

Childcare in London: Family and Childcare Trust Evidence to the London Assembly's Economic Committee

January 2016

Summary

The Family and Childcare Trust welcomes the opportunity to give oral evidence to the London Assembly's Economic Committee's meeting on childcare in London. We gave evidence to the Economy Committee's inquiry on parental employment in October 2013, so this is an opportunity to review progress in addressing some of London's childcare problems that are limiting maternal employment. Noting the agenda of the meeting, we would like to draw attention to the issues set out below.

Free early education

Uptake of free early education for two, three and four year olds is below average in London compared with national trends. In January 2015 just 46 per cent of eligible two year olds took up a free early education place in London, compared with 58 per cent nationally. Uptake among three year olds was 85 per cent in London, compared with 94 per cent nationally. There are local authorities where uptake is particularly low, and not only in inner London: Camden, Tower Hamlets and Westminster, Barnet, Brent, Enfield and Hounslow.

Lower uptake in London is a consequence of both demand-side (parents) and supply-side factors (not enough early education places).

Demand-side factors include

- High residential mobility in London
- The belief among some parents that their children are too young to attend nursery at two
- Concerns about the quality of provision that is available to families
- Not wanting a childminder place, where this is the only free early education place on offer.

A lack of places

Insufficient places are another reason why uptake is lower in London than elsewhere. Our 2015 Childcare Costs Survey showed that only six local London authorities had enough free early places for two year olds. This demand for places will increase as London's population grows.

In some instances areas early years' providers have decided not to take part in the programme. Some 3,334 private and not-for-profit providers were offering free early places for three and four year olds in London in January 2015, only 2,487 were for two year olds, although this is an increase from the previous year. There are about 500 Ofsted-regulated private and not-for-profit providers who are not offering free early education places for 3 and 4 year olds in London. A more common practice is to ration the number of free places that a provider offers.

Some nurseries and pre-schools report not being able to recruit the staff they need to expand their number of places. A shortage of space has sometimes prevented new nurseries from being set up, or existing provision from expanding – a particular issue in London. For two year old places there is also a spatial mismatch between supply and demand. There has always been less nursery provision in deprived areas, as this there is less demand here. So local authorities have had to find provision in areas where there is already less provision.

There is evidence that some local authorities are not sufficiently supportive of new providers. Only 20 London local authorities have undertaken their annual childcare sufficiency reviews since 2014 – these map childcare supply against parental demand and help identify gaps in provision. They are useful market analysis for potential providers. Without this information local authorities find it difficult to intervene to support new provision. Failure to undertake these annual reviews – which is a legal requirement – is particular problem in London.

London local authorities have very different approaches to market management, with some undertaking very few interventions to fill gaps in provision. Market management can take different approaches, namely:

- Light touch' measures such as brokerage, information and advice offered by Family Information Services. Broadly, the more information and knowledge parents have about local childcare options, the more effectively the market should operate. The local authority role is also critical in promoting the take-up financial help through tax credits, which, in turn, helps to promote demand for childcare.
- Engagement with childcare providers. This may range from bringing providers together to highlight gaps, giving start-up or business advice and sharing information about demand to promoting partnerships, for example between schools or housing associations and private or voluntary childcare providers. Some local authorities support childminders through childminder networks, which provide professional advice, subsidised training and mentoring.
- Limited direct support for providers, such as subsidised training, rent or business rate amnesties, the identification of suitable premises, free premises, smoothing the planning process and small grants for adaptations.
- Capital funding for existing or new providers to enable them to expand places.
- Revenue funding used to support provision in areas where it is not financially sustainable, usually because there is an insufficient proportion of working parents.

Recommendations:

- *The GLA is a landowner and could make some of its estate available for new nursery provision, for example, former police stations. All large residential developments should have nursery space and we would like to see more Section 106 planning agreements used to make sure there are spaces for nurseries.*
- *We think the responsibility for childcare sufficiency assessments could be transferred to the Mayor, ensuring that this market analysis is done consistently and well. The GLA could then make this information available to potential providers, which would help fill gaps.*

Revenue and capital funding for free early education

Some providers have opted-out of free early education provision, or they ration places out because they believe that the hourly funding rate for free early education is not financially sustainable. For two year olds, local authorities get a flat hourly rate per child (£4.85), supplemented by an area cost adjustment in places where wages are higher. Local authorities then allocate funding to providers. Many London local authorities have found it necessary to top-up funding for two year olds in order to guarantee sufficiency places, for example, Waltham Forest offers providers £6.00 per hour, topping by 72p per hour.

The hourly rate that the Department for Education allocates to local authorities for three and four year olds is currently based on historical precedent. A school funding review consultation will be published in early 2016, encompassing free early education funding. The Government has indicated that funding will be raised to £4.88 as a national average in 2017/18. Although London will get a higher rate than this, it is inevitable that some London local authorities will see their hourly funding rates drop in 2017/18 compared with present levels.

Local authorities then allocate funding to providers and for three and four year olds they use a funding formula set by the Schools Forum, which has to have a deprivation indicator. Private and not-for-profit providers are getting an average of £4.19 per hour¹ to deliver free early education for 3 and 4 year olds.

The Family and Childcare Trust believes that extra funding is needed in London to deliver high quality early education for two year olds, of the quality that will improve their outcomes. There is a wide variation within London as to the amount that providers receive. We do not have the evidence to judge whether revenue funding is sufficient for three and four year olds in London.

An extra £50 million capital funding will be made available to help providers expand, ready for the 30 hour extension. However, across England this works out at £3,400 per setting which seems inadequate to cover significant building works or purchase of new equipment.

The National Living Wage and pension auto-enrolment have the potential to increase the unit costs of delivering childcare. While the pension auto-enrolment requirement is an issue affecting all group providers, the National Living Wage will

¹ Average rate for 32 local authorities, excluding City of London.

only affect a minority of providers in London, typically those operating from one or two sites and who are perhaps offering lower quality provision. (New research from the Family and Childcare Trust, out in March 2016, will support this assertion).

The extension of free early education to cover 30 hours in 2017 may also increase unit costs and may place financial sustainability issues on providers. Many nurseries operate complex cross-subsidy mechanisms; they rely on working parents of three and four year old children to purchase extra hours on top of their existing 15 hours of free provision. The extension to 30 hours will limit the opportunity to do this. If providers in this situation get no extra funding for free hours, they will have to increase the price of purchased hours for parents, ration places or make losses.

The Government has claimed that revenue funding for free early education is sufficient and that providers can cover their costs by more efficient use of staff in terms of staffing ratios, cutting 15 per cent of providers' unit costs². We think that while some providers may be able to deploy staff more, efficiently, others will struggle to do this.

However, we believe mergers and business collaboration can save on back-office costs in nursery businesses, which can account for about 5 per cent of costs. (Most nurseries operate from one or two sites).

Recommendation:

- *The GLA could have a role to encourage mergers and sharing of back-office costs and business collaboration between providers.*

30 hour extension

The 30 hours extension will be available to all working parents who are employed on the equivalent of more than 16 hours per week on a National Minimum Wage. (Parents earning the NMW will have to work for at least 16 hours per week, with those earning more required to work for fewer hours). The employment rate for mothers of three year olds is 58 per cent in London and we can reasonably expect almost all of them will take up the 30 hour offer (This assertion is supported by the Department for Education's own research). The 30 hour extension will come at the same time as increased help with childcare costs through Universal Credit and the new Tax Free Childcare scheme. Given this, it is highly likely that some London parents, particularly mothers, will return to work or increase their hours, leading to extra demand for childcare places. It is uncertain if this extra demand can be met in the short-term in London.

Parents may also be unable to take their 30 free hours from the same provider, for three reasons:

- At present 48 per cent of London three year olds receive their free early education in state schools or state nurseries. Limited physical space for expansion, limited capital funding and competing demands for 5-16 places are preventing schools from expanding their nurseries. Without premises

² Department for Education (DfE) (2015) *Review of childcare costs: the analytical report*, London: DfE

expansion, it is likely that many schools will be unable to offer more than 15 hours per week, and probably would not want to do so, as this would mean halving the number of children to whom they offer places.

- Sessional pre-schools working from multi-use premises may be unable to increase their hours of operation to 30 hours per week.
- As already noted, some providers will face financial challenges as a consequence of the 30 hour extension. This will prevent them from expanding their places.

We are likely to see many more parents using a school nursery *and* a childminder for their free hours. Whether there is sufficient capacity among childminders to cover this extra demand is uncertain, as there tends to be fewer childminders per head of population in London, particularly in areas where housing costs are high – just 51 in Kensington and Chelsea, for example. In London, childminder numbers declined by 9 per cent between 2013 and 2015, according to Ofsted data. This decline has been caused by low incomes and the opportunity to earn more in other occupations, for example, as a teaching assistant in a school, without the business risk.

A potential childminder also has to pay for her own training and Ofsted registration in many cases, as well purchase equipment. This can act as a disincentive to entering the profession.

Recommendation:

- *The GLA could make buildings that it owns available to be used as nurseries.*
- *by offering more support for childminders, for example, offering grants to potential childminders to cover training, registration and equipment, or setting up childminder networks, where groups of childminders work together.*

Other childcare issues in London

- High costs of all types of childcare in London – about 30 per cent more expensive than the UK average. The prices of part-time nursery care exceed the £175 per week maximum reimbursement cap under Working Tax Credit in at least 12 London local authorities.
- There are big gaps in some types of childcare in London: most acutely free places for two year olds who qualify for free early education, after-school and holiday childcare, as well as activities for older children which function as *de facto* childcare.
- There is a tail-end of poor quality day nursery provision in London, with most of the vacancies being with this type of provision, with parents unwilling to use this provision. Tacking this quality issue would generate more places, but there is no strategy in place to do this.
- Migration – from within the UK or overseas - often severs informal childcare support networks. This means that the use informal childcare is particularly low in London, care that is available outside normal office hours or for those parents who have irregular work patterns. There is a big unmet need for flexible childcare in London for parents with atypical work patterns – from

childminders, in sessional creches or registered home-based care, where brokerage platform puts a parent in touch with an Ofsted-registered carer.

Recommendations:

- *The Mayor should set up a pan-London childcare brokerage scheme aimed at parents with atypical work patterns. Using a digital platform parents could access Ofsted registered carers who could provide care in the family home, or could access vacant places in nurseries and with childminders. The latter would also make providers more financially sustainable.*
- *The Mayor should coordinate school holiday dates across London, to ensure that the new powers afforded to individual schools do not result in greater childcare problems for parents.*

About the Family and Childcare Trust

The Family and Childcare Trust works to make the UK a better place for families. Our vision is of a society where government, business and communities do all they can to support every family to thrive. Through our research, campaigning and practical support we are creating a more family friendly UK.

The Family and Childcare Trust's annual childcare costs survey is the definitive report on childcare costs and sufficiency in the UK and its data is used by the Department for Education and OECD.

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