All Party Parliamentary Group for
Childcare and Early Education

Steps to sustainability

a report by the
APPG for Childcare and Early Education

This report was researched by Connect and funded by CACHE, Foundation Stage Forum, National Day Nurseries Association, Early Years Alliance, and Tops Day Nurseries. This is not an official publication of the House of Commons or the House of Lords. It has not been approved by either House or its committees. All-Party Parliamentary Groups are informal groups of members of both Houses with a common interest in particular issues. The views expressed in this report are those of the Group.

Inquiry

The APPG for Childcare and Early Education works with the childcare sector to support and promote non-maintained private, voluntary and independent (PVI) settings, in appreciation and acknowledgement of the value of high-quality early education in helping every child to have the best possible start in life.

It was established in 2017 and is chaired by Tulip Siddiq, MP for Hampstead and Kilburn.

The APPG is sponsored by CACHE, Early Years Alliance, Foundation Stage Forum, National Day Nurseries Association and Tops Day Nurseries.

The inquiry heard oral evidence from:

- Jo Callaghan, Director, Munchkins Nursery
- Cllr Gillian Ford, Deputy Chair, LGA Children and Young People Board
- Cheryl Hadland, Founder & MD, Tops Day Nurseries Group
- Julie Hyde, Director, CACHE
- Neil Leitch, Chief Executive, Early Years Alliance
- Nicky Morgan MP, Chair, Treasury Select Committee
- Gillian Paull, Senior Associate, Frontier Economics
- Nicole Politis, Director, Portico Nursery Group
- Aimi Turnbull, Parent
- Purnima Tanuku OBE, Chief Executive, NDNA
- Jo Verrill, Managing Director, Ceeda

The APPG also held a special evidence session with the Parliamentary Under Secretary of State for Children and Families, Nadhim Zahawi MP to discuss this inquiry and the evidence received during the oral evidence sessions.

Chair's introduction

We know that the early years are hugely important to a child's physical and mental development and future life chances.

It is therefore vital that the Government, local authorities, early education practitioners, setting owners, parents and politicians all invest the time, energy and funding required to ensure we can deliver access to high quality early education for all in a fair and just way.

The Government is to be praised for seeking to establish measures that aim to increase the availability and affordability of early education provision, such as its flagship 30-hours funded childcare provision for three and four-year-old children.

However, since the introduction of the 30-hours policy, early years settings have struggled to remain financially sustainable. These concerns have been raised by practitioners to the APPG for Childcare and Early Education on many occasions during our meetings since we were established in 2017, and they have been echoed by the Education and Treasury Select Committees, as well as many sector experts and analysts.

For these reasons, in late 2018 the APPG launched a formal inquiry into the financial sustainability of non-maintained childcare and early education settings, commonly referred to as private, voluntary and individual providers (PVI).

Our aim has been to bring together the evidence and experience of the sector and make a series of positive and constructive recommendations to support every setting across the country. This report presents our findings and outlines our proposed 'steps to sustainability' that we believe are required.

I would like to express my gratitude to Ruth George MP for acting as interim chair of the APPG for Childcare and Early Education whilst I have been away on maternity leave. I would also like to thank my parliamentary colleagues who have supported this inquiry and the witnesses who have participated in our evidence hearings. With the Spending Review just around the corner, and a new Prime Minister soon to enter Downing Street, this report is being published at a critical time. We urge the Government to take on board our recommendations and provide the funding and support needed to successfully, and sustainably, deliver its childcare policies.

Individual parliamentarians can also play an important role in championing the sector, both locally and nationally. I encourage all my parliamentary colleagues to undertake this report's final recommendation and visit one or more local childcare settings to speak to practitioners and parents, as well as meet with setting owners to discuss the reality of their current financial situation.

Tulip Siddiq MP

Chair
APPG for Childcare and Early Education

Recommendations

Funding

1 The Treasury and the Department for Education must address the funding gap that has developed as a result of Government policies, and has been exacerbated by the 30-hours funded childcare policy for three and four year old children.

There is a significant body of evidence that providers' financial sustainability has been weakened following the introduction of the Government's 30-hours funded childcare policy. Analysis conducted on behalf of the Government by Frontier Economics found that 39% of providers "*reported that there had been a reduction in their profit or surplus*" due to the increase in funded hours from 15 to 30. Position this alongside the significant decrease in the number of providers operating across the country (from 90,300 in 2016 to 81,500 in 2018 according to Government figures) and a concerning trajectory is drawn. The Government's flagship childcare policy requires settings to be open to deliver on the childcare spaces, and it therefore has a duty to ensure these providers are funded fairly.

2 The Government must commit to a cross-department annual review of early years costs and funding rates, with a view to increasing funding levels as necessary to ensure they cover provider delivery costs.

The costs of delivering childcare have risen for many reasons over recent years due to other Government policies. Rises in pension contributions, increases in the national minimum wage and the introduction of the national living wage have led to bigger outgoings for providers, yet Government funding for providers has not risen in line with these changes. The Treasury Select Committee has stated that "*setting the funding level with reference to wage and overheads data that is more than five years old is unsatisfactory*". The Government should commit to annual reviews to ensure providers are not hit from multiple sides as a result of policies that emerge from across Whitehall departments.

3 The Treasury must deliver full business rates relief to providers.

The revaluation of business rates in April 2017 has had a particularly negative impact on private providers, with some facing a doubling of their rates and one seeing a rise from £13000 to £30500 following revaluation in 2017. The Government has offered local authorities the ability to provide rate relief to childcare settings, with half the costs being borne by the Treasury. However, only one authority has delivered this; Harrogate Borough Council. The APPG appreciates that local authorities are also experiencing significant financial pressures meaning they are clearly reluctant to lose revenues received from childcare providers' business rates. Short and long-term local economic growth requires parents to be able to place their children in quality childcare within the community, and we therefore urge the Treasury to follow the lead of the Scottish and Welsh governments and provide full business rates relief direct to providers.

Supporting practitioners

4 Providers must be supported to ease recruitment and retention challenges.

Childcare is a low-wage, highly skilled profession. Due to the financial pressures that settings are under, many are struggling to pay competitive salaries compared to other sectors such as retail. Providers have told us of an increase in the movement of staff away from childcare and into other roles. This loss of talent and experience threatens the ability of the sector to sustain high-quality early education, and the biggest effort to resolve this must be a step change in wages, which can only be achieved through an increase in Government funding in the sector.

5 Reporting requirements must be made more consistent and less of a burden.

Evidence gathered through the Early Years Alliance Minds Matter survey found 74% of practitioners cited paperwork and administration as a major cause of stress at work. The APPG calls on the newly-formed workload advisory group, led by Ofsted, the Department for Education and the Early Years Alliance, to bring greater efficiencies in reporting requirements to ease the workload burden on the sector without compromising standards and accountability.

Social mobility

6 Prioritise closing the funding gap in deprived areas.

According to Ceeda, over one in ten nursery and pre-school settings lack confidence that they will be trading in 12 month's time (11%). However, that lack of confidence is particularly acute for operators in the most deprived areas of England who are twice as likely to anticipate closure as those in the most affluent (17% vs. 8%). Should this trend continue, we risk facing a situation where only wealthy families are able to access childcare services, leading to a reduction in educational opportunities for children as well as more challenges to parents looking to go back into work. Particular focus and energy must be placed by the Government on addressing the rate of closure in lower social-economic areas, especially with the combined risks and repercussions from diminishing programmes such as Sure Start Children's Centres and Family Hubs.

7 Universal Credit should allow payments direct from the Department for Work and Pensions to providers.

The APPG supports the recommendation made by the Work and Pensions Select Committee in their report on *Universal Credit and childcare* that the Government "*develops Universal Credit's systems to enable childcare costs to be paid directly to childcare providers*." The recommendation aims to address the difficulties faced by parents who have to pay upfront payments for childcare and provide certainty to childcare providers about receiving payments and supports the Department for Work and Pensions' aim of reducing the risk of fraud and error in childcare payments. The Government has said that it has "*no plans*" to make direct payments. The APPG will hold a joint meeting with the All-Party Parliamentary Group on Universal Credit and invite the Department for Work and Pensions, the Department for Education and key stakeholders, to find out how direct payments could be developed into the Universal Credit system and their effect on the sector. We urge the Government to engage in this meeting and urgently look again at the Select Committee's recommendation to develop a solution to help claimants meet their childcare costs and get into work.

Long-term steps for sustainability

8 The Government should establish an independent early years commission.

Achieving access to high-quality early years education needs long-term planning, commitment and funding. For these reasons the APPG believes an independent early years commission should be established to advise on current and future steps to be taken by the Government, local authorities and the sector to ensure financial sustainability, as well as quality and availability of services and places. The Government should begin a consultation as soon as possible with the sector about the scope and composition of an early years commission.

9 Parliamentarians should lead a campaign to champion the work of childcare practitioners.

Key to raising funding in the sector over the long-term is elevating the public perception of the childcare sector. It is a highly-skilled profession, and we urge parliamentarians to show leadership and use their influence to promote the value of early education. The APPG recommends that every MP visits a local childcare provider to speak to practitioners and parents, as well as meet with setting owners to discuss their current financial situation.

Current financial challenges

There is a significant body of evidence to demonstrate that non-maintained childcare providers are battling to achieve and maintain financial sustainability, and that Government policies are a major cause of this challenge.

It is estimated that there is at least a £662m gap in early years funding, and this is leading to more and more settings closing their doors for good. According to information gathered by the National Day Nurseries Association, the rate of settings that are closing has increased by 66% since the introduction of the 30-hours funded childcare policy, and a survey conducted by the Early Years Alliance found 42% of childcare providers stating there's a chance they will have to close their setting in the next academic year due to underfunding. The Government's own data has found there has been a fall in the number of providers from 90,300 in 2016 to 81,500 in 2018. This is underpinned by analysis by Frontier Economics, conducted for the Department for Education, that has found a result of the Government's move from 15 funded hours to 30 funded hours is:

> *39% of providers have experienced "a reduction in their profit or surplus due to the extended hours.*
>
> *25% of providers had "either moved from making a profit to breaking even, or from breaking even or making a profit into making a loss as a result of offering the extended hours."*

Statistics of unsustainability

These statistics highlight the financial realities that providers and parents face in response to underfunding of the 30-hours funded childcare policy:

£5.36
cost per hour

The average cost to deliver one hour of early education and childcare for three and four-year-olds is now an estimated £5.36 (this is up 5.5% on the previous year), set against an average funding rate of £4.46, leaving a 20% funding shortfall.

£63m
shortfall

This adds up to an annual funding shortfall of £63m in the Government's 30-hours childcare policy.

66%
setting closures

There has been a 66% increase in setting closures since the introduction of the 30-hour childcare policy, with 42% of current providers now worried about closing in the year ahead.

17%
closures

Operators in the most deprived areas of England are twice as likely to anticipate closure (17%) as those in the most affluent (8%).

14.5%
business rate increase

A significant number of childcare providers have been hit with large increases in business rates, with average increases in 2018 of 14.5%. Some settings have experienced a doubling of their business rates.

2/3
increased fees

Two-thirds of childcare providers have already increased parent fees, and nine in ten expect to increase fees this year.

56%
parents

56% of parents pay charges for additional items and activities, and 48% face restrictions on how they can use the 30-hours policy due to providers struggling financially to deliver Government commitments.

Parents are increasingly identifying that ‘30-hours free childcare’ is not exactly what they are getting. Aimi Turnbull, a parent that gave oral evidence to the group said her experience was that four weeks after taking-up the 30-hours offer, the setting that she uses added a £8.30 supplementary charge above the day rate. Shortly after, the supplementary charge was increased again to £17.50. Ms Turnbull also pointed out that:

> ***At my setting we pay for food even when my child is absent or we go away on holiday, but I understand this is being done not because the nursery wants to charge unfair costs, but because it’s essential to it remaining open.”***

A poll conducted by the Early Years Alliance and Mumsnet found that many parents were required to pay additional fees since the start of the 30-hours funded childcare offer:

- 45% had been asked to pay additional fees for non-funded hours.
- 41% report being asked to pay additional fees for things like nappies and onsite lunches.

Despite this, it must be noted that 74% of parents who participated in the Mumsnet poll said that their experience of taking up the offer was positive.

Local authorities who took part in the Frontier Economics *Evaluation of the first year of the national rollout of 30 hours free childcare* report argued that many providers:

> ***Can only be financially viable if they adapt their business models to offer the extended hours, for example, through additional charges for extras and parent paid hours.”***

The report continued that local authorities:

> ***Expected the pressure to develop these delivery models to become greater because the funding rate is planned to remain unchanged, while costs will increase” and that they believed “that the word ‘free’ should be dropped from the policy.”***

The APPG is concerned that the requirement on parents to pay additional fees will affect low income families and is impacting these households’ ability to access the offer. Julie Hyde, Director of CACHE, said that:

> ***“Because of the premiums being charged on the offer, there are plenty of parents who are not able to return to work.”***

This was reinforced by Jo Verrill, Managing Director, Ceeda who said “*it is a real concern*” that there are families that cannot get back to work because they cannot afford the premiums charged. The APPG shares the concerns raised by the witnesses that these additional fees can hinder social mobility and workforce productivity and it can have long-lasting effects on children who are not able to receive access to good early education.

The situation childcare providers are in is clear:

- The provision they are delivering on behalf of the Government to meet its 30-hours manifesto commitments is underfunded.
- At the same time, other finance-related policy areas outside of their control, such as business rates, the minimum and living wages and pension contributions, means provider costs are increasing.
- This means other fees for parents are rising, or access to the 30-hours funded childcare policy is becoming restricted.
- Providers are struggling to break even, let alone make a profit, with a growing number closing.

The Government's flagship childcare policy requires settings to be open to deliver the spaces, and it therefore has a duty to ensure these providers are funded fairly. **It is for these reasons that, in the forthcoming Spending Review, the Government must address the funding gap for its early years policies.**

The APPG is concerned that the Government has to date failed to adequately respond to the evidence and experience that is being presented from the frontline, or from Parliament.

For example, In January 2019 the Education Select Committee report *Tackling disadvantage in the early years* found that "*the Government's 30-hours funded childcare policy is entrenching rather than closing the gap*" due to perverse outcomes in availability. The report, which was described as "*damning*" by industry-magazine Nursery World, explained how committee members had been told:

> *"The Government 30-hours policy is a car crash… leading to financial pressure on nurseries, providing more advantaged children with more quality childcare and putting stress on the availability of places for disadvantaged two-year olds."*

The Treasury Select Committee has also been critical of the Government's approach to the early years sector. A report in March 2018 into childcare funding concluded the Government had used "*misleading*" figures when stating its funding level per child on average across the country. Additionally, the committee challenged the Government's calculations for how much it costs to deliver childcare as out of date and inaccurate, stating that:

> *"Setting the funding level with reference to wage and overheads data that is more than five years old is unsatisfactory."*

Due to this, the APPG is calling on the Government to commit to an annual review of early years funding costs and rates, with a view to increasing funding level as necessary to ensure they continue to cover provider delivery costs. This review must take into account the range of different policies that impact on a childcare providers' finances from across government departments and local authorities, such as pension contributions, the national living wage and business rates.

Specifically, on business rates, the APPG is concerned by the significant increases that many non-maintained settings have experienced over recent years. The revaluation of business rates in April 2017 has had a particularly negative impact on nurseries, with some providers facing a doubling of their rates. The APPG also received evidence from The Foundation Stage Forum who identified a provider that has seen their business rateable value increase from £13,000 to £30,500 following revaluation in 2017. The Government has given local authorities the ability to provide rate relief to childcare settings, with half the costs being borne by the Treasury. However, only one authority has delivered this, Harrogate Borough Council. At the time of providing this relief, the council said:

> *"We recognise the benefit to local communities of childcare providers which enable parents to work to support family life and the local economy. We are pleased to be able to offer this discretionary reduction in business rates which we hope will be of benefit to providers across the Harrogate district."*

The Scottish Government and the Welsh Assembly have both provided full business rate relief to childcare providers. We note that Huw Irranca-Davies, Minister for Children in the Welsh Assembly said at the time of the announcement:

> *"The childcare sector has told us that a total exemption from non-domestic rates would make a real difference to their business confidence. We've listened and taken action.*
>
> *By providing enhanced support for the childcare sector, we will further improve access to childcare places, supporting working families across Wales and make it easier for people to take up and retain jobs."*

The APPG is also aware that there have been several well-supported public petitions launched on petition.parliament.uk that call on the Government to act on business rates.

It is the APPG's opinion that the direction of travel is clearly moving towards providing business rates relief to non-maintained settings, with the authorities in Scotland, Wales and Harrogate seeing the benefits to providers, parents and the wider community. The UK Government's offer to cover 50% of costs for local authorities is, in a sense, an acceptance of that the current situation is damaging the financial sustainability of the sector. However, we believe that leaving the final decision to the local authority, and only offering to cover half the costs, is passing the buck. **The Government must act urgently in the Spending Review and deliver full business rate relief to all providers.**

Supporting practitioners

Significant concerns were repeatedly raised during our evidence sessions about the challenges providers face in the recruitment and retention of practitioners.

Childcare is a high-skilled, high-pressure but low-pay sector. Due to the current financial difficulties faced by providers, as outlined in section 1 of this report, many practitioners are paid the National Living Wage. The Education Policy Institute (EPI), in their report, The early years workforce in England, state that:

> *"Pay is low, both in relative and absolute terms. The childcare workforce earned an average hourly pay of £8.20 in 2018 – around 40 per cent less than the average female worker."*

As a result, the EPI has concluded that the sector has experienced a pay reduction of "*nearly 5 per cent in real terms since 2013*".

EPI analysis of how pay in the childcare sector compares to the retail sector shows practitioners face growing incentives to move profession:

- Low pay is one of the main drivers for childcare workers leaving the sector. Around one in four former childcare workers stated 'unsatisfactory pay' as the main reason for leaving the sector, compared to one in six retail workers.
- Childcare worker pay is undergoing a sharp real terms decline: on current trends, it may be overtaken by retail worker pay by 2021.
- Since 2013, childcare real wages have fallen from £8.59 to £8.19 per hour, whilst retail wages have increased in real terms from £7.34 to £7.75.
- Some childcare workers are already paid less than those in retail, even when they have the same qualifications. The average childcare worker with a Level 2 vocational qualification now earns £0.22 less per hour than a retail worker with a Level 2 qualification.

The Low Pay Commission has also found pay to be low in the childcare sector compared to many other sectors. It concluded:

> *"Childcare has by far the highest proportion of underpaid workers, with 43 per cent of all workers at the NLW – or 21,000 individuals – not receiving their minimum wage entitlement."*

The Government's own independent advisory body suggested the cause of this low pay could be linked to Treasury and Department for Education policy decisions, stating that:

> *"The sharp year-on-year increase in underpayment of childcare workers may reflect the funding freeze the sector has faced in recent years."*

Even senior and more experienced staff are still paid modest salaries. Providers want to pay better, a point emphasised by both Cheryl Hadland, MD of Tops Day Nurseries and Jo Callaghan, Director, Munchkins Nursery during our oral evidence sessions. Ms Hadland also pointed out that, across her nursery chain, staff were being offered "*nice extras such as yoga classes or fruit*" as "*we can only afford to pay National Living Wage, but we really love and appreciate our staff and want to offer them the best we can*".

As a result, providers told the APPG that they were regularly losing practitioners who were moving to work in supermarkets, retail or other roles outside of childcare to receive a higher wage.

Evidence provided to the APPG by the Foundation Stage Forum from a provider states:

> ***I had staff leave for the retail sector. Same if not more money and no responsibility. Shame this is happening to the sector. Without us many people would be unable to work, and we make a huge difference to the outcomes for children. Most staff don't do the role for the money, they do it for the children and it seems that this aspect gets exploited."***

Purnima Tanuku, Chief Executive, National Day Nurseries Association informed the APPG that from 2012 to 2017, there has been a 45% reduction in certificated, full and relevant level 3 qualifications. Ms Tanuku described this as "*a downward spiral*" with the pool of possible candidates available for providers to recruit from not big enough to fill all available vacancies.

This is a concerning finding for the APPG, as without skilled staff the sector cannot deliver our ambition of providing access to high quality early education for all. As Julie Hyde, CACHE, an early years awarding organisation, said in an oral evidence session:

> ***We need to dedicate a lot of energy and focus on qualifications, upskilling staff and providing continuous professional development in the sector. Skilled staff and funding are crucial for sustainability."***

It is for these reasons that the APPG is calling for providers to be supported to increase recruitment and to raise salaries for practitioners.

In addition to pay, another key cause of practitioners leaving the sector is the administrative burden that they feel is placed upon them. The APPG has found there is an inconsistent approach in reporting requirements across the country, leading to significant time commitments and duplication of reporting and data sharing.

The APPG is pleased that the Government and Ofsted have recognised these issues and are working with the Early Years Alliance to address them in the Early Years Workload project.

A survey in 2018 of 2,039 practitioners for the Early Years Alliance's Minds Matter project found that:

25%

25% of respondents are considering leaving the early year sector due to stress or mental health difficulties.

66%

66% of respondents say their personal relationships have been negatively affected by work-related stress or mental health difficulties over the past year.

62%

62% of (non-self employed) respondents work outside of paid working hours 'very often', with a further 19% working outside of paid working hours 'quite often'.

62%

62% of respondents do not think their work life and non-work life are balanced.

44%

44% of respondents have felt stressed about work or an issue relating to work in the last month 'very often', and a further 30% 'quite often'.

Sources of stress

The top four sources of stress identified by respondents were Administration and paperwork, Financial resources of the setting, Workload (other than administration and paperwork) and Pay.

Health impacts

The most commonly cited symptoms/health impacts experienced due to work or where work was a contributing factor cited by respondents were fatigue (60%), loss of motivation (58%), anxiety (57%) and insomnia (53%).

52%

52% of respondents have not spoken to anyone at work about their stress or mental health issues.

The APPG therefore recommends that a detailed process takes place that aims to reduce the duplication and inefficiencies that exist in current reporting requirements placed upon providers, whilst also minimising workload for local authorities too. This should begin immediately following the Early Years Workload project, which will provide detailed recommendations to the Government, local authorities and Ofsted about how the reporting process can be simplified and made more consistent and efficient across the country.

Another cause of stress and anxiety for providers over recent years has been Ofsted inspections. The APPG welcomes the steps taken recently to equalise the Ofsted inspection procedures for maintained and non-maintained providers. Previously, maintained nursery were given several days advance notice of an inspection, whereas this did not apply for non-maintained nurseries. Given that this led to arguments and claims over which form of provision was superior and delivered the best results, it is right that a more level playing field has been created.

However, significant variations between maintained and non-maintained settings remain, including Government funding levels, the requirement to pay business rates, opening hours and flexibility, and ease and ability to recruit and retain highly skilled staff. **The APPG is keen not to promote an 'us v them' debate, but believes it is important for all parliamentarians to recognise that, whilst all maintained and non-maintained providers aim to deliver the same result of high-quality childcare for every child, the operating environment can differ quite significantly. For example, PVI settings tend to be open longer hours, and current funding levels mean it is difficult to afford a graduate teacher in every classroom. The Government must also keep these factors in mind when setting funding levels in the forthcoming Spending Review.**

Social mobility

Information received by the APPG shows that there is significant potential for a trend towards a reduction in nursery places in deprived areas, whilst there may be an increase in places in affluent areas. This is illustrated with data from Ceeda which has found 17% of settings or providers in deprived areas "*anticipate closure in the next twelve months*", compared to only 8% expressing concern about closure in affluent areas.

This was reinforced by Julie Hyde of CACHE during the oral evidence sessions who said "*greater attention needs to be paid to where the places are and how that has shifted since the* [30-hours] *offer was introduced*". Ms Hyde said that this is shifting because of "*market forces*", explaining that:

> *Many investors in the [30-hours] scheme do not consider whether an area is deprived or not, but rather where there is potential to get private revenue. This means that unless something changes, the balance of who is getting early education has the potential to totally tip."*

This situation was highlighted by Nicole Politis, Director of the Portico Nursery Group, who explained that she had a number of settings which are in areas of varying socio-economic affluence.

> *Three years ago, nurseries in these deprived areas were completely full. Now, those in affluent areas are full, and in deprived areas, the numbers of children attending are so low that I'm having to close them. Sadly, some parents cannot afford the additional fees, and this is being exacerbated by the roll-out of Universal Credit. In the end, this means that the [30-hours] scheme is not always reaching the most vulnerable families."*

The APPG is concerned that, should this trend continue, we risk facing a situation where only wealthy families are able to access childcare services, leading to significant reductions in educational opportunities for children as well as more challenges to parents looking to go back into work. As CEEDA conclude in their analysis of early years sector, published in early 2019, "*real progress on social mobility will require a rethink*".

Childcare is about much more that caring for children. At its heart it is about equipping young children with the emotional, mental and physical skills to help them to achieve their potential. It is about social mobility and social justice. This is why we ask the Government to carefully consider comments made by Neil Leitch, Chief Executive of the Early Years Alliance in an oral evidence session:

> *We've heard time and time again from ministers about the importance of social mobility and yet the evidence is that their flagship childcare policies are making things worse for disadvantaged children."*
>
> *Underfunding has left providers in an impossible position. The sector is now reliant on parents' ability to pick up the shortfall in government funding through voluntary charges and increasingly expensive non-funded hours. We know what this means for parents on lower incomes who can't afford these higher and additional costs: they end up on permanent waiting lists, struggling to find a place for their child. That may not have been the intention of government policy but that's the level of inequality that is now hardwired into it."*

The APPG urges the Government to carefully consider the impact that current funding levels are having on availability of places across the country, and take steps to ensure that any additional resource provided to nurseries in lower socio-economic areas is effective.

We also urge the Government to make changes to better integrate childcare into the Universal Credit system. The APPG notes the Work and Pension Select Committee's 2018 inquiry into Universal Credit and childcare, which found that the upfront childcare costs that Universal Credit claimants must pay before waiting to be reimbursed, is in direct conflict with Universal Credit's objectives to get people into work. The committee said that:

> *"Universal Credit claimants have to pay the considerable costs of childcare upfront, and then wait to be reimbursed. These upfront costs for childcare are not only a disincentive to work: for some Universal Credit claimants they will either make working unaffordable, or force them to take on debt in order to do so."*

The committee also noted that the Department for Work and Pensions had chosen the approach of up-front childcare costs to be integrated into Universal Credit system despite other payment scheme options being available to them:

> *"The Department has chosen this approach despite alternative options, such as direct payments to providers, being available. Universal Credit's system contrasts sharply with Tax Free Childcare, an alternative scheme aimed at better-off parents. Users of that scheme can pay into their accounts before paying for childcare, receive support from Government immediately via a top up, and make payments direct from their account to their provider."*

The APPG agrees with the Select Committee's recommendation that the Department for Work and Pensions "*develops Universal Credit's systems to enable childcare costs to be paid directly to childcare providers*". The recommendation aims to address the difficulties faced by parents who have to make upfront payments for childcare, provide certainty to childcare providers about receiving payments and supports the Department for Work and Pensions' aim of reducing the risk of fraud and error in childcare payments. The Government has said that it has "*no plans*" to enable direct payments. The APPG will hold a joint meeting with the All-Party Parliamentary Group on Universal Credit and invite the Department for Work and Pensions, the Department for Education and key stakeholders to find out how direct payments could be developed into the Universal Credit system and their effect on the sector. We urge the Government to fully engage in this meeting and urgently look again at the Select Committee's recommendation to develop a solution to help claimants meet their childcare costs and get into work.

Long-term steps for sustainability

The more that we learn about child development, the greater the evidence about the critical influence that early education can play. A cross-party, cross-government approach to childcare must therefore be built.

It was suggested by Gillian Paull of Frontier Economics during our evidence sessions that there is not a definitive view of what the primary value and purpose of childcare is; is it a means to allow parents to go back into employment? Or, is it to provide young children with early education?

The answer to these questions is critical in determining how childcare is perceived, and how it is funded, by politicians. This has meant the sector suffers from short-term policies that start with the objective of winning votes, rather than nurturing healthy and happy young minds and bodies.

The APPG recommends that the Government establish an independent early years commission to advise on current and future long-term steps to be taken by the Government, local authorities and the sector to ensure financial sustainability, as well as quality and availability of services and places.

This would support providers with long-term certainty over their operating environment, enabling them to be more confident in making investment decisions. We believe an independent commission can work to ease staff recruitment and retention concerns by:

- Securing better salaries in the profession.
- Working to reduce the stress and anxiety caused by the duplication and inefficiencies we have found in current reporting requirements.

However, whilst wanting to take politics out of early years policy, the APPG believes Parliament and parliamentarians have an important role to play in championing the work of childcare practitioners and the overall value of early years education.

We expect that better funding decisions will be made by the Government if the childcare sector has a more prominent, better public perception. Parliamentarians can play an important role in achieving this.

We therefore call on every MP to visit a local childcare provider to speak to practitioners and parents, as well as meet with setting owners to discuss their current financial situation. We recommend that these visits take place over the coming months, with the summer recess being an ideal opportunity due to Members of Parliament having more available time in their constituency. As a result of these visits, we would request that MPs consider formally supporting our calls for better, sustainable funding for the childcare sector and to demonstrate this by:

1. **Becoming an officer of the APPG for Childcare and Early Education.**
2. **Convening a wider meeting with childcare providers, practitioners and parents in the constituency to learn more about all the different issues in the sector.**
3. **Writing to the Treasury to encourage steps to be taking in the Spending Review to increase funding for early years.**

Conclusion

The inquiry undertaken by the APPG for Childcare and Early Education, along with the significant levels of research, surveys and consultations that have taken place during recent years, demonstrates quite clearly that there are significant financial challenges within the sector.

At the same time, and perhaps paradoxically, political support for early education is growing. Labour and Conservatives battled in their 2015 General Election manifestos to offer the most free hours of childcare for three and four-year-olds, and the Labour party is now pledging to extend the current 30-hours offer to cover two-year-olds. Whilst this support is appreciated, it is essential that childcare does not become primarily seen by politicians as a means for securing votes from parents.

The APPG calls for an early years commission to be established with a broad remit to advise on current and future long-term steps to be taken by the Government, local authorities and the sector to ensure financial sustainability, as well as quality and availability of services and places.

The commission would ensure the sector does not again find itself in the situation it is today which has, as its centre-piece, a general election pledge rather than a long-term, evidence-based plan for the best way of delivering for children, parents and providers. Partly as a result of this we are now seeing an increase in the numbers of settings that are closing and the number of staff that are leaving the sector due to stress and low wages.

The early years commission and its outputs must be a core long-term priority for the Government, and a short-term fix is also required in the forthcoming Spending Review. The APPG calls for the urgent new funds to be injected into the Government's approach to childcare to ensure its policies cover current delivery costs. Greater financial support is also required to keep pace with other rising costs for providers, due to other Government policies, such as pension contributions and increases in the national living wage. The APPG also urges the Treasury to follow in the footsteps of Scotland and Wales and deliver business rate relief for nurseries in England.

We urge all stakeholders with an interest in childcare to carefully consider this report, and work collaboratively together over the coming months to ensure the necessary short and long-term steps to sustainability to taken.

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All Party Parliamentary Group for
Childcare and Early Education

If you have any questions or would like to find out more about the Group, please contact Charlie Wells on ChildcareandEarlyEducationAPPG@connectpa.co.uk