



Department
for Education

Analysis of responses to the call for evidence on the cost of providing childcare

October 2015

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Purpose of this document

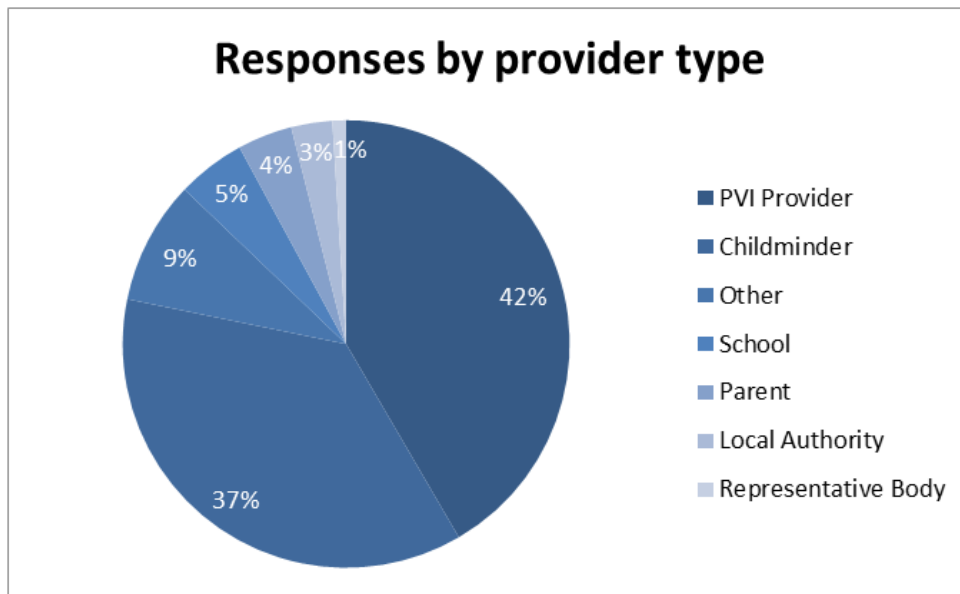
1. This document has been produced by the Department for Education to inform the House of Lords' consideration of the Childcare Bill at Report stage. The Government recognises the interest in and importance placed on the work underway to review the costs of providing childcare and the Government's commitment to increase the average rate paid to providers.
2. This document presents the findings of the first stage of the review, the call for evidence, and it does not seek to draw final conclusions on the information provided. The call asked respondents to submit evidence on the factors that make up the cost of providing childcare, and the extent to which each factor drives the total cost of provision.
3. This document does not set out the final findings of the funding review or the Government's position on the future of funding for the early years sector, which will be set out once the review is complete.

Introduction

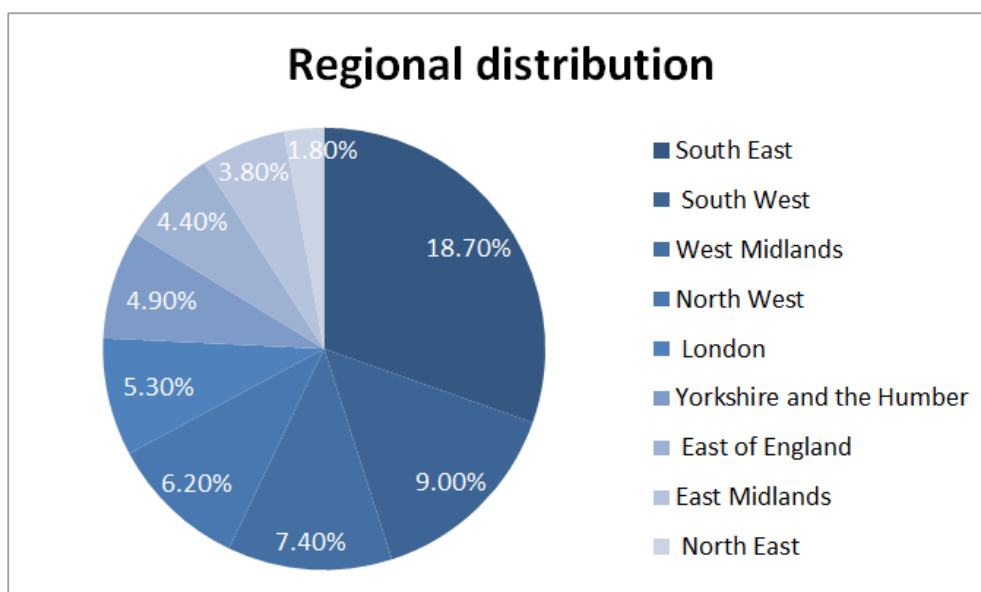
4. In response to concerns about providers' ability to deliver an extra fifteen hours of Government-funded childcare for working families at current funding rates, the Government has committed to increasing the average rate of funding providers will receive. The Government recognises the importance of providing a rate of funding that is sustainable for providers and delivers value for money to the taxpayer.
5. In order to secure a sustainable and fair average increase for providers, the Government is conducting a review of the cost of providing childcare. The review, which is led by the Department for Education in collaboration with an external team of consultants from Deloitte, will report in the Autumn and will form the basis for funding decisions that will be taken as part of the Spending Review.
6. The team is reviewing a significant volume of published evidence from a range of academic and research studies as well as evidence put forward by key organisations in the early years sector. Understanding what factors drive providers' costs and the characteristics of the childcare market are key strands of the review.
7. The call for evidence is one of the sources that will inform the review's work on providers' costs and will supplement the evidence already available. The call received over 2000 responses between 15 June and 10 August, with the majority of responses submitted coming from providers.
8. The call has provided an opportunity for the Government to engage with the sector and for providers to influence and contribute their views to the review. We have also held five of six roundtables across the country with a range of providers and sector organisations to explore these matters further.

Summary of responses received

9. We are grateful for the high volume of responses received throughout the eight weeks during which the call was open, which shows providers' eagerness to engage with the Government on this issue. The majority of responses were submitted by private, voluntary and independent providers (PVI) and by childminders. The chart below illustrates the percentage of responses received by provider type.



10. Of those responses that provided an address, the highest proportion was from providers in the South East and the South West, followed by providers in the West Midlands and the North West. This may be indicative of where the funding challenges are felt the most. The chart below shows the regional distribution of respondents as a percentage of the total number of responses.



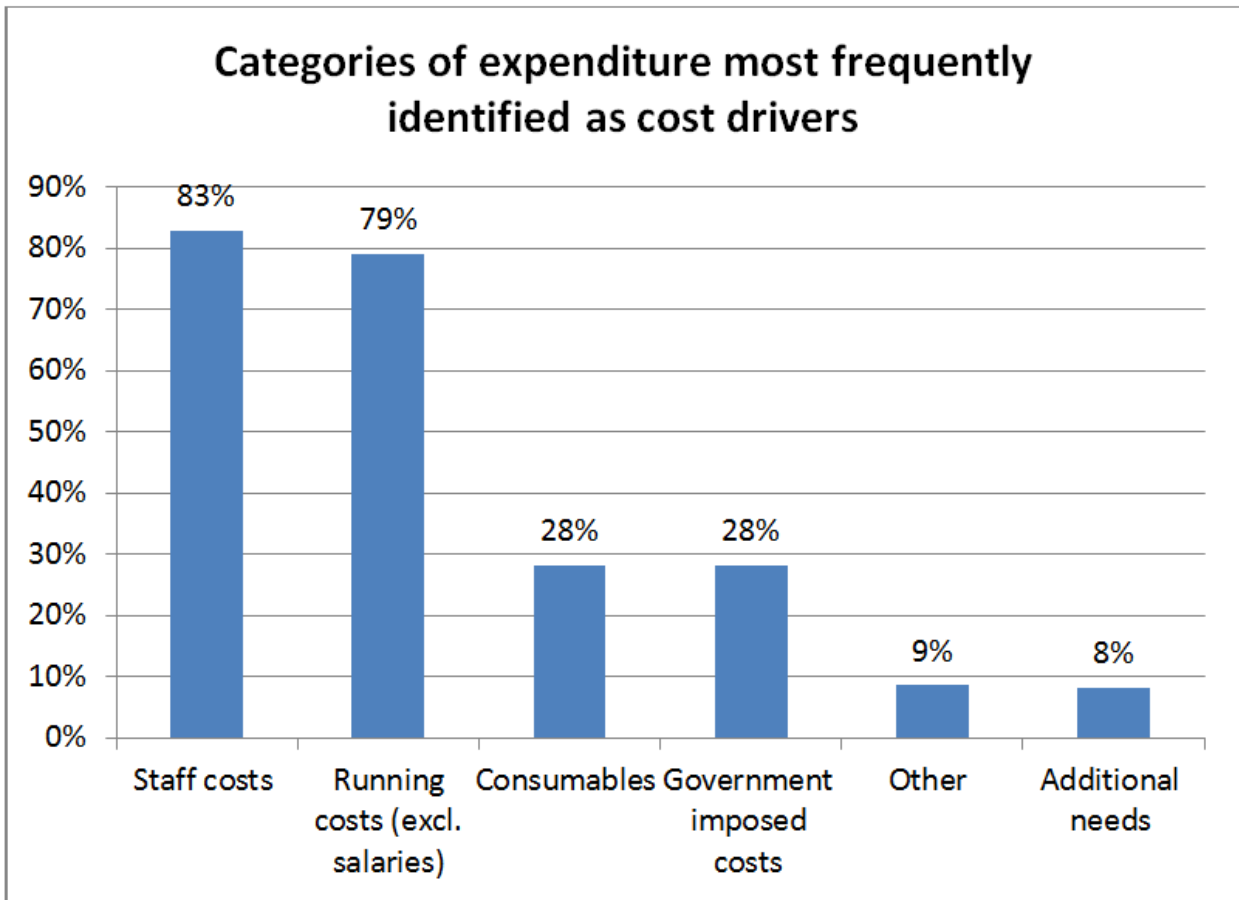
Analysis of responses received

11. The call asked respondents to submit evidence on the factors that make up the cost of providing childcare, and the extent to which each factor drives the total cost of provision.
12. The quality and completeness of the evidence submitted was wide ranging. The majority of responses listed the factors which providers perceive to be their main areas of expenditure, but these were often not supported by figures. This means that we have been unable to understand which costs are as a result of delivering the entitlement and which are not. This may indicate a lack of clarity around what Government funding should pay for.
13. Some respondents did provide more detailed accounts of their outgoings, opening hours, number of entitlement hours provided, others reported their perceived funding shortfall when comparing their local authority's funding rate with the price they charged parents. While we have been able to identify what providers perceive to be their main areas of expenditure, we were unable to determine from the responses what providers' unit costs were.
14. It is also important to note that the areas which providers perceive to be the main areas of expenditure might not be necessarily be the areas where they incur most of their costs.
15. There was consistency across most responses on the key categories of expenditure that were identified and on the key themes that were mentioned under each of those categories. The five key categories of expenditure were: staff-related costs, running costs (excluding salaries), consumables, costs incurred as a result of Government policy and costs resulting from the provision for children with additional needs, including children with special educational needs and disability.

"The current amount paid does not allow us to cover our basic daily costs. In order for us to continue meeting the requirements of the government we need an increase in funding. At present we have been forced to up our fundraising efforts to meet our financial needs. The funding currently provided is less than our hourly charge which in relation to other local providers is already low."

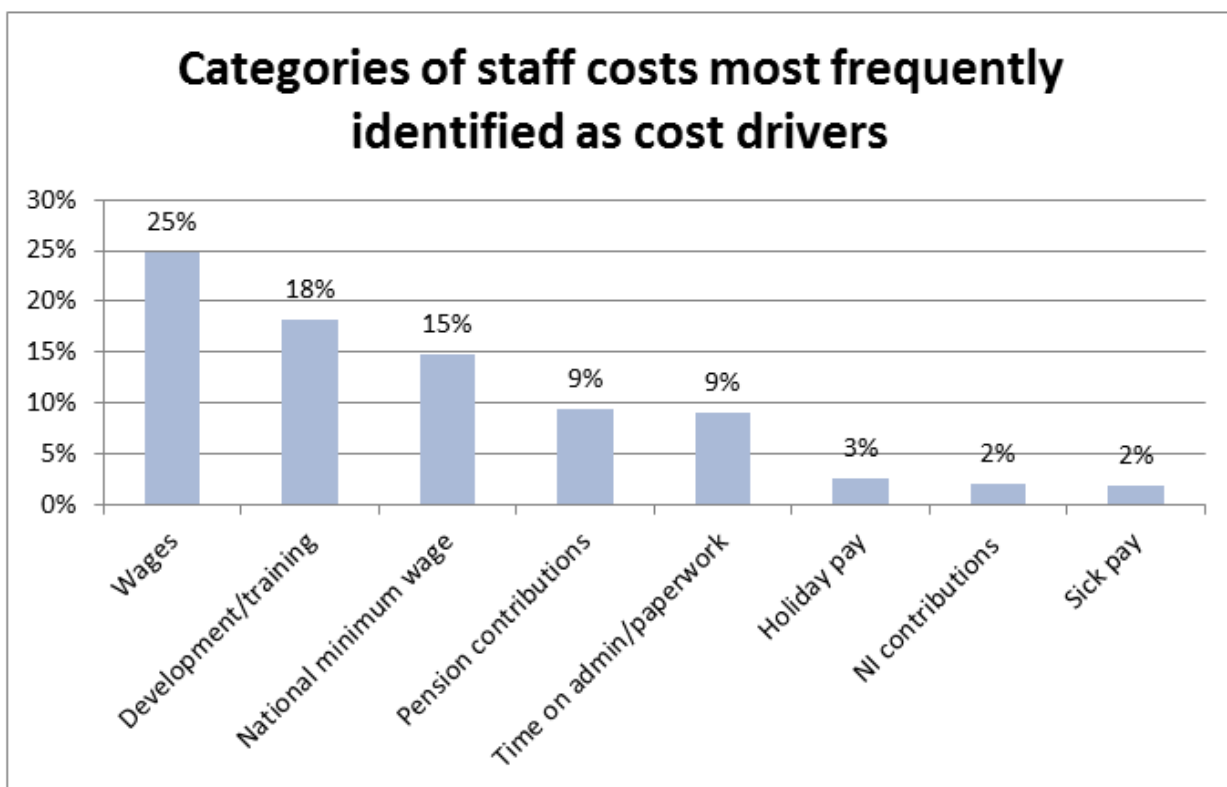
16. Staff related costs and running costs were the categories of expenditure which were mentioned by most respondents. Across all five categories the areas of expenditure which were mentioned the most were: staff wages, food and

educational equipment (including IT). The chart below shows the percentage of all responses that identified each of the main areas of expenditure.



Staff costs

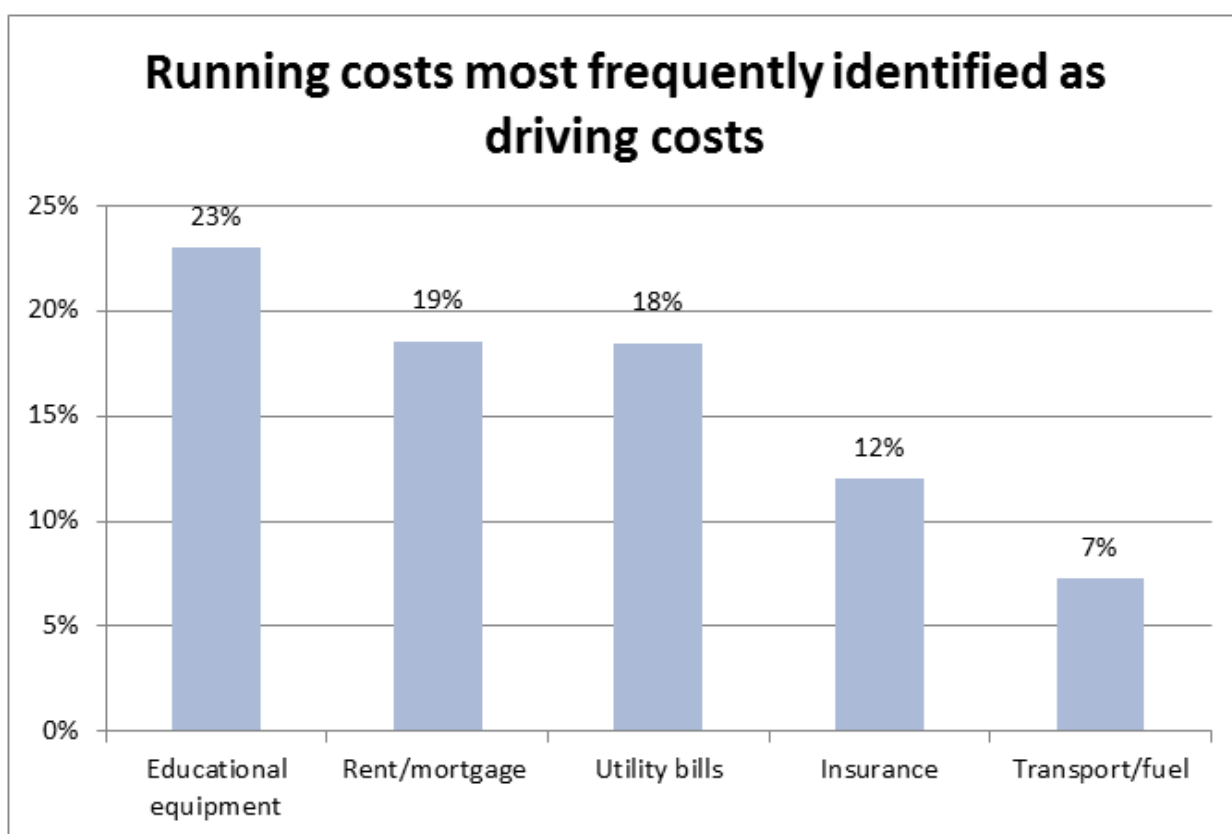
17. The majority of responses (83%) identified staff related costs as a cost driver. The most common areas of expenditure within this category were: wages, staff training and development, pension contributions, the impact on wages of time spent on administrative tasks, holiday pay, sick pay and national insurance contributions. The chart below shows the areas of costs that were identified the most within this category as a percentage of all responses that mentioned staff costs.



18. Wages was the most mentioned area of expenditure with a number of responses providing figures which showed wages as representing the biggest proportion of a setting's expenditure. Ensuring that providers met ratio requirements and time spent on completing paperwork to comply with Government guidelines were highlighted as a significant contributory factor to costs. Salaries for early years practitioners were a common concern, with some providers feeling that they were unable to pay staff at a reasonable wage and the consequences of this on staff recruitment and retention, particularly in the context of the Government's push for settings to employ graduates.
19. The cost of both voluntary and mandatory training was raised by some as a concern. Many respondents expressed their wish to continue to develop themselves and their staff, but this is hindered by the cost of training, the time taken to attend mandatory training, such as first aid or safeguarding, and local authorities' reduction in their training offer to providers. This was particularly costly for staff training on specialist support for children with special educational needs and disabilities.
20. The impact of the increase to the national living wage from 2020 was highlighted as a concern. Some respondents provided an estimate of what the change to the living wage would mean in real terms, with one provider calculating that as a result of the introduction of the living wage, by 2020 their setting's salary costs will increase by 40%. Many questioned how this would be sustainable in the long term.

Running costs

21. The second most mentioned category was running costs, with 79% of all responses identifying this area of expenditure. Types of expenditure which were mentioned the most were: educational equipment and resources, rent/mortgage, utility bills, insurance and travel costs, including fuel. The chart below shows the areas of costs that were identified the most within this category as a percentage of all responses that mentioned running costs.



22. Educational equipment, such as: books, toys, crafts and other leaning material as well as IT was the most mentioned expenditure within this category, with 23% of responses identifying this as a cost driver. Across the consultation and only after wages and food, the cost of educational equipment was the factor which was mentioned the most. While the responses did not indicate that this area is the most costly overall, they did highlight the ongoing cost associated with keeping resources and learning material up to date and relevant to children's learning; replacing and purchasing IT equipment and specialist equipment to support the learning of children with additional needs.
23. Many cited utility bills and increases to their bills in their responses, alongside meeting rent and mortgage payments. The steady increase in rent prices was a concern with some providers who rely on venues, such as church halls, to run their business but from which providers could only operate within certain hours and therefore felt unable to maximise their revenue. One provider said:

" We are blessed to be able to provide for our children as we do not have excessive costs to pay out, we pay a nominal rent to the local community centre. Each month we rely on our children's funding to pay wages etc. Unfortunately if our funding is not enough we either fall into debt or as the Manager I pay from my own pocket."

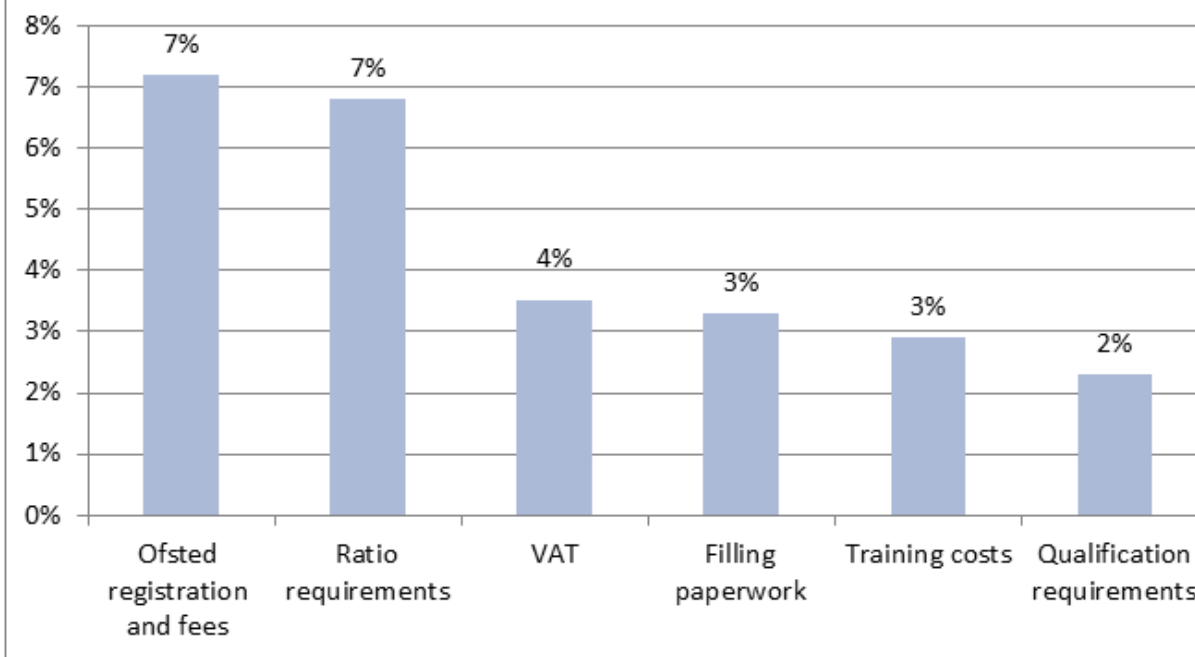
Consumables

24. Consumables, alongside Government imposed costs, were the third biggest cost category that was identified, with 28% of all responses mentioning this as a cost driver. Of those that mentioned consumables, 24% identified the cost of food and snacks as the most common cost within this category. 11% mentioned other consumables such as: cleaning products, gloves, nappies, aprons etc.
25. The responses noted the increase in the price of food and the need to offer better quality/healthier food to children, increasing the cost of their food bill. For nurseries which are opened for the whole day, this may mean in some cases offering food at regular intervals. Though unclear, many responses implied that they expect the Government funding for early learning to cover the cost of food and do not charge parents, although some said that they charge parents a small proportion.

Government imposed costs

26. This category describes costs which are incurred by providers as a result of Government policy. 28% of respondents identified this as a cost driver. The main areas of Government policy which were identified as having an impact on costs are: Ofsted registration and fees, the impact on wages of complying with ratios requirements, VAT, training requirements, the impact on wages of time spent completing paperwork in light of Government guidelines and preparing for inspections and the impact on wages of complying with qualifications requirements. The chart below shows the areas that were mentioned the most as having an impact on costs as a percentage of all responses in this category.

Government imposed costs most frequently identified as driving costs



27. Ofsted registration and fees were mentioned the most within this category, with 7% of respondents identifying this as having an impact on costs. The cost of training to keep up to date with requirements was identified as well as the impact on staff time and salaries of providing evidence that was believed to be necessary for inspections and EYFS requirements. It was unclear from the responses the extent to which this was perceived, as opposed to required, work.

"I also spend several hours a week completing paperwork to meet the criteria of my Ofsted registration, which is carried out in my own time with no additional financial reward and then there is training we must undertake during our family time at further cost to ourselves. I also use my car to take children to and collect them from school at no additional cost to parents."

28. Many respondents mentioned ratios as being a significant factor driving their costs on staff salaries and wages, but also recognised the importance of maintaining ratios in order to ensure quality of provision and care for the children. For example, staff spending time outside the classroom to complete paper work, cover for staff holiday and sickness, meant that the setting had to hire additional staff to meet the ratio guidelines. Providing for children with additional needs and children with special educational needs and disabilities who may need one to one support was highlighted as a cost. Respondents felt this particular pressure was not

reflected in the way in which they are funded and that assistants and support staff, such as SENCOs, should not be considered as part of the ratio requirements.

Other

29. 9% of all responses indicated that their setting pays for a number of other activities such as: cinema tickets, outdoor activities, visits to attractions, car seats for children, prams, birthday presents, etc. It was unclear from the responses whether Government funding was used to pay for these activities, but many responses implied that settings would pay for these and did not charge parents.

Provision for children with additional needs

30. Of those that mentioned provision for children with additional needs, 8% mentioned provision for children with special educational needs and disability as driving up costs because of lack of adequate funding for children in this category. Both children with special educational needs and disabilities and other children with additional needs, such as children with English as an additional language and looked after children, need more one to one support and sometimes extensive interaction with the child, the child's family and in some cases with social services. Respondents thought this was a driver for staff costs and salaries.

"Our playgroup is typical of others that are based in deprived areas of Newcastle upon Tyne (and I assume other cities) in that children and families that attend often have support needs that may not be present in localities of less deprivation which brings additional staff pressures as once needs are identified we need to use staff time to work with families to listen, support them to access other services, undertake CAF assessments and in some cases attend case conferences and team around the child meetings. "

Next steps

31. The findings from the call for evidence will be reviewed by the team alongside existing evidence from academics, researchers and stakeholders, including studies recently commissioned by the Department. Findings from the review will inform decisions taken during the Spending Review on the funding rate. As stated in paragraph 2, this document has been produced to support House of Lords consideration of the Childcare Bill at Report stage. The Department would be happy to discuss the content of this document with interested Peers ahead of the debate.



Department
for Education

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