

September 2013

National Day Nurseries Association evidence to Consultation on the National Minimum Wage

NDNA welcomes the opportunity to submit evidence to the consultation on the National Minimum Wage (NMW). Below you will find each of the questions raised addressed in turn.

About NDNA

National Day Nurseries Association (NDNA) is a national charity representing children's nurseries across the UK, giving them information, training and support, so they can provide the best possible care to young children. NDNA is the voice of the day nursery sector, an integral part of the lives of one million children and their families. NDNA works with local and national government to develop an environment in which quality early years education and care can flourish. For more information please visit our website at www.ndna.org.uk

Background

NDNA and its members firmly support the NMW and the principle of paying staff a fair wage. There are long-standing issues with low pay in the nursery sector stemming from the UK's model of government support for many parents' childcare costs. Whilst there have been advances in the last 15 years, support for UK parents remains significantly limited compared to other EU countries.

Around 80% of all nurseries are in the private, voluntary and independent sectors and a large proportion of all fees paid by parents go directly on staff salaries – according to the Department for Education Childcare Providers Finances Survey¹, 77% of turnover is typically spent on wages. With affordability a key issue for parents, nurseries are in a position where the wages they pay are effectively capped.

According to Department for Education statistics, around one in three nursery businesses only break even or are loss making¹. Rises in the NMW will continue to have a direct impact upon fees charged to parents and margins for nursery businesses, which are struggling to maintain their sustainability in a tough economic climate.

Over recent years growth in the nursery sector has stagnated. The total number of UK nursery places fell by an estimated 3% from a peak at the start of 2008 as the number of operating nurseries decreased by an estimated 3% between 2008 and 2012¹. The economic downturn has also limited growth in new nurseries. Ofsted figures for registered nursery providers in England show a similar trend, with the numbers in the sector in decline since 2008.³

The drive to upskill the childcare workforce is also a factor driving up wages.

In England, following its Commission on Childcare in 2012, the Government has this year published the twin policy documents More Great Childcare [ref](#) and More Affordable Childcare [ref](#). In More Great Childcare government proposed relaxing the statutory staff:child ratios that operate in childcare in England, with one of the arguments put forward being that this would help reduce childcare costs. This proposal was largely rejected by the early years sector and is not proceeding. NDNA among others argued that relaxing ratios would risk damaging the quality of childcare and also contested the government's estimated savings.

Across the UK Government is bringing in reform to further professionalise the early years workforce. However, a common theme in all nations is the challenge of properly rewarding staff whilst keeping fees for parents affordable. NDNA and its members support a qualified and skilled workforce. However, paying staff a wage that reflects their skills and professionalism has implications for parental fees. With reports showing that the average UK household has become worse off in real terms over recent years, parents are already facing a real squeeze on their budgets.

Recent changes to tax credits, with a reduction in 2011 by 10% in the eligible childcare costs for which tax credits can be applied, are adding further pressure on parents – particularly those on low-to-middle incomes. The introduction of Universal Credit over the coming years will raise this threshold to 85% in some circumstances, and the introduction of Tax Free Childcare will also be a key factor impacting on affordability of nursery fees. Both initiatives are welcome steps but they will not take effect until 2015 and, in NDNA's view, do not go far enough to address the challenges of making childcare more affordable for all parents.

Response

1 What are your views on the outlook for the UK economy, including employment and unemployment levels, for the period October 2014 – September 2015?

The outlook for the economy and specifically female employment levels are critical factors in determining the outlook for nurseries. NDNA's most recent Nursery Business Performance [Survey⁵](#) showed a fragile recovery in nursery occupancy following declines in recent years. However, occupancy is very variable geographically, with a tendency to higher levels in London and the South East. The survey showed that, as in recent years, parents continue to increase their use of part time childcare try to minimise their costs.

The NDNA survey showed that business confidence in the nursery sector appears to be improving, but a mixed picture remains with many still experiencing the impact of recession. When asked about profitability, 57% expected to make a profit in the next year, up from 41% the previous year. However, 43% expected to make a loss or break even.

2 What has been the impact of the NMW? Has this impact varied, and if so how (for example by sector, type and size of business or groups of workers (including women, ethnic minorities, migrant workers, disabled people, older workers, and those who are unqualified)?)

NDNA members tell us that increases in the NMW have impacted on their nursery's sustainability. Many nurseries will pay their unqualified staff, such as nursery assistants and support staff, at or around NMW. Employers structure pay scales to reflect qualifications and responsibility, therefore increases in the NMW mean a review of pay for the entire workforce to maintain differentials and incentivise and reward attainment.

Nurseries report that the NMW has reduced the discretion they have to set their own pay structure to reward performance and achievement of qualifications. It is difficult to afford any increase in their overall budget for staff and this is predominantly spent on response to NMW, limiting discretionary awards to recognise and drive achievement by staff.

Survey⁵ respondents to NDNA reported an average 1.5% increase in fees, with comments showing they are moderating increases or freezing fees in response to the pressure on parents. This in turn means that increases in wages further squeeze nurseries' margins.

Other income streams to nurseries are under pressure. As discussed above, the economic climate is affecting parents' use of childcare and ability to afford fees. Alongside this, there are long-standing issues with the level of local authority funding nurseries receive for free early education places for 2, 3 and 4 year olds, with nurseries consistently reporting to us that the funding does not cover their costs. Together with increases in other costs, in particular utilities, business rates, VAT and food, this means that margins are being squeezed and nurseries' sustainability is under pressure. Nurseries are labour intensive businesses and must comply with statutory adult:child ratios, so are limited in the action they can take in relation to staffing to reduce costs, though some are reporting to us that they have introduced short time working, held off recruitment and made redundancies.

An additional factor putting pressure on staff costs is that local authorities are reducing the support that they have historically offered the sector for workforce development with 68% of respondents to our survey seeing reductions in support for training⁵.

Comments from NDNA members:

The NMW means we are unable to reward staff with the highest qualifications and experience. The gap has gradually closed between those in senior positions and assistants

I would love to pay my staff more but, without increasing fees significantly, I can't see how I can achieve this. Above-inflation NMW rises are putting my prices to parents under pressure.

To pay good staff their real worth requires greater assistance to working parents through subsidies to nursery fees.

It is great for staff on lower pay, but has meant we can't increase the higher paid staff by anything like the same percentage.

3 What has been the impact of the minimum wage on young people and what effect do you think it has on their employment prospects?

The lower NMW rate gives nurseries the opportunity to employ young people and invest in their training and development. Some nurseries report to us that they welcome this and the reduced rate is supportive. However, many have fed back to us that they recruit staff on the basis of their attitude, competence and qualifications and prefer to employ older staff. Generally, nurseries will limit the number of less qualified staff (typically younger) they employ to ensure they can offer a high-quality of provision for children and parents. They also note that the increase in the NMW at 21 is significant and as it is based on age alone it doesn't reflect qualifications or performance.

4 What has been the impact of the Apprentice Rate of the NMW?

A significant proportion of nurseries employ apprentices. Nurseries welcome the recognition that the Apprentice Rate gives to the investment that employers make in apprentices. Apprentices require substantial investment of employer time and resources in their training and supervision. Nurseries often use apprentices as supernumerary staff, not counted in ratios and therefore with their pay effectively an overhead. This cost to the business as well as the need to maintain quality of provision and give proper support and development to apprentices limits the number of apprentices employed, typically to one or two per nursery.

Nurseries tell us that financial support and incentives to employ apprentices, as well as the availability of well-motivated young people with entry level skills, would encourage them to offer more apprenticeships. Given the need to address youth unemployment, we would be concerned about further changes to the NMW that put more barriers in the way of young people moving into work.

Nurseries have fed back to us that the NMW rules around apprentices did not fit with the length of time taken to attain qualifications, with the apprentice rate increasing before qualifications were achieved. Some also note that unqualified older staff will be paid significantly more than apprentices and feel this inappropriate.

5 What is your view of the Commission's position that the current arrangements for the accommodation offset should be retained, and that it intends to recommend staged increases in the offset towards the value of the hourly adult rate of the NMW when economic circumstances mean the real value of the NMW is tending to rise?

The accommodation offset is not generally applicable in the nursery sector. There have, however, been instances of confusion around the interaction of NMW with employee payment for childcare purchased from the employer and more communication around this would be helpful.

6 How far is there compliance with the NMW? Do particular groups experience problems with NMW compliance (for example apprentices or interns/others undertaking work experience)? Where there is non-compliance are there implications for the NMW rates, or other implications (for example for the quality and accessibility of official guidance on the NMW, or for the enforcement work of HMRC)?

Nurseries that opt in to member with NDNA do so to access information, advice and support. They tend to be well informed on their responsibilities as employers and childcare providers. NDNA regularly disseminates information about the NMW to our members and they feedback to us that they understand their responsibilities under the NMW.

7 At what level should each of the rates of minimum wage be set in October 2014 (i.e. for adults, 16-17 year olds, 18-20 year olds, apprentices, and the accommodation offset)?

Overall nurseries tell us that they would like all NMW rates to increase by a moderate amount of 1-2%.

8 Are there any other views or evidence you would like to give us?

The introduction of new pension arrangements from 2012 with phasing in of responsibility for employer contributions remains a concern, with nurseries reporting to us that this will impact on their ability to afford future NMW increases. It should be noted that uptake of pensions with employer contributions is relatively limited in the sector, so this will be a new cost for many businesses.

When gathering feedback for this response, we also asked member nurseries about the Living Wage and whether they would consider committing to it. Only a small proportion of respondents felt this would be an option. Many commented that they would like to pay the Living Wage but unless government funding to nurseries was increased, this would be unsustainable and make fees to parents unaffordable.

Summary

NDNA and its members support the principle of the minimum wage and a fair wage for dedicated childcare staff. However, it is important to recognise that wages are by far the biggest expense for a nursery and the sector is constrained regarding pay due to the

impact that this has upon parental fees. The current economic climate and business pressures from issues such as the under-funding of free nursery education means that any rises need to be carefully managed.

NDNA is happy to provide any further information or case studies. If you would like us to help with this please contact:

Claire Schofield
Director of Membership, Policy and Communications
National Day Nurseries Association
National Early Years Enterprise Centre
Longbow Close
Huddersfield
HD2 1GQ

Tel : 01484 40 70 70

Email : claire.schofield@ndna.org.uk

References

- 1 Laing Buisson Children's Nurseries UK Market Report 2012
- 2 Department for Education Early Years and Childcare Providers Survey 2009
- 3 Ofsted: Registered Childcare Providers and Places In England, June 2012
- 4 Foundations for Quality – independent review of childcare and early years qualifications by Professor Cathy Nutbrown, July 2012
- 5 NDNA Nursery Business Performance Survey, June 2013
<http://www.ndna.org.uk/Resources/NDNA/Public%20Factsheets/BPS%20Insight%20Report%202013%20FINAL.pdf>