

# Providers wait for mists to clear on early years

What lies ahead for the day nursery market – fee rises, wage freezes, sustainability problems under the free entitlement? In the light of a definitive report, *Mary Evans* asks providers for their views

**T**he early years and childcare sector has weathered the recession pretty well so far, but according to a major economic survey, it faces an uncertain future as many settings are financially vulnerable and there are uncertainties about Government policy and funding.

The *Children's Nurseries UK Market Report 2010*, published by Laing and Buisson, says while the sector suffered a clear downturn, during the recession, it 'probably fared better than many other services and industries'.

Although there was a sharp drop of 8 per cent in the total number of nursery places last year to 662,835 this March – the first contraction in the sector on record – only half the survey respondents say their business performance declined, and a third reported no change.

While leading providers report taking a range of measures, including fee and pay freezes, the report says 'nursery fees increased at double the rate of economy inflation in 2009', up 4 per cent.

In the previous five years, fees barely grew in real terms while managers tackled falling occupancy by keeping fee increases as low as possible. But some could no longer afford that approach as the recession bit.

'Nurseries understand the difficulties parents face and work to keep rises to an absolute minimum', says Claire Schofield, director of policy, membership and communications at the National Day Nurseries Association. 'However, recently settings have faced huge pressures on costs, and some

of this has ultimately had to be passed to parents.

'As well as rises in terms of food, utilities and business rates, settings have had to look closely at the wages of staff. Many have been achieving enhanced qualifications and nurseries need to offer them improved wages in order to retain them. With sustainability at breaking point for many nurseries, settings have had little choice but to increase fees in order to remain open.'

Commenting on the fee rises, Alison Garnham, chief executive of the Daycare Trust, says, 'It is a big increase. The sector seems to be saying that partly this is because of staff costs, which is a bit surprising given how low wage inflation has been.'

'I suppose their standpoint would be that there has been a lot of encouragement, and quite rightly so, to improve the qualifications of staff and this has to be recognised, but I would say that needs to be funded by the Government to a certain extent.'

## TOUGH DECISIONS

Fees have been frozen at the Kids 1st day nurseries, says managing director Mark McArdle. 'It is the first time we have done this in six years. We have frozen our fees and the staff wages too. It was a tough decision, but it is a recession and we have all got to take some share of the pain.'

'The parents were pleased by the fees freeze. It is a gesture for the parents. The staff understood. We explained it to them and I think most took the view they were pleased to be working for a company where there is good job

security and there is investment in its staff in other ways, such as training and providing a good working environment.'

The Laing and Buisson report predicts that net capacity is likely to enter a period of stability as recessionary pressures erode and business confidence picks up, but there are still tough times ahead.

'Prospects remain mixed for the children's nursery sector going forward,' says the report's

author Philip Blackburn. 'On the plus side, the recession is officially over and the economy is growing, albeit sluggishly. However, unemployment is likely to remain persistently high, certainly above two million, for a sustained period, which is likely to hold back growth in demand for formal childcare, including day nursery care.'

'The sector remains competitive, and the nursery closure rate above average as many nurseries are still

vulnerable in the current lacklustre economic environment. However, the recession has likely pushed out poor performers, and, therefore, eased conditions to some extent for market operators.

'A reduced nursery stock after recession has probably facilitated an improvement in average occupancy in the last six months, although its rise to 82.5 per cent may largely reflect favourable seasonality.'

'Business prospects and investment interest are improving as debt lending is slowly becoming more accessible for good performers to support business development and expansion, and market acquisitive values remain at a relatively low level, encouraging consolidation.'

'However, sustainability of the sector continues to be threatened by insufficient local authority funding of early years sessions, as more than half of all nurseries continue to report that this funding doesn't cover their costs.'

## STRUCTURE OF THE CHILDREN'S NURSERY MARKET

The value of the UK children's daycare market for the year 2008-2009 is estimated at £3.88 billion, with for-profit settings generating an estimated income of £3,130 million in 2009, according to the Laing and Buisson report.

More than three-quarters of the 662,000 places in the UK market are provided by the for-profit sector. However, the market is fragmented and dominated by standalone for-profit settings, as the market

share of nursery chains is increasing only gradually.

There are about 290 major nursery providers in the UK and 100 nursery businesses operating two settings or one very large facility, many of which are in the process of expansion or are considering expansion.

Corporate funding of the sector has been the engine for growth in recent years, bolstering demand as childcare benefits in the

workplace have become increasingly popular with employers and their staff.

While the market is primarily funded by fee-paying parents – to the tune of £2.3 billion in 2008-2009 – corporate spending through vouchers has increased dramatically from 6.4 per cent in 2004 to more than a quarter last year.

*Children's Nurseries Market Report 2010 costs £695 from [www.laingbuisson.co.uk](http://www.laingbuisson.co.uk)*

## ROLE OF THE SECTOR

The role of the sector is usually presented in terms of the service it delivers in providing parents with childcare while they go out to work, and in the good start in life it can offer to children, even to the extent of redressing the difficulties

faced by the most disadvantaged. But its economic contribution to the wealth of the nation is not often considered. The report says that as of March this year, daycare nurseries employed more than 200,000 staff at more than 15,000 settings, and it estimates the value of the sector at £3.88 billion (see box).

'The sector has an economic value and it needs to use its economic strength to attract Government funding,' says Ms Garnham. 'The Government needs to understand that the sector has an economic value in terms of recovery from the recession.'

'When parents return to work they want to find a childcare industry that is in fine fettle. It is important that the Government ensures it doesn't lose the investment that has been made in the sector.'

'The quality of provision is key and we need to do more to ensure that there is quality provision in the most disadvantaged areas. We know children's outcomes are improved enormously if they have experienced high-quality early years provision, but it has to be of high quality.'

'The Government is talking about narrowing the gap between the most disadvantaged children and the rest, and the early years is the place to do that. But at the moment, funding is £30 billion on secondary education, £23.5 billion on higher education and just £4.5 billion on early years.'

## FREE ENTITLEMENT

What the new coalition Government is going to do about the extension of the 'free entitlement' to nursery education planned for this September is a cause of major concern among providers.

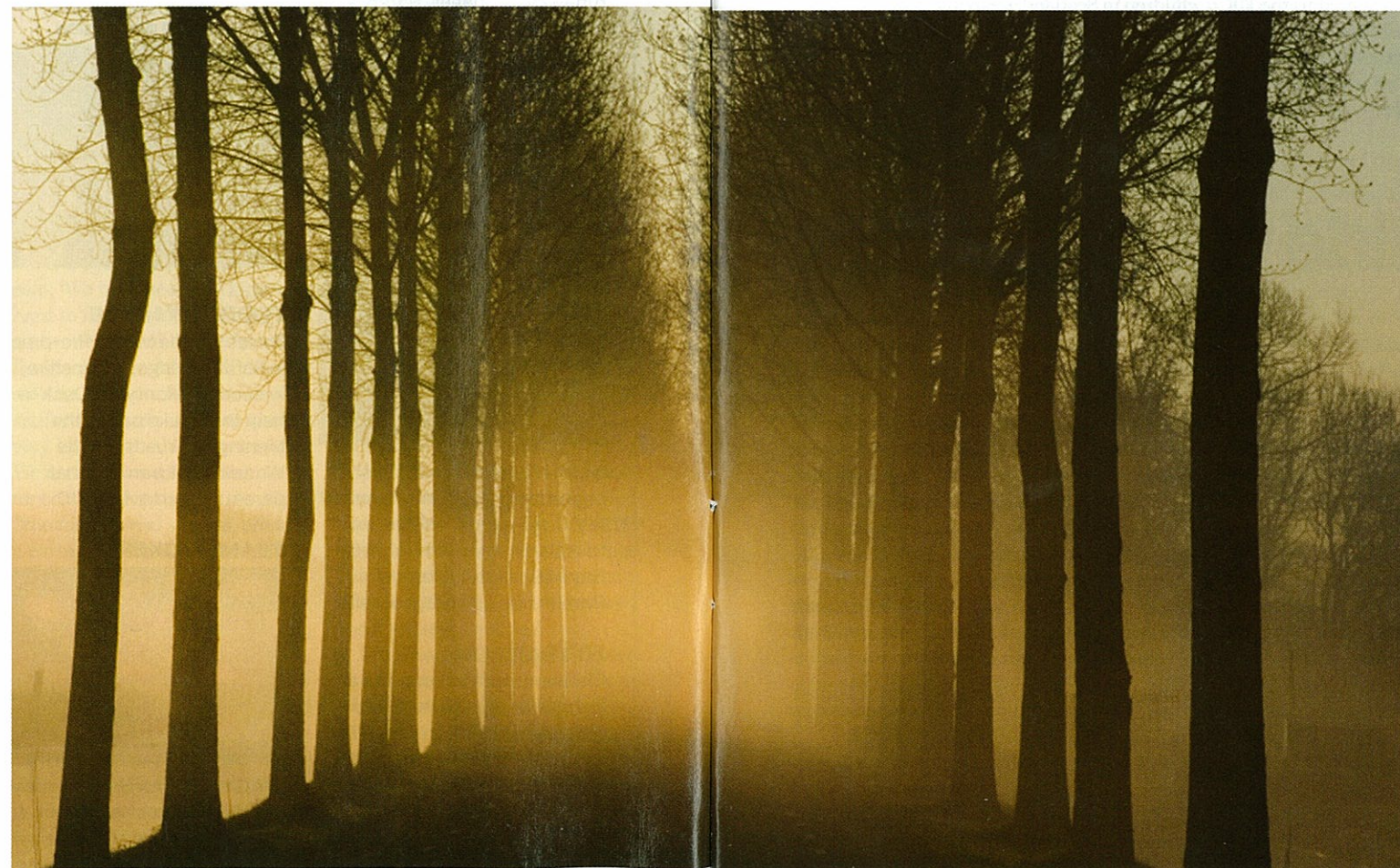
Mr McArdle at Kids 1st says, 'For us, looking ahead, the big uncertainty, the big worry is the free education grant.'

Jennie Johnson, chief executive of Kids Allowed, agrees. 'Free entitlement is the biggest bugbear for the sector. It is not free. We are subsidising the provision of so-called "free places" and it is not acceptable. We need to be making plans, but we do not yet know whether we will be able to charge top-up fees.'

At Early Years Childcare, general manager Kate Peach and her team have been trying to plan ahead but do not know whether the previous administration's plans will be implemented, whether the status quo will continue or whether 'somebody is sensible and allows us to charge top-up fees.'

She adds, 'We have to make a plan but we don't know where we are. I don't think the Government has the funding to pay for the extension of the free entitlement even at the current measly rate.'

So the sector is waiting to see who among the new ministers will hold sway – children's minister Sarah Teather, whose Liberal Democrat election manifesto opposed top-up fees, or education secretary Michael Gove, who in the past said he would permit them. ■



Early years providers have made their way carefully through the

recession but they're not out of the woods yet, says the report