

To: The School Forum
From: The Managers of Rutland
Date: 3rd November 2015

Due to recent government directives – the living wage and pensions, nurseries are finding it a struggle to keep their settings afloat.

Within the next 18 months nurseries will be faced with several new government directives,

- Minimum wage increase
- The national living wage
- Offering 30 hours free funding for 3 and 4 year olds
- Pensions for all members of staff

At present the hourly rate child care settings receive for each funded three and four year old is £4.20 per hour. In reality the cost per child is a minimum of £4.50 (period April – September 2015)

The hourly rate that settings receive from the school's forum/ local government does not cover the cost of childcare and settings are losing a minimum of 30p per hour. Over a year, an eligible child is entitled to 570 hours of free childcare and therefore this equates to a shortfall of £1,710 per child.

'Government research has shown that 46 per cent of full day care providers and 64 per cent of sessional settings break-even or make a loss' (Childcare and Early Years Provider Survey 2013).

Between the 1st October 2015 and October 2016 the government will have increased the minimum wage, Pensions schemes will have commenced for many settings. Currently employers pay 1 per cent of earnings in pension contributions, and this is due to rise to 3 per cent by 2018. The living wage of £7.20 per hour will come into force in April and 30 hours of free Early Years funding for 3 & 4 year olds introduced as of September. At present unqualified and level 2 staff are paid the minimum wage. Qualified level 3, 4 and 5 staff are paid between 70p - £3.50 hour more.

Hourly rates will rise by 7.5% in April when the living wage comes into effect for unqualified and level 2 staff. Higher qualified staff will need a 12.5% increase in order to maintain pay differentials, or we risk losing well-qualified staff.

The introduction of 30 free hours for 3 and 4 year olds in September 2016 will cause many settings to have a greater loss than £4.50 per month per child if the hourly Early Years funding rate is not increased sufficiently.

Most nurseries will have to increase their hourly rate to accommodate all these changes by at least 40p per hour. However, this will not be helpful to settings if we have to provide Early Years funded sessions at figure below £4.80 per hour. Our deficit/loss per child will become greater. Many nurseries will have to decide whether they continue to receive childcare funding at such high loss or close their nurseries. The closure of settings would not only be detrimental to the local workforce and economy but also to Rutland County Council Childcare Sufficiency requirement. The local authority has a duty to ensure there are sufficient childcare places within Rutland.

At a recent meeting of Rutland Managers we discussed the ongoing viability of our nurseries, if the current rate of Early Years Funding for 3 and 4 years olds is not increased. It was generally agreed that maintaining the current rate would put all nurseries in a financially unsustainable position. Many nurseries use unfunded childcare hours to subsidise the losses made by the funded hours. With the amount of funded hours doubling as well as all the other hits to budgets, this would no longer be an option as it would put childcare financially out of reach for the majority of parents.

Therefore it was decided to examine the annual outgoings of a number of nurseries. It should be noted that the following costs do not include any profit, but are a simple statement of how we would keep our heads above water.

The following table sets out the cost:

	Oct 15	April 16
Nursery A	£4.65 rising to	£4.70
Nursery B	£4.66 rising to	£4.90
Nursery C	£4.50 rising to	£4.68
Nursery D	£4.50 rising to	£4.70

The following cost predictions courtesy of *Ceeda (2015) supports the figures I have quoted

COST PREDICTIONS FOR THE EARLY YEARS SECTOR

SCENARIO 1: Cost impact of NLW introduction in 2016 only (taking wage differentials into account - by factoring in a minimum 3% pay increase for all employees or statutory minimum where higher)

Three- and four-year-olds

- Hourly cost of delivery = £4.68
- Hourly shortfall = £0.73 (18%)
- Annual shortfall (per child taking up 30 hours) = £832.20
- Total annual (PVI non-domestic) sector shortfall = £315,101,816

SCENARIO 2: Cost impact of NLW introduction in 2016 (taking wage differentials into account) AND a graduate-led workforce

Three- and four-year-olds

- Hourly cost of delivery = £4.75
- Hourly shortfall = £0.80 (20%)
- Annual shortfall (per child taking up 30 hours) = £912
- Total annual (PVI non-domestic) sector shortfall = £345,317,059, Ceeda (2015)

Conclusion:

The nurseries in Rutland ask you to re-consider the current rate of Early Years Funding with a view to increasing this amount to a minimum of £4.80 per hour as from 1st April 2016.

**Counting the Cost* is a landmark study into the free entitlement scheme, was commissioned by the Alliance and conducted by independent research consultancy Ceeda. It tracked the costs of delivering more than 180,000 hours of early years education and childcare for 5,635 children in randomly selected nurseries and pre-schools in the private, voluntary and independent (PVI) sector.