

September 2014

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).

About NDNA

National Day Nurseries Association (NDNA) is the national charity representing children's nurseries across the UK. We support nurseries and the early years workforce giving them information, training and support, so they can provide the best possible early learning and childcare to young children. NDNA is the voice of the 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 learning and childcare 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 low pay issues in the nursery sector stemming from the UK's twin track model of government funded free early education places and subsidy for parents' additional childcare costs. Whilst there have been advances in the last 15 years, support for UK parents remains significantly limited compared to other EU countries.

The primary factor limiting pay in the nursery sector is the level of funding paid to nurseries for government funded free early education. The offer of 15 free hours per week covers all three and four-year-olds and is being extended to substantial numbers of two-year-olds. Local authorities commission nurseries to deliver free hours, however, the rate paid for these free hours is often below the cost of delivery. In NDNA's most recent annual survey¹, nurseries reported losing £900 per child per year on provision of places. This underfunding caps pay for nursery staff, meaning nurseries often have to pay substantial numbers of staff at or near the NMW.

The second factor limiting pay in the sector is the need to keep childcare fees affordable for parents. Latest Department for Education statistics show 91% of all nurseries are in the private, voluntary and independent sectors². A large proportion of childcare fees paid by parents go directly on staff salaries; 77% of turnover is typically spent on wages³. With affordability a key issue for parents, nurseries are in a position where the wages they pay are effectively capped.

Only around one in three nursery businesses make a profit, with the remainder just breaking even or loss making². 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 stagnated, followed by a small upturn since 2011. 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 2012⁴. The sector grew by 2% between 2011 and 2013². Weakened nursery occupancy has been a feature of the sector in recent years, with 20% of nursery places vacant on any given day.²

The drive to upskill the childcare workforce is a factor pushing up wages. Across the UK Governments are bringing in reform further to professionalise the early years workforce. However, a common theme in all nations is the challenge of properly rewarding staff on current government funded levels and whilst keeping fees for parents affordable. NDNA and its members support a qualified and skilled workforce. 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% of childcare costs in some circumstances. 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 begin to 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.

In the run up to the General Election in 2015, political parties are promising to expand the offer of free early education, with pledges including increasing the number of hours per week and extending provision to younger children. Expansion of free early education at the current insufficient funding levels is unsustainable. Consideration must be given to how pay and conditions in the sector can be addressed before any such move.

Response

1 What are your views on the outlook for the UK economy, including employment and unemployment levels, from now through to September 2016?

The outlook for the economy and specifically female employment levels are critical factors in determining the prospects for nurseries. NDNA's most recent Annual Nursery Survey¹ 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, 67% expected to make a profit in the next year,

up from 55% the previous year. However, 33% expected to make a loss or break even. Consultation with NDNA member nurseries to inform this response suggested a cautious approach to increasing their workforce in the coming year, with most planning little change.

2 What has been your experience of wage growth in the UK during the last year and what do you forecast for the next twelve to eighteen months?

Between 2011 and 2013 nursery wages grew by 5%, with mean hourly pay £8.40 for all staff and £6.80 for non-supervisory staff². Consultation with members to inform this response suggests increases in the past year averaging around 2-3%, with most planning for a similar level in the coming year. However, a significant number of nurseries also shared that they would be unable to offer any wage increases, due to sustainability issues.

3 What has been the impact of the National Minimum Wage (NMW), (for example, on employment, hours and profits), in particular over the last twelve months? Has this impact varied (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), and if so how?

NDNA members tell us that increases in the NMW have impacted on their nursery's sustainability. Many nurseries are forced to 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.

Survey respondents to NDNA reported an average 1.5% increase in fees in 2013⁵, with comments showing they are moderating increases or freezing fees in response to the pressure on parents. This 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. There are long-standing issues with the level of local authority funding nurseries receive for free early education places for two, three and four-year-olds, with nurseries consistently reporting to us that the funding does not cover their costs. In some cases local authorities base the funding they give nurseries on minimum standards, assuming employment of a large proportion of young staff paid below the adult rate. 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, indeed they often have to work above statutory levels to ensure sufficient staff to meet the needs of children, particularly disadvantaged children and those with special educational needs and disability. Nurseries are therefore 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:

It [NMW] tends to set the minimum increase that we make annually. Generally it is a very positive and fair approach, if only the government and local authorities would reflect in their funding to us the requirement to pay the NMW. Our local authority assumes that private and voluntary nurseries pay less than 80% of the NMW.

Have had to put up fees to cover this rise. I have had to increase all the staff wages by at least 3% to ensure the gap between unqualified, NVQ2 and NVQ3 remains the same, otherwise the pay would become too similar.

I have had to reduce the number of hours worked by some staff as I haven't made a profit or taken any salary for myself for two years.

Not able to raise fees to keep in line with salary expectation so impacts on profit.

4 What do you estimate will be the impact of the 3 per cent increase in the adult rate of the NMW and 2 per cent increase in the youth and apprentice rates in October 2014?

As discussed above, increases in NMW, whilst welcome in principle as the right move to support the low paid workforce, will inevitably lead to childcare fee inflation for parents and further pressure on sustainability in the nursery sector. Government funding rates for early years hours are stagnating and even reducing in some areas, whilst utilities and business rates are increasing, so nursery costs are going up whilst income is reducing. This is exacerbated by the introduction of pension auto-enrolment, with many nurseries having staging dates in the next two years, auto-enrolment will further restrict nurseries' ability to offer pay increases, maintain pay differentials and their discretion to support and reward professional development in the sector.

Comments from NDNA members:

It means that there will be a price increase for our parents, most likely by 3%. If it continues there will be a time when we will all have expensive childcare.

Another year without profit, another year when I cannot pay myself [owner/manager] the minimum wage.

I will have to make at least one member of staff redundant and may not be able to increase the others' hourly rate in line with the 3% rise.

5 In our 2014 Report, we made an additional assessment of the future path of the NMW. This looked at what economic and business conditions needed to be in place to allow a faster increase in the minimum wage rates taking into account the implications on employment. Do you have any comments on that assessment? What economic and business conditions do you think need to be in place for faster increases in the NMW?

We welcome the 2014 report's assessment and understanding of the issues facing childcare, in particular the key challenges of parents' limited ability to pay higher childcare fees and the insufficiency of government funding for free nursery places. Affordability for parents is a key issue, and we would agree with the economic assessment that sustained economic growth, rising employment and rising wages are needed for NMW to increase at a faster rate. Alongside this particular intervention is needed to address low pay in the nursery sector, as we discuss below.

Reform of government funding for early learning and childcare is needed to enable faster increases in the NMW. There should be a national formula for early years funding to local authorities that is at a level that will pay for high-quality childcare provision by properly rewarded staff. Government funding for free early education places should be ring-fenced so it can only be spent by local authorities on early education places, rather than elsewhere in the schools budget. Direct investment is also needed to enable workforce reform in the sector and NDNA supports the call for a workforce development fund proposed by respected early years academics⁶. Without funding reform and investment, parents will be priced out of childcare, with a negative knock on effect on the economy.

NDNA is presently campaigning on its Childcare Challenge⁷ which proposes policy solutions to the next government to address childcare cost, quality and choice for parents. Other actions to address costs and enable higher wages to be afforded include putting private and voluntary nurseries on a level playing field with state sector provision by giving relief on business rates and making VAT on childcare zero-rated.

Comments from NDNA members:

If the NMW is raised each year then the hourly rate for delivering free nursery places should be linked. We can't deliver high-quality, affordable childcare if staff wages make the business unviable.

The government is the biggest purchaser of hours from early years providers – they set the rates we can pay.

The NMW must be looked at in early years in conjunction with the lack of government funding for two, three and four-year-olds.

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

Employment of young people in the nursery sector has reduced over recent years. Currently 18% of the workforce is aged 16-24, compared to 31% in 2007². We believe that this trend is due to the drive to improve levels of qualification in the early years workforce, as discussed above, as well as a relatively stagnant time for growth in the sector, reducing demand for new staff.

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.

7 What has been the impact of the Apprentice Rate on pay, provision, take up and completion? Do you think the structure of the Apprentice Rate should change? Could it be made simpler to help improve compliance? Do you think the Apprentice Rate should apply to all levels of apprenticeships? What do you think might help employers to comply with paying the right pay rate for apprentices?

A significant proportion of nurseries employ apprentices, with 6% of the workforce comprising apprentices². 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 their pay is 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.

8 What issues are there for compliance with the NMW? Do particular groups experience problems with NMW compliance (for example, apprentices, or interns and others undertaking work experience)? Does this non-compliance have implications for the level of the NMW rates, the quality and accessibility of official guidance on the NMW, or for the enforcement work of HMRC?

Nurseries that opt in to membership with NDNA do so to access information, advice and support. They tend to be well informed on their responsibilities as employers and childcare providers. There is however confusion in some parts of the sector over the rules regarding deductions from wages for the cost of childcare for employees' own children. With an overwhelmingly female workforce, many nurseries will offer their employees childcare at a reduced rate. An apparently sensible and convenient arrangement for both parties can be for the employer to deduct the cost of childcare from the employee's pay. However, if this takes the employee's net pay below NMW, it is an unacceptable deduction. There is a lack of clear government information on the rules regarding this. The gov.uk website has limited information compared to the previous resources from government department websites and more needs to be done to make the situation clear to employers. NDNA has recently disseminated information to its member base on the issue.

9 At what level should each of the rates of minimum wage (for adults, 16-17 year olds, 18-20 year olds, apprentices, and the accommodation offset) be set in October 2015?

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

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

When gathering feedback for this response, we also asked member nurseries about the Living Wage. Only a very small proportion of respondents were already paying the Living Wage to all staff, and most said they were very unlikely to do so. 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.

The impact of increased wages is illustrated by current moves towards the Living Wage. In Birmingham the local authority has proposed requiring nurseries to pay the Living Wage as a condition of receipt of funding to deliver free nursery places. Modelling the impact of this suggested an immediate increase of approximately £30-40 per week, around 25%, in the fees that parents would pay for childcare. Providers that had a large proportion of their turnover from local authority funding would immediately become unsustainable as the hourly rate they receive would mean their income was below the level of their total wage bill.

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:

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References

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