting yet another increase in staff costs.”*

FSB member, pre-school, 65 staff, Dorset

*“We always try to be ahead of the National Living Wage, but everyone wants to retain their differential from it. So if someone used to be on £8 and the minimum wage has gone up, they are expected to maintain the difference and this causes a problem. We have been able to put our fees up slightly to counter the impact, we have also had to absorb some of the additional cost.”*

FSB member, nursery, 90 staff across two sites, West Midlands

*“In the past 12 months I’ve seen an increase of £25,000 to my payroll because of the National Living Wage and pensions. The only way I can cope is to increase fees for parents. I’m having to revise them again in April and September this year.”*

FSB member, nursery, 16 staff, Bolton

FSB research has found that many small businesses are absorbing the additional costs of increases in the NLW. Specifically, 64 per cent of impacted businesses reported they had seen a reduction in profitability or decided to absorb costs.<sup>20</sup> The Government’s review of childcare costs has found that a typical private childcare provider could save around 15 per cent of their unit delivery costs by staffing within the statutory requirements.<sup>21</sup> The report also suggests changing the mix of qualification levels of staff and moving towards more ‘variable models of staffing’,<sup>22</sup> for example the ability to send staff home during quieter periods. Reducing the qualification levels and guaranteed hours worked by staff would reduce the overall cost of staff wages. Arguably, all of these suggested measures could have a negative impact on staff morale, well-being and retention. For many of the business owners interviewed for this project, their perceived ability to deliver high-quality childcare to parents depends on sufficiently investing in their staff, including through acceptable levels of pay.

<sup>19</sup> Ceeda, About Early Years: summer snapshot. Available at: [http://www.aboutearlyyears.co.uk/media/1091/ceeda-aeey-summer-2017-snapshot\\_issue-1.pdf](http://www.aboutearlyyears.co.uk/media/1091/ceeda-aeey-summer-2017-snapshot_issue-1.pdf)

<sup>20</sup> FSB, National Living Wage, June 2017

<sup>21</sup> Department for Education, Review of childcare costs: the analytical report. 2015 Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479659/151124\\_Analytical\\_review\\_FINAL\\_VERSION.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479659/151124_Analytical_review_FINAL_VERSION.pdf)

<sup>22</sup> Ibid

## 2. Funding the 30 hours free

April 2017 marked the introduction of the new Early Years National Funding Formula (EYNFF), with new funding rates coming into effect for childcare providers across the country. The introduction of the new EYNFF changed the way that central government allocates early years funding to local authorities, and the way local authorities distribute this funding to providers.

From April 2018, local authorities are required to pass on 95 per cent of the amount the Government gives them directly to providers. The average figure in 2017-18 local authorities passed on was £4.34 per hour to private, voluntary and independent providers, significantly lower than the headline figure of £4.94 that Government announced as the average sum it pays for childcare.<sup>23</sup> The Government has also stated, in principle, no childcare provider should receive under £4 per hour for delivering funded places. However, as Professional Association for Childcare and Early Years (PACEY) highlight, the Government has acknowledged local authorities have some limited discretion over how they construct their own local formulae and there could be a range around the £4 per hour figure.<sup>24</sup>

There are a range of estimates for the average cost of delivering a childcare place. The Government's review of childcare costs in 2015 estimated that the average cost for a private provider to deliver childcare was £4.25 an hour.<sup>25</sup> DfE and HMRC subsequently published A Study of Early Education (SEED) that found the average cost of childcare provision across all provider types was £3.71 an hour.<sup>26</sup> The SEED survey found that 75 per cent of costs were staff wages, 12 per cent were venue-related and the remainder was attributed to additional costs. Both of these studies were based on research and survey data before the introduction of the NLW.

Since 2015 the NLW has increased by 17 per cent for those aged over 25.<sup>27</sup> In addition to the increases in the minimum wage, the Government has also introduced pension auto-enrolment for smaller employers. In 2017, the minimum employer contribution was one per cent, rising to two per cent in 2018 and then three per cent in 2019.

Taking into account more recent data on staffing costs, Ceeda estimates the average hourly cost is £4.68 per hour for 2016/17.<sup>28</sup> This does not take account of the increases and planned increases in the NLW and minimum employer pension contributions up until 2020. Based on the average of £4.34 per hour local authorities pass on to private, voluntary and independent providers, this would leave at least an estimated gap of 34 pence per hour in 2017/18.

In 2017 the Government announced the Early Years Delivery Fund for local authorities to help support the delivery of the first year of the 30 hours free entitlement, and subsequently allocated £7,301,950 for 147 local authorities in March 2018.<sup>29</sup> The fund can be used by local authorities in a number of ways including communicating to parents, supporting partnerships arrangements between providers, and small-scale capital funding.

23 House of Commons Treasury Committee, Childcare: Ninth report of session 2017-19, 25 March 2018. Available at: <https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries/parliament-2017/childcare-17-19/>

24 Professional Association for Childcare and Early Years (PACEY), FAQs: 30-hour early education and child entitlement, 11 January 2018. Available at: <https://www.pacey.org.uk/Pacey/media/2015-images/PACEY%20general/PACEY-FAQs-on-the-30-hour-entitlement-January-2018.pdf>

25 Department for Education, Review of childcare costs: the analytical report. 2015 Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479659/151124\\_Analytical\\_review\\_FINAL\\_VERSION.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479659/151124_Analytical_review_FINAL_VERSION.pdf)

26 Study of Early Education and Development (SEED): The cost and funding of early education: Research report, DfE 2017. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/586235/SEED\\_-\\_The\\_cost\\_and\\_funding\\_of\\_early\\_education\\_-\\_RR552.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/586235/SEED_-_The_cost_and_funding_of_early_education_-_RR552.pdf)

27 Ibid

28 House of Commons Treasury Committee, Childcare: Ninth report of session 2017-19, 25 March 2018. Available at: <https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries/parliament-2017/childcare-17-19/>

29 Department for Education, 30 hours delivery support fund: grants for local authorities, March 2018. Available at: <https://www.gov.uk/government/publications/30-hours-delivery-support-fund-grants-for-local-authorities>

## Frozen funding levels

When the EYNFF was introduced in April 2017, 80 per cent of local authorities saw an increase in funding levels for free childcare entitlements. However, funding levels have now been set until 2020.<sup>30</sup> Analysis by the Pre-school Learning Alliance found that 70 per cent of local authorities will see no change in their funding levels in 2018/19.<sup>31</sup> This is despite the increases in business costs, particularly the rise in the NLW and minimum employer contributions from auto-enrolment of pensions, as childcare providers and sector representatives highlight:

*“The funding available to childcare providers offering the 30 hours risks making running a business unsustainable and so many settings are having to look for a way to recover these costs. In some cases, we are finding that childcare providers are closing – we have seen a significant increase in the number of providers not being able to make it work and telling us they are closing down. For as long as we see business costs, and particularly wages, increase while funding levels remain unchanged, we will inevitably see more closures.”*

Shannon Hawthorne, Pre-school Learning Alliance

*“The Government should acknowledge the importance of the sector. They shouldn’t be blind to the results of studies into the delivery of the 30 hours free offer, and realise there is a problem. They need to pay us at a level that covers our costs and lets us re-invest in the business.”*

FSB member, nursery, 19 staff, Oxford

*“Everything is going up – wages, bills, business rates – but funding is going down...I have a shortfall of £1.56 per child on 30 hours, per hour.”*

FSB member, nursery, 16 staff, Bolton

Although all of the business owners we interviewed had decided to offer the 30 hours entitlement, some were restricting the number of children they would accept on the entitlement. Many recognised the benefits the entitlement could provide to both parents and children:

*“The concept of having financial help for childcare is brilliant and we have said it’s a great opportunity for parents.”*

FSB member, nursery, 47 staff across two sites, Norfolk

*“There are so many people that are waiting for their own finances to shift and enable them to afford childcare. The 30 hours is not there yet, it has put a smile on the face of some families that are already using the service. It has not helped to drive people back into the workforce. To upskill the workforce and drive productivity, we should be encouraging people who cannot afford it back to work.”*

FSB member, pre-school, 65 staff, Dorset

<sup>30</sup> Education and Skills Funding Agency, Early years entitlements: local authority funding of providers, Operational guidance 2018 to 2019. Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/682452/Early\\_years\\_entitlements-\\_Operational\\_guide\\_2018\\_to\\_2019.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/682452/Early_years_entitlements-_Operational_guide_2018_to_2019.pdf)

<sup>31</sup> Pre-school Learning Alliance, Sector views on early years funding and the 30-hour offer, April 2017. Available at: [https://www.pre-school.org.uk/sites/default/files/30-hour\\_and\\_funding\\_survey\\_-\\_pre-school\\_learning\\_alliance.pdf](https://www.pre-school.org.uk/sites/default/files/30-hour_and_funding_survey_-_pre-school_learning_alliance.pdf)

However, some of the business owners felt they had been pressurised into this decision, either due to parents' expectations or pressure from their local authority threatening the potential of business closure if they do not offer the 30 hours free. Research by Ceeda has also identified a fear of losing families as a driver to offer the 30 hours free among 59 per cent of childminders and 53 per cent of nurseries and pre-schools.<sup>32</sup> As one childcare provider says:

*"In Bolton, there is a high level of deprivation and all the nurseries are doing it. If I wasn't offering it, I'd be in financial ruin. I wouldn't last five minutes."*

FSB member, nursery, 24 staff, Bolton

*"Parents expect it and if we did not offer it we would lose business. If it is widely promoted by the government, parents expected it to be readily available."*

FSB member, nursery, 19 staff, Oxford

*"Pressure from local government. We just felt we had to offer it."*

Small business owner, pre-school, 20 staff across two sites, Essex

## Bridging the funding gap

Every small childcare provider we interviewed believed that the Government isn't meeting the funding requirements of nurseries to provide the 30 hours free, leaving many to find ways to cover the shortfall between the amount they receive and their income.

Across the interviews there were a variety of solutions to managing the shortfall in funding, from restricting the hours or days a parent could use their entitlement, to limiting the number of places on offer or increasing rates for non-funded hours. The Pre-school Learning Alliance has found that 37 per cent of providers have introduced charges for goods and services, 35 per cent have increased fees for non-government funded places and 30 per cent had placed restrictions on the days of the week or times of the day that parents can access the 30 hours entitlement.<sup>33</sup>

The most common route to covering the shortfall among the childcare providers we spoke to was the decision to increase the amount they charge parents either by the hour or per session in order to improve the profitability of their offering:

*"It costs me roughly £6.50 per hour to run my business, and I'm receiving £4 per hour from the local authority. I'm then charging £1 on top, so I'm losing massively."*

FSB member, nursery, 24 staff, Bolton

*"To make this sustainable, within the next two years we will have to increase our price. I've done two price increases recently, and I've done them gradually for my parents so it's not so much of a shock. It's not nice and I don't like handing out the invoice at the end of the month, however the parents do appreciate that this is what pays my bills."*

FSB member, childminder, self-employed, Wiltshire

Statutory guidance for providers of 30 hours free childcare gives information on the different charging models. The guidance clearly stipulates that 'Government funding is intended to deliver 15 or 30 hours a week of childcare, but that it is not intended to cover the costs of meals, other consumables, additional hours or additional activities'.<sup>34</sup> As such, providers can choose to offer consumables or additional activities, which parents can accept if they wish; however they are only optional and not a mandatory requirement of their child taking up their free entitlement.

<sup>32</sup> Ceeda, About Early Years: autumn snapshot: A focus on the 30 hours, August 2017. Available at: [http://www.aboutearlyyears.co.uk/media/1136/ceeda-aey-autumn-2017-snapshot\\_release\\_v1.pdf](http://www.aboutearlyyears.co.uk/media/1136/ceeda-aey-autumn-2017-snapshot_release_v1.pdf)

<sup>33</sup> Pre-school Learning Alliance online survey, press release, December 2017. Available at: <https://www.pre-school.org.uk/parents-pay-price-30-hour-offer-childcare-providers-are-forced-limit-fully-free%E2%80%99-places-new-survey>

<sup>34</sup> Department for Education, Early years entitlements: operational guidance for local authorities and providers, July 2017. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/629544/Early\\_years\\_entitlements-operational\\_guidance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/629544/Early_years_entitlements-operational_guidance.pdf)

Every small childcare provider interviewed as part of this project was offering parents optional activities or extras, including French lessons, cooked lunch, or other add-ons such as nappies, in an attempt to cover the cost of the child's place, and if possible improve their income. Although in many cases providers claimed that even with the additional charges they were not covering their income.

*“We charge parents what we call an enhanced resource fee, in that there is quite a lot of cost in this. This is a real cost not just ingeminated costs. So within that £1 included is all the children’s food and drinks, it also includes French, ballet, sport, music, art, trips, enhanced recourses, nappies, creams, wipes, sun cream. Everything that they need.”*

FSB member, pre-school, 65 staff, Dorset

Many of the business owners we interviewed believed that absorbing the impact of the 30 hours offer would be easier for larger providers, who would be able to better manage the underfunding across sites and additional offers:

*“It’s hard to compare ours and a larger setting as they have more outlay, but I think they also have greater potential to recoup money from other sources.”*

FSB member, nursery, 47 staff across two sites, Norfolk

Furthermore, the businesses we interviewed highlighted that there were concerns about the funding levels reducing the ability to invest in good practice and update facilities:

*“The 30 hours being such a large proportion of the week does not encourage any form of investment. If you lose any chance to make a margin on those 30 hours how can you be expected to continually invest in training and improvements to your building and what you are doing with the children.”*

FSB member, nursery, 90 staff across two sites, West Midlands

There were also concerns about the impact of underfunding on the long term financial viability of childcare providers. Research by the Family and Childcare Trust has found that 44 per cent of local authorities saying that the 30 hour offer would reduce the financial sustainability of some settings.<sup>35</sup>

## Communicating the scheme

Furthermore, the businesses we interviewed raised concerns that the Government’s communication of the scheme was misleading and had led to confusion amongst the parents in terms of how their entitlement could be used:

*“We have had a conversation with all of our parents, yet we still get queries. Parents don’t realise it is only for 36 weeks of the year. They don’t realise that it doesn’t cover food and other consumables. We try to be open and transparent, and explain what they will need to pay for this.”*

FSB member, nursery, 90 staff across two sites, West Midlands

*“The Government promotes it as 30 free hours, but it is not free and it is not 30 hours, it is 15. It is 15 hours that have been added to the universal 15 hours. Now they have added 15 hours, that they are calling the 30 hours, this has criteria, it’s not universal. It is not free, it is subsidised or part funded because people like me are charging this extra money.”*

FSB member, pre-school, 65 staff, Dorset

<sup>35</sup> Family and Childcare Trust, No shortcuts: quality and the free childcare extension, February 2016. Available at: <https://www.familyandchildcaretrust.org/no-shortcuts-quality-and-free-childcare-extension>

Some of the business owners we interviewed felt they had to provide essential, and often unpopular, information to parents themselves:

*“We had a really long meeting with the parents and said that we wouldn’t cover our costs. Many parents are very happy with the discount.”*

FSB member, nursery, 47 staff across two sites, Norfolk

*“The parents that are ringing for it just aren’t coming because they realise it’s not free. They think I’m ripping them off. It’s shocking. For them to think I’m in childcare to make money! It’s very distressing for providers who have been doing this for so long.”*

FSB member, nursery, 24 staff, Bolton

### 3. Training and skills development

Our interviews with business owners clearly demonstrate the range and breadth of skills and expertise across the childcare sector and the emphasis on maintaining and developing the skills of professionals within it.

*“One of our managers in Stamford is just finishing a Masters, and we have quite a few graduates and Montessori teachers, early years’ professionals too. They’re very qualified people.”*

FSB member, nursery, 47 staff across two sites, Norfolk

*“Training is a big, big investment for us as a company and for the individuals involved. We have an electronic staff room with all of our training online for staff, so all of the staff are able to access the materials on their smart phones...We do three staff development days a year, when the whole company comes together. Training is really good for staff retention, vitality and it is great for the children.”*

FSB member, pre-school, 65 staff, Dorset

*“We have staff members go on training to help them learn about new ways to work with the children. Last year we took 50 people away and put them up for a night, and arranged to a visit to a nursery that we really liked, to see their practice.”*

FSB member, nursery, 90 staff across two sites, West Midlands

However, while much of this investment in skills and training is being undertaken for the benefits it brings to the business, a large share of it is mandatory for childcare professionals and must be continually updated:

*“There’s first aid training, safeguarding, basic food hygiene...it’s a long list. We need someone trained as a SENCo [special educational needs coordinator] as a lead safeguarding practitioner, but we are also required to have a trained back-up in case they are away.”*

FSB member, nursery, 47 staff across two sites, Norfolk

*“It is really important to offer training as the world keeps changing and best practice keeps changing and we need to keep up. Things like safeguarding, which is really important, best practice in this keeps changing. A lot of the courses I pay for are to do with safeguarding. The costs can be quite high...you have to do it.”*

FSB member, nursery, 90 staff across two sites, West Midlands

*“Non-essential training just doesn’t happen anymore. Training is a sore point!”*

FSB member, childminder, self-employed, Wiltshire

## Barriers to training

- **Cost:** Interviewees unanimously agreed that the most significant barrier to training is the amount they are required to spend, including the increasing cost of essential training, such as first aid, compared to previous years:

*“The cost of first aid has doubled and we don’t get any support towards that. When I started in the profession first aid training was every three years and we had to pay £40. It’s now around £85.”*

FSB member, childminder, self-employed, Wiltshire

*“Cost is the biggest challenge to providing training. We do provide funding support to the training but staff do have to contribute something towards it. Support with Level 3 training is the only support we can fully pay for.”*

Small business owner, pre-school, 20 staff across two sites, Essex

*“The cost of training isn’t something Government considered when they introduced the new policy. They didn’t do an awful lot of talking to practitioners. There are a huge range of practitioners but funding is at a low level – it’s a race to the bottom. At the end of the day, I put a lot of money back into the business because I want it to be brilliant. But I do want to make a living.”*

FSB member, nursery, 47 staff across two sites, Norfolk

- **Inflexibility of training:** Small, and particularly micro, providers complained about the lack of choice around the times when training could be undertaken, which has consequences for their overall running costs:

*“As we are homecare providers we provide most of our care between 9am and 3pm, yet training courses often start at 11am. I would have to close for the day to do it. Other childminders and I have suggested that we each turn up with our six children in tow and ask what we should do with them! As homecare providers we don’t have the luxury of calling in bank staff to look after our quota of children so we can train.”*

FSB member, childminder, self-employed, Wiltshire

- **Changes to local authority-funded training:** More than one small childcare provider suggested that the availability of training provision for childcare professionals from their local authority had declined or stopped completely in recent years due to dwindling budgets, steadily increasing the cost of training for the business:

*“I’ve found our local authority training pretty shocking actually. About 10 years ago the training offer was amazing, but that’s all disappeared and there’s very little funded training available. I think the early years teams have been reshuffled so many times, so there isn’t the support that there used to be.”*

FSB member, nursery, 47 staff across two sites, Norfolk

*“There are barriers for providers to train. The Government keeps changing the rules and changing the policies about the draw-down of grant money and funding for student training, apprenticeships and NVQs, which causes major problems.”*

FSB member, pre-school, 65 staff, Dorset

One of the small childcare providers highlighted that their local council in Bolton had established an online portal for non-mandatory training. Although this was not free, it was an affordable offer:

*“We use an online learning system through the local authority. It doesn’t offer mandatory training, but it does provide a lot of additional learning, such as leadership skills training, epilepsy awareness, and so on. You pay per employee, and we’ve signed up to three years, so it’s fairly cost effective.”*

FSB member, nursery, 16 staff, Bolton

• **Lack of focus on leadership and management training:** One interviewee expressed concern about the current lack of training devoted to developing this skill set. Indeed, without competent managers and leaders in the childcare sector with strategic oversight, barriers to training may only increase or at best remain unaddressed:

*“Management and leadership is a big problem for the sector, because it has not been a strong part of the industry development. Getting the right people to be first line supervisors, or managers, is quite difficult.”*

FSB member, pre-school, 65 staff, Dorset

The difficulties of developing leadership and management skills in small businesses across the economy has been identified by FSB research as one of the causes for low UK productivity. Staff in just 18 per cent of businesses, and 17 per cent of business owners, had undertaken management training in the previous 12 months.<sup>36</sup>

### Training the next generation

There is evidence that apprentices are being used by the sector as a way of bringing in and developing new skills and talent. In addition, the levels at which apprenticeships range are from Level 2 or 3, right up to Level 6, whereby the individual is awarded a degree upon completion of their training.

*“We usually have anywhere between eight and 12 apprentices at any one time. Apprenticeships offer a really good programme and it’s a win-win. The apprentices love it, and it’s great for us because we can end up with the best staff that are trained to fit our business. It also means that it takes a much shorter time bringing them up to speed than it does for other new staff members.”*

FSB member, pre-school, 65 staff, Dorset

Although some childcare providers feel apprenticeships provide an effective route for adequately training staff, one nursery owner interviewed wished for an expansion of current provision to equip individuals with more advanced skills:

*“Our nursery has four or five apprentices across two sites. While they’re great, it would be better if there was a Level 4 apprenticeship available so we could attract a higher level of applicants. There aren’t many highly trained people out there, so it’s sometimes better to grow your own!”*

FSB member, nursery, 47 staff across two sites, Norfolk

In addition to taking on apprentices, a number of childcare providers are engaging with their local school, college and university to provide experience of the sector and recruit new staff.

<sup>36</sup> FSB, Learning the Ropes – Skills and Training in Small Businesses, December 2017. Available at: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/skills-and-training-report.pdf?sfvrsn=0>

*“We work with our local college to offer opportunities to people studying childcare training. They’re usually a big help. We see whether they like working with us and offer them a job with us, if there is one available...The local college has us on their contact list and we regularly have people on placement.”*

Small business owner, pre-school, 20 staff across two sites, Essex

*“Most of our staff are graduates, more than half have a degree and have trained in early years...We are also liaising with universities around foundation degrees.”*

FSB member, nursery, 47 staff across two sites, Norfolk

#### 4. Flexibility and transparency of entitlement

At present, there are two key areas of flexibility built into the 30 hours free delivery model outlined in DfE’s operational guidance for local authorities and providers. Firstly, there is the ability to ‘stretch’ the 30 hours offer over more than the 38 weeks of the school year so that working parents can take up their free provision across the full year.<sup>37</sup> Secondly, sessions can be delivered between 6am and 8pm, however, free entitlement sessions must last no longer than 10 hours and entitlement cannot be split between more than two sites in one day.<sup>38</sup> While these rules may not stand in the way of some parents’ access to entitlement, those individuals that require more flexible childcare (such as after 8pm) cannot benefit from ‘free’ entitlement for those hours that are out of scope. Equally, providers cannot offer this care even if they were able to, and wished to.

More than one interviewee expressed their desire to accommodate parents’ requests for greater flexibility, particularly in areas of high-deprivation or in instances where a parent is working irregular or atypical hours. This could lead to enhanced provision and greater profitability to providers.

*“I have two single parents that this affects who are entitled to the 30 hours and for them to make work pay for them, to be financially better off, it’s better for them to do their three long 12 hours shifts. But, they cannot access the childcare, be it 30 hours or other, because there is a limit to how long a child can be in a setting for, and how many hours they can claim in the day.”*

FSB member, childminder, self-employed, Wiltshire

<sup>37</sup> Department for Education, Early years entitlements: operational guidance for local authorities and providers, July 2017. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/629544/Early\\_years\\_entitlements-operational\\_guidance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/629544/Early_years_entitlements-operational_guidance.pdf)

<sup>38</sup> Ibid

## 5. Administering the 30 hours free

There are a number of key non-financial barriers to offering the 30 hours free, highlighted by the small childcare providers interviewed, including excessive paperwork, red tape and administrative errors:

*“It is not only the money side of it, it has also been a huge amount of administration. It is very admin-intensive and I do not think the Government has fully appreciated that point. It is helping parents understand the system, deal with the inadequacies of the HMRC systems.”*

FSB member, pre-school, 65 staff, Dorset

Feedback from interviewees highlight difficulties they have encountered using the Childcare Provider Portal, to complete, manage and submit funding and related information:

*“The government and the local authority think they have done well to set up a provider portal, but all they have done is move the expense and the burden onto providers. There is a lot more we have to input and work out and maintain records. It is not great.”*

FSB member, nursery, 90 staff across two sites, West Midlands

In the most extreme cases, issues with the Childcare Provider Portal have resulted in significant financial challenges that have threatened the day-to-day running of the business when banking information was not properly updated and funding was not received on time. One of the business owners we spoke to had experienced delays to their payment from their local authority:

*“The council was three weeks late paying us £23k funding. Funding is a big part of our income now. Their system couldn’t cope with us changing our bank account details. We had to change our bank details. We did it all in the right timeframe, filled out all the forms, rang to check it was all OK, but the transfer didn’t happen. In the end we had to get a personal overdraft.”*

FSB member, nursery, 47 staff across two sites, Norfolk

The significant administrative burden of supporting parents with registering for the 30 hours free entitlement was shown in the National Day Nurseries Association research, which found that 79 per cent of nurseries had spent time helping families apply for Tax-Free Childcare and 30 hours. Fourteen per cent of nurseries had spent more than five hours each week supporting parents.<sup>39</sup>

<sup>39</sup> National Day Nurseries Association (NDNA), straw poll results, September 2017. Available at: [https://www.ndna.org.uk/NDNA/News/Latest\\_news/2017/Tax-free\\_childcare\\_rollout\\_continues.aspx](https://www.ndna.org.uk/NDNA/News/Latest_news/2017/Tax-free_childcare_rollout_continues.aspx)

# RECOMMENDATIONS

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These recommendations are designed to help alleviate some of the challenges small childcare providers face in light of business pressures that currently face the sector, and to support them to improve the quality and provision of their offering to parents, including those who wish to take-up the 30 hours free.

## **1. The Government should urgently commit to reviewing local authorities' funding rates for 30 hours free, and to carrying out subsequent annual reviews to reflect ongoing changes in the cost of doing business.**

Rising staff costs associated with NLW and the employer auto-enrolment pension doubling in April 2018 has meant that small childcare providers are struggling financially. As this paper has shown, small childcare providers and sector representatives believe that the Government is not meeting its funding obligations around the 30 hours free. All of the businesses we spoke to reported a significant shortfall between the amount of funding they receive from their local authority and the fees they charged parents, leaving many providers to find ways to address this gap by supplementing their income. Most childcare providers that took part in this research are increasing the amount they charge parents for optional extras, or the hour or per session of un-funded hours, in order to improve the profitability, with some reporting to have doubled their fees in recent years.

There are a range of estimates of the average cost of delivering a childcare place. Ceeda, whose study draws on staffing data that coincides with the introduction of the NLW, suggests that the average hourly cost for delivering childcare was £4.68 per hour for 2016/17.<sup>40</sup> However this does not take account of the planned increases in the NLW and minimum employer pension contributions up until 2020. Based on the average of £4.34 per hour local authorities passed on to private, voluntary and independent providers, this would result in an estimated gap of at least 34 pence per year in 2017/18.

In 2017 the Government announced the Early Years Delivery Fund for local authorities to help support the delivery of the first year of the 30 hours free entitlement.<sup>41</sup> The fund can be used by local authorities in a number of ways including communicating to parents, supporting partnerships arrangements between providers, and small scale capital funding. However, it does not offer providers with additional funding to meet any resulting shortfall.

The success of the 30 hours free for all parties depends on providers' ability to provide an affordable, high-quality offer to parents. FSB believes that the severity of the decisions now facing small childcare providers around the continued sustainability of their business must compel the Government to urgently commit to reviewing local authorities funding rates for 30 hours free, and to carry out subsequent annual reviews that reflect ongoing incremental increases in the cost of business.

## **2. The Government should create a new 100 per cent business rates relief for childcare providers in England.**

A number of small childcare providers, particularly those running private day nurseries, highlighted the impact of rising business rates on their overall running costs. The National Day Nurseries Association believes that although Government statistics show that increases in rateable values for all property sectors in England for the revaluation have averaged nine per cent, from April 2018 the increases for day nurseries will be much higher than this at 30 per cent to 45 per cent and more in many areas.<sup>42</sup> Nurseries were under particular pressure due to the space needed to provide facilities for the children in a relatively low profit sector and many do not qualify for Small Business Rate Relief (SBBR). In 2016/17, nurseries' average annual business rates bill in England stood at £13,689. In January 2015, the DfE wrote to councils recommending that local authorities provide childcare providers with full discretionary exemption from business rates. Although local councils have the power to grant discretionary rates relief, they are unlikely to do so as they would have to meet half the cost at a time when budgets are already being squeezed. The Scottish Government

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<sup>40</sup> House of Commons Treasury Committee, Childcare: Ninth report of session 2017-19, 25 March 2018. Available at: <https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries/parliament-2017/childcare-17-19/>

<sup>41</sup> Department for Education, 30 hours delivery support fund: grants for local authorities, March 2018. Available at: <https://www.gov.uk/government/publications/30-hours-delivery-support-fund-grants-for-local-authorities>

<sup>42</sup> National Day Nurseries Association (NDNA), England Annual Nursery Survey Report 2017, April 2017. Available at: [https://www.ndna.org.uk/NDNA/News/Reports\\_and\\_surveys/Annual\\_Nursery\\_Survey/2017.aspx](https://www.ndna.org.uk/NDNA/News/Reports_and_surveys/Annual_Nursery_Survey/2017.aspx)

has introduced a 100 per cent relief for childcare nurseries in 2017/18 recognising both the pressure faced by the sector and the importance of delivering high-quality childcare.

There are 11,684 assessments in England for properties that the Valuation Office Agency has categorised as ‘day nurseries’ with a total Rateable Value of just over £258m. The overall business rates take is around £26bn and FSB estimates that exempting nurseries from business rates would cost the Government approximately £120m per year,<sup>43</sup> or perhaps even less as some of these properties will qualify for SBBR. FSB believes the UK Government should create a new 100 per cent business rate relief for childcare providers in England, with central Government fully funding the costs of any childcare provider relief and for local councils to be fully reimbursed. Doing so would be a recognition of the significant cost pressures facing the sector and support the provision of affordable childcare and the delivery of the 30 hours free entitlement.

### **3. The Government should provide clearer information for parents on the Childcare Choices website on 30 hours free and different charging models that providers may use, in order to uphold the reputation of the sector and improve transparency of the policy.**

Statutory guidance for providers of 30 hours free entitlement provides information on the different charging models providers may want to consider as part of their offer to parents. This includes the ability to charge for consumables or additional activities, which parents can choose to accept, however charges must not be a mandatory requirement of a child taking up their free entitlement.

Government guidance stipulates that where parents choose to purchase additional hours of provision, consumables or additional activities, it is ‘a private matter between the provider and the parent’. Despite this, most of the business owners we spoke to believe there needed to be greater transparency with parents about why these extras are being offered, not only to safeguard providers’ reputations, but because they believe the policy risks appearing disingenuous about the genuinely ‘free’ nature of the childcare offer.

FSB believes that while the 30 hours free entitlement offers parents a discounted childcare option, alongside increasing their hourly or sessional rates for un-funded hours, the survival of providers is based on the ability to charge for additional activities or extras and hope that parents take it up. As research has shown, just 35 per cent of providers are delivering 30 hours places ‘completely free’ to all parents, and two-thirds of providers (66%) plan to make changes to how they offer the 30 hours over the next 12 months, most commonly saying they will raise fees and charges.<sup>44</sup> The majority of providers interviewed for this paper expressed the view that information on these additional costs is being ineffectively communicated with parents leaving providers to have these difficult conversations themselves.

To address this, the Government should be clearer in all of its communications about what the 30 hours free entitlement offers parents and the charging models that providers may choose to use, beginning with updating and improving the information available on the Childcare Choices website in order to help improve transparency of the policy.

### **4. The Government should consult with childcare providers and sector representatives on the current rules around entitlement to explore where greater flexibility, which benefits both parents and providers, might be possible.**

The world of work is changing, with traditional working patterns being eschewed in favour of increasingly flexible arrangements in certain sectors and jobs. Evidence from some of our provider interviews suggests that the 30 hours free entitlement is at risk of not being as responsive as it could be to the needs of all working parents, such as those who may be working shift patterns.

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<sup>43</sup> The Valuation Office Agency has categorised as ‘Day Nurseries’ with a total Rateable Value of just over £258m. The Uniform Business Rate for small properties in 2017/18 is 46.6p per pound of Rateable Value which means rates payable of circa £120m.

<sup>44</sup> Pre-school Learning Alliance online survey, press release, December 2017. Available at: <https://www.pre-school.org.uk/parents-pay-price-30-hour-offer-childcare-providers-are-forced-limit-fully-free%E2%80%99-places-new-survey>

As this paper has already outlined, at present, parents have the option to ‘stretch’ the 30 hours offer over more than the 38 weeks so that working parents can take up their free provision across the full year and sessions can be delivered between 6am and 8pm. However, parents that require more flexible childcare cannot benefit from ‘free’ entitlement for those hours that are out of scope, and providers cannot offer this care even if they were able to, and wished to.

Clearly, these rules exist to ensure a child’s learning, development and wellbeing outcomes, which are of course paramount for the providers that took part in interviews. However, based on our conversations with providers, FSB believes there is a need to seek the views of the sector on the current rules around entitlement to explore where greater flexibility that benefits both parents and providers might be possible. This should explore the option for voluntary extension of hours to ensure that childcare providers are able to make the right decision for their business.

## **5. The Government should reduce the cost of mandatory training required by childcare professionals and ensure it is flexible to limit the impact on the business and its provision.**

Our interviews found that small childcare providers are investing considerable time and money in training their staff, in terms of essential training to practice, and continuous professional development, activities that enrich the quality of care they offer, apprenticeships and more. However, training was also identified as one of the most significant business costs – a finding that correlates with previous FSB research that found that a fifth (21%) of small businesses cite the cost of training as a barrier to investment.<sup>45</sup>

FSB believes that the Government should urge local authorities to review their training offer to small childcare providers, and particularly for those delivering the 30 hours free entitlement. It should require that they find and facilitate access to free mandatory training courses (such as paediatric first aid or safeguarding training) at a minimum level for a site or childminder. This would reflect the increasing burden to deliver this provision and the need to maintain the quality of childcare across the sector. This training should be offered flexibly and take into consideration the need for some to train outside their core hours to avoid having to close the business for the day, resulting in a loss of revenue.

## **6. HMRC should improve the usability of the childcare service website and the customer service support available to parents to register for childcare entitlements.**

Unlike larger providers, small childcare businesses do not benefit from the assistance of a finance or administrative team. It is for this reason that systems put in place to support particularly small childcare providers must be efficient, consistent and reliable. Feedback from interviewees highlights the challenges many parents face using the Government Gateway childcare service website to complete, manage and submit funding and related information. This is leading to childcare providers being forced to fill the information and support gap, which is acting as an additional and unwanted administrative burden.

The Government’s childcare service website through which 30 hours free childcare is accessed, experienced a series of technical failures in summer 2017. Between 21 April 2017 and 6 August 2017, a period of 107 days, the website was down for 160 hours.<sup>46</sup> The Treasury Select Committee inquiry into childcare found that the overly complicated series of portals and the interaction between different Government childcare schemes was creating confusion.<sup>47</sup> Examples of childcare providers stepping in and providing support to parents to navigate the bureaucratic and complex system are demonstrated by the National Day Nurseries Association which found that 79 per cent of nurseries have spent time helping families apply for Tax-Free Childcare and 30 hours registration, and 14 per cent have spent more than five hours each week supporting parents.<sup>48</sup>

<sup>45</sup> FSB, Learning the Ropes: skills and training in small businesses, December 2017. Available at: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/skills-and-training-report.pdf?sfvrsn=0>

<sup>46</sup> House of Commons Treasury Committee, Childcare: Ninth report of session 2017-19, 25 March 2018. Available at: <https://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries1/parliament-2017/childcare-17-19/>

<sup>47</sup> Ibid

<sup>48</sup> National Day Nurseries Association, straw poll results, September 2017. Available at: [https://www.ndna.org.uk/NDNA/News/Latest\\_news/2017/Tax-free\\_childcare\\_rollout\\_continues.aspx](https://www.ndna.org.uk/NDNA/News/Latest_news/2017/Tax-free_childcare_rollout_continues.aspx)

Small childcare providers that are already struggling to manage the shortfall in funding for the 30 hours free entitlement are also having to invest their own time, and that of their staff, in supporting parents to navigate the childcare service website and register them for their childcare entitlements. To limit the administrative burden being passed onto childcare providers, HMRC should improve the usability of the childcare service website, and the customer service support available to parents to register for childcare entitlements.

# METHODOLOGY

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This report is based on small childcare providers' personal experiences of offering 30 hours free and the challenges they face as a result. In March 2018, FSB undertook a series of semi-structured interviews with owners of pre-schools, nurseries and childminders located in Dorset, Essex, Greater Manchester, Oxfordshire, East Anglia and Wiltshire. All interviews were conducted over the telephone and lasted approximately 30 to 40 minutes each.

An expert interview was also conducted with the Pre-school Learning Alliance, the largest early years membership organisation in England.

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