



Department
for Education

Research Report DFE-RR246

Childcare Sufficiency and Sustainability in Disadvantaged Areas

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The views expressed in this report are the authors' and do not necessarily reflect those of the Department for Education.

Contents

Acknowledgements

Executive Summary	1
Introduction and background	1
Key findings	1
Method	2
Findings	2
Models of childcare provision in disadvantaged areas	2
Provision Planning	3
Financial sustainability of providers.....	4
Parents' perspective.....	5
Roll-out of the two-year-old entitlement.....	6
Concerns and challenges for providers	6
Concerns and challenges for local authorities.....	7
Capacity for the roll-out	7
Glossary	9
1 Background and Methodology	11
1.1 Policy Background	11
1.1.1 Childcare in disadvantaged areas – the context	11
1.1.2 Childcare policy – key interventions since 1998.....	11
1.1.3 The two-year-old entitlement	13
1.2 Research Objectives	15
1.3 Research Methodology.....	16
1.4 Structure of the report.....	19
2 Models of childcare provision in disadvantaged areas	20
2.1 Models of pre-school provision in disadvantaged areas	20
2.1.1 Overview of Model 1 – unsubsidised PVI sector	21
2.1.2 Model 1 at the local level - unsubsidised PVI sector.....	22
2.1.3 Overview of Model 2 – PVI sector plus sustainability grants.....	23
2.1.4 Model 2 at the local level – PVI sector plus sustainability grants	24
2.1.5 Overview of Model 3 – local authority-funded provision plus limited PVI sector	25
2.1.6 Model 3 at the local level - local authority-funded provision plus limited PVI sector.....	26
2.1.7 Overview of Model 4 – local authority-funded provision plus subsidised PVI sector provision.....	28
2.1.8 Model 4 at the local level – local authority-funded provision plus subsidised PVI sector	28
2.2 Local authority activity and planning in relation to pre-school childcare provision in disadvantaged areas	29
2.2.1 Increasing capacity for group-based funded places.....	30
2.2.2 Aiding financial sustainability of providers.....	30
2.2.3 Increasing childminder capacity in disadvantaged areas.....	31
2.2.4 Improving parental knowledge about and access to childcare in disadvantaged areas	32
2.2.5 Improving the quality of childcare in disadvantaged areas.....	33
2.2.6 Improving access to childcare for parents of children with SEND	34
2.2.7 Improving sufficiency planning.....	34
2.3 Conclusions	34
3 The sustainability of providers in disadvantaged areas	36
3.1 Overall financial health	36
3.1.1 The financial situation of childminders	36
3.2 Factors helping or hindering the sustainability of pre-school provision and providers.....	37
3.3 Economic factors affecting the financial sustainability of providers	37
3.3.1 Cost of delivery of childcare compared to income of parents.....	38
3.3.2 Economic climate.....	38

3.3.3	Low pay in the childcare sector.....	39
3.4	Central government level factors.....	39
3.4.1	Three- and four-year-old funded places.....	40
3.4.2	Childcare element of the Working Tax Credit	42
3.4.3	Other funding initiatives	43
3.4.4	Quality standards and regulations.....	43
3.4.5	Changing relationships with schools	44
3.5	Factors at the local government level.....	44
3.5.1	Local authority intervention	44
3.5.2	Local authority funding.....	45
3.5.3	The number of school intakes per year.....	46
3.5.4	Local authority support.....	46
3.5.5	Local authority factors affecting childminders	46
3.6	Wider area characteristics	47
3.7	Factors at the community level.....	48
3.8	Provider factors	49
3.8.1	The type of provider.....	49
3.8.2	The business 'skills' and competencies of providers.....	49
3.9	Future concerns.....	50
3.10	Summary	51
4	The parental perspective	53
4.1	Are pre-school childcare places in disadvantaged areas sufficient to meet parental demand in those areas?	53
4.1.1	Evidence from our case study areas and the Childcare Sufficiency Assessment reviews	53
4.1.2	Evidence from the wider literature.....	55
4.2	Additional factors affecting perceptions of the availability of pre-school childcare	56
4.2.1	The role of information about local childcare places	56
4.2.2	Perceptions of suitability of childcare places.....	58
4.2.3	Perceptions about the quality of childcare places	59
4.2.4	The role of cost.....	59
4.2.5	The role of wider behavioural factors	61
4.3	Summary	62
5	The roll-out of the two-year-old entitlement	64
5.1	Anticipated benefits and opportunities of the roll-out	64
5.1.1	Benefits for parents and the local community	64
5.1.2	Opportunities for providers.....	65
5.2	Anticipated challenges and concerns about the roll-out.....	66
5.2.1	Challenges posed by the roll-out for providers.....	67
5.2.2	Challenges posed by the roll-out for local authorities.....	70
5.3	Capacity within pre-school provision to deliver places for two-year-olds.....	73
5.4	Facilitators to sufficient capacity for the roll-out	74
5.5	Barriers to sufficient capacity for the roll-out	75
5.6	Local authority activity and planning in relation to the roll-out.....	77
5.6.1	Planning and marketing	77
5.6.2	Meeting capacity	78
5.6.3	Addressing quality and support needs	79
5.7	Summary	80
6	Conclusions.....	82
6.1	Are there sufficient pre-school childcare places in the disadvantaged areas?	82
6.2	Is pre-school childcare provision in our disadvantaged areas financially sustainable? ..83	
6.3	What is the role of quality?	84

6.4	Evidence around parental demand and attitudes towards finding formal childcare places	85
6.5	The roll-out of the two-year-old entitlement in disadvantaged areas- provider perspective	86
6.5.1	Voluntary and independent sector providers.....	86
6.5.2	Local authority-funded provision	87
6.5.3	Private sector providers	87
6.5.4	Childminders.....	87
6.6	The roll-out of the two-year-old entitlement in disadvantaged areas- local authority perspective	87
6.7	Key local authority priorities.....	88
6.8	Summary	88
7	References.....	90
Appendix A	Topic Guide for Providers	92
Appendix B	Topic Guide for Childminders	99
Appendix C	Topic Guide for LA Strategists.....	106

Acknowledgements

We would like to thank NatCen Social Research colleagues and associates who have contributed to the study including: Claire Turner and Rachael Owen, Eloise Poole, Victoria Brown, Catherine O'Donnell and Jane O'Brien. We would also like to thank colleagues at the DfE: Rachel Jones, Gillian Marshall, Chris Armstrong-Stacey and Steve Hamilton for their support with the study. Last, but most importantly, we would like to thank the childcare providers and local authority staff who gave up their time to take part in the study.

Executive Summary

Introduction and background

Childcare providers in disadvantaged areas are more susceptible to financial difficulties, because of fewer parents using childcare. As a result they are more financially vulnerable than providers in other more affluent areas. Childcare providers in disadvantaged areas face challenges in terms of remaining sustainable and improving quality (Ofsted Annual Report, 2009/10).

As part of the Fairness Premium announced by the coalition government, from September 2013, the least advantaged two-year-olds will be entitled to 15 hours of free early education. For this policy to be successful there will need to be enough places available. The purpose of this project was to:

- Explore how successful local authorities feel that they have been in securing the sustainability of childcare places in disadvantaged areas;
- Examine the challenges local authorities and childcare providers face in providing sustainable childcare, and what factors explain sustainable provision of places or otherwise;
- Explore if more support is needed for local authorities to ensure there are enough places for two-year-olds for the roll-out of free hours from 2013.

Key findings

- This research has found that sustainable childcare provision in disadvantaged areas needs to be publicly funded in one form or another. In those areas in the research where a free market model of childcare operated, there were enough childcare places to meet parental demand, but these places were threatened by the financially difficult situations many of the providers felt they were in.
- Whilst there was considerable support for and enthusiasm about the roll-out of the two-year-old entitlement among local authorities and childcare providers; they strongly felt that that it will not be possible to achieve enough high quality places through market forces alone. The reasons for this varied across the different types of providers involved in the case study areas:
 - Private providers able to attract better-off fee paying families to their settings, did not think it would be financially worthwhile to deliver places for disadvantaged two-year-olds.
 - Voluntary and independent sector providers and local authority-funded providers will need capital funding to expand or adapt their premises.
 - Voluntary and independent sector providers will also need considerable support to deliver the entitlement, for example, revenue funding to cover gaps between the extension of premises and the filling of places, funding for workforce development and funding to allow them to increase staff ratios.
 - Childminders in these areas may respond to market demand to a certain extent but many parents in disadvantaged areas perceive childminders as

a less attractive option than group based care.¹ Childminders were also concerned that involvement in the two-year-old entitlement will lead to an increase in what they already regard as an onerous level of paperwork.

Method

The study looked at ten local authorities and used a case study approach. The project involved:

- Analysing local authority Childcare Sufficiency Assessments;
- A literature review of parental demand for and knowledge about childcare in disadvantaged areas;
- Interviews with local authority strategists;
- Interviews with up to five group-based pre school providers (such as children's centres, and private, voluntary and independent sector nurseries, daycare and sessional care providers) and two childminders in each local authority.

Interviews with local authority strategists and childcare providers were carried out between March and May 2012. The research findings presented here are based on this evidence, and should not be generalised to other local authority areas.

Findings

Models of childcare provision in disadvantaged areas

The research identified **four different models** of childcare provision in disadvantaged areas. Models 1 and 2 both operated under a 'free market' model, Models 3 and 4 operated under a 'local authority subsidised' model. The table below summarises their characteristics.

¹ Vincent, C., Ball, S. and A. Braun, (2008). Local childcare cultures: Working class families and pre-school childcare. London: Institute of Education/ESRC. Roberts, J. (2011), 'Trust and early years childcare: parents' relationships with private, state and third sector providers in England', *Journal of Social Policy*, 40 (4), 695:715; Andrew Irving Associates, (2008) Promoting Take-up of Formal Childcare Among Low Income Families: Message testing research, Research Report RR068: Department for Children Schools and Families.

		Nature of provision in disadvantaged areas	Sufficiency of provision	Financial sustainability of provision	Capacity to meet two-year-old roll-out
Free market	Model 1 (6 LAs)	Maintained nursery schools, unsubsidised private, voluntary and independent (PVI) sector and childminders	A lot of choice for parents, sufficient funded three- to four-year-old places, vacancies for under threes	A number of providers carrying vacancies, some with sustainability concerns	Spare capacity within a number of settings Some improvement in quality needed
	Model 2 (1 LA)	Maintained nursery schools, PVI sector plus sustainability grants and childminders	A lot of choice for parents, sufficient funded three- to four-year-old places, vacancies for under threes	A number of providers carrying vacancies, some with sustainability concerns	Spare capacity within a number of settings
Local authority subsidised	Model 3 (2 LAs)	Maintained nursery schools, LA-funded and run plus limited PVI sector and childminders	Sufficient three- to four-year-old places, fewer under threes vacancies than the other models	LA-funded and run provision financially sustainable though reliant on ongoing funding	Very limited capacity in LA-funded settings, capacity in limited number of PVI settings
	Model 4 (1 LA)	Maintained nursery schools, LA-funded and run plus LA funded PVI sector and childminders	A lot of choice for parents, sufficient funded three- to four-year-olds places, vacancies for under threes	LA-funded and run provision financially sustainable though reliant on ongoing funding, voluntary sector providers carrying vacancies, some with sustainability concerns	Spare capacity within a number of voluntary sector providers, little capacity in LA-run provision

Provision Planning

Local authorities were carrying out a range of activities and planning in relation to pre-school provision in disadvantaged areas. These included:

- **Increasing the capacity for group-based funded places** for the two-year-old roll-out and, in addition to this, three-and-four-year-old places in areas with increasing birth rates.
- **Helping the financial sustainability of PVI providers** by providing business support and support to improve quality. There was particular concern about the financial situation of PVI providers because of increases in childcare costs and changes to the childcare element of the Working Tax Credit.
- **Increasing childminder capacity** by recruiting new childminders and providing training to improve the skills of new and existing childminders.
- **Improving knowledge about and access to childcare to increase demand** by providing information to parents about childcare costs, three and four-year-old places and early education; by working with employers, childcare providers, Jobcentre Plus, community advice services, minority ethnic groups, health visitors, social care and parent support agencies.

- **Improving the quality of childcare** by assessing all providers against local authority quality standards and giving support to lower quality providers from higher quality providers, link teachers and specialist childcare consultants. Support and access to training had, however, been cut in some areas.

The local authorities in our study were also working to **improve how they measure whether there are sufficient childcare places locally and improve access to childcare for children with Special Education needs or a Disability (SEND)** across the whole authority, in both disadvantaged and non-disadvantaged areas.

Financial sustainability of providers

Local authority strategists and childcare providers interviewed felt that the financial stability and sustainability of childcare providers in disadvantaged areas was affected by a range of different interrelated factors.

- **Economic factors.** A key overarching factor was that in many areas the cost of daycare was felt to be too expensive for many local parents, which left providers reliant on providing funded places. This was exacerbated for many by the increasing costs of providing childcare alongside the perceived need to keep fees low to attract parents.
- **Central government policies.** The current two, three and four-year-old funding played a pivotal role in the financial sustainability of providers. While some relied on it to stay in business, the extent to which the funding level covered their costs depended on their experience of local and provider level factors discussed below. The childcare element of the Working Tax Credit had helped to create demand for childcare among low income parents in disadvantaged areas, but providers had already started to feel the effects of the changes to it through parents reducing the amount of childcare they used. Quality standards required by central government (such as those needed for the Early Years Foundation Stage) were seen as being costly as they resulted in additional training, having to pay better quality staff higher salaries and additional paper work. Providers with high Ofsted ratings found it helped their financial situation as it attracted parents.
- **Local area characteristics.** Important local area characteristics which could also have a strong impact on providers' financial sustainability were: the extent to which a local area contained a transient population, which could cause fluctuating levels of demands for childcare; the cost of property, which was often higher in urban areas, resulting in higher outgoings for providers; whether a provider had to pay full rent for their premises; the extent to which travel costs posed a barrier to access for local families (a particular problem in rural areas); cultural and attitudinal barriers to using childcare in the local community which could result in lower parental demand for childcare; the extent to which a provider was able to attract more affluent families, which depended on where they were situated; and whether a provider was experiencing competition from other local childcare providers or the maintained nursery sector.
- **Provider level factors.** The extent to which providers were able to attract better-off fee paying parents, or benefited from low rent or other charitable contributions such as donations of time or resources affected sustainability.

The business skills of providers in terms of the ability to forward plan, be flexible and creative, fundraise and effectively use marketing tools were also seen as influential factors in relation to financial sustainability.

- **Local authority approach.** The extent to which the local authority subsidised childcare was crucial to the sustainability of childcare providers. In Models 1 and 2, (a free market model with limited local authority involvement), some providers were concerned about their financial sustainability due to their negative experiences of the factors listed above. In Models 3 and 4 where the local authority subsidised daycare and wraparound care, these funded providers were more financially secure. However, local authority intervention in the free market models remained key. Business advice, support with safeguarding and quality issues and sustainability funding were highly valued by providers and seen as critical to their survival.

Parents' perspective

Evidence from the case study areas and the review of the Childcare Sufficiency Assessments and relevant literature explored why parents in disadvantaged areas might perceive that there is not enough childcare available, even though providers in these areas are often operating with vacancies.

- **Sufficiency of childcare places in disadvantaged areas.** The evidence from the analysis of Childcare Sufficiency Assessments suggests that families living in disadvantaged areas and who want daycare may in some cases find it difficult to find a place. This was particularly the case if they needed flexible childcare, childcare for atypical hours,² or childcare for children with SEND.³ However, providers in our study felt that demand was not high enough for them to be able to fill vacancies.
- **Perceptions about childcare.** Evidence from the literature also showed that the perceptions of childcare amongst parents, who were facing multiple or different forms of disadvantage, could inform their views about what was available locally:
 - **The role of information.** Parents in disadvantaged areas were more likely to say they didn't have information about childcare and relied more on word of mouth, than those in more advantaged areas.⁴
 - **Perceptions of suitability of childcare.** Strong cultural and attitudinal barriers narrowed the choices available to some parents in these areas, for example, preferences for group-based nursery care over childminders and perceptions about what sort of care is 'for them'.⁵

² Singler, R. (2011) Open all hours? Flexible childcare in the 24/7 era, Daycare Trust

³ Cheshire, H., Brown, V., and Wolny, I. (2011) Impact evaluation of the Disabled Children's Access to Childcare pilot (DCATCH), Research Report DFE-RR168: Department for Education. Speight, S., Smith, R., Lloyd, E. (2010) Families experiencing multiple disadvantaged and views on childcare provision. Research Report DCSF-RR191: Department for Education. Green, E. and Knight, G. (2007) Evaluation of the Childcare Taster Pilot and Extended Schools Childcare Pilot Programmes: Further Qualitative Research into Implementation, Research Report SSu/2007/FR/026, Department for Children Schools and Families;

⁴ Speight, et al (2010) op cit

⁵ Vincent et al, (2008) op cit. Roberts (2011) op cit. Irving Associates (2008) op cit

- **Perceptions about the quality of childcare.** Parents in disadvantaged areas were more likely to have concerns about the quality of childcare provision than better-off families.⁶
- **Cost of childcare.** There is strong evidence from our research and from the literature that the cost of childcare was a key barrier to parents facing disadvantage,⁷ particularly for parents of children with SEND.⁸ However, there was also evidence that the perception of childcare as unaffordable may occur in part because of a lack of information about the actual cost.⁹

Roll-out of the two-year-old entitlement

There was great willingness among providers to take two-year-olds under the roll-out. A lot of preparation for the roll-out was also already underway among local authorities.

The roll-out was seen by providers as being very beneficial to two-year-olds and their families as it could improve children's outcomes and provide important parenting support for families and could help them back into employment. Some providers also felt it gave them opportunities to fill vacancies, secure a more reliable source of income and raise quality standards.

Both providers and local authority strategists had some concerns and thought there would be challenges with the roll-out, due to the short timescale for the roll-out and uncertainty about how it might work in practice.

Concerns and challenges for providers

- One of the main concerns for providers was that the **level of funding** for the entitlement would not be enough to meet the additional needs of children and families (such as speech and language needs, parenting support), extra administrative demands (such as attending multi-agency meetings, arranging specialist support) or the rising salary costs of providing quality childcare.
- Another concern was that there would not **be a level playing field** for different types of providers to be involved because of local authority policies that prioritised some types of providers over others.
- Some providers were also concerned about how to deal with **high numbers of eligible children** and that they may have to turn away other children in favour of funded two-year-olds.

⁶ Speight, et al (2010) op cit

⁷ OPM, (2008), Reviewing Childcare Sufficiency Assessments, Department for Children Schools and Families. Smith, R., Poole, E., Perry, J., Wollny, I., Reeves, A. and Bryson, C. (2010) Childcare and Early Years Survey of Parents 2009, Research Report DFE-RR054: Department for Education. Speight, et al (2010) op cit.

⁸ KIDS (2011) Are Cuts to Local Authority Budgets Denying Families the Right to Childcare? London: KIDS

⁹ Speight, et al (2010) op cit

Concerns and challenges for local authorities.

A key concern for local authorities was how to raise the **quality standards** in sufficient numbers of childcare settings to provide enough places. They were also concerned that there were not enough qualified staff available to work with two-year-olds, and were unsure how training and workforce development to improve quality standards could be funded.

Another issue for local authorities was how to **develop systems to identify and monitor eligible children**.

A **lack of support services** such as family support and speech and language therapists was an issue in some local authorities.

Local authority strategists and providers also felt that **broader income based eligibility criteria** may mean that some children miss out on the places, such as children of low income working parents and children with SEND.

There was also a concern that **cultural and attitudinal barriers** to using formal childcare would make it difficult to encourage parents to take up the entitlement in certain areas within local authorities.

Capacity for the roll-out

In areas operating under the free market model (Models 1 and 2) there was some capacity to take funded two-year-olds. This was mostly in the voluntary and independent sector that had vacancies or could convert vacant baby or three-and-four-year-old places to be suitable for two-year-olds. There was also some capacity under Model 4, within the voluntary sector. However, across all the models the vacancies that were available would not be sufficient to be able to meet the numbers needed for the roll-out. There was less capacity in Model 3, because the local authority funded settings were full and PVI sector provision was limited.

Support needs to ensure sufficient capacity for the roll-out

The providers and local authority strategists interviewed identified a number of support needs necessary to ensure there will be sufficient capacity for the roll-out:

- **Capital funding to expand or adapt premises** of local authority funded providers in Models 3 and 4 and voluntary and independent sector providers in Models 1, 2 and 4.
- **Revenue funding** for voluntary and independent sector providers and childminders to keep places open until they could be filled by two-year-olds.
- **Funding for workforce development** to bring enough staff up to the qualification levels required to deliver the entitlement, and to equip them with the skills to work with younger children, many of whom, providers felt from their experience of the current two-year-old initiative, may have additional needs.
- **Funding to allow providers to increase staff ratios** needed for working with two-year-olds, and to deal with the additional meetings, and paperwork requirements anticipated under the roll-out.

- **Clarity and better information on the specifics of the roll-out** which had not been provided when the fieldwork was taking place, on exactly which two-year-olds would be eligible, what quality standards will be required, what funding will be available and what support there will be for local authorities to prepare.

Conclusion

This research has found that whilst providers and local authority strategists were generally very supportive of the two-year-olds entitlement, they did not feel that it would be achievable without additional funding to create the requisite extra places and to raise quality standards.

Glossary

Childminders are trained, self-employed carers largely based in their own homes. Childminders supply the broadest provision of all the childcare providers, catering for both pre-school and school aged children and typically providing care throughout full days and with availability throughout the year.

Sessional providers are settings that provide daycare for children under eight for less than a continuous period of usually up to four hours a day. Sessional providers are often voluntary settings. Providers set up to deliver places funded under the three-and-four-year-old entitlement not offering additional hours are typical sessional providers.

Day nurseries offer childcare, and early education for children under compulsory school age. They are normally open all year and can provide care on a full or part-time basis. There are different types of day nurseries including private, community, council and workplace nurseries. However, they are usually privately owned and operate on a fee paying basis. Some day nurseries deliver funded pre-school places under current early education entitlements.

Pre-school and playgroups provide play and education sessions lasting about 3 hours for children aged 2-5. These are typically organised by community or voluntary groups, but can be run privately, or independently by groups of parents. These settings are typical 'sessional' providers.

The term 'Pre-school' is often used to describe many types of nursery education. For the purposes of this research pre-school is used to describe a type of playgroup, and does not refer to a nursery school or day nursery.

Nursery schools and classes cater for children between the ages of three and four. They offer early education during school hours, normally only in term time for full or half-day sessions. Children can attend nursery schools all day or just on a sessional basis. Nursery schools are usually schools in their own right with most children aged three to five. Nursery classes are attached to primary or infants' schools and are usually open school hours during term time, or they run sessions of around three hours mornings and afternoons.

Full daycare providers cover a full and long day and are typically open all year round. They usually cater for pre-school children and tend to be the type of provision used by working parents. Full daycare providers can be run privately, or be voluntary run providers. They can be a group-based provider (full daycare nursery) or individual provider (childminder).

Maintained providers are part of the state education system, or providers that are funded by government. Children's centres are typically where many maintained full daycare nurseries are based.

PVI providers are private, voluntary, and independent childcare providers, as opposed to maintained providers which fall under the state system. Childcare and early education within schools, and local authority maintained nurseries are not PVI providers as they are part of the maintained sector. PVI providers usually charge fees. Some are run as a business for profit, and some are run on a not-for-profit basis.

Children's centres were set up initially under the Sure Start initiative. They provide childcare and early education for children from birth to age five alongside other family services such as links to Job Centre Plus and health and family support. They are usually open from 8.00am to 6.00pm all year round and many offer other services such as drop-in sessions and community activities.

1 Background and Methodology

This chapter describes the policy background to the study, followed by a description of the research objectives and methodology of the study.

1.1 Policy Background

This section sets out the background to this study's exploration of the sufficiency and sustainability of childcare in disadvantaged areas.

1.1.1 Childcare in disadvantaged areas – the context

Recent evidence suggests that childcare providers in disadvantaged areas face challenges in terms of remaining sustainable and improving quality (Ofsted Annual Report, 2009/10). Settings in these areas face higher numbers of vacant places, lower profitability and greater vulnerability amongst childcare markets more widely. Despite the apparent surplus of childcare places, parents in disadvantaged families are more likely to report a lack of places at local providers as an obstacle to taking up childcare (Speight et al, 2010). This perception is one of the reasons that the children who the government most wants to benefit from childcare and early education (Families in the Foundation Years, DfE and Child Poverty Strategy) are currently least likely to access early education.

1.1.2 Childcare policy – key interventions since 1998

The 1998 National Childcare Strategy sought through a mixed economy of childcare to provide 'good quality childcare provision in every neighbourhood', and to ensure that this provision was accessible to the most disadvantaged communities and families. The 2006 Childcare Act required local authorities for the first time to secure (although not necessarily provide) sufficient childcare for working parents. An updated strategy document published in 2009 reflected on progress since 2004 and proposed a number of new policies aimed at achieving the objectives set out in the ten-year Childcare Strategy (HM Government, 2009).

Over the years, a complex range of subsidies and initiatives have influenced the shape of local childcare provision. In the years following the National Childcare Strategy, supply side subsidies usually took the form of pump-priming and were intended to assist childcare providers with initial start-up costs, with capital funding also available from some programmes, for example, Sure Start and the Single Regeneration Budget. Underpinning this funding was the belief that childcare services should become businesses and, after initial financial assistance, become financially viable and raise their income from parents as well as other sources such as employers and charities.

The **Neighbourhood Nurseries Initiative** was a key policy in this respect, creating by 2004, 45 000 new childcare places in disadvantaged areas. The programme offered £246 million revenue funding from DfES and £100 million capital funding from the New Opportunities Fund (now the Big Lottery Fund), through local authorities, and this was provided on a tapered basis over three

years. Places were targeted at reducing unemployment and meeting the needs of parents entering the job market, especially lone parents. The aim was that by the end of the funding, the nurseries would be financially self-sufficient.

Sure Start was another formative policy affecting childcare provision in disadvantaged areas. This was launched in 1998 as the largest government early education programme then in operation. It was, run by local partnerships for children under four years old in targeted areas of deprivation, designed to coordinate and streamline health, education and welfare services and to reduce social exclusion. By the end of the national programme, some 524 Sure Start Local Programmes (SSLPs) were reaching up to 400,000 children, including a third of children under four living in poverty.

Sure Start Local Programmes and a number of Neighbourhood Nurseries have now been rolled up into **Sure Start Children's Centres**. The *Children's Centres* programme was first proposed in the Inter-Departmental Childcare Review published in December 2006, as 'joined-up' or integrated provision for young children and their families. Children's Centres built on other integrated early education initiatives like Sure Start Local Programmes, Neighbourhood Nurseries and Early Excellence Centres. Those Centres in the most disadvantaged areas offer an extended range of services (access to early education provision, integrated early education and childcare, health services, family support and Jobcentre Plus services and support to childminders) for children under five and their families. The aim was that by 2010 there would be 3,500 children's centres, 'one for every community.' Funding for children's centres is now directed through the **Early Intervention Grant** with the intention of giving Local Authorities (LAs) greater flexibility to make funding decisions based upon the needs of their communities.

In addition to these policies, in recent years funding has been provided to childcare providers to improve accommodation and facilities through the **Childcare and Quality and Access Grant**. Furthermore, between 2008-9 and 2010-11, **sufficiency revenue and capital funding** totaling over £257 million per annum was given to childcare providers.

On the demand side, entitlement to the Working Tax Credit (and its childcare element) is linked to income levels and aims to make childcare more affordable for low-income working families.¹⁰

A further key funding stream is **funding for the free entitlement for three-and-four-year-olds** introduced in 1998 (strictly speaking this is not childcare but it is usually considered alongside pre-school childcare provision). Under the terms of this policy, local authorities have a statutory duty to secure early education free of charge for all three- and four-year-olds. From September 2010 this entitlement was for 15 hours a week for 38 weeks of the year, usually during school term time, and childcare providers were encouraged to offer flexibility to providers in terms of how the hours were provided. The two-year-old entitlement, first piloted in 2006, extends this funding to a number of two-year-olds (as described below).

¹⁰ From April 2011, the childcare element of the Working Tax Credit will pay for up to 70% of childcare costs for families who meet the eligibility criteria, reduced from the previous 80%.

Two additional recent developments relevant to childcare in disadvantaged areas are the Nutbrown review, and the introduction of a slimmed down Early Years Foundation Stage:

- The recent **Nutbrown Review** is part of a range of measures to improve early education and childcare, especially for disadvantaged young children. Evidence shows a clear link between a highly qualified and skilled workforce and children's healthy development (Nutbrown 2012).
- As the Department for Education (2012) announced evidence shows that making a difference to children's achievement in the early years is critical. Children who start off in the bottom 20 per cent of attainment at the Early Years Foundation Stage profile aged five are six times more likely to be in the bottom 20 per cent at Key Stage 1.¹¹ Feinstein's research shows that parental interest in their child's education has four times more influence on attainment by age 16 than socio-economic background (Feinstein, 2003). In response to this evidence the government is introducing a **slimmed-down version of the Early Years Foundation Stage** which will free up professionals to spend more time working with children helping them to develop and introduce a two-year-old check to ensure parents are properly engaged in their child's development.

1.1.3 The two-year-old entitlement

In 2006, **free early education for disadvantaged two-year-olds** was first piloted. The entitlement aimed to improve disadvantaged children's social and cognitive outcomes so that by the age of five they were as ready as their more advantaged peers to start and benefit fully from school. The programme also aimed to provide good quality early education combined with support for parents, for example, to improve their confidence in supporting their children's learning and to deal with other problems in their lives, such as health problems or family difficulties.

In October 2010, the coalition government announced, as part of the Fairness Premium, the **legal entitlement** to 15 hours of free early education for the least advantaged two-year-olds from September 2013 (currently only three- and four-year-olds are legally entitled to free provision).¹² This would involve a considerable increase in funding and a significant scale up of the programme in terms of number of places, from around 20,000 to around 20 per-cent (around 130,000 children) of all two-year-olds from September 2013.

In the 2011 Chancellor's Autumn Statement, additional funds were committed to extend the entitlement to around 40 per-cent of two-year-olds in England by 2014/15. To support this commitment, the DfE has introduced legislation through the 2011 Education Act to place a statutory duty on local authorities to provide sufficient early education places for eligible two-year-olds.

Ministers have consulted on the eligibility criteria for the 20 per-cent of two-year-olds due to receive free early education from September 2013, proposing that the

¹¹

<http://www.education.gov.uk/childrenandyoungpeople/earlylearningandchildcare/a00191829/government-sets-out-reform-of-early-learning-and-childrens-centres>

¹² The Department for Education (DfE) introduced legislation through the Education Act 2011 that will place a statutory duty on local authorities to provide the entitlement from 2013.

criteria would include looked-after children and children whose families meet the income and benefits criteria used for free school meals. A second consultation, on criteria to extend the entitlement to 40 per cent of two-year-olds, has recently been issued.

The new two-year-old entitlement will look different to the original pilot. Building on the findings from the original evaluation, the government proposes:

- That places are more strictly targeted at disadvantaged children;
- Local authorities focus their efforts on building capacity in higher quality settings (or improving quality in lower quality settings).

Early education for children under the age of three is delivered mainly by private providers, including childminders, and a growing number of voluntary sector providers. Prior to the two-year-old entitlement, the level of provision has historically been largely dependent on parents' ability to pay fees and providers (particularly private ones) willingness to operate in areas where parents' income levels are low. Both childcare subsidies for working parents and the efforts some authorities have made to expand provision for young disadvantaged children (including the two-year-old entitlement) may have changed the picture to some extent (La Valle and Smith 2009).

In order for the roll-out to be successful, there will need to be sufficient numbers of providers in place who are able and willing to provide places under the terms of the entitlement. Positively, recent research (Gibb et al, 2011) has shown that the current two-year-old entitlement has been key to the financial viability and sustainability of settings in areas of low demand and/or where the entitlement's funding was generous relative to the low rates they could charge local parents. It concludes that in areas where childcare is relatively cheap in a given local authority, scaling up could be a welcome help in ensuring sustainability for settings. The implication of this is that in some disadvantaged areas, the entitlement will act to bolster supply.

Less positively, it finds that where there is higher demand for childcare and higher costs, the current funding level is unlikely to attract providers, and it may be difficult to create substantial additional capacity for places. This issue is particularly pertinent to disadvantaged families living in broadly affluent areas, and to parents in disadvantaged areas within or on the border of more affluent areas, characterised by high levels of relatively expensive daycare provision (Harries et al, 2004). Questions remain about whether the market alone will be sufficient to prompt the supply of additional places for two-year-olds in areas where children's centres are the main providers and are unable to supply all of the two-year-old places needed.

The same research suggests a number of further sustainability and sufficiency challenges could be faced following the roll-out. These are: the need to have sufficient numbers of settings in place that meet the quality requirements required by the entitlement; the fact that the requirement to provide part-time provision under the entitlement might be unattractive to providers in areas of high demand, and/or which are already operating to full or near full capacity by running longer sessions and being open all year round; that the need to provide additional support to vulnerable children and children with SEN as well as engage with local authority monitoring processes and liaise with other settings might act as barriers to engagement for some providers (Gibb et al, 2011). Again, the implication is that

additional funding might be required following the roll-out to secure a sufficient number of places able to meet the terms of the entitlement.

1.2 Research Objectives

The research had three overall objectives.

The first was **to gain an understanding of the sufficiency and sustainability of pre-school childcare provision in disadvantaged areas within the local authorities included in the research, and of the main explanatory factors behind this.**

The following issues were explored under this objective:

- The overall shape of childcare provision in disadvantaged areas within our chosen local authorities; main types of models and providers operating, key issues faced in terms of sufficiency and sustainability.
- The role of past government policies and funding streams in helping or hindering the supply of childcare provision in disadvantaged areas from the perspective of local authorities and childcare providers.
- The previous role of local authorities in shaping childcare provision in their disadvantaged areas, their use of previously-available revenue and capital funding, and how successful they feel they have been.
- Local authorities' current and future priorities and actions in terms of securing sufficient and sustainable pre-school provision in disadvantaged areas, and any barriers and facilitators they face.
- The factors explaining why pre-school childcare providers in disadvantaged areas are able or not to operate on a financially sustainable basis.
- Whether there are any examples of innovative local strategies and solutions to address sufficiency and sustainability in disadvantaged areas that can be shared more widely.
- The role of wider contextual factors in explaining the sufficiency and sustainability of providers in disadvantaged areas.

The second objective was to **understand how local authorities and providers are planning to meet the terms of the roll-out of the two year-old entitlement in disadvantaged areas, and the facilitators and challenges that they face.**

Specific areas looked at were:

- The capacity of different types of childcare market in disadvantaged areas to meet the terms of the roll-out of the two-year-old entitlement.
- Local authority opinions about what new challenges are created by the extension of the two-year-old entitlement, experiences of addressing them and views about the main facilitators and barriers to doing so.
- Individual provider-level responses to the two year-old entitlement in terms of attitudes, challenges, capacity to take on more two year-olds, main facilitators and barriers to doing so, and key support needs.

A third area of focus was to look at the **nature of parental knowledge about and demand for formal childcare** in disadvantaged areas. A particular issue of interest in relation to this area was answering the question of why parents living in disadvantaged areas might say that they have been unable to find a childcare place.

1.3 Research Methodology

In summary, the research focused in on **ten different local authority areas** and comprised of analysis of the relevant Childcare Sufficiency Assessments,¹³ semi-structured interviews with local authority strategists and with group-based pre-school providers and childminders in a small local case study area within each selected local authority. It also involved a literature review to explore the parental perspective on finding places in disadvantaged areas. These are described in more detail below. The research findings are based on this evidence, and should not be generalised to other local authority areas.

- **Selection of ten local authority areas**

The ten local authority areas included were selected with the intention of representing a range in terms of type of local authority (unitary, metropolitan, 'shire' and region). The table below sets out the nature of the local authorities included.

Region	Local authority type	QIMD deprivation quintile
North	Metropolitan District	5 th
North	Unitary Authority	5 th
North	County	3 rd
East	Unitary Authority	3 rd
East	Unitary Authority	3 rd
Midlands	Metropolitan District	5 th
London	London Borough	5 th
South East	Unitary Authority	3 rd
South West	Unitary Authority	4 th
South West	Unitary Authority	4 th

¹³ The Childcare Act of 2006 places a duty on local authorities to conduct Childcare Sufficiency Assessments in accordance with its regulations. This should be done through research and consultation with parents, childcare providers and others who have an interest in high quality childcare. The Childcare Sufficiency Assessments examined for this research were published in 2011.

- **Documentary analysis of the Childcare Sufficiency Assessments for the ten local authority areas.**

Each Childcare Sufficiency Assessment was analysed to find out what information it contained about supply and demand for childcare in the disadvantaged areas within the local authority. The data was used to inform the content of the local authority and provider interviews (see below) and to provide a contextual background to the findings. Relevant information from the Childcare Sufficiency Assessment analysis has been included throughout the report, in particular in relation to local authority planning in Chapter 2 and parental demand in Chapter 4.

- **Literature review to explore the parental perspective**

The key focus of the literature review was to explore the question of why parents in disadvantaged areas might say that they have been unable to find a childcare place.¹⁴ These findings have been integrated with the findings from the research interviews (described below) within Chapter 4 of the report.

- **Interviews with local authority strategists and childcare providers**

The third element of the research was **interviews** with each of the strategic leads for childcare in the ten local authority areas, and with seven childcare providers per local authority area; five group-based providers and two childminders.¹⁵ The interviews were semi-structured, but had flexibility to probe for more detail and explanatory factors where appropriate (the full topic guides are provided in the Appendices). In the first three areas, all of the local authority and provider interviews were conducted **face to face**, to test out the fieldwork materials to optimum effect and to ensure researchers were fully cognisant of all the issues, contexts and relationships likely to be relevant across local authorities. In the other areas, the interviews were conducted on the telephone and using online meeting software.

Amongst childcare providers, the decision was made to focus on **pre-school** providers specifically, given the interest in provider capacity to meet the terms of the roll-out of the free entitlement for two-year-olds. In most of the settings, the childcare manager of the settings was interviewed. In a few cases, room or team heads or deputy heads were interviewed where they felt able and sufficiently informed to answer the questions included.

In designing the interviews with childcare providers in each local authority area, the decision was made to adopt a **case-study** approach. For each local authority area a (more or less) deprived ward was selected, either chosen to border another deprived ward, or chosen to border a more affluent area. A Lower Super Output Area (LSOA) within each ward was then selected, and in the first instance providers based in postcodes belonging to the selected LSOA were recruited. In cases when it was not possible to recruit seven providers from the LSOA the recruitment of providers 'branched out' from the LSOA to bordering areas with the right deprivation characteristics (the aim was to recruit providers operating in areas

¹⁴ Previous research (see Section 1.1.1) raised the question of why in spite of the apparent surplus of places in many disadvantaged areas, parents in these areas are more likely than in others to say that they have been unable to find a place with a local provider.

¹⁵ Interviews with fourteen childminders were achieved, instead of the twenty that were aimed for. This was due to the fact that local elections were taking place at the same time of the recruitment of childminders, which resulted in restrictions being put in place for the research.

with more and less pronounced deprivation not those based in more affluent pockets in a ward, but also to include providers in our sample that operate in areas bordering more prosperous pockets).

The table below shows the local authority, ward, and LSOA level deprivation information.

Area	IMD Deprivation Quintile (local authority level)	Ward (within % most deprived nationally)	LSOA (within % most deprived nationally)
1	5 th	30%	10%
2	5 th	20%	30%
3	3 rd	10%	10%
4	5 th	5%	30%
5	4 th	10%	10%
6	3 rd	30%	40%
7	3 rd	20%	20%
8	4 th	20%	20%
9	5 th	10%	10%
10	3 rd	20%	20%

From the starting point of the LSOA, case study areas were built up by interviewing the nearest group-based childcare providers and childminders. In urban areas, this meant as far as possible that childcare providers interviewed were in ‘pram pushing’ distance of each other, this being the distance that available evidence suggests determines parents’ childcare use.¹⁶ ‘Pram-pushing’ distance was not always achieved, in cases where there were not enough providers based and/or willing to participate within selected postcodes the final selection of providers included some that are further away from the selected area than ‘pram-pushing’ distance. In rural disadvantaged areas, where car or public transport might be necessary to access provision, a wider geographical area was covered for a case study area.

Applying the research objectives to small local childcare market areas within local authorities allowed examination of sufficiency and sustainability issues at both a thematic level but also in terms of how the relationship and interactions between different local providers could affect these issues. It also allowed for a detailed exploration at a local market level of which players in local markets were best placed to meet the terms of the entitlement and where and why potential shortfalls within local market areas might occur.

¹⁶ Meadows, P., Corloyn, J (2004), *Definition of a Local Childcare Market*, Methodological Paper produced for DfES and Inland Revenue

Overall, **60** providers were interviewed. These included:

- nineteen private day nurseries
- seven not-for-profit day nurseries (community nurseries, community interest companies, nurseries with charitable status)
- seven voluntary sector sessional providers
- two not-for-profit sessional providers
- one private sessional provider
- two day nurseries based in and subsidised by FE colleges
- five children's centre daycare providers, subsidised by the local authority
- one other local authority-subsidised provider
- two school-based pre-schools
- fourteen childminders

1.4 Structure of the report

The structure of the report is as follows:

- **Chapter 2** describes the different models of pre-school provision in operation in the disadvantaged areas across the local authority areas, in terms of the shape of provision, nature of funding, and influencing factors on the format of the model. It also describes how the models looked at the local case study area in terms of sufficiency and parental choice, financial strength of providers, and capacity for the two-year-old roll-out. The nature of current local authority activities and planning in relation to pre-school childcare provision within their disadvantaged areas is also examined.
- **Chapter 3** looks at the range of factors affecting the ability of individual providers to operate on a financially sustainable basis.
- **Chapter 4** explores the evidence relating to levels of parental demand for and knowledge about childcare, with particular focus on addressing the question of why parents in disadvantaged areas might say that they have been unable to find a childcare place.
- **Chapter 5** provides a detailed examination of responses towards and capacity for the roll-out of the two-year-old entitlement amongst local authority strategists and providers. It looks in particular at views about the roll-out in 2013, opportunities and challenges identified in relation to the roll-out, capacity within pre-school provision for the roll-out, and the barriers and facilitators to achieving sufficient capacity for the roll-out as identified by respondents.
- **Chapter 6** sets out the conclusions of the research.

2 Models of childcare provision in disadvantaged areas

Across the local authorities included in this research, it was possible to identify **four distinct models** to describe how pre-school childcare provision in disadvantaged areas operated. These are described in this chapter and referred to throughout the report. In the case of each of the four models, the section begins by describing the broad model in operation across the local authority area/s and the key government or local authority intervention which influenced the formation of this model. It then goes on to describe how each model looked at the local case study level (see Chapter 1, Section 1.3, above), in terms of sufficiency of places, strength of provision in relation to financial sustainability of providers and capacity to take more children under the terms of the roll-out of the two-year-old entitlement. More detailed thematic issues related to the sustainability of provision and the providers' views about and capacity for the two-year-old entitlement are covered in Chapter 3 and Chapter 5, below.

2.1 Models of pre-school provision in disadvantaged areas

The table below summarises the different models and their key characteristics.

		Nature of provision in disadvantaged areas	Sufficiency of provision	Financial sustainability of provision	Capacity to meet two-year-old roll-out
Free market	Model 1 (6 LAs)	Maintained nursery schools, unsubsidised private, voluntary and independent (PVI) sector and childminders	A lot of choice for parents, sufficient funded three- to four-year-old places, vacancies for under threes	A number of providers carrying vacancies, some with sustainability concerns	Spare capacity within a number of settings Some improvement in quality needed
	Model 2 (1 LA)	Maintained nursery schools, PVI sector plus sustainability grants and childminders	A lot of choice for parents, sufficient funded three- to four-year-old places, vacancies for under threes	A number of providers carrying vacancies, some with sustainability concerns	Spare capacity within a number of settings
Local authority subsidised	Model 3 (2 LAs)	Maintained nursery schools, LA-funded and run plus limited PVI sector and childminders	Sufficient three- to four-year-old places, fewer under threes vacancies than the other models	LA-funded and run provision financially sustainable though reliant on ongoing funding,	Very limited capacity in LA-funded settings, capacity in limited number of PVI settings
	Model 4 (1 LA)	Maintained nursery schools, LA-funded and run plus LA funded PVI sector and childminders	A lot of choice for parents, sufficient funded three- to four-year-olds places, vacancies for under threes	LA-funded and run provision financially sustainable though reliant on ongoing funding, voluntary sector providers carrying vacancies, some with sustainability concerns	Spare capacity within a number of voluntary providers, little capacity in LA-run provision

2.1.1 Overview of Model 1 – unsubsidised PVI sector

The first model operated in six of the local authority areas.¹⁷ In this model, **pre-school provision in disadvantaged areas was made up of a mixture of maintained nursery schools and private, voluntary and independent (PVI) sector providers. This provision was not subsidised by the local authority, and children’s centres in this model were providing services rather than daycare.** The providers in these models were therefore operating **self-sufficiently in the market**, with the exception of the three- and four-year-old funding and the two-year-old funding, where it was received. In a number of local authorities operating this model, PVI providers were situated on children’s centre sites. Childminders were also part of the local mix, although the broad pattern was that there were fewer of them in disadvantaged areas than in other areas within the local authorities.

The establishment of Model 1 – influencing factors

Non-profit making group-based providers in these areas had generally been set up in order to provide a *service* to their local communities and they were instigated by parents, churches, or schools. Some of these providers relied in part on either free labour or free or low costs premises. For example a lead person in the organisation was carrying out their role unpaid, or premises were rent-free, or cheap to rent as a result of a school or a church decision. Private providers had been set up for more varied motives. Providing a service usually featured, but wanting to run a viable business for the owners was usually also a key aim.

Some of the PVI sector providers in this model had existed for a number of years, and had received **funding and support from the local authority to formalise their service and/or improve their premises, and in some cases also to help them remain sustainable.** This funding had often been prompted by the introduction of the three- and four-year-old funding. In a number of cases, providers had also received more recent funding through the **Childcare Quality and Access Grant** to improve their premises, expand and improve the quality of their provision.

There were also instances in these areas of providers who had *set up* as a result of government funding streams. A number had received funding from **Sure Start or Children’s Centre streams** to set up on the site of these services. A small number had used **Childcare Quality and Access Grant** money to set up. **Neighbourhood Nursery Initiative funding** had also been used in the past to set up daycare provision in the disadvantaged areas in these local authorities. In many cases these had now shut down - lack of demand had resulted in unsustainable business models once the three year funding period came to an end. However, a small number of Neighbourhood Nursery Initiatives had survived by changing their business models; notably by restructuring and reducing staff numbers in order to offer mainly term-time only provision for three-and four-year-olds.

¹⁷ All of these were urban areas, with the exception of one which covered an urban area and its more rural outskirts

Providers in all of these areas had also benefitted in the past from **business advice and support from local authorities, access to free local authority training and local authority advice and support around improving or maintaining quality**. Sometimes the advice and support around business and quality had been provided by the local authority directly, in other cases by a contracted organisation such as the Pre-School Learning Alliance.

In relation to business advice, there was a perception in all six areas that there was less support available than there had been in the past. In addition, in all six areas training had ceased to be provided for free by the local authorities. Where external providers had given advice and support in the past, these contracts had now been revoked as a result of funding cuts. Providers were therefore now reliant on reduced local authority teams.

Quality of provision was mixed. In two of the local authority areas, quality in the disadvantaged areas was higher than in the other areas within the local authority. This was attributed by local authority strategists in these areas to providers in these areas having received priority in terms of access to advice, support and past funding streams. In the other local authority areas, the quality of providers was more mixed; two areas specifically said that they had a lot of 'satisfactory' providers across the local authority.

2.1.2 Model 1 at the local level - unsubsidised PVI sector

Sufficiency and parental choice in Model 1

Broadly speaking, the picture at our local market levels in relation to this model was one of parental choice, and sufficiency of provision. Families had access to a range of different providers and a choice between maintained, private, and voluntary provision for their three- and four-year-old free places. Typically in at least two providers in the vicinity of our geographical starting point there were vacancies for nought to twos and for three and four-year-old wraparound care. This suggests that daycare was available to those parents who needed it.

There were variations however in how close childcare provision was to parents' homes. In some case study areas, parents had access to the range of providers mentioned above within walking distance; in others, some were one to two miles away, or a short drive. There were also variations in the extent to which private providers were 'open' to parents within our case study areas. In some cases, the private providers were serving neighbouring more affluent areas as well and the bulk of families using them were full time or almost full time working parents from these areas. These nurseries found it difficult to offer more part-time hours, or to take three- and four-year-olds for their core sessional funding only. This meant that the parents in the case study areas were limited to their local maintained and voluntary or independent sector provision, which was often sessional. In other cases, private nurseries were operating a mixed economy model of daycare and sessional three- and four-year-old provision, and regarded this as essential to their survival. In these cases, their provision was more accessible to families in the disadvantaged areas, who could use them flexibly for the hours they wanted.

Because there were a number of providers operating within close a distance of each other in these areas, consumer power was strong. Parents could shop

around to find the most suitable provider in terms of price and hours and providers spoke of having to keep their prices low, and having to be as flexible as possible in the hours that they offered to parents. The exception here was the private providers serving the more affluent areas, who were able to charge more, and who tended to offer block sessions.

Financial strength of providers within Model 1

A number of providers faced concerns about their financial sustainability for the reasons described later in detail in Chapter 3. Providers were often carrying vacancies for nought to two-year-olds, and were reliant on the three- and four-year-old funding and, in some cases, two-year-old funding for a steady income. However, there was competition for this income, and providers were at risk of losing children to maintained pre-school provision or, where there was one school intake a year, losing their three- and four-year-olds in September and it then taking several months to fill their places again. Other concerns, which varied in magnitude depending on the provider, were the three- and four-year-old funding not being sufficient alone to cover the cost of overheads and maintaining quality, the negative impact of the recession on parents' demand for childcare, the cost of training now it was no longer provided by the local authority for free, and the difficulty, on occasion, of obtaining fees from parents.

Capacity for the two-year-old roll-out in Model 1

Within these markets, there was capacity to take more two-year-olds in a number of the settings without the need for adjustment to premises. These providers felt that they could use the entitlement to fill unused places, or to convert empty baby or three- and four-year-old places. Other providers felt that whilst the two-year-old entitlement would be an important opportunity to make their provision more sustainable, they needed capital funding to convert existing premises to make them more suitable for two-year-olds. It was evident in these markets however, that while there was capacity, providers often had a number of support and additional funding needs in relation to taking more two-year-olds (see Chapter 5 for more detail). In some cases, local authority strategists felt there was also a need for improvements to the quality of some of the providers in these markets.

2.1.3 Overview of Model 2 – PVI sector plus sustainability grants

This model applies to one of the local authority areas included in the research. Large swathes of this local authority were rural and our local case study area was also based in a town within a very rural area. In this area, pre-school provision in disadvantaged areas was a mixture of maintained nursery schools and PVI sector providers, as in Model 1. Also as in Model 1, children's centres provided services rather than daycare. What differentiated this Model 2 from Model 1 was that the local authority was currently subsidising a number of providers through occasional sustainability funding. This was typically paid to providers in September, to cover the lean patch between children leaving for schools and places filling up again. Providers were also funded by the local authority to take on a certain number of children with Special Educational Needs or a Disability (SEND) under funding called Enhanced Support. As with Model 1, childminders were also part of the

mix, but again tended to exist in fewer numbers in the disadvantaged communities.

The establishment of Model 2 – influencing factors

As in Model 1, some providers had set up to provide a service to local communities, in some cases with the active support and encouragement of the local authority, whilst private providers had set up with a view to running viable businesses as well as providing a service. A number of providers had recently received **capital funding to improve premises**. In this local authority area, a number of **Neighbourhood Nursery Initiatives were still in operation**, often because they had accessed funding from other sources to help them to remain viable; for example, **local authority sustainability funding**, or **funding from local Housing Associations**. There were also examples of Neighbourhood Nursery Initiatives that were viable because of low overheads, for example a Neighbourhood Nursery Initiative based on a school premises that had low rent. As in Model 1, providers had received both business support from the local authority and support around improving quality.

2.1.4 Model 2 at the local level – PVI sector plus sustainability grants

Sufficiency and parental choice in Model 2

As in Model 1, parents in our local case study had the choice of different types of providers for pre-school children, including private nurseries, a voluntary nursery, a sessional preschool and maintained preschools. Being a rural area, not all of these providers were within walking distance. Several of the providers had spare baby places, two-year-olds places and gaps for three to four-year-olds, including wraparound, so there was sufficient provision.

Financial strength of providers in Model 2

As in Model 1, a number of providers faced concerns about their financial sustainability, for reasons described in detail in Chapter 3. The two private providers served mixed catchment areas and operated a mixed economy model, providing both daycare places and funded early education for three- and four-year-olds. The other providers were largely dependent on two-, three- and four-year-old funding for their business and reported that changes such as rent or rate increases and having to pay for local authority training were threatening their financial sustainability. Several of these providers, including one of the private ones, regarded themselves as dependent on local authority sustainability funding or in one case local housing association funding.

Capacity for the roll-out of the two-year-old entitlement in Model 2

As in Model 1, this local market had capacity to take more two-year-olds without the need for additional providers and in some cases without adjustment to premises; providers felt that they could use the two-year-old roll-out to fill places or to convert empty places for babies or three- to four-year-olds. There was again

concern however that the types of support needs the extra two-year-olds would have would require additional staff training and time, the costs of which might be difficult to meet (discussed in more detail in Chapter 5).

2.1.5 Overview of Model 3 – local authority-funded provision plus limited PVI sector

In this model, which existed in two of the local authority areas, pre-school provision in disadvantaged areas comprised mainly of **children’s-centre based daycare, daycare in other local authority settings and maintained nursery provision**. In both of the areas, the children’s centre and other local authority daycare was subsidised. These settings received funding from the local authority to provide free places to children identified as having particular support needs. In both areas this policy had been in place before the government’s two-year-old entitlement and local authority strategists said that more children were receiving free places under the local schemes than would have been if they had only been operating the two-year-old pilot. Because of the prevalence of local authority-funded provision within the disadvantaged areas, there were fewer PVI sector providers operating in these areas than in Models 1 and 2. As in Models 1 and 2, local authority strategists reported that childminder numbers were lower than in more affluent areas.

In contrast to Model 1, the bulk of PVI providers in these local authority areas were based in the more affluent areas and there was therefore much more division than in Models 1 and 2 between disadvantaged areas and other areas in the local authorities in terms of the shape of provision.

The establishment of Model 3 – influencing factors

In one area, the local authority had for years closely managed and influenced childcare provision in disadvantaged areas, first through social services day nurseries and later, with **Phase 2 children’s centres**, overseeing the transition of social services nurseries to children’s centres or other local authority-funded provision which offered paid-for as well as funded places. In several cases, the children’s centres had merged with local maintained nursery schools and operated from the same site. In both local authority areas, as described above, the local authority had taken a proactive role in **subsidising provision in disadvantaged areas**.

Where PVI sector providers existed in disadvantaged areas in these local authorities, they tended to have been initiated by local parents or by churches to meet a perceived unmet need. In both these local authority areas, PVI sector providers had received **capital funding** in recent years to extend buildings or improve premises and equipment. As in the other Models, the local authorities offered business advice and support around quality to all providers.

In one of these local authority areas, the strategist reported that all of the **Neighbourhood Nursery Initiatives** had shut down, although in some cases their buildings were being used by Phase 2 Children’s Centres. The closure of the Neighbourhood Nursery Initiatives was attributed to low parental demand for daycare in disadvantaged areas.

In both of the local authority areas, the **local authority-subsidised provision in the disadvantaged areas was high quality**; in one, three of the local authority-subsidised providers had become Early Years Teaching Centres, with a remit for helping other local providers raise the quality of their provision. In both local authorities, the children’s centres themselves were not providing three- to four-year-old places, because this was provided by the maintained sector.

2.1.6 Model 3 at the local level - local authority-funded provision plus limited PVI sector

Sufficiency and parental choice in Model 3

From the point of view of parental choice and access, Model 3 looked very different to Models 1 and 2. In the Model 3 disadvantaged case study areas, the main providers that parents were able to use for daycare were the local authority-subsidised daycare settings described above, or one of a small number of childminders in the area. While there were PVI providers within reach, this was to a lesser extent than in Models 1 and 2, and in any case they were often unaffordable, because the providers were serving more affluent communities. Because paid-for daycare places within these local authority-funded settings were limited (the bulk of places being reserved for children designated by the local authority as in need of a free place)¹⁸ there was less choice and availability for

¹⁸ In one of these LA areas, places were reserved for Children in Need as part of the CAF. The other LA area ran a programme called ‘Enhanced Provision’ under which two year-olds identified as vulnerable according to an LA points system were given a free place. This Enhanced Provision system preceded the two-year old offer.

parents wanting daycare for nought to twos than in Models 1 and 2. Local authority strategists did not however regard this as a gap, given that they felt there was low demand for daycare in their disadvantaged areas. This was borne out by the fact that a new day nursery set-up in one of our disadvantaged local areas was running with very low numbers.

The financial strength of providers in Model 3

Given the funded nature of this model, pre-school providers faced fewer sustainability issues than in Models 1 and 2; the local authority-funded providers expected to continue to be funded to provide places for children in need, which was their core offer. However, it was evident in both areas that children's centres cuts had or would affect the shape of local provision. In one of the local authorities, cuts had meant that the children's centre daycare was operating at reduced capacity and serving mainly funded children. In the other local authority area, cuts to subsidised baby places and projected cuts to other daycare places within the local authority-funded settings meant that providers would either have to sell the places for what they cost to provide (which would make them higher than the PVI sector, and inaccessible to parents within their local communities) or convert them to funded places to meet the roll-out of the two-year-old entitlement. While it was hoped in both areas that the two-year-old roll-out would increase the accessibility of childcare to the local community, there was concern that the conversion of paid-for daycare places to funded places would result in even less affordable childcare for local low income working parents.

In comparison, the little PVI sector provision that was available faced financial sustainability concerns. With the exception of those providers within walking distance of and largely serving affluent neighbouring communities; providers struggled to fill numbers and spoke of a strong sense of competition with the local funded provision and maintained nursery sector. PVI providers also felt at a disadvantage in relation to the local authority-funded providers in terms of access to training and support in applying for funding.

Capacity for the roll-out of the two-year-old entitlement in Model 3

Capacity for the roll-out of the two-year-old entitlement in Model 3 looked very different to Models 1 and 2. Because the local authority-funded providers were currently running to capacity, there was little space for them to take on many more funded two-year-olds. Converting the paid-for places into two-year-old places would free up capacity a little, but not to the extent that would be needed in those areas. There was a strong feeling, therefore, that capital funding would be needed for these providers to extend premises or rent additional ones. There was by contrast some space available in the limited PVI sector providers serving the disadvantaged areas, although to a lesser extent than in Models 1 and 2 given that these providers were less prevalent. In the case of some of these PVI providers, local authority strategists did not feel that provision was of sufficiently high quality for them to feasibly be involved in the roll-out, although they were seeking to address quality issues (see Section 2.2, below).

2.1.7 Overview of Model 4 – local authority-funded provision plus subsidised PVI sector provision

This model applied to one of the urban areas in the research, which had vast income disparities between rich and poor within its borough. As with Model 3, **each disadvantaged area had a children’s centre which provided local authority-subsidised daycare.** Some of these places as with Model 3 were funded directly by the local authority and provided for children in need. A small percentage of the places were sold at market rate, and the rest were subsidised by the local authority on a three tiered sliding scale based on parental income. In contrast to Model 3, **the local authority also subsidised a percentage of places in voluntary sector providers to make them affordable to less well off families.** Maintained nurseries on school sites were a key part of pre-school provision in this local authority. Every three-year-old was entitled to a part-time, and every four year-old a full time, pre-school school-based place.

The establishment of Model 4 – influencing factors

As is clear from the above, this local authority had a history of being **strongly proactive in shaping and subsidising Early Years provision in its disadvantaged areas.**

In addition to the subsidies mentioned above, voluntary providers had over recent years received **capital grants** to help improve premises, equipment and quality. The local authority had a strong ethos of supporting providers with business plans and quality, although a contractor providing quality support had recently had its funding cut. The voluntary sector providers within the disadvantaged areas had largely been set up by people in the local community to serve what were regarded as particular local pockets of need. Some had been assisted by the local authority in formalising their provision when the three- and four-year-old funding was introduced.

This local authority area was the most divided in terms of local childcare markets. The private sector almost exclusively served the affluent families within the area and was not present in disadvantaged areas, where the main providers were children’s centres and voluntary provision. Childminder numbers in disadvantaged areas were low according to the local authority strategist. **The children’s centres and voluntary sector providers in disadvantaged areas were all said by the local authority strategist to be high quality.**

2.1.8 Model 4 at the local level – local authority-funded provision plus subsidised PVI sector

Sufficiency and parental choice in Model 4

At the local level, parents in our case study area had the choice of children’s centre provision or subsidised voluntary sector provision for their under threes, all within close distance. They also had access to childminders, though this provision was limited. When their children turned three, they were able to send them to a part-time school-based place or continue to use one of the providers mentioned

above. Several of the providers in the case study area had spare capacity for under threes and for three- to four-year-olds, so there was a strong sense of sufficiency of places. A number of providers felt that in spite of local authority subsidies, paid-for daycare places were unaffordable to many of their working parents.

The financial strength of providers in Model 4

Unlike in Model 3, the local authority was continuing to fund its children's centres to the same level, so this aspect of local provision looked very strong. By contrast, the voluntary sector providers within the case study area were struggling to remain financially sustainable. A strong influencing factor was the local authority's recent policy to open up school-based pre-school places to three-year-olds. Given low demand for under threes places, taking funded three- to four-year-olds was an essential part of these providers' business. Losing these children to schools threatened the existence of these providers, in turn placing the supply of affordable under three places at risk. Relying on three- to four-year-old funding for income was also felt to be precarious given that it was not paid for the whole year round and did not therefore cover staff salaries due to holiday pay. Voluntary sector providers also felt that it was difficult to retain staff on salaries which were low compared to those offered by children's centres and maintained nursery schools.

Capacity for the two-year-old roll-out in Model 4

Providing for under threes was felt to be key to the future sustainability of voluntary sector providers in this area, who were operating with empty spaces. As a result, as with Models 1 and 2, this local market had capacity to take more two-year-olds without the need for additional providers and in some cases without adjustment to premises. There was felt to be a need, however, for funding for providers to increase staff ratios in order to meet the needs of the children they would be working with (see Chapter 5 for more detail). The children's centre in this area did not currently have space for additional two-year-olds; cutting its fee paying places to replace them with two-year-old funded places was not regarded as viable, because the fee-paying places were an important source of income.

2.2 Local authority activity and planning in relation to pre-school childcare provision in disadvantaged areas

This section explores the nature of current local authority activities and planning in relation to pre-school childcare provision within their disadvantaged areas.

The main areas of focus for local authorities in relation to pre-school provision in disadvantaged areas in general were:

- Increasing capacity for group-based funded places;
- Aiding the financial sustainability of provision;
- Increasing the numbers and quality of childminders;

- Improving parental knowledge about and access to formal childcare provision;
- Improving the quality of provision.

Further priorities across their areas as a whole, but applying equally to the LA area more generally, were:

- Improving access to childcare for parents of children with SEND and,
- Improving sufficiency planning processes.

2.2.1 Increasing capacity for group-based funded places

None of the local authorities were currently planning to stimulate the supply of group-based daycare places in their disadvantaged areas. This chapter described how the demand for daycare - as opposed to sessional places - in these areas was felt to be fairly low, and how certain providers in Models 1 and 2 in particular carried vacancies. The focus in disadvantaged areas across all of the local authorities instead was on increasing the number of childminders to meet what demand there was for daycare in a more flexible fashion (see this section, below) and/or increasing the capacity of providers to meet the terms of the roll-out of the two-year-old entitlement specifically (see Chapter 5), therefore increasing the number of group-based sessional places.

Local authorities were also working to ensure the continuing sufficiency of places for funded three- to four-year-olds in areas of population increase, often through the extension of maintained sector provision. In relation to this, there was concern amongst a number of local authority strategists that the money available for early education from the Dedicated Schools Grant would be negatively affected by reductions to this Grant as more schools became Academies. These local authority strategists felt that early education should be ring-fenced as part of the DSG.

2.2.2 Aiding the financial sustainability of providers

In the case of local authorities where childcare in disadvantaged areas was unsubsidised and provided by the PVI sector (Model 1, as described in this chapter above) a further key priority was supporting the financial sustainability of providers who were carrying vacancies. This was felt to be a particular concern given the context of increases in the core costs of providing childcare, combined with the reduction in the percentage towards childcare costs parents claiming childcare element of the Working Tax Credit could receive. Improving quality (described in this section below) and providing business advice were two important strands to this; a number of local authorities said that they were pledged to continue to maintain and improve the financial sustainability of providers in these areas through business support and dedicated business health check services.

One of the local authorities within Model 1 was also looking specifically into the possibility of funding the PVI sector in the future through **sustainability grants**, as currently offered by another local authority in the sample (see Model 2, described in this chapter above). The local authority in Model 2 which was currently

providing sustainability grants expected to continue to do so, particularly given an anticipated fall in demand for daycare places in disadvantaged areas as a result of reductions to the childcare element of the Working Tax Credit. This local authority was also looking into providing funding to support rural providers on a day to day basis. Two of the local authorities within Models 1 and 2 said that they were planning to review the sufficiency of the three- to four-year-old funding specifically, given the high numbers of providers in disadvantaged areas who were reliant on funded places for the majority of their income.

In the local authorities where funded models operated in disadvantaged areas, bolstering the financial sustainability of providers was less of a priority. The funding for places for vulnerable children was not under threat and in the case of the local authority in Model 4, the children's centre funding was also being maintained to the previous levels. However, in both the Model 3 local authorities, children's centre funding had or was in the process of being reduced. In one of the areas, the result was that children's centre childcare provision had been adapted to operate on a reduced footing, providing largely funded places only. In the other, the key issue for local authorities was how to support the funded providers in selling their previously subsidised daycare places at cost (see box below for an example of how this was being tackled).

Good practice example: self-promotion

One children's centre was facing the loss of subsidies for its paid-for baby places, which would result in them becoming more expensive than those in the PVI sector, given the higher staffing costs in this setting. The local authority was recommending that the children's centre promote itself as a city-recognised 'Excellence Centre' for baby care, on account of its outstanding provision in that room. It was hoped that this would help it to continue to sell some of its baby places.

2.2.3 Increasing childminder capacity in disadvantaged areas

Childminders were regarded as a useful means of providing more flexible and atypical hours daycare places in disadvantaged areas without the sustainability issues faced by group-based settings. In many of the local authorities included in the sample, childminder numbers in disadvantaged areas were low. Local authority strategists attributed this to factors such as poor housing, low qualifications and in some cases high numbers of BME communities where there were language and cultural barriers to qualifying and low demand for childminders over family and friends because of issues relating to trust and culture. Several local authorities had or were planning to introduce targets to increase the numbers of childminders in these areas, including, in some cases, those from BME communities specifically. Preliminary activities towards achieving this included helping potential childminders achieve the basic skills that would enable them to meet requirements for registration, for example through access to English for Speakers of Other Languages (ESOL) classes and peer mentors. There were also plans in place within some local authorities to improve the quality of childminding provision, in one case by aiming to train every childminder to NVQ Level 3. In tandem with recruitment and improving quality, there was felt to be a

need to challenge the views of parents who feel that childminders do not provide stimulating educational opportunities and to improve parental perceptions of childminders more generally. One local authority was running a marketing campaign to do just that; two other examples of innovative practice in relation to this area are described below:

Good practice examples: improving childminder provision in disadvantaged areas

One local authority is using regeneration funding to run a focused campaign for childminders in one of its most disadvantaged wards. Trainee childminders will be offered ESOL training, peer mentoring from established high quality childminders, and support from children's centres.

A second local authority has a contract with the National Childminding Association to develop a 'Childminder Champion' programme. High quality childminders will run groups in children's centres to improve parental perceptions of what childminders can offer. In tandem with this, they are embedding a 'peer led buddy system' whereby 'good' or 'outstanding' childminders support new ones from initial briefing through to their first inspection.

2.2.4 Improving parental knowledge about and access to childcare in disadvantaged areas

As described in relation to the models of provision in Section 2.1 above, a characteristic of the disadvantaged areas included in this research was of low parental demand for daycare places, as opposed to funded places. This was attributed to low employment, low incomes and irregular or atypical working patterns of parents in these communities.¹⁹ One key focus across several of the local authorities was to improve information about help with childcare costs, and to support parents to access it. Current activities and plans included working with partnership agencies such as employers, childcare providers, Jobcentre Plus and community advice agencies both to monitor take-up and target advice and support.

In addition, although take-up of three- to four-year-old funded places was generally said to be high across the disadvantaged areas in the ten local authority areas, in several local authorities there were pockets where take-up by particular communities was lower. This was attributed by local authority strategists and providers to factors such as lack of knowledge of the availability of the provision and language and cultural barriers to accessing services. In addition, some providers with a good knowledge of their local areas spoke of local families experiencing problems such as isolation, depression and debt, and felt that these problems could preclude such families from feeling able to access settings for their three- to four-year-old. Increasing the take-up of the three- and four-year-old entitlement and current two-year-old entitlement was therefore a further priority in some local authorities, some of whom were focusing, in particular, on newly-arrived communities. This work included partnership working with BME groups, health visitors, social care agencies, providers and parent support agencies to promote, publicise and broker take-up of accessible three- and four-year-old

¹⁹ Chapter 5 discusses issues of parental demand in disadvantaged areas in detail.

places. In some areas children's centres were also working at the local level to pinpoint specific local communities who were not accessing their entitlement, and do outreach work with them. One local authority was also planning more detailed analyses to look at whether particular groups were not accessing their entitlement.

More broadly, work was also being undertaken in some areas to use peer-led programmes to change parental perceptions of childcare, and to encourage take-up; an example is provided in the box below.

Good practice examples: changing parental perceptions of and improving access to formal childcare

One local authority is taking part in a 'Communication Ambassadors' programme which involves providing parents who live in one of its disadvantaged areas with the skills to communicate to other parents about child-related issues. Part of their brief will be to improve knowledge of and perceptions about local childcare provision.

One local authority was looking into the option of introducing 'childcare brokers' to support those families with access issues through the process of finding suitable childcare.

One local authority was working with community, voluntary and faith groups to raise awareness of childcare provision amongst some of its BME families.

2.2.5 Improving the quality of childcare in disadvantaged areas

As described in Section 2.1 above, the quality of provision across disadvantaged areas in the sampled local authorities varied. In the funded Models 3 and 4 in particular, local authority strategists said that the percentage of 'good' or 'outstanding' providers was high; indeed, in these areas, using the quality providers to help raise the quality of the non-funded sectors was a key area of focus.

In the case of Models 1 and 2, where childcare in disadvantaged areas was provided by the PVI sector and was either unfunded or not funded on an ongoing basis, quality across the sectors was more variable. Two local authorities said specifically that they aimed to improve the quality of PVI provision in their disadvantaged areas much of which was 'satisfactory'; the others wanted to raise the quality of all providers in these areas – as in the wider local authority area – to that of the best. Related to quality, a key target across local authorities was to increase the number of Early Years Professionals in daycare settings.

All of the local authorities had systems for improving quality in place, which included assessing providers against their own quality standards, providing support through lead providers, link teachers, and/or specialist childcare consultants. However, it was acknowledged in some cases that support and access to training had been reduced as a result of cuts; in some cases, contracts with outside organisations had been ended, and free training had also been stopped by many of the local authorities. Some local authorities were using a 'cascade' approach for improving quality. Two examples of this are provided below. This approach was also being used in relation to increasing the skills of providers to take on more two year-olds specifically, as described in Chapter 5.

Good practice examples: using high quality provision to help raise the standards of other providers and cascade learning

In one local authority area, the funded childcare provision in disadvantaged areas was of particularly high quality, and three childcare providers in the case study area had become Early Years Teaching Centres. At the time of the fieldwork, one of these settings was supporting a recently-set up private provider in the same area to raise the quality of its provision. Another was supporting a private provider in the vicinity to address the concerns which had led Ofsted to downgrade it from 'good' to 'satisfactory'.

Alongside training support and qualified teacher support for providers, one local authority was providing opportunities for childcare staff to shadow more experienced practitioners and have access to learning mentors in specialist fields.

2.2.6 Improving access to childcare for parents of children with SEND

This was also a priority for a number of local authorities across all of their areas. Areas which had run the Disabled Children's Access to Childcare were looking at ways to roll-out its induction training to all Early Years Providers and to cascade learning from some providers to others. Providing funding for Special Educational Needs Coordinator (SENCO) staff when settings took on a child with SEND was a key policy across local authorities. Improving general quality and skills levels (described above) was also felt important in increasing the capacity of settings to take on children with SEND. It should be noted, however, that a number of local authorities raised concerns about the financial sustainability of providing childcare places to children with SEND for their non-funded providers. They felt that the funding they were able to provide rarely in fact covered the total costs.

2.2.7 Improving sufficiency planning

Several local authorities said that they were working to continue to develop more accurate means of recording the available childcare in their area. Many barriers to gaining accurate information were mentioned however, notably the constantly changing nature of local demographics and vacancy rates, the changing nature of parental demand and the fact that extrapolated live birth data by ward and comparing it to number of available places does not take into account that parents might choose to access childcare elsewhere. Several local authorities also felt that anticipated staffing cuts might prove a barrier to their being able to carry out reasonable sufficiency assessments within their local authority team.

2.3 Conclusions

This chapter has described how childcare provision in disadvantaged areas has been shaped by both the voluntary and private sector initiatives and interventions

by the local authority through government funding streams and local political decisions. It has shown that:

- Pre-school childcare in disadvantaged areas operated in very different ways depending on the degree of past intervention and current role of the LA in terms of either subsidising or not subsidising provision in these areas on an ongoing basis.
- In the free market model (where there were no ongoing subsidies), the sufficiency of places and parental choice was placed at risk by the fact that providers – particularly voluntary and independent sector providers serving the disadvantaged areas only – were often struggling to be financially sustainable. This was due to low demand for daycare, three- and four-year-old funding being sometimes insufficient to cover overheads and maintain quality, local competition, in particular from the maintained sector, and increases in the core costs of providing childcare (see Chapter 3 for more detail).
- In the subsidised models, provision looked more financially sustainable, although this was dependent on funding continuing into the future. There was less parental choice in these models than in the free market models because there were fewer paid-for as opposed to sessional places available within the funded providers.
- There was more current capacity for two-year-old places in the free market model than in the funded ones, as providers in the free market areas were currently often running with vacancies.
- Local authorities were carrying out a range of planning activities in disadvantaged areas. Their main areas of focus were: increasing the capacity of group based providers; aiding the sustainability of PVI providers; increasing childminder capacity through recruiting new childminders and upskilling current ones; improving information about and access to childminders for parents and improving the quality of childcare provision.

3 The sustainability of providers in disadvantaged areas

This chapter explores the financial sustainability of childcare providers in disadvantaged areas. It examines the different explanatory factors behind providers' financial sustainability, which ranged from macro level factors such as the wider economy and government policies down to micro level factors such as the local catchment area and individual providers' activities.

It is worth noting at the outset that 'sustainability' can mean slightly different things to different providers. To a private nursery, it can mean making a decent profit whilst having funds left to re-invest into the setting. For voluntary and independent settings, financial sustainability was more about breaking even.

3.1 Overall financial health

The financial health of providers varied across the sample, with the full range of positions included. At one end of the spectrum were providers who were running at a loss and those where financial viability was a "*constant struggle*", at the other were providers who were breaking even and providers who described themselves as financially healthy and sustainable.

Providers who were running at a loss or "*constantly struggling*" could be divided into:

- those that were not able to fill vacant places,
- those that were able fill vacant places, and sometimes even had long waiting lists, but struggled with financial viability, for reasons discussed in detail in this chapter.

A key concern amongst the group of providers that struggled financially was that they were not achieving the necessary surplus to be able to re-invest into the setting or to have emergency funds. These providers reported that they had had to rely at times on contingencies, for example having to use private funds to cover a temporary financial squeeze to be able to pay staff or having to charge a fee for places under the entitlement. Totally relying on fundraising events to stay in business was also reported by providers.

3.1.1 The financial situation of childminders

Childminder's views on the viability of their business varied as much as group based providers. A very common view among childminders was that the income from childminding was and could not be the only source of household income. A general problem was that the income was unpredictable and fluctuated, for example with varying demand, or when a child or the childminder got ill.

Childminders said they were financially "*just getting by*", for example one childminder said the fees they could charge parents were very low because parents were on low incomes. Some childminders reported high turnover in children, for example because parents' commitments change all the time. Difficulties managing the supply and demand of places were experienced when

parents tended to only want part time childcare, these could be for the same week days or short hours generally, which made it difficult to fill the gaps. Other childminders were doing financially better, for example they thought that they got a good hourly rate or said they were doing well because they were always full.

3.2 Factors helping or hindering the sustainability of pre-school provision and providers

There were no simple patterns of financial sustainability, in terms of one type of provider doing generally better than another. Chapter 2 describes how different types of provider were more or less sustainable depending on the local childcare market they operated in. Chapter 2 showed that within Models 1 and 2 where the local childcare markets were made up of maintained nursery schools and PVI sector providers, the providers often faced concerns about their financial situations and many had to rely on two-, and three- and four-year-old funding for financial sustainability. In Models 3 and 4, the financial situation of children's centres which delivered much of the pre-school provision in these areas was more financially secure, due to LA subsidised funding, though cuts to children's centres funding was an issue for the areas in Model 3. The financial situation of PVI sector providers in Models 3 and 4 was at risk however, as they were often struggling to compete with the children's centres for funded places and felt at a disadvantage in terms of access to training and support.

This chapter looks in more detail at the sustainability issues affecting individual providers. It shows that the financial sustainability of providers could be positively or negatively affected by a range of factors, notably:

- macro level factors such as the wider economy and central government policies;
- the role played by local government in relation to supporting childcare providers in disadvantaged areas;
- a range of more local factors, notably the extent to which providers were able to draw on more affluent working families for their intake, the extent to which there was local competition, local living and property costs and the ease with which local parents were able to access settings;
- factors relating to individual providers, for example their marketing skills and business acumen; and
- whether providers were benefiting from low or free rent for their premises.

3.3 Economic factors affecting the financial sustainability of providers

There were three key factors at the level of the wider economy that affected providers' sustainability: the cost of the delivery of childcare in comparison to parental income; the wider economic climate; and levels of pay in the childcare sector.

3.3.1 Cost of delivery of childcare compared to income of parents

An overall challenge reported by pre-school childcare providers in the disadvantaged areas included in this research was that many of their local families did not regard paying for formal childcare as an affordable option. Providers and local authority strategists both reported that parents in these areas either tended to choose not to work, or relied on informal care instead. As a result of this context, the broad pattern in the disadvantaged areas was that demand for wrap-around places for three- to four- year-olds and childcare places for under threes was low. Providers were instead heavily reliant on funded places for their income, which was not always sufficient to enable them to operate on a financially sustainable basis, as described by Section 3.1.4. Those providers who were managing to sell some places felt restricted in their ability to raise fees. This was echoed by childminders, who felt that they were not in a position to suggest fee increases to parents on low incomes who already found it expensive to use their services.

Providers who served more affluent areas in their vicinity as well as disadvantaged areas were, by contrast, more able to sell childcare places. The examples in the box below show how some of these providers adopted a 'social enterprise' model where they used the sale of childcare places to more affluent working families to subsidise the costs of places for lower income families in their neighbourhood.

Examples of how providers overcome affordability barriers and help their sustainability in areas with different deprivation profiles

A private full day care nursery in a mixed area with both higher and lower levels of deprivation was able to reduce their daycare fees to make them affordable to parents of young children on low incomes, by subsidising these places with fees earned from after school places for working parents of older children. The same type of provider in an area characterised by overall low incomes and high levels of unemployment, was not able to do this however due to lack of demand for after school places for older children, as fewer parents were in work.

A not-for-profit voluntary day nursery was able to attract parents who were paying fees for additional hours of care in addition to their free three- and four-year-old entitlement. The nursery was using the income from these fees to 'subsidise' the cost of providing funded places, as the funding did not cover the cost of delivering the places for the nursery. Parents on lower incomes were thus able to access high quality provision, and the income from fee paying parents helped the nursery to be financially sustainable.

3.3.2 Economic climate

Providers said their financial circumstances were heavily dependent on the state of the economy, they were feeling the effects of the current recession. Experiences of parents having given up childcare places or reducing the hours they were using were cited by providers across all of our areas. This was attributed to redundancies or cuts to working hours. There was also a feeling

amongst providers that parents were now more likely to move their child in and out of childcare in response to changing financial circumstances.

A number of childminders also reported feeling the impact of the recession, notably parents having cut down on the hours they use and relying more heavily on informal care.

3.3.3 Low pay in the childcare sector

A recurring issue highlighted by childcare providers was the low pay level of childcare staff. The feeling was that the pay was particularly low in view of the skills needed, the amount of responsibility involved, and how demanding the work was. Negative comparisons were made with other industries; for example it was pointed out that managers of settings earned less than drivers and that qualified childcare workers earned less than shop assistants.

Low pay levels in the sector were felt to have an indirect impact on provider sustainability, by contributing to low staff morale, higher than desired levels of staff turnover, and difficulties with finding and retaining qualified staff. Providers already in a financially weaker position said they were losing out to other settings that were able to pay staff a little bit more in the stiff competition for good quality staff, which had a negative impact on their long-term quality and sustainability.

The view was expressed that staff in the sector felt they were being asked constantly to raise their skills but were not rewarded for this in terms of earnings. Providers felt that the ability to pay staff adequately for the job they were doing would result in greater levels of staff commitment and motivation, for example, staff would be more engaged and fully 'on board' for new initiatives or requirements on them and less likely to leave.

Example of the negative impact of low pay on a struggling setting

A committed manager of a struggling setting who put a lot of effort into turning the setting around over the last few years, for example, spoke of being no longer prepared to "*go the extra mile*" and felt they would move on from the setting due to feeling severely underpaid.

3.4 Central government level factors

Chapter 2 described the way in which funding from central government had been fundamental in shaping the childcare markets within disadvantaged areas. For example, Sure Start Children's Centre funding, Neighbourhood Nurseries Initiative funding and the Childcare Quality and Access Grant had all been used in the past to set up daycare provision.

Respondents identified three factors at central government level relating to funding that were currently affecting the sustainability of childcare providers:

- three- and four-year-olds funding;
- the childcare element of the Working Tax Credit;
- other funding initiatives.

In addition, central government policies on quality and schools had also affected the financial situations of providers.

3.4.1 Three- and four-year-old funded places

It was apparent that the funding of the three- and four-year-old entitlement had played a transformative role in the recent past for providers that we spoke to. For example, some providers that had been set up under earlier government funding (for example the Neighbourhood Nursery Initiative) said they now totally relied on the three- and four-year-old places for their existence.

Provider attitudes towards the three- and four-year-olds funding varied enormously. Providers based in disadvantaged areas where parents struggled to pay for daycare were often reliant on this funding for their income. In these areas, the three- and four-year-olds funding created demand from parents who would not otherwise be able to afford formal provision and provided a guaranteed and predictable income. The extent to which these providers felt that the funding was adequate to cover their costs however varied, and depended on providers' experiences of other factors described in this chapter. Whilst some regarded the funding level as very adequate (in one case double what they would be able to charge in fees to sustain demand) and felt that it allowed them to operate sustainably, others felt that the three- and four-year-olds funding alone was not sufficient to enable them to operate on a financially sustainable basis.

There was a general tendency for daycare providers whose catchment areas included less disadvantaged working communities to regard the three-and-four-year old funding as a policy they had to comply with rather than something that was financially advantageous for them. These providers usually felt the requirement for them to provide sessional funded places was not to their financial advantage, given that they would have been able to fill those places with families who wanted to pay for full-time care.

Examples of how the three-and-four-year-old entitlement funding 'works' for providers in different contexts

In an urban area with widespread deprivation, low-incomes and employment requiring atypical hours there was little demand for paid-for childcare. For providers in these areas the three- and four-year-olds funding was often essential for sustainability. The providers said that the funding was meeting their costs of delivery as the rent for premises and cost of overheads were relatively low, and that in fact it was at a higher level than the providers would be able to charge parents.

In an urban area with a mix of deprivation and affluence, providers said the three- and four-year-old funding was not meeting the costs of providing childcare. In addition, it was difficult to juggle the free places with the hours that fee paying parents wanted. As a result the provider felt they were losing out on income from fee paying parents by providing the three- and four-year-old places.

A range of underlying factors affected the extent to which the three-and-four-year-old funding was either helping or hindering the financial sustainability of different providers:

- **Opening hours.** The entitlement funding 'worked' better for sessional providers than those offering full daycare. A typical example where it worked well was a voluntary pre-school delivering the free hours in morning and/or afternoon in fixed hour sessions which only catered for three- and four-year-olds. However for full daycare providers the funding could work less well. For example, full daycare providers sometimes found it difficult to fill the hours before and after sessions used by children taking up the three- and four-year-olds free entitlement with fee paying parents. Providers operating term-time only also felt that the three- and four-year-olds funding worked better. Nurseries open throughout the year were affected by vacancies during the holidays when children with the three- and four-year-olds funding were not attending. Some providers open during the school holidays had found ways to overcome this issue however, by for example employing term-time only staff to work with children using the free entitlement.
- **Business acumen.** Providers with a strong business model, good costing and management strategies seemed to be more likely to use the three- and four-year-olds funding to support their financial sustainability. For example, some providers appeared to manage the tension between the requirement for flexible places and the need to remain sustainable better than others by using 'flexi' or 'zero hours' staff who were happy to work as and when needed.
- **Needing to make a profit.** Private providers who needed to make a profit to stay financially sustainable tended to find the three- and four-year-olds funding more problematic than those in the voluntary or maintained sector.
- **Size of setting.** In small settings, the additional levels of need of children in funded places could sometimes be difficult to manage. For example, a child who was given a free place who needed one-to-one support for additional needs could have a very strong impact on staff resources which would be difficult to manage in a small setting with few staff.
- **Independent or chain settings.** A chain of nurseries were better able to manage their sustainability by having settings based in areas of affluence that could subsidise settings in areas of disadvantage.
- **Local living costs.** In areas where living costs were high, providers were more likely to struggle financially to deliver funded places due to high costs of rent and other outgoings. One suggestion was that the local living costs should be taken into consideration when working out the level of funding for the free entitlement.
- **Support from the local authority.** Good support structures meant that providers were able to deliver the free places more effectively. For example, in areas where the local authority provided good support to providers for safeguarding issues, or for meeting the requirements to be able to deliver the free places, such as helping providers to pay for Criminal Record Bureau checks of staff, providers were better able to focus their resources on the actual delivery of places.

The role of the three- and four-year-olds funding in the financial sustainability of childminders.

Providing childcare through three- and four-year-olds funding was not a common experience amongst the childminders interviewed. Childminders had connections within the sector and appropriate experience and levels of qualification (NVQ level three and four) yet many childminders were not on the local authority directory of providers funded to deliver funded places and a few had never heard of or considered the option.

Where childminders had taken on children under the entitlement they reported that the funding was helpful because it was “*reliable*” income and “*always paid on time*”.

However they also said that:

- the funding was falling short of what they were charging parents in fees (in one case it was half the amount the childminder would charge in fees); and that
- the “*paper work*” requirements for funded children were a substantial burden (for example, having to do it on the weekend and needing to photocopy documents without office equipment at home).

The childminders who had delivered funded places said that the parents made up any fees shortfall by paying an additional amount for the free place.

There appeared to be three key barriers to childminders delivering places for three- and four-year-olds:

- A lack of financial incentive for childminders in delivering the places combined with the fact that childminders generally did not have any problems filling places with fee paying children;
- The view that the administrative demands for delivering places under the offer were excessive;
- The sense that group based provision was the preferred provision for the entitlement by parents, and local authorities.

3.4.2 Childcare element of the Working Tax Credit

Childcare providers in disadvantaged areas generally felt that the introduction of the childcare element of the Working Tax Credit had increased demand for paid-for childcare places, by helping to make childcare more affordable. However, it was also felt to have a number of limitations. First, providers felt that even when the childcare element of the Working Tax Credit had been taken into account, the cost of formal childcare remained prohibitive for some of their local families. Second, providers felt that a number of their local families were unable to benefit from the childcare element of the Working Tax Credit because their employment was irregular which made the application process complex. This was coupled with a wider feeling that the system was complicated and confusing to many parents.

The fact that the childcare element of the Working Tax Credit was paid to parents rather than providers was also regarded as problematic, with some providers believing it resulted in abuses of the system. Providers had known parents having taken up a childcare place with them for a short amount of time in order to start up a claim for Childcare Element of the Working Tax Credit. Their belief was that

these parents continued fraudulently to claim the Credit once they had stopped using the childcare place. A number of providers also said that parents who they knew were receiving the childcare element of the Working Tax Credit had not paid them for the childcare they were receiving.

Some providers also said that they had felt the impact of the recent reduction to the level of childcare costs that parents could claim from the childcare element of the Working Tax Credit,²⁰ with parents reducing the hours of childcare they were using or using informal childcare instead.

Childminder views on the childcare element of the Working Tax Credit.

Childminders also felt that childcare element of the Working Tax Credit money should be paid directly to the providers and that the complicated process for claiming the money is a barrier to parents. Childminders also shared the concern of group-based providers that the recent changes to the childcare element of the Working Tax Credit resulted in some parents no longer being able to afford formal childcare and relying instead on informal childcare.

3.4.3 Other funding initiatives

Specific smaller scale initiatives such as Disabled Children's Access to Childcare, were seen as beneficial as they had, for example, raised the profile and trust in childminders or led to improvements to the Family Information Services. However short-term funding from such initiatives was also seen as problematic as there was often too little time to achieve the best outcomes from the projects.

Some **childminders** reported that they mainly looked after children from studying parents, for example lone parents on courses. Government schemes helping parents into work were supporting those childminders' businesses.

3.4.4 Quality standards and regulations

Quality standards and regulations mentioned by providers included health and safety regulations, Criminal Record Bureau checks, safeguarding requirements, and the Early Years Foundation Stage. These could impact positively or negatively on financial sustainability.

On the one hand quality regulations were perceived to be driving up costs for providers, through higher costs for staff training, the need to pay higher salaries to higher qualified staff, and the increase in time needed to meet paperwork requirements. The costs of these were particularly problematic to providers serving disadvantaged areas only who, as described in Section 3.3.1 above, had little flexibility in terms of their ability to put up fees and reward staff for the extra effort put in.

On the other hand, positive quality ratings were seen as having beneficial effects on provider reputations and on their ability to fill vacant places. This was

²⁰ The amount of childcare costs parents can claim under the childcare element of the Working Tax Credit was changed from 80% to 70% in April 2011.

particularly important in local areas where there was perceived to be competition amongst PVI sector providers and between PVI providers and the maintained sector. There was a perception that parents were increasingly relying on Ofsted ratings when deciding which setting to choose for their child. The other side to this was that providers with poorer Ofsted ratings felt the rating negatively impacted on their business and were frustrated when they disagreed with the level of rating they had been given.

Some childminders were unhappy with the level of requirements and regulations they had to comply with for Ofsted. The main concern was the amount of paperwork involved (“*exhausting*”), and that it was detracting from doing the job of looking after children as best as possible. A number went further and expressed the view that Ofsted requirements were putting potential childminders off the profession.

3.4.5 Changing relationships with schools

There were mixed views in relation to Academy schools. Some local authority strategists said that when local schools became Academies this could lead to less engagement with local authorities and the loss of Dedicated Schools Grant (DSG) funding to support nursery schools for early education. Academies were felt to be more likely to be looking after their own interests and less likely to want to collaborate with other parts of public services. Others did not view Academies negatively, one provider for example felt that under the Academy system the new school management was able to “*move quicker*” (*LA Strategist*) which facilitated collaborative working and joint projects with the childcare sector.

3.5 Factors at the local government level

3.5.1 Local authority intervention

Four key local authority interventions were identified as having the potential both to facilitate and challenge providers’ financial sustainability:

- **Ethos towards early education.** Local authorities that valued early education were thought to facilitate successful childcare markets. For example, local authorities that saw the early education agenda as important for wider agendas, such as reducing child poverty were more likely to ‘protect’ spending on early education and prevent funds being channelled towards other services.
- **Controlling provider fees.** In one area the local authority had introduced differentiated fee levels for the wraparound three- and four-year-old places sold by local authority funded providers. These fee levels were determined by parental income. In this local authority there were strong contrasts between the deprived and affluent districts, and private providers almost exclusively served the affluent. The policy of graded fee levels for additional hours had therefore ensured that lower income parents were not priced out of existing provision and that providers serving lower income families were able to sell places and remain financially sustainable. Providers felt the system could be improved by differentiating fee levels even further.

- **Planning decisions.** In one area a provider felt that the local authority had “allowed” (*Childcare Provider*) too many providers to set up which led to too much competition and which had negatively affected the sustainability of the providers in the area.
- **Focusing on one area of pre-school provision.** When a local authority focussed on one part of pre-school provision over others for delivering funded places there could be disadvantages for some providers. For instance, in an area where the local authority encouraged three- and four-year-old provision to be delivered by schools, this led to “kids disappearing in schools” (*Childcare Provider*) at age three for their free places. This caused providers difficulties with filling vacancies and was thought eventually to lead to less parental choice, as well as higher child turnover. Childminders also felt that “losing children to schools” or local nurseries could have a negative impact on their business where it took them time to fill those places again.

3.5.2 Local authority funding

Chapter 2 has already described overall how the extent to which childcare provision in disadvantaged local areas was subsidised by the local authority was a critical factor affecting the financial sustainability of pre-school provision in these areas. Five other key factors relating to local authority funding also had the potential to facilitate and/or hinder the financial sustainability of providers.

- **Start up and development grants.** Providers had benefited from grants to help set up new childcare settings. For example, there were grants available for new childminders in areas where new places were “really needed” (*LA Strategist*).
- **Sustainability grants.** Other providers had been able to access sustainability funding from the local authority to overcome temporary financial difficulties.
- **Subsidising add-on hours.** Local authority subsidies of additional childcare hours outside the free entitlement for three-and-four-year-olds for low income working parents was seen as helpful for sustainability by providers. It was felt to make childcare affordable to parents who would not otherwise be able to pay for it and helped full daycare providers to operate viably in areas of disadvantage because they were able to fill their full time places more easily (where there might otherwise be a lack of demand for full day care from parents on low incomes as they could not afford the provision). In one local authority this system was funded by ‘redistributing’ some of the income that existed within the authority as the example below shows.

Good practice example: local authority system enhances provider sustainability in area with mixed deprivation and affluence

A children’s centre ‘sold’ a certain proportion of their places at higher prices to high income parents. This practice was in place throughout the local authority which worked closely with the best quality providers that were attractive to parents of all backgrounds (because of the quality of the provision, for example, access to specialist support and good staff:child ratios). The funds raised from the higher fees were then re-invested in the settings or into the local authority’s system that subsidised the childcare of working parents on low incomes.

- **Unequal access to local authority funding.** Some children’s centres said that local authority funding had allowed them to subsidise their daycare places and pay a salary which was adequate to enable them to attract and retain high quality staff. However, some other providers in these areas felt that they were put at a disadvantage as a result, and argued that they should also receive local authority funding to help them retain staff.
- **Timing of funding.** Whether money for three- and four-year-old places was paid on a monthly or termly basis was very important to providers. The strong preference was for monthly payments, in order to fit with providers’ monthly outgoings such as staff wages. Being paid termly by the local authority could be problematic for providers’ cash-flow, particularly when they had concerns about their financial sustainability and had no surplus to fall back on. Inefficiencies in the system also caused problems to providers, for example late payment of funds from the local authority.

3.5.3 The number of school intakes per year

Where local authorities had a policy of only one school intake per year, childcare providers could face challenges with filling vacancies. One school intake in September, for example, meant that many of the three- and four-year-old children left providers at the same time. Filling this block of vacancies could then be difficult for providers, given that the next cohort of children became eligible for their three-year old entitlement at different times. The difficulty was therefore whether to keep places open and run with vacancies or attempt to fill places for a short time only. The providers affected by this said it had been much easier for them when there was more “*movement within the system*” (*Childcare Provider*) as a result of having a number of school intakes at different times in the year.

3.5.4 Local authority support

Support from the local authority was valued highly by providers and seen as really important by local authority strategists. For example, the business advice and support local authorities provided to committees heading up voluntary providers (largely consisting of parents volunteering in this role) was seen as really crucial for helping those providers to operate viably. Other providers valued support received from the local authorities with safeguarding requirements, financial advice, being made aware of funding opportunities, and being kept up to date with policy developments. One provider suggested that more opportunities for local childcare providers to meet to share good practice and issues affecting them facilitated by the local authorities would help providers (for example, local authorities led provider ‘forums’).

3.5.5 Local authority factors affecting childminders

Childminders were generally well linked up and supported in their areas. This included being part of a childminder network and attending local childminder groups. Children’s centres were a particularly good source of support to some

childminders, for example childminders were able to join outings and certain group activities, training to childminders was provided in/by the children's centre or the childminder network had its base in the local children's centre. Some childminders said they had access to specialist support such as speech and language specialists when needed as well as advice about safeguarding and funding sources and financial support.

Local authority support was generally highly valued by childminders and supported them in running their business. Financially childminders were supported by:

- Start up grants, funding for toys
- Short-term sustainability support
- Funding for training
- Advice, for example for identifying funding sources.

The loss of support through children's centres as a result of spending cuts had had a strong negative impact on those childminders who had experienced it. For example, childminders said they had lost access to the resources of their local children's centre (support, toys) as a result of closure or cuts. Childminders also reported cuts happening to other kinds of support; for example a "*buddy scheme*" in place for experienced childminders to support new childminders had recently lost its funding.

3.6 Wider area characteristics

Some characteristics of the wider area where providers were situated were felt to influence the financial sustainability of providers:

- **Transient populations**, in areas where populations local to providers were perceived as transient (for example areas with a high proportion of migrant families constantly moving in and out of the area) this could cause problems such as unpredictable and fluctuating levels of demand and high child turnover.
- **Living and property costs**, for example, less urban areas were perceived to have lower overheads.
- In more **rural areas there were issues with parents being able to easily access their nearest providers**, particularly for parents with a larger number of children and no car, so there was a higher likelihood of providers struggling to fill vacancies.
- The **different forms in which 'deprivation' existed in 'disadvantaged' local authority areas** affected the sustainability of providers, as the examples below show. Where a disadvantaged area bordered a more affluent area, providers who were positioned to serve both areas could attract fee paying parents as well as those wanting to access their free entitlement only. The type of deprivation that existed within areas was also influential. There was higher demand for paid-for childcare places in an area characterised by working parents on low incomes, for example, than in areas where there was high unemployment, transient populations (see above) and/or high levels of social problems such as substance misuse.

Examples of how different deprivation profiles affect provider sustainability

A full day care nursery in an area of widespread deprivation who was struggling financially would not be able to raise fees to improve financial sustainability as local parents could not afford them. It could also not increase income by providing more after school provision, as there was no demand from local parents for this, due to low employment levels.

A full day care nursery bordering a more affluent area said that they might have the option to add before and after school provision for older children to their offer, as the demand from working parents was there.

A full day care nursery in an area where those on the highest incomes lived 'next door' to those on the lowest income could easily ensure a good mix of fee paying parents and parents using their free entitlement. The income from fees was vital for the nursery's financial health.

3.7 Factors at the community level

There were five key factors that facilitated and hindered the financial stability of providers at the very local level.

- **Facilitating circumstances of individual providers**, for example having particularly low-overheads due to very little rent being charged by the community organisation or school that owned the premises. There were also providers that had property donated to them outright and providers that were supported by another organisation such as the local Housing Association which might subsidise the rent a provider paid for the premises it used.
- **Attitudes to using formal childcare** within a provider's local community could impact negatively on providers' ability to fill places, for example where local parents tended to favour using informal care.
- **Parents falling behind with paying fees** and leaving with outstanding fees owing. Such debt would usually be written off as providers did not have the resources to recover it by involving debt collecting agencies.
- Being in a **deprivation 'hot spot'**, for example being situated in the middle of a large council estate meant that providers in an area with overall mixed deprivation and affluence may not be able to attract fee paying parents to their setting compared to other local providers, because the location was unattractive to better-off parents. This meant that these providers were therefore reliant on the custom of parents from the estate, which was mainly for funded places.
- The **extent to which there was local competition** had a strong impact on the viability of settings. For example, where providers said that too many settings had been "*allowed to set up*" (Childcare Provider) in a local area, these providers reported problems with filling places and keeping their business financially sustainable. Private, voluntary and independent providers in localities with a strong presence of maintained sector nurseries felt it was difficult for them to compete with these providers and also often said that they lost children to the maintained sector when they became eligible for their three- and four-year-olds funding.

- **High levels of competition between childminders** could be perceived as a challenge in trying to remain viable, for example when childminders held the view that the local area was “*saturated with childminders*”.

3.8 Provider factors

3.8.1 The type of provider

Different provider types faced different factors that helped or hindered their financial sustainability.

- Voluntary and independent not for profit providers tended to be perceived by local authority strategists as needing more support for sustainability in terms of their business planning and financial skills because they often did not have the same level of skills and management resources that private providers had. These providers typically relied on voluntary management committees and could encounter various problems with these such as high turnover of committee members and in some cases low levels of business planning and financial skills of the committees.

Example of voluntary provider experiencing difficulties with ensuring good management of the setting

One committee-run voluntary pre-school described that it was getting increasingly difficult to recruit parents with the right type of skills to volunteer to be on the committee leading the setting. This provider felt that the demands of this role were getting higher and that parents were not prepared to make this kind of commitment.

- Being part of a chain was seen as beneficial for providers – they were seen to be in a much better position for balancing the books across the number of sites, and they were overall better resourced.
- Being protected by a parent organisation, for example, a nursery that is part of a further education college or school meant a provider could be in a much safer financial position.
- **Childminders offer something specific:** childminders saw themselves as not directly in competition for parents with group based providers because they thought they had their specific place in the market. Compared to group based providers they could offer much more flexible childcare, for example to parents working in shift work, or ‘unusual’ hours, or childcare fitting perfectly around the parents’ working hours. There was also the belief that some parents preferred childminders and chose them specifically because of the “*family environment*” childminders offer. Some childminders said parents had come to them as they had been unhappy with the quality of group based provision.

3.8.2 The business ‘skills’ and competencies of providers

As well as helping providers to make the most of the three- and four-year-olds funding (see Section 3.4.1), the general business acumen of providers was seen

as an important factor for the general financial health of a provider by local authority strategists.

- The ability to **forward plan** was seen as a facilitator to the financial health of providers, for example, looking out for and preparing for future developments through business plans.
- **Business flexibility and creativity** were seen by strategists as helping providers adapt to change and remain sustainable, for example being able to make the three- and four-year-old funding 'work' for them financially. Other examples include providers who added new or different types of services to their offer, such as offering a mobile crèche service to organisations that run courses for parents, or running holiday clubs to fill the vacancies created by term-time only funding. A few **childminders** had **expanded their business**, for example, were running a mobile crèche service to provide childcare during public events, or weddings, which helped them to be financially sustainable.
- **Fundraising** by providers was useful to increase income, for example, through organising fundraising events such as 'auctions' or approaching local businesses to support them with charity donations. Some providers were much more proactive, knowledgeable and skilled at identifying and applying for grants and fundraising than others.
- **Marketing and publicity** were sometimes useful in boosting business, for example a provider close to a main rail station said the advertising in the station had worked well. Marketing did not always work however, for example, providers talked about marketing strategies that had not brought in any additional business or they felt that where the problem was affordability, marketing would not necessarily help. Childminders employed a wide variety of marketing, for example, wearing T-shirts with their childminding logo, distributing leaflets locally, or making sure they have presence at school drop offs and pickups. Some childminders thought marketing and advertising was essential for attracting the demand that was out there and some had strong links with schools and other community organisations and thought those helped them to attract business. Overall, however, word of mouth was considered the most important way to get business. This was attributed to the nature of their service in that being home-based, what was most important was that parents felt sure they could trust the person.

3.9 Future concerns

Three specific future concerns in relation to the financial sustainability of providers were:

- The impact of the changes in the welfare system was as yet unknown. Strategists were concerned about how many children might be leaving or moving to the local authority from other areas in the near future because of the changes to housing benefit. It was difficult to predict what the impact on provision might be, for example if many more unemployed parents from other areas moved to the area.
- A lack of funding for workforce development and improving premises in the future, due to cuts in local authority funding.

- That the limited funding available will be used in the future to support lower quality providers and that the higher quality providers will lose out as a result and struggle to maintain their standards.

3.10 Summary

- The financial health of providers was affected by a range of different, interrelated factors. A key overarching factor was that in many of our disadvantaged areas, the cost of daycare was felt to be too expensive for many of the parents within them, leaving providers reliant on providing funded places (see below). This situation has been exacerbated for many providers by recent increases in the core costs of providing childcare alongside the perceived need to freeze fees and offer maximum flexibility, in order to attract as many families as possible.
- A number of other local level and provider-related factors were also important in explaining the extent to which providers were operating on a financially sustainable basis, notably: whether or not providers were able to attract better-off fee paying families as well; the degree to which local populations were transient; the extent to which childcare was geographically accessible to local families; local attitudes towards the use of formal care; local living costs; the amount of rent a provider had to pay; the extent to which there was a saturation of other provision locally; whether or not providers were losing three and four year-olds to maintained sector provision; and the marketing, fundraising and business skills of individual providers.
- In relation to central government funding, the current two, three-and-four-year-olds funding played an absolutely pivotal role in the financial situations of some providers. Providers operating in disadvantaged areas who were unable to sell many daycare places regarded it as essential to their ability to stay in business as it created demand and gave them a guaranteed and predictable income. In spite of this, the extent to which these providers felt the funding was adequate to cover their costs in a way that enabled them to remain financially sustainable varied, and depended on their experiences of the range of other factors described in the paragraph above.
- The childcare element of the Working Tax Credit was seen as very important in creating demand for childcare among low income working parents in these areas, however providers had already started to feel the effects of changes to it, with parents reducing the hours of childcare they used, or using informal care instead.
- The extent to which local authorities subsidised childcare in their disadvantaged areas was a highly influential factor in the sustainability of provision. This chapter has described how providers operating in disadvantaged areas under the free market model had concerns about their financial sustainability if they experienced negatively a range of those factors described in the above. In areas where childcare provision was funded by the local authority, the financial health of providers looked stronger, although cuts to children's centres funding in some of these areas had threatened certain aspects of this funded provision, for example subsidised daycare places. PVI sector provision in these subsidised areas faced similar issues to those in our

other areas, in addition to having to compete with the funded providers to fill vacancies and retain staff.

4 The parental perspective

This chapter explores the evidence relating to levels of parental demand for and knowledge about childcare, with particular focus on addressing the question of why parents in disadvantaged areas might say that they have been unable to find a childcare place.²¹ Evidence from this study is presented alongside evidence from the available literature. The chapter focuses specifically on the issue of finding *formal* childcare places, and focuses on ‘childcare’, rather than the issue of three- and four-year-old funded places, which is discussed in relation to local authority strategy in Section 2.2.

First, the chapter explores the evidence around whether there are enough *actual* places to meet demand in disadvantaged areas. It then goes on to look at factors which may affect parents’ *perceptions* of whether they are able to find a childcare place, notably access to information, perceptions of the suitability of different providers and of their quality. The issue of cost as a barrier to accessing childcare places is then examined followed finally by a brief discussion of wider behavioural factors.

4.1 Are pre-school childcare places in disadvantaged areas sufficient to meet parental demand in those areas?

This section sets out the evidence from the research and the literature around sufficiency of provision.

4.1.1 Evidence from our case study areas and the Childcare Sufficiency Assessment reviews

We turn first to evidence from the research interviews around the sufficiency of places in disadvantaged areas. As described in Chapter 2, the picture in terms of sufficiency varied between different local authorities and depended in particular on which type of model was operating. Under Models 1 and 2 (see Chapter 2), where childcare provision was operating in the market and not subsidised on an ongoing basis, the picture in our local case study areas was broadly one of sufficiency of places. Many of the providers were carrying vacancies for nought to twos and for three- to four-year-old wraparound care, suggesting that daycare places were available to parents within these areas. There were also pockets, however, where it appeared that parents within the disadvantaged areas might have difficulties accessing a daycare place. This occurred where the nearest daycare providers were a long walk or a car ride away and served affluent communities as well. These providers tended to be full from ‘block’ bookings from more affluent working

²¹ Previous research (Speight et al, 2010, see Section 1.1.1) has raised the question of why in spite of the apparent surplus of places in many disadvantaged areas, parents in these areas are more likely than parents in other areas to say that they have been unable to find a place with a local provider.

families and at the more expensive end of the local market spectrum. In these instances, the main choices for families within disadvantaged areas wanting more part time and affordable daycare were with voluntary and independent sector providers, who in some of our local areas only offered sessional care. Given that childminder numbers in some of our disadvantaged areas were low (see also Chapter 2), it is possible to extrapolate from this that parents in these particular areas who wanted daycare as opposed to sessional places might face difficulties finding what they needed.

In the case of the funded Model 3 (see Chapter 2), where local authority-funded providers dominated in disadvantaged areas, and where a lot of the daycare places within these providers were reserved for children in need, there appeared to be more of a shortage of paid-for daycare places for parents in these areas than in Models 1 and 2; particularly given that in one of these areas, the population was expanding rapidly. Parents who did need a daycare place would be limited to one of the few paid-for places available within the local authority-funded provision, private sector provision which was usually some way out of the area and which served more affluent communities, or one of the few childminders within those areas.

The evidence from the Childcare Sufficiency Assessments examined for this study paints a picture of internal variability in relation to childcare supply, echoing the findings of an OPM evaluation of Childcare Sufficiency Assessments, conducted in 2008 (OPM, 2008). In several of the Childcare Sufficiency Assessments this variability was evident in relation to disadvantaged areas in particular, with perceived adequacy or over-supply in some parts of the local authorities as against perceived under-supply in others.²² Variations were also evident in relation to ability to meet the childcare needs of particular age-groups. Some Childcare Sufficiency Assessments reported a surplus of three- to four-year-old places, but under-supply of nought to two and two-year-old places in their more disadvantaged areas. Others reported similar variation in supply and demand of three- to four-year-olds places in disadvantaged areas as with nought to two and two-year-old places.

This leads, however to the issue of demand; in relation to the above evidence, it was not always clear that supply had been mapped against demand to optimum effect; the method of comparing population statistics to available childcare places employed by many of our Childcare Sufficiency Assessments, for example, does not take into account the fact that there might be very differing levels of demand in different local areas.²³ Amongst local authority strategists and providers, the dominant feeling was that parental demand for daycare places as opposed to sessional care in the disadvantaged areas was low; indeed, in several local authority areas this low demand was the key reason attributed by strategists to the demise of Neighbourhood Nursery Initiatives within these areas. Low demand was felt to stem from high use of informal care, low incomes, unemployment, irregular working patterns and lack of affordability of daycare for families within

²² However, it should be noted that local authority strategists highlighted the fluid nature of figures and the difficulties in gaining an accurate picture of supply and demand, see Chapter 3.

²³ It should also be noted that the methodologies employed to assess supply and demand across different LAs varied, as did the size of the sub local authority areas used as units for analysis.

these areas. Evidence from the parental surveys of a number of the Childcare Sufficiency Assessments reviewed in this research also point to lower demand for formal childcare in disadvantaged areas, concluding that lower income families within our local authority areas were less likely than higher income families to be using formal childcare, and significantly more likely to be using informal care.

The local authority strategists and providers interviewed for this study did not therefore feel that there was significant unmet demand for daycare places in their disadvantaged areas; rather, as described by Chapter 2, their key focus was maintaining the financial sustainability of providers rather than pump-priming the supply of daycare places in these areas.

4.1.2 Evidence from the wider literature

We now turn to evidence from the wider literature around demand for childcare in disadvantaged areas, and the sufficiency of supply.

The findings from this study pointing to lower demand for daycare places in disadvantaged areas are strongly backed up by wider research. Take-up of formal childcare has been shown at the survey level to be much lower in disadvantaged areas of the country (Smith et al, 2010), and a strong general trend documented by the literature is a preference amongst families on lower incomes for informal over formal childcare (for example, Smith et al, 2010; Irving et al, 2008; Roberts, 2008).

However, national evidence also points to the fact that there is also unmet demand for childcare. Over a third of parents in England felt that there was not enough childcare available in their area (Smith *et al.*, 2010). The Daycare Trust's childcare costs survey found that in 2010, 54 per cent of Family Information Services in England said that parents had reported a lack of childcare in their area in the last 12 months (in Campbell-Barr et al, 2010). This compared to 69 per cent in Wales and 65 per cent in Scotland (Campbell-Barr et al, 2010). Parents with disabled children and parents from the most disadvantaged families were found to be particularly likely to report lack of places (Cheshire et al, 2011; Speight et al, 2010).

In relation to specific groups, research amongst lone parents has found that some of those who were *aware* of good quality, affordable childcare in their area nevertheless found difficulties getting a place; in terms of pre-school care, this was particularly associated with day nurseries (Bell et al, 2005). Where places were available, care was often not offered close enough to home or work (Green et al, 2007), for a sufficient number of hours or at the times that would best enable the lone parent to work (Bell et al, 2005). Other studies amongst the parental population more widely have also highlighted significant unmet demand for formal childcare at atypical times, or flexible childcare that adapts to meet the needs of parents whose working patterns vary from week to week (Singer, 2011).

Other, practical difficulties have also been highlighted by lone parents in a Daycare Trust study, who spoke of difficulties getting all of their children into the same setting and long waiting lists for places (Daycare Trust, 2007).

Evidence also suggests there is an actual shortage of places for parents of children with special educational needs or a disability. In a study of Childcare Taster Pilots for lone parents on income support, both lone parents and stakeholders reported lack of childcare places as a consistent problem. When places did become available, they were found to be often at some distance from the families' homes (Green et al, 2007). In a Daycare Trust survey, 49 per cent of Family Information Services in England and Wales reported that there was not enough childcare provision in their area for disabled children (Daycare Trust, 2010).

As a whole, therefore, the evidence does suggest that families living in disadvantaged areas who want a daycare place for their children might in some cases find it difficult to access a place. It also points to these difficulties being compounded if that family is looking for flexible childcare, childcare for atypical hours, or childcare for a child with a special educational need or a disability.

However, this should be read alongside the evidence from our study which strongly suggests that demand for daycare in disadvantaged areas is not high enough for providers to feel that they can easily fill these places. Chapter 3 has described how many providers in disadvantaged areas were strongly reliant instead on their sessional provision for their financial sustainability. The focus of some local authorities on shoring up supply of more sustainable daycare places in disadvantaged areas by increasing the number of childminders (see Chapter 2) was a direct result of this situation. It stemmed from their feeling that childminders could offer the daycare required in a more flexible way, without the financial sustainability issues faced by group-based providers.

4.2 Additional factors affecting perceptions of the availability of pre-school childcare

It is also very clear from the literature that parents' stated inability to find a childcare place might also not always be based on *actual* availability of childcare in their local area, but also on their *perceptions* of what is available, how well what is available fits with their requirements and whether they are actually able to afford it or perceive themselves as able to afford it.

The following section explores how access to information about childcare, and the perceived suitability and quality of childcare also affect parental views about whether they are able to find a childcare place. The role of cost as a barrier is then examined, followed by wider behavioural factors.

4.2.1 The role of information about local childcare places

Looking at the evidence relating to the information sources of parents, the overall suggestion is that lack of information about available childcare might sometimes be a factor accounting for why families might feel that they are unable to find a childcare place.

Speight's analysis of the use of and views towards childcare use amongst families with multiple disadvantages found that these families were more likely than others to say they had too little information about childcare (Speight et al, 2010). There

was also a strong association between how well informed parents felt about local childcare provision and whether they were positive or negative about local availability. The analysis revealed that those parents who said there was too little information available to them were much more likely to say that there were not enough childcare places in their local area than those who felt satisfied with the amount of information they had received (Speight et al, 2010). This suggests that lack of information, rather than lack of places accounts in some cases for perceptions that childcare is not available.

Evidence from our Childcare Sufficiency Assessments reviews and the OPM review of Childcare Sufficiency Assessments (OPM, 2008) shows that a number of parents do not appear to know how to access childcare, or find out more information about the support available to them. This suggests that lack of knowledge about what is available might be a factor affecting parents views about whether they are able to find a place. Some of the Childcare Sufficiency Assessments reviewed for our research point to lack of awareness of the availability of childcare and the help available to pay for it being particular issues for certain BME communities within their areas. This was echoed by local authority strategists who, as described in Chapter 2, Section 2.2, sometimes saw raising the awareness of families from some of their BME communities as a particular priority in terms of their work with parents.

Speight's study also showed that families experiencing the highest level of multiple disadvantage tended to receive information about childcare from different sources compared to families in less disadvantaged circumstances. They were less likely to receive childcare information through word of mouth, but more likely to receive it from Jobcentres and Jobcentre Plus (19 per cent, compared with five per cent of all families) (Speight et al, 2010). A study of working class parents in London corroborates these findings, whilst emphasising the importance of word of mouth knowledge as a trustworthy source of information. It concludes that working class parents were more often isolated from 'hot knowledge' about childcare which flowed through middle class networks and therefore lacked the social capital necessary for the transmission of up to date knowledge and information about childcare (Vincent and Ball 2001). This evidence suggests that a lack of trustworthy information might be a further factor explaining why disadvantaged parents might say they are unable to find a childcare place. Chapter 2, Section 2.2 has described how one local authority in our sample was planning to tackle just this issue, by introducing parent 'communications ambassadors' in its disadvantaged areas.

Evidence also points to a lack of information about suitable childcare for parents with disabled children specifically. In a survey of 1192 parents with a disabled child across England, 53 per cent said that it was difficult or very difficult to access suitable information (KIDS 2011). The 2009 Childcare and Early Years Survey of parents pointed to the need for better information for parents with disabled children, as substantial proportions of parents were not able to give an answer to questions about the availability or suitability of local provision for their child (Smith et al, 2010). Other studies amongst parents with disabled children have also pointed to perceptions of a lack of accessible, official information about local childcare choices for their child (Daycare Trust, 2007; Cheshire et al, 2011).

4.2.2 Perceptions of suitability of childcare places

The evidence also suggests that parental perceptions of the *suitability of local childcare choices for their needs* might be a further factor affecting why they say they have not been able to find a place.

In relation to type of setting, studies have consistently found a strong preference for group-based care over childminding amongst certain families. In particular, studies have highlighted how parents termed working class or 'disadvantaged' express anxieties and disapproval towards the concept of 'stranger' childminders operating in a private place, and that childminders are often perceived as an unregulated group (Vincent, Braun and Ball, 2008; Roberts, 2008; Irving, 2008).

By contrast, these parents have been found to display much more trust towards nurseries, where the public space is perceived to be open to scrutiny and the workers policed by each other (Vincent, Braun and Ball, 2008). This is corroborated by Roberts' examination of the role of trust in choosing formal childcare. He found that the very concept of an 'organisation' was a fundamental basis of trust for some parents. An organisation implied multiple actors supervising behaviour and organisational structure which was controlled and monitored (Roberts 2011). This evidence has been found to stand for lone parents as well; studies have found that providers based in or attached to schools and nurseries were typically considered most trustworthy, while the strongest concerns about trust and safety were expressed in relation to childminders (Bell et al, 2005).

The implication of these findings for our research question is that some families in disadvantaged areas might say that they have been unable to find a local place if the only vacancies available were with childminders. It suggests that if local authorities are to focus on childminders as part of the solution to providing capacity for the roll-out of the two-year-old entitlement and meeting supply of daycare places in disadvantaged areas in a flexible and sustainable way, this work will need to be accompanied by efforts to change perceptions about childminders amongst some groups of parents (Chapter 2, Section 2.2 has described how this was already happening in some local authority areas).

There is also evidence that when looking for group-based care, some types of families might be operating in a different paradigm to others, for example starting from the outset with the assumption that some providers were '*not for them*'. This is the strong implication in a study of working and middle class parents in two London communities, which found that working class parents interacted exclusively with state or voluntary sector provision (Vincent, Braun and Ball, 2008). This seemed to be corroborated by findings from this study; the private providers within walking distance of our disadvantaged areas were usually almost exclusively serving neighbouring affluent communities; although cost and lack of flexibility with sessions as well as perceptions of belonging might well account for this.

In relation to parents of disabled children, there is evidence that parental perceptions about the suitability of the care provided might also be as important a factor in explaining reported difficulties in finding a place as *actual* lack of places. A Daycare Trust study amongst parents of disabled children found that reasons given for not using formal childcare included the perception of the lack of suitably trained workers and a lack of appropriate facilities as well as a lack of places

overall. Other perceived gaps included ability to tailor to individual child's needs, and ability of settings to take both disabled and non-disabled children (Daycare Trust, 2007). In a study of the Disabled Children's Access to Childcare pilots, the most commonly reported reason for difficulties in finding suitable childcare was the perception of the lack of appropriate childcare to meet the child's needs (Cheshire et al, 2011). An evaluation of the Disabled Children's Pilot of the Childcare Affordability Pilot found that a high proportion of participants with disabled children felt that they were the expert in their children's disability, which made them doubt whether a formal childcare provider could provide the same quality of care. (Hall et al, 2011).

Parental perceptions about the (lack of) suitability of care for their child with SEND was also a common theme across the parental surveys in the ten Childcare Sufficiency Assessments reviewed for this research, in particular a lack of confidence about finding a setting where practitioners had the confidence and experience to support their children. Chapter 2, Section 2.2 describes how improving access to childcare for families with a child with SEND was key ongoing work in many of our local authority areas.

4.2.3 Perceptions about the quality of childcare places

The evidence also suggests that parental attitudes about the quality of local provision might also explain why some parents say they have been able to find a childcare place. In particular, it seems that low expectations about quality might prevent parents from regarding formal childcare as an attractive option.

At the national level, families with multiple disadvantage are much more likely to be negative about local provision than better-off families (Speight *et al.*, 2010). This finding is reiterated in the Childcare Sufficiency Assessments of one of our local authorities, which found a strong correlation in its parent survey between levels of disadvantage and negative perceptions of the quality of local childcare. These perceptions may be related to variation in the use of formal childcare in different areas, with perceptions of quality being related to use of formal care, which are in turn lower in deprived areas. It might equally well reflect lack of access to up to date official information (discussed above) or real geographical variations in quality; a recent report by Ofsted found that the quality of childcare was generally poorer where there was more poverty and social deprivation (OFSTED 2009) (in Campbell-Barr et al, 2010).²⁴

4.2.4 The role of cost

Evidence described below also strongly suggests that cost may play a role in explaining why some families might regard formal childcare as inaccessible and therefore report that they are unable to find a place. In our interviews, the

²⁴ In our study specifically, Chapter 3 has described how whilst in some LA areas quality was variable, in the funded models in particular the picture in relation to quality went against the national trend, and the highest quality providers tended to be the LA-funded providers situated in disadvantaged areas.

evidence from local authority strategists and providers was that some families in the case study areas struggled to pay the costs of childcare. A number of providers said that they were owed money by families using their services. Providers also spoke about families stopping using them, or reducing the number of hours they sent their children to them for, as a result of lack of ability to pay, which they either related to the recession, to changes to the Working Tax Credit system or to low income more broadly. More generally, the low demand for daycare in our case study areas was attributed by both strategists and providers to be related to its lack of affordability for many of the families within those areas.

The picture painted by the review of Childcare Sufficiency Assessments conducted in 2008 (OPM, 2008), and also from our review of ten Childcare Sufficiency Assessments for this study is also that current childcare is unaffordable to some groups of parents, or at the 'upper limits' of what they can afford; in the disadvantaged parts of one of our local authority areas, for example, fewer than half of parents surveyed felt that childcare costs were reasonable. In others, some groups of parents reported that the prohibitive cost of childcare was their main reason for using informal care.

That disadvantaged families are more likely to view cost as a barrier to accessing formal childcare is also evidenced by the 2009 Childcare and Early Years Survey of parents which found in 2009 that 37 per cent of parents thought childcare was unaffordable, with cost reported as a barrier to childcare use (and work) particularly among low-income families, lone parents and those not currently using formal childcare (Smith *et al.*, 2010).

There is a need, however, to tease out as far as possible whether cost poses an *actual* barrier, however, or whether it is only *perceived* to be a barrier, due to lack of information, lack of knowledge of financial support, or lack of knowledge about where to go for advice about help with childcare costs.

On this subject, there is strong evidence that cost does in some cases pose a real barrier to some families being able to access formal childcare. Speight's study of the use of and views about childcare amongst families with multiple disadvantage found that those experiencing the highest level of multiple disadvantage were more negative about the affordability of local childcare than those in better circumstances. Importantly, this association persisted even after controlling for families' use of formal childcare (which was generally associated with positive perceptions of affordability) and their views on how well informed they are about childcare provision in their local areas (with low levels of information being associated with negative perceptions of affordability) (Speight *et al.*, 2010).

Other evidence also suggests cost can pose a real barrier. A study of lone parents found that some of those who felt that they could not afford to pay for childcare were quite well informed (Bell *et al.*, 2005). Other work amongst lone parents on income support has suggested that whilst the childcare element of the Working Tax Credit is seen as helpful, the costs of childcare can still pose a genuine barrier to lone parents who are not in work as, they still need to find a relatively well-paid job and a relatively low-cost childcare providers in order to make ends meet (Green *et al.*, 2007). A Daycare Trust study found that in many cases lone parents needed someone to collect and/or drop off their children to and from school or the childcare settings, and that this, together with need to work atypical hours in many jobs, increases costs (Daycare Trust, 2007).

In an evaluation of the Neighbourhood Nurseries Initiative, cost was also found to be an explanatory factor for why only 10 per cent of work ready parents in disadvantaged areas were using Neighbourhood Nurseries Initiatives, particularly amongst groups with low employment levels who could not afford daycare without an income from employment and the childcare subsidies available to working parents (La Valle et al, 2007).

That cost is a genuine barrier to access is reinforced by evidence amongst childcare users, which shows that around a fifth of families paying for childcare struggle to meet the costs, and that this proportion is significantly higher for lone parents, families with low incomes and those living in deprived areas (Smith et al, 2010). Further evidence is provided by a study of working class parents in London which shows that the private sector with its diversity of provision was financially inaccessible to those families (Vincent et al, 2008).

Evidence also points to parents with children with special educational needs or a disability having in some cases to pay significantly more than other parents, and cost therefore posing a real barrier. In a recent survey amongst parents with a disabled child, 33% said the cost was too expensive, and many were being asked to pay for additional staff to support their child to access childcare (KIDS, 2011). Families in other studies have been found to be paying five times more towards childcare costs than families with no disabled children (Every Disabled Child Matters, 2006).

However, the literature also suggests that the perception of childcare as unaffordable may in some cases be due to a lack of information about the actual cost of childcare and the financial support available to help families access it (OPM, 2008). This is reinforced by our review of Childcare Sufficiency Assessments for this study; in some areas, take-up of the childcare element of the Working Tax Credit and knowledge about it, was low; in one local authority area, for example, only 49% of parents were aware of the childcare element of the Working Tax Credit, in another 41.5% of parents felt that information about tax credits was difficult to understand.

The perceptions about the lack of affordability might be also be related to lack of information. This is corroborated by Speight's analysis in relation to families with multiple disadvantage, which found that those who felt that they did not have enough information about childcare were particularly negative about its affordability (alongside availability and quality) (Speight et al, 2010). That negative perceptions of cost are closely related to lack of information is also illustrated by research amongst lone parents specifically. This has shown that parents' perceived difficulties relating to paying for childcare were associated with a lack of awareness of local provision, an assumption that some or all formal childcare was '*not for them*' or a lack of knowledge or understanding of the financial support available to help them with their childcare (Bell et al, 2005).

4.2.5 The role of wider behavioural factors

Finally, it is important to note that evidence suggests that some of the factors discussed above relating to why parents in disadvantaged areas might say they have been unable to find a childcare place shift in importance depending on *whether the family is accessing or has accessed* formal childcare. Speight's analysis in relation to multiple disadvantaged families found that accessing

information, both through the Family Information Service, and more widely, was strongly linked to *existing childcare use*. Those families who did not use childcare, or did not use formal provision, were much less likely to have accessed information. This in turn means that those groups known to have lower rates of formal care use (non-working families, lone parents, those with lower incomes) were less likely to have had access to recent information about childcare, more likely to say they had too little information on childcare and more likely to say they were unsure about the availability, quality and affordability of childcare in the local area (Speight *et al.*, 2010). This suggests that parents in disadvantaged areas who say they have been unable to find a childcare place are more likely to be those who are not currently accessing formal childcare for another child, and/or who have not accessed formal childcare in the recent past.

A further contextual factor to note is that research has repeatedly found (for example, Roberts, 2008; Bell *et al.*, 2005; Smith *et al.*, 2009) that the parents who are most inclined towards work are the least likely to experience long-term barriers in accessing a formal childcare place; that is, if the will to work is strong enough, information is sought and barriers can more easily be overcome. A study of the Disabled Children's Pilot of the Childcare Affordability Pilots illustrates this well, finding that the most important factor enabling the take up of work and childcare was that the participant felt ready to work. Although the participants who were ready to work reported that they had been asked to pay more than the standard rate of childcare because of the level of attention their child needed, or the specialist skills the provider needed in order to offer suitable care, participants understood this reasoning and were happy to pay more if necessary as finding the right provider was felt to be more important than cost (Hall *et al.*, 2011). Whilst genuine barriers in terms of availability, cost, and perceptions of suitability and quality have been set out above, it might therefore also be the case that some of the parents in disadvantaged areas who say that they are unable to find a childcare place are those who are further from being ready to enter paid employment.

4.3 Summary

- Evidence from the research interviews, Childcare Sufficiency Assessments reviews and literature illustrates that the reasons why parents in disadvantaged areas might say they have been unable to find a childcare place are varied and multi-layered.
- On the one hand, there is evidence that in some areas there might be a genuine shortage of places – particularly of places with group-based providers, which are the preference. There are also strong indications that for some families, the cost of formal childcare is genuinely out of their reach. It also suggests that there is a shortage of places for parents who work atypical hours or require flexible childcare, and for children with disabilities.
- The findings also point to strong cultural and attitudinal factors narrowing choices for families, for example preference for group-based care over childminders, perceptions around what sort of childcare is 'for them', and attitudes about quality and in the case of children with disabilities or SEN the appropriateness of the setting and skills of the staff.

- The evidence also shows that in some cases *perceptions* of availability and affordability, rather than the actual situation, are what inform parents' views. It is clear that negative perceptions of availability, cost and suitability stem in some instances from lack of information.
- Given that even those disadvantaged parents who feel that they have enough information are still, according to the evidence, more negative about the quality and affordability of childcare than parents from better-off families, there appears to be a need for other strategies to tackle perceptions of the quality and affordability of local childcare provision (Speight et al, 2010).

5 The roll-out of the two-year-old entitlement

Local authority strategists and providers were asked their views on the proposals to roll-out the entitlement to early education for two-year-olds. Generally, there was strong support and enthusiasm for the roll-out. Providers and Local authority strategists interviewed felt that early education for two-year-olds would lead to improvements in children's behaviour, skills, speech, language and confidence and a reduction in safeguarding concerns.

As well as positive outcomes for children, local authority strategists and providers identified potential benefits and opportunities for parents, the local community and providers, as well as challenges and concerns about the roll-out. This chapter describes the benefits, opportunities, and challenges that were identified and then goes on to discuss:

- capacity within pre-school provision for the roll-out, and the circumstances under which providers will have the capacity to take two-year-olds under the future entitlement;
- a range of facilitators and barriers to achieving sufficient capacity for the roll-out identified by respondents;
- the activity and planning that local authorities were doing in advance of the roll-out.

5.1 Anticipated benefits and opportunities of the roll-out

Local authority strategists and providers identified the following benefits and opportunities for parents, the local community and settings in relation to the roll-out of the early education entitlement to two-year-olds:

5.1.1 Benefits for parents and the local community

Three benefits for parents and the local community of the roll-out of the free entitlement for two-year-olds were identified.

(i) Meeting unmet parental demand for free places: Providers thought that the roll-out of the policy would satisfy unmet parental demand for free childcare. There was general consensus among providers that there was demand locally for free two-year-olds places. Our sample included providers with waiting lists for two-year-olds places (for families that could not afford to pay fees). Only in a few areas with a perceived high level of attitudinal or cultural barriers to using formal childcare was this view held more cautiously.

(ii) Being able to build stronger relationships with parents and children: Providers anticipated that children referred under the two-year-old entitlement would come to the setting younger than they would otherwise have done and might also stay longer, which would allow staff to build close and trusting relationships with the parents. They felt this would also provide the opportunity to work with parents when their child was younger, when they might be more 'open' to receiving support.

(iii) Parental work and education opportunities: Local authority strategists and providers mentioned that the roll-out might provide opportunities for linking the policy with other structures and initiatives; for example where a provider was attached to a university there was a suggestion that there might be opportunities for linking the two-year-olds entitlement to initiatives to improve parents' education. Local authority strategists suggested that the roll-out could also be used further to improve links between the childcare sector and Jobcentre Plus in order to help support parents into employment. Providers suggested the effect of parents taking up employment could be maximised if the policy was combined with helping low income parents with paying for childcare through the childcare element of the Working Tax Credit, irrespective of the hours they work.²⁵

5.1.2 Opportunities for providers

Respondents identified six main opportunities for providers that the roll-out would bring:

(i) Creating more demand for childcare: some providers felt that the roll-out will also create additional demand for places, and that this could help settings' financial sustainability by helping them to fill vacancies. Those providers affected by the issue of "*children disappearing into schools*" (Childcare Provider) at age three thought that the roll-out will help alleviate the problems created by the local authority policy that the three- and four-year-old entitlement should be taken in schools (see Chapter 2, Section 2.1.7 – Model 4), because vacancies which had come about as a result of this policy could instead be filled with two-year-olds with the entitlement. The view of the roll-out as a great opportunity to help fill vacant places was a very prevalent theme amongst providers based in areas that were characterised by wide-spread deprivation (compared to areas with pockets of deprivation and which bordered more affluent areas). Providers in these areas anticipated, based on their experience of the current two-year-old offer, that the funding level for the two-year-old roll-out would be comparable to or more than the fees they were able to charge parents and that the roll-out will be an opportunity to become more financially sustainable in the future.

(ii) Continuity and reliability of income: there was also a perception amongst some providers that the roll-out may result in less child turnover and children staying in settings longer, for example children coming at two and staying on for their three- and four-year-old entitlement. Settings operating in areas characterised by wide-spread deprivation (see bullet above) felt that this would help their financial sustainability; a larger proportion of their income would be predictable and guaranteed than if they relied on parental fees for these places, and this in turn would make forward planning easier.

(iii) A positive stimulus in a difficult economic climate: The planned roll-out of the two-year-old free places was also seen as way to counteract, to some extent the consequences of the recession for providers. In particular a number of providers felt that the more reliable income they would gain, coupled with higher

²⁵ Prior to April 2012 couples responsible for children with one partner working at least 16 hours a week could get Working Tax Credit. From 6th April 2012 the rules for couple families changed so that joint working hours usually need to be at least 24 a week in order to qualify for Working Tax Credit.

staff ratios needed for two-year-olds, could help prevent redundancies which might otherwise have occurred given current cuts and changes to children's centres funding.

(iv) Raise awareness of the benefits of early education: There was also the anticipation amongst providers and strategists that the roll-out of the policy would help to raise awareness of the benefits of early education generally. For example, they anticipated that more parents would see the benefits for their children of early education through the free places, which would then cascade to other parents. The hope was that rolling out the entitlement to many more two-year-olds might help establish an 'early years culture' in areas where there was historically low demand for childcare.

(v) Achieve social mix in settings: Some providers, notably those with a certain ethos such as a voluntary provider with a mission to serve the local community, or those that were aware that they served exclusively either less or more prosperous families, thought that roll-out would allow them to achieve more of a 'social mix' of children in their settings. A provider based between a large deprived council estate and a pocket of affluence, for example, thought that the roll-out would make the setting's provision more accessible to parents from the deprived estate.

(vi) Raising quality and improving skills of the workforce: Some providers expressed the view that the roll-out would enhance the experiences of staff and raise overall skill levels in the workforce by giving staff the opportunity to work with children with different levels of need. This opportunity to focus on early education and early intervention was seen as beneficial for the job satisfaction of staff. Local authority strategists felt that the roll-out may mean added pressure for providers because of quality requirements, but were in agreement that this was a positive move as they felt that achieving quality is always a key priority. The view was also expressed by one childminder that it would be good for childminders to deliver funded places rather than just provide "*care before the children go to nursery*". They felt this would enable childminders to gain experience in working with children who might have higher levels of need.

5.2 Anticipated challenges and concerns about the roll-out

Many of the challenges identified in relation to the roll-out of two-year-old entitlement were based on underlying concerns about the short time scale for the roll-out and uncertainty about how it will work in practice.

There was a strong feeling among providers and local authority strategists that there was an enormous amount of preparation needed for the roll-out, that extremely careful planning was required and that the challenges of the task had been underestimated by government. Tasks that were seen as being necessary for the roll-out were:

- Large changes to facilities of childcare providers to allow them to care for two-year-olds, such as changes to toilets and nappy changing facilities, smaller room sizes.
- Changes to the workforce, such as more staff with qualified teacher status, and the need to raise safeguarding knowledge across the workforce.

The feeling was also that whole systems need to be reviewed or put in place such as the capacity of local authority staff to support providers with children who have SEND, monitoring and reporting systems, for example for monitoring take-up and outcomes; family support provision, and the capacity to identify children at eighteen months old.

There was a general concern amongst local authority strategists about the “colossal” (*LA Strategist*) increase in the number of places to be delivered in relation to the timescale in which this had to be achieved. The roll-out was described as “double-edged” (*Childcare Provider*) by respondents who fully supported the policy but had strong concerns that rolling out the free entitlement too quickly could result in negative unintended consequences (such as two-year-olds taking up their entitlement at settings which were not of sufficient quality or having to make multiple transitions between settings for their two and three-and-four-year-old entitlement, discussed in Section 5.2.2 below). There was also widespread uncertainty about the specific plans for the roll-out across the sample.

5.2.1 Challenges posed by the roll-out for providers

Local authority strategists and providers identified five main challenges in relation to the roll-out relating to providers specifically:

- (i) **The level of funding;**
- (ii) **Unequal opportunities for different types of providers;**
- (iii) **Tension between maximising the number of places a provider can deliver and the wellbeing of individual children and parents;**
- (iv) **Avoiding stigma and social segregation;**
- (v) **Dealing with the high number of eligible children;**

(i) The level of funding: Concerns about funding levels for the roll-out were mainly based on experiences of the current two-year-old offer and the funding for the current three- and four-year-old entitlement. They were expressed by different types of providers such as private nurseries bordering affluent areas, smaller providers in highly disadvantaged areas relying heavily on government funding streams for filling their places, and children’s centres. The views ranged from concerns of providers who were in a financially secure position that becoming involved in delivering the places would limit their financial success, to concerns from providers that were already struggling that becoming involved posed a serious threat to their financial sustainability.

There were six main reasons underlying the concerns about the level of funding:

- **Level of need of children and parents entitled to free places:** In addition to providers needing different skills to care for two-year-olds in comparison to older children it was felt that children and parents entitled to free places were likely to need higher levels of support than fee paying families. Providers described that under the current two-year-old offer, children were more likely to need additional support with behaviour and speech and language and parents tended to need support with parenting and other issues such as

housing. It was felt that children with complex needs “*realistically*” (Childcare Provider) needed one-to-one support in order to improve their outcomes. It was also felt that there were more likely to be safeguarding concerns for these children. There was concern too about whether the funding for the roll-out of free places would recognise the additional resources needed to support children with this level of need. There was also the anticipation, however, that when the eligibility criteria was broadened for the roll-out then eligible children and families would not require the same level of support as those under the current offer.

- **Additional administrative demands:** Linked to the above point, respondents were also concerned that the roll-out would entail additional ‘behind the scenes’ work for staff in childcare providers such as:
 - extra staff time required for meetings with agencies, such as attending multi-agency panel meetings for children registered as a Child in Need;
 - arranging external support for children with additional needs (for example, speech specialists);
 - the large amount of paperwork involved in delivering the places, for example the monitoring and reporting of individual children’s development.

Additional staff would then be needed to cover for the staff time “*off the floor*” (Childcare Provider).

- **Term-time funding:** The funding of the existing two-, three- and four-year-old free places was predominantly paid once a term and most children were only able to take up the places in term time. Term-time funding caused cash flow problems for providers that had monthly outgoings (most importantly staff wages), particularly in settings where there was no surplus to fall back on. It was felt (by one childcare provider) that term-time funding was more suited to certain kinds of providers, such as “*pre-school type of providers*” that offered a fixed number of sessions, morning or afternoon in term time only. They felt that other provider types, such as private full day care nurseries offering wrap-around care to working parents were at a disadvantage. (See Chapter 3, Section 3.4.1 for reasons why the three- and four-year-old funding worked better for some areas than others).
- **Increasing costs:** Providers said that their outgoings, notably for rent, food and electricity, were continuously increasing. There was concern that this would not be taken into consideration in the funding of places for the roll-out of the two-year-old entitlement.
- **Gap between fees and level of funding.** For childminders a particular concern was the difference between the funding for the three-and-four-year-old places and how much they charged in fees. There was a view that delivering places under the roll-out would not be viable if the funding gap continued to exist and parents were not able to make up the difference. One childminder who cared for a child under the current scheme for vulnerable two-year-olds said that she had taken the child on as a “*gesture of good will*” at a funding level lower than her fees.
- **Staff: child ratios for childminders.** It was suggested that government should consider the different staff:child ratios necessary for childminders and

group based care in funding childminders to deliver the free places – childminders are not able to work with as many children as staff in group settings can. This means the funding level for childminders taking two-year-olds under the entitlement would have to be slightly higher than for group providers if the delivery of the places was to be viable for childminders.

(ii) Unequal opportunities for different types of providers: Some providers were concerned that unequal opportunities for different types of provider to get involved in the roll-out might have a negative impact on competitiveness and eventually the sustainability of some providers. They emphasised the need for a ‘level playing’ in order for all providers to be able to benefit from the roll-out. These concerns were based on experiences of the existing free entitlements for two-, three- and four-year-olds. For example, in some areas PVI providers claimed that children’s centres were funded at a higher level than them for delivering places under the current two-year-old offer, even though they felt they were able to offer the same if not better quality of provision. This meant the children’s centres were able to pay their staff better which helped with staff retention. PVI providers had also experienced children leaving their settings at age three to take up their free three- and four-year-old entitlement at a school. The same providers were concerned that under the roll-out, two-year-olds might also take up their free places predominantly in schools, which would mean further vacancies for PVI providers. There was concern that if some providers were invested in more than others as part of the roll-out, this could result in gaps in provision and less choice for parents.

(iii) Tension between maximising the number of places a provider can deliver and the wellbeing of individual children and parents: Ensuring the wellbeing of individual children and parents was thought to be a challenge for the roll-out by local authority strategists and providers. Concerns were raised that to maximise the number of places a childcare provider can supply, it is most efficient to group the free hours over two and a half days. However, providers delivering places for two-year-olds under the current offer felt it was more beneficial to a child’s development to have shorter sessions spread over a greater number of days, as too lengthy sessions in a busy group setting were “*too much*” (*Childcare Provider*) for vulnerable two-year-olds. In addition, it was felt that the gap between days at the setting, if the hours were grouped into two and a half days, could be detrimental to young children who needed more continuity.

(iv) Avoiding stigma and social segregation: Some providers were concerned about that taking a large number of children with funded places might lead them to become a ‘stigmatised’ setting. They defined this as a setting which was rejected by fee-paying parents and which found it difficult to attract good staff. There was also concern across the sample that in trying to meet the terms of the roll-out it was important to avoid “*bundling two-year-olds into places of disadvantage*” (*LA Strategist*), as it was felt that children from less advantaged backgrounds benefit enormously from mixing with children from more advantaged backgrounds. Past negative experiences in this respect were mentioned, for example where parents had thought of a children’s centre as “*social services*” (*Childcare Provider – children’s centre*). Related to avoiding stigma was the challenge about how to advertise the free education places; whilst it was felt to be possible to publicise the three- and four-year-old entitlement as ‘the right to early education for every child’,

the selective entitlement criteria for two-year-olds meant that this would not be possible for the two-year-old entitlement.

(v) Dealing with the high number of eligible children. Providers were unsure how to deal with high levels of demand, for example whether they would have to prioritise giving places to ‘disadvantaged’ two-year-olds over ‘non disadvantaged’ three-year-olds. There was also concern that that parents may turn up in large numbers at the settings in order to access the free places, and they were unsure of how to deal with this.

5.2.2 Challenges posed by the roll-out for local authorities

There were seven key challenges identified at the local authority level by providers and strategists.

- (i) Quality standards required for delivering two-year-old places**
- (ii) Developing systems to identify and monitor eligible children**
- (iii) Transitions between free two-year-old places and the three- and four-year-olds entitlement**
- (iv) Concerns about the availability of specialist and wider support**
- (v) Some children missing out under broader income based eligibility criteria**
- (vi) Cultural and attitudinal barriers to using childcare**
- (vii) Involving a range of providers to ensure parental choice**

(i) Quality standards required for delivering two-year-old places. Not maintaining or achieving the necessary quality standards was seen as a big challenge for the roll-out. Concerns can be grouped into the following key areas:

- It will be very challenging to achieve the quality standard necessary in the large numbers and broad range of settings needed to provide sufficient places under the roll-out.
- Providers without the necessary quality and skills were those most likely to have vacancies and therefore “*will try to get the two-year-olds*” (*Childcare Provider*) in order to fill vacant places.
- Local authorities may struggle to give sufficient support to providers to allow them to meet the family support skills and the Early Years Foundation Stage requirements.
- There may not be enough available qualified staff with the right skills and experience based within the local authority.
- Ofsted ratings were not a reliable enough indicator for ensuring that providers are of sufficient quality for taking on two-year-olds under the entitlement, due to inconsistencies between inspectors and providers being able to prepare in advance for inspections.

- How to continue to fund the Early Years Practitioner status and graduate leader training in order to meet quality standards.

Due to these concerns about quality standards respondents felt that mechanisms would have to be in place to prevent children going to inadequate quality settings and that the quality of settings and benefits to children would have to be monitored closely by government.

(ii) Developing systems to identify and monitor eligible children. The development of effective systems was thought to be a challenge for the roll-out, crucially for identifying and targeting eligible children. There was also uncertainty about the extent to which local authorities would have to be proactive in identifying eligible parents or not. Respondents felt it was important that smooth application processes were in place as well as mechanisms to support parents in the case of problems. It was also felt that there needed to be systems for tracking and ensuring the consistent uptake of places and monitoring of outcomes for children.

(iii) Transitions between free two-year-old places and the three- and four-year-old entitlement. In planning the roll-out of the two-year-old places it was felt important to consider how children taking two-year-old places would move on to three- and four-year-old places and avoid a situation where children make too many transitions between different providers before they start compulsory school.

Under the current two-, three- and four-year-old systems there were instances where children who received two-year-old provision, were then affected by a funding gap for one or two terms in which they received no provision before they were able to take up their three- and four-year-old entitlement (often at another setting as the place at the provider they used may have been taken by another child). It was felt that transitions between providers were generally a risk to children's wellbeing when they were so young. The example below describes how many transitions between providers could be brought about when the two-year-old and three- and four-year-old places are not aligned.

Hypothetical example of many transitions between providers before compulsory school

Working parents on a low income choose an affordable provider for their one-year-old. The parents have to place their child in a different setting in order to take up the two-year-old offer because the provider they used for the child when she was one was not delivering the two-year-old places as it was only rated 'satisfactory' by Ofsted. The child takes up a free place at a private nursery when she turns two in January.

The two-year-old place ends in January the following year when the child turns three, but the child is not able to take-up her three-and-four year olds free entitlement at that point, because she is not eligible to the entitlement until the April after her third birthday. The parents need childcare to work but cannot afford the fees of the nursery where the three-and-four-year-old entitlement will be available without the free hours, so start using a childminder in combination with informal care in order to bridge the gap until their child starts her three-year-old entitlement in a nursery class in September.

There was also concern about providers' capacity to deliver three- and four-year-old places if a larger proportion of their vacancies were used by two-year-olds in the future.

(iv) Concerns about the availability of specialist and wider support. Based on the experience of delivering the current two-year-olds offer, the view was expressed across the sample that the families eligible under the roll-out will have wider support needs in terms of speech and language, financial and parenting issues. As well as concerns that these needed to be recognised in the funding levels for the roll-out, as discussed above, there was a concern that there would not be sufficient capacity among specialist and wider support services (such as family support workers or speech and language therapists) to provide the support needed for the increasing numbers of two-year-olds and their families accessing free places.

(v) Some children are missing out under broader income based eligibility criteria. The development of a clear and ethical eligibility system was seen as a challenge for the roll-out and there was concern this would not be in place by the time the entitlement starts. Respondents were concerned in particular that the broad income based criteria in combination with limited capacity might mean some children lose out 'unfairly'. There was anxiety for example that the following groups of children may be less likely to receive the free places under wider eligibility criteria:

- Children of working parents on low incomes, who would miss out on places compared to non-working parents;
- Children with SEND, who were really benefiting under the current two-year-olds offer but who may be less likely to receive places under income based eligibility criteria;

(vi) Cultural and attitudinal barriers to using childcare. These were identified in areas where the eligible white population was perceived to have a historical culture of not valuing early education and relying on informal care, or where certain ethnic groups and nationalities with barriers to using formal childcare were heavily represented. In these areas there was a concern that it would be difficult to encourage parents to use the free two-year-old entitlement.

(vii) Involving a range of providers to ensure parental choice. The concern was raised that it would be challenging to ensure that the full range of different types of childcare providers get involved in delivering the free places in order for parents to have a choice of settings about where to send their child. For example, there were concerns about:

- How to incentivise private nurseries that were able to fill their places with fee paying parents to take part in the roll-out;
- How to ensure the entitlement funding 'works' for different providers financially and operationally (for example, those operating throughout the year rather than term-time only);
- How to ensure not-for-profit settings which often had excellent standards of provision but did not have the funds able to make investments necessary to deliver the two-year-old places, such as adapting facilities and employing an additional member of staff, can get involved.

- Childminders were of the opinion that parents chose them rather than group provision for specific reasons, so it was important to make sure childminders will be involved in the roll-out to maintain parental choice in provision.

5.3 Capacity within pre-school provision to deliver places for two-year-olds

Chapter 2 described the overall capacity within the local childcare markets for the roll-out of the two-year-old entitlement.

- **Within Models 1 and 2** there was capacity for two-year-old places. Some providers were intending to use the entitlement to fill vacant places or to convert empty baby or three- and four-year-old places, so did not think they would need any adjustment to premises. Others thought they would need funding to convert premises. There were general concerns over the amount of staff time it was anticipated that supporting the two-year-olds would require, and also about how to fund training to improve quality.
- **In Model 3**, which was characterised by local authority funded daycare in children's centres and day nurseries, there was no or very little space within these providers. As a result, it was thought that capital funds would be needed to extend premises or build new buildings. Here the PVI sector was limited in disadvantaged areas, and there were concerns over the quality of some of the PVI provision that there was.
- **In Model 4** there was no space within children's centres, which delivered much of the funded local authority provision. There was capacity within the voluntary sector providers who were already offering subsidised places. Whilst these providers did not think they would need adjustments to premises, they did however feel that funding to increase staff ratios and meet the additional needs of two-year-olds would be necessary.

There appeared to be a great amount of willingness and capacity on the part of providers to take two-year-olds under the entitlement, and a huge amount of preparation already taking place. However, risks to achieving sufficiency were also identified, and there was the view across all the Models of different local childcare markets that funding would be needed to achieve a sufficient number of places for the roll-out. This means that the overall picture is one of uncertainty and significant challenges. The factors that affected the willingness and capacity of providers to be willing to be involved in the roll-out are examined in the following section.

Capacity of childminders to get involved in the roll-out

Whilst there was a general feeling among childminders that they offered very suitable provision for young children like two-year olds, the extent to which childminders were interested in taking on two-year-olds as part of the roll-out varied. There were childminders who saw the entitlement as an opportunity to fill places for a predictable number of hours each week and said they would be happy to get involved. Others were willing to take a two-year-old under the entitlement if

they had a vacancy. Generally, however, childminders appeared to be less interested in delivering places under the roll-out than group-based providers. This stemmed from a shared sense that the policy was primarily relevant to group-based providers. In addition, there were concerns that involvement would carry burdensome administrative requirements and was therefore not worth it if they were able to fill their places with other children (see also Section 5.5, below).

5.4 Facilitators to sufficient capacity for the roll-out

There were six factors that appeared to be key in the willingness and capacity of providers to take two-year-olds under the entitlement.

- (i) **Vacancies available:** Providers that tended to have problems filling places were more likely to say they have capacity to take on two-year-olds than those that were full with waiting lists.
- (ii) **Cost of delivering places:** Providers who saw delivering places under the entitlement as financially advantageous were more willing to take two-year-olds than those who thought there was a financial risk.
- (iii) **Balance between funded and fee paying places:** Providers who relied on government funding streams (such as the three- and four-year-olds free places, or the current two-year-old offer) to remain in business were more likely to be willing to take two-year-olds in the roll-out than those who took a large proportion of their income from fee-paying parents. Providers who needed to make a profit, for example full day care nurseries catering for working parents, tended to be less willing to get involved in the entitlement because their focus was on attracting fee-paying parents who wanted full day care.
- (iv) **Current two-year-old capacity:** Providers that were already fully set up to look after two-year-olds were more likely to be able and willing to take two-year-olds under the roll-out than those who did not currently cater for this age group.
- (v) **Involvement in the current two-year-offer:** Providers delivering places under the current scheme typically said they had the right skills and structures in place already, and did not require much further support in order to get involved in the extension of the entitlement. These included links to children's centres and specialist support services.
- (vi) **Local authority involvement in the local childcare market:** In areas where the local market was strongly directed by the local authority (i.e. Models 3 and 4) settings that were funded by the local authority were more likely to be obliged to take part in the roll-out than non-funded providers as they already had a close working relationship with the local authority.

Providers across the sample varied considerably on all of these factors.

Facilitators to childminders' involvement in the roll-out

The intention to deliver places for two-year-olds under the roll-out amongst childminders was associated with: whether they saw the roll-out as an opportunity to fill places or not; whether they thought taking part would benefit them financially;

and the extent to which they were ‘embedded’ within local authority early education provision:

- A childminder said that financially it would “*not make sense*” to take on a two-year-old for flexible fifteen hours when they would be able to fill the vacancy with a fee paying two-year-old needing full day care; another thought that none of her current two-year-olds would be eligible to receive a free place. On the other hand there were childminders who felt that they would welcome the opportunity the entitlement brought to take children for a predictable number of hours each week.
- When childminders had close links with the early years team at the local authority and access to specialist support services such as SENCOs at schools, they tended to feel more positive about taking two-year-olds under the entitlement.

5.5 Barriers to sufficient capacity for the roll-out

The following barriers to achieving a sufficient supply of places for two-year-olds under the entitlement were identified:

- **The numbers involved:** This was the overarching, strategic challenge to achieving sufficiency for every local authority. The sheer scale of numbers of places that would be needed was described as “*daunting*” (*LA Strategist*). In geographical hotspots of disadvantage it was said that the whole population of two-year-olds might be eligible for free places, and there were concerns that this might not be possible without creating additional childcare providers and expanding current providers’ capacity considerably.
- **High risk for providers:** Making preparations for and investing in the roll-out, such as expanding or changing premises in anticipation of two-year-olds arriving was seen as a high risk for providers. Whilst demand was generally anticipated to be strong, uncertainty on two counts remained; the current economic climate generally, and the likelihood of long-term government commitment to the policy in a fast changing political landscape.
- **Local authorities’ limited funds in current economic climate:** Providers mentioned recent spending cuts in local authority support and advice to providers, such as business support and financial help with sending staff on training. Strategists said that tighter budgets for local authorities might mean less support for local markets, for example reduced ability to help providers financially during temporary difficulties.
- **Lack of property and outside space:** A lack of property, high property prices, and lack of outside space were significant barriers in areas with mixed deprivation and affluence, and more densely populated areas.
- **Projected birth rate increases:** In areas where there were high birth rates there were concerns that the whole pre-school population was growing and that this was adding further pressure on capacity within existing providers.
- **The difficulty in matching supply and demand:** It was felt to be difficult to know where the demand was going to be geographically on account of the twin uncertainties of exactly which two-year-olds would be eligible and what take-up of the free places would be like in different areas. Also mentioned was the

problem that much childcare provision in disadvantaged areas was on the border of more prosperous areas, which is where the demand for childcare had historically come from. The resulting concern was that most of the demand for the free two-year-old places in the future would be from areas with fewer providers.

Barriers to childminders to getting involved in the roll-out:

- **Preference for group based provision:** Childminders tended to believe that parents would prefer to use group based providers for their free two-year-olds entitlement rather than childminders in order for their children to mix with others of a similar age. Some local authority strategists also spoke of parental preference, one strategist said it could be difficult to explain to a parent of a two-year-old provided with a free place under the current pilot scheme why it was beneficial for the child to be taken out of their home only to be placed in another parent's home in the same local area. Some childminders expressed the view that group based provision was always the preferred choice when agencies (for example, child protection agencies) placed children with providers; childminders were generally "*overlooked*".
- **Lack of access to training:** Childminders identified training needs for safeguarding, but said that training opportunities were over-subscribed.
- **Administrative demands:** The anticipated high levels of regulation and paper work involved in delivering places for two-year-olds appeared to be a particular barrier to childminders. They suggested that reducing the amount of paperwork would encourage more childminders to get involved in delivering places under the entitlement than would be willing now. However, there was also the view that the requirements for children under the two-year-old entitlement would be no more demanding than the (already demanding) administrative requirements required of childminders for all children.
- **Limited capacity:** Childminders felt they had less scope than group based providers to increase their capacity. One of the explanations for this that they were limited by the size of their homes. Another was their desire to keep the overall numbers of children on their books limited, in order for the work to be manageable.
- **Capacity to care for children with SEND:** Childminders also pointed out their limited capacity to take on children with SEND. One barrier was that it was not always possible to adapt the facilities in a childminder's home, for example, to enable wheelchair access. Another was that taking on a child requiring extra attention would not be possible financially because the childminder could not afford to have a lower number of children overall (which would be necessary if one child required a higher level of support). Some childminders said that disability and special educational needs training might raise their confidence and skills in caring for children with special needs. There were a few childminders who said they would be able to care for a child with special needs and one said they were already doing so, but across the childminder sample this position was unusual.

5.6 Local authority activity and planning in relation to the roll-out

Local authorities said they were already undertaking a lot of preparation for the roll-out. Their activities fell into the three broad areas:

- planning and marketing;
- meeting capacity; and
- addressing quality and support needs.

5.6.1 Planning and marketing

- **Analysis of local data.** In order to address the widely held concerns about the number of two-year-olds that would be eligible for free places under the roll-out and how to predict demand and take up of places, local authorities were collecting and analysing local data. This involved analyses of data such as free school meal information in relation to the number of childcare places, trends in birth rates, sufficiency assessment information and geographical and deprivation data. As a result of this work a number of local authorities felt they had come up with reasonably reliable projections of how many additional two-year-old places they needed to provide to meet the terms of the roll-out.
- **Audits of providers.** In order to assess the capacity of local childcare markets to take on two-year-olds, local authorities also described how they were carrying out audits and consultations with providers to understand their capacity and their support needs for the roll-out.
- **Building on good practice.** To be able to address concerns over the levels of support services available for providers involved in the roll-out, a further strand of planning was taking place. This involved building on existing good practice from previous involvement with the current two-year-old offer or other local authority schemes for supporting vulnerable two-year-olds. For example:
 - Extending the good practice multi-agency arrangements between PVI settings, children's centres and services within schools.
 - Expanding the model of school or children's centre SENCO staff being loaned to settings. Local authorities with well-working eligibility systems for the current two-year-old offer were also planning to extend these for the roll-out.
- **Seeking funding.** Two local authorities spoke specifically of having applied for DfE funding in relation to the entitlement. In one case this was with the aim of increasing capacity for two-year-olds in one of its disadvantaged areas. In the other, it was in order to incentivise providers who they felt were less likely to want to become involved with the entitlement.
- **Marketing.** In areas where local authorities were concerned that there would be a high levels of demand that would outstrip supply, no marketing of the roll-out was planned. In areas where there were historical barriers to using formal childcare, local authorities were planning to do some publicity activities. For example, in one local authority area a specific campaign raising awareness of the benefits of early education was planned. As described in Chapter 2,

Section 2.2, some local authorities were also planning campaigns to improve perceptions of childminders in response to using childminders for the entitlement. In order to be able to address concerns over stigma associated with the entitlement, a number of strategists talked about presenting the roll-out as an extension of the three- and four-year-old entitlement, which was available to all families.

5.6.2 Meeting capacity

Strategists in all but one local authority area said that their plans to meet the number of places required by the two-year-old roll-out involved **focusing on expanding and improving existing provision rather than creating new provision**. There were a number of explanations for this:

- Lead-in time was felt to be too short to encourage new providers to set up;
- In the local authorities where provision was not funded on an ongoing basis (Model 1 and Model 2 as described in Chapter 2), current providers were carrying vacancies which could be used for the two-year-old entitlement;
- There was also a strong desire to make use of providers who had already built up skills in working with vulnerable children and children with SEND. They had acquired these skills either through the current two-year-old offer, other local authority schemes to provide funded places for vulnerable children, being children's centres or equivalents themselves, taking children's centre or social services respite placements and/or having prior experience of working closely with children's centres.

The exception to this was a local authority which had a strong desire to run the two-year-old entitlement on a mixed economy basis, on the grounds that they wanted to avoid children's centres becoming "*hubs of disadvantage*" (LA Strategist). As a result they felt that they would need to create more two-year-old places than needed, possibly in new settings as well as current ones, and sell the non-funded places.

Most of the local authority strategists whose childcare provision in disadvantaged areas was not funded on an ongoing basis (Models 1 and 2 described in Chapter 2) felt that there was **capacity amongst a number voluntary and independent sector providers in their disadvantaged areas to take two-year-olds** by filling unused two-year-old places, or by converting underused baby or three-and-four-year-old places. This was also the case for the local authority whose provision fell under Model 4 (local authority-run provision plus subsidised PVI sector), which similarly felt that a number of voluntary and independent sector providers were carrying vacancies which could be filled by two-year-olds under the entitlement. However, none of these local authorities felt that the numbers that the roll-out would involve could be met by spare places of these providers alone.

In most of the local authority areas, local authority strategists believed that **private providers would be reluctant to be involved in the roll-out**. They were felt unlikely to want to take funded two-year-olds over fee paying places and in addition unlikely to want to take out loans to expand their premises for more two-year-olds because of likely difficulties in paying the loans back. The one exception

here was a local authority who felt that there were a small number of private providers carrying vacancies who charged a fee level comparable to what was provided for the two-year-old offer and who might be interested in involvement.

The main options for meeting the two-year-old roll-out, as identified by local authority strategists were therefore as follows:

- Models 3 and 4 - **gaining funding to expand the premises of local authority funded providers.**
- Models 1, 2 and 4 - **gaining funding to expand and adapt the premises of current voluntary and independent sector providers;** local authority strategists did not feel it was financially possible for these providers to take on financial responsibility for this themselves, given that they were currently often only just managing to survive.
- Using **schools** to help meet the terms of the entitlement was regarded as a particular priority in two local authority areas. The first was an area where property prices were high and where as a result schools were felt to be some of the only providers who could offer suitable outside space. The second was a local authority area where there was little childcare provision in the disadvantaged areas where it was anticipated that the majority of two-year-olds who would be eligible for the free entitlement lived .
- Using **childminders** to take two-year-olds under the terms of the entitlement was the intention in several local authorities. This strategy went hand in hand with broader plans to recruit more childminders in disadvantaged areas (see Chapter 2, Section 2.2). Some strategists regarded childminders as highly suitable for the entitlement; flexible and able to provide a homely environment that might be more suitable for some two-year-olds than a group-based setting. Exceptionally, one local authority was not planning to use childminders for the two-year-old entitlement. They felt that the quality of childminders in their disadvantaged areas was significantly lower than that of the group-based provision available, and that it would be difficult to 'sell' childminders to parents of two-year-olds over group-based provision.

As a result of this context, local authorities expressed a strong need for **capital funding** to pay for expansions and adaptations to the current premises of their funded, voluntary and independent sector providers. Depending on the foci of their expansion plans, there was also felt to be a need for training support (see Section, 5.6.3 below). In the case of voluntary and independent sector providers with sustainability issues in particular, there was also felt to be a need for **revenue funding** both to keep places open until they filled up, and to cover the potential gap between the end of the two-year-old funding and the beginning of the three- to four-year-old funding (for example where the two-year-old funding ended before the term after the child's third birthday, when they were able to take up their three- and-four-year-old entitlement).

5.6.3 Addressing quality and support needs

Section 5.2 above described a range of concerns in relation to raising the quality standards of providers for the roll-out. Section 2.2.5 in Chapter 2 above describes

how a number of local authorities were building models which enabled providers in local areas to receive support to improve quality from high quality providers nearby. An example of such a model in relation to the two-year-old entitlement specifically is provided in the box below.

A good practice example: improving quality for the roll-out

One local authority was putting a training programme in place to train providers to provide childcare of sufficient quality for the two-year-old roll-out. They were arranging for providers to go to other settings to observe good practice and then have a lead practitioner go in to their setting and develop an action plan, so that the provider can improve their quality of provision. The staff who receive this training will then cascade their learning to other staff in the setting.

In spite of this work, there remained concerns amongst local authorities that raising quality and staff qualifications to the required standard in the required time would be difficult to achieve. There was particular concern in some instances that the entitlement was being rolled out at the same time as children's centres' core funding was being cut, meaning that children's centres would have less capacity to provide support and advice. In this context, in addition to innovative strategies being put in place by local authorities to share and cascade learning, there was felt to exist a strong need for **additional funding for workforce development**. There was also felt to be a need for additional **funding to enable settings to increase their staff ratios** prior to taking on more two-year-olds. It was felt that increasing staff ratios would free up staff for meetings with outside agencies, the increase in paperwork, the additional family support work and providing one-to-one support for the most vulnerable children, all of which they felt that involvement in the two-year-old entitlement would bring.

5.7 Summary

This chapter has described how there was generally strong support for the roll-out of the two-year-old entitlement among providers and local authority strategists and a lot of preparation already taking place. A range of opportunities, benefits, challenges and concerns were identified by providers and local authority strategists:

- It will fulfil unmet demand from parents of two-year-olds not able to afford formal provision
- It will offer the opportunity for providers to build stronger relationships with the children and parents as they are taking them at a younger age.
- The additional demand for childcare it will create will help some providers fill vacancies and will offer providers a steady, reliable income.
- It may result in a wider social mix of children in settings, and lead to a stronger 'early years' culture that values formal provision and early education. However, there was also concern that if not handled carefully, the opposite might happen – that two-year-old places might become stigmatised and social segregation

may increase. Providers and local authority strategists felt that this needed to be carefully managed in the roll-out.

- Higher quality of provision and improved skills of the childcare sector workforce across the childcare sector were identified as further benefits. However, raising quality to a sufficient standard in time for the roll-out was also a key concern.
- Another key concern of providers was that the level of funding will not meet the costs of delivering the place. They were also concerned that not all providers will be able to benefit equally from the roll-out.
- Respondents felt it would be challenging to roll-out the policy whilst ensuring the wellbeing of individual parents and children. A “*whole system approach*” (*Local Authority Strategist*) was needed to prevent negative unintended consequences, for example children experiencing too many changes in their childcare provision before they start school, or there being a lack of family and wider support services available once the two-year-olds arrive in the settings.
- Developing suitable administrative systems to identify, track and monitor children in time for the roll-out was seen as a practical challenge.

A major concern was how to create enough places in time for the roll-out, particularly given that many of the disadvantaged areas included in our research were experiencing population increases. While there was capacity with Models 1, 2 and 4 for the roll-out because of vacancies in existing providers, these were not sufficient to supply the number of places needed. In Model 3 there were very little or no spaces in existing providers. A range of support needs were identified by providers and local authority strategists to ensure sufficient capacity for the roll-out.

- Capital funding to expand premises of local authority funded providers in Models 3 and 4.
- Capital funding to expand and adapt the premises of voluntary and independent sector providers in Models 1, 2 and 4.
- Revenue funding for voluntary and independent sector providers to keep places open until they could be filled by two-year-olds and to cover gaps between two, three- and four-year-old entitlements.
- Funding for workforce development to bring sufficient numbers of staff up to the qualification levels required for the roll-out, and to equip them with the skills to work with younger children (many of whom may have additional needs).
- Funding to allow providers to increase staff ratios needed for working with two-year-olds, and to deal with the additional meetings and paperwork requirements anticipated under the roll-out.
- Clarity and better information on the specifics of the roll-out including: exactly which two-year-olds would be eligible, what quality standards will be required, what funding will be available and what support there will be for local authorities to prepare.

6 Conclusions

The evidence from the small number of local authorities included in our research shows that pre-school childcare provision in disadvantaged areas operated in a number of different ways, depending on how the local authority had chosen to shape and influence it.

In some areas, local authorities had taken a proactive and directive approach to childcare provision in their disadvantaged areas, mainly through heavily subsidising provision through places for vulnerable children or providing subsidies to reduce the costs of childcare for low income parents (Models 3 and 4 in our research).

In other areas, the role of local authorities had been more about guiding and supporting providers in setting up, for example through set-up funding; and helping to keep providers sustainable, through grants to improve premises and for workforce development, sustainability funding in times of financial difficulty, and by providing business advice and support and training around quality. In these areas (Models 1 and 2 in our research) a free market model operated.

6.1 Are there sufficient pre-school childcare places in the disadvantaged areas?

The evidence from our research suggests that whether there are sufficient pre-school childcare places in disadvantaged areas is linked to how much intervention there has been in the past and the current role of the local authority in terms of subsidising provision in these areas now and in the future.

- In **Models 1 and 2** operating a free market model with no subsidies, **there was sufficiency of places for children**. Parents had access to a range of maintained, private and voluntary provision for their three- and four-year-old places, including wraparound, and daycare places for younger children. However, as the next section discusses, the financial sustainability of these providers was often under the most threat, so the **current sufficiency was unstable**.
- In **Model 3**, where a lot of the provision in disadvantaged areas was local authority-funded, **there was less choice and availability for parents looking for daycare** (as opposed to the three- and four-year-old funded hours). This was particularly the case for daycare of the same quality as the local authority-funded provision. On the whole private sector provision in these areas catered largely for the affluent parts of the local authorities. If the local authority-funded providers adapted in the future to cater for funded children only (see below), there was the possibility that paid-for daycare places in these areas would reduce even more.
- In the funded **Model 4**, where subsidised voluntary sector providers operated alongside local authority-funded provision, **there were also vacancies for under threes**. Parents of all three-year-olds could choose to receive a part-time school-based place as well as having the option to continue with local authority-run or voluntary sector provision.

Across all of the models, childminders were another pre-school option for parents, though a common finding across all of our areas was that **disadvantaged areas contained fewer childminders than other areas**.

6.2 Is pre-school childcare provision in our disadvantaged areas financially sustainable?

Evidence from our areas suggests that childcare providers in disadvantaged areas operate in a difficult environment. Demand for daycare places was typically low. This was attributed to parents not being able to pay fees and other cultural and attitudinal factors described in Section 6.3 below. In some areas, several PVI sector providers were in competition with each other to fill paid-for places and with the maintained sector as well to fill funded places. Providers were often dependent on funded places, and said that they needed to be as accommodating as possible in terms of price and flexibility in relation to daycare places. Increasing fees was not seen as a viable option, despite increases in the core costs of providing childcare, caused by rate and fuel increases.

The evidence from the ten areas included in this study was that the financial sustainability of pre-school childcare providers in disadvantaged areas varied and depended on a range of factors. A key overarching factor was the extent to which providers in these areas were **subsidised by the local authority**.

- In **Models 3 and 4** where childcare provision was funded by the local authority, **provision looked more financially sustainable**. Here, providers who received funding from the local authority for daycare or wraparound places for vulnerable children expected to be able to continue to do so in the future. Cuts to children's centres funding in some of these areas were threatening certain aspects of provision however, notably subsidised daycare places. This led to concerns amongst providers that in the future they will no longer have a diverse intake, but will cater for funded children only. Another perceived threat was that funding reductions might reduce the quality of work these settings are currently able to carry out, for example that it will necessitate reductions in staff numbers, or less family support work. PVI sector providers operating in disadvantaged areas under these models said they found it difficult to fill daycare places, that they were at constant risk of losing staff and three-and four-year-olds to local authority funded provision.
- In **Models 1 and 2**, where the free market operated, **the financial sustainability of providers was much more variable**. A key factor of financial sustainability was the extent to which providers were able to operate a mixed economy model by attracting more affluent families. Some providers were able to fill daycare places as well as funded places, whilst others relied on the three-and four-year-old funding for their income. Another key factor was the extent to which the three-and four-year-old funding was sufficient to cover their costs.

This was related to a number of other factors, which also applied to the non-local-authority-subsidised providers in Models 3 and 4, notably:

- The cost of renting premises (providers in more urban areas struggled with higher overheads such as rent);
- The extent to which providers were supported by the voluntary/charitable sector, for example:
 - the extent to which voluntary sector providers were able to find skilled volunteers for their management boards
 - schools or churches offering premises rent-free
 - schools 'donating' resources to independent or voluntary sector pre-school providers on their premises, such as use of school accountants
 - managers of voluntary or independent sector providers managing cash-flow problems by going unpaid;
 - housing associations subsidising childcare for their tenants.
- The strength of competition from other providers in relation to provision of three-and four-year-old places, in particular local maintained nursery schools
- The local 'going rate' for high quality staff
- The nature of demand in a providers' vicinity
 - the extent of cultural/attitudinal barriers to formal childcare in the providers' local area
 - the extent to which the local population was transient, resulting in fluctuating/unpredictable demand for childcare;
 - ease of access to the provider for local parents, related in rural areas in particular to access to cars and the cost/availability of public transport

The **childcare element of the Working Tax Credit** was seen as vital in allowing parents in these areas to pay for daycare or wraparound provision. However, some providers had already started to feel the effects of changes to it, for example, parents reducing the hours of childcare they use, or using informal care instead. There was also a feeling that the tax credit is not widely-used or understood by many families.

Local authorities expressed concern about the lack of ring-fencing for the two, three- and four-year-olds funding within the Dedicated Schools Grant and that local authority staff will have to dedicate a lot of time to proving their eligibility for the funding, in spite of the fact that they have a statutory duty to provide two-, three- and four-year-old places. The wish for this money to be ring-fenced was strong.

6.3 What is the role of quality?

In the research areas **where the local authority subsidised and directed the shape of provision, quality in disadvantaged areas was high** (Models 3 and 4). **In the unsubsidised models, the quality of provision was more variable** (Models 1 and 2). The extent to which quality standards were felt to play a role in sustainability varied. In areas where there were a lot of competing providers, Ofsted ratings were believed to be a factor helping parents to differentiate between

settings. A common thread amongst PVI sector providers in particular was that maintaining quality was costly; and therefore a risk for the PVI sector providers that were struggling financially. Key difficulties were:

- Local authority training had ceased to be provided for free meaning that less training was undertaken;
- Paying higher salaries to better qualified staff;
- Losing better qualified staff to the maintained sector; and
- Paying for the staff time required to carry out the paperwork associated with training.

6.4 Evidence around parental demand and attitudes towards finding formal childcare places

Previous research (Speight et al, 2010) showed that parents in disadvantaged areas are more likely to say they have been unable to find a childcare place. This is despite the apparent availability of places in disadvantaged areas found by other research, and substantiated by this study. .

Evidence from the case study interviews, analysis of Childcare Sufficiency Assessments and relevant literature shows that the reasons parents in disadvantaged areas say they are not able to find a childcare place are varied and multi-layered. On the one hand there is evidence in some areas that there might be a shortage of places, amongst parents wanting affordable good quality daycare in the funded Model 3 and more generally for parents who work atypical hours, require flexible childcare (Singler, 2011), and for children with disabilities (Cheshire, et al, 2011; Speight et al, 2010; Green and Knight, 2007).

On the other hand, the evidence from local authority strategists and providers is that demand for daycare as opposed to sessional places in the disadvantaged areas included is low. This is attributed to high use of informal care, low incomes, unemployment, irregular working patterns and lack of affordable daycare for local families. Findings from the literature also point to strong cultural and attitudinal reasons which might pose barriers and narrow choices for families, for example preferences for group-based care over childminders, perceptions around what sort of childcare is 'for them' (Vincent et al, 2008; Roberts, 2011, Irving Associates, 2008), and attitudes about quality (Speight et al, 2010) and in the case of children with disabilities or SEND, the appropriateness of the setting and skills of the staff (Hall et al, 2011). It also shows that in some cases *perceptions* of availability and affordability, rather than the actual situation, were what informed parents' views. It is clear from the evidence that for some, negative perceptions of availability, cost and suitability was clearly linked to lack of information (OPM, 2008; Speight, et al 2010). The evidence also suggests, however, that in order to access this information, there needs to be a shift in attitudes about working and using formal care. Given that even those disadvantaged parents who felt that they had enough information were still much more negative about the quality and affordability of childcare than parents from better-off families, the evidence also suggests there may also be a need for other strategies to tackle perceptions of the quality and affordability of local childcare provision (Speight et al, 2010).

6.5 The roll-out of the two-year-old entitlement in disadvantaged areas - provider perspective

Generally there was support for the roll-out of the two-year-old entitlement. It was felt that it would benefit local children's development, support local parents with parenting and provide opportunities to help parents back into employment. The entitlement was also seen as an opportunity for providers to fill vacant places. For some providers it was seen as a reliable source of future income that would help with financial sustainability.

The evidence suggests that capacity and willingness to take on more two-year-olds differed according to provider type and local market conditions. Overall, the findings show that whilst there is capacity to take on more two-year-olds amongst the unsubsidised providers operating in disadvantaged areas in particular, they will require funding to: adapt or expand their premises; pay for the gap between the expansion of premises and the filling up of the places with funded two-year-olds; and increase staff ratios to enable them to take on more two-year-olds and meet the needs of these children adequately. Local authority-funded providers also required funding to expand premises. Across all areas, there was also a need for funding for workforce development to meet the required standards in the required numbers of settings in time for the roll-out.

6.5.1 Voluntary and independent sector providers

Within areas operating under the free market model (Models 1 and 2) there was capacity to take two-year-olds among the voluntary and independent sector providers who currently had vacancies for this age group, or who felt that they could convert empty baby or three- and four-year-old places to be suitable for two-year-olds. There was also capacity to take two-year-olds in the voluntary sector in the local authority operating under Model 4.

However, as described above, these providers tended to be concerned about their financial sustainability. While the two-year-old entitlement was seen as a welcome means of filling places and providing guaranteed funding, there were concerns that the level of funding might not be sufficient to cover the costs of caring for the two-year-olds under the roll-out. It was anticipated in particular by these providers that they may need to provide additional support for some of these two-year-olds, for example speech and language, and they might need more staff to deal with increased paperwork, and staff attending multi-agency meetings. These providers felt it was vital that funding levels take these requirements into account and that funding increases in line with rising costs of providing care (rent, energy and training costs).

Some of these providers needed **capital funding** to adapt premises to make them suitable for the increased numbers of two-year-olds. Taking out loans to do so was not regarded as possible by these providers because of their financially insecure position.

6.5.2 Local authority-funded provision

Amongst the local authority-funded providers in Models 3 and 4, there was significant expertise for taking on more two-year-olds. These providers were currently providing places for vulnerable two-year-olds under local authority programmes, had highly skilled staff in place, and good family support programmes. However, these settings were currently full or almost full. They were usually reluctant to convert their few paid-for places to two-year-old funded places, because they believed a mixed intake was good for their reputation and ability to attract and retain staff.

Some of these providers had capacity to expand their provision, but required **capital funding** to do so.

6.5.3 Private sector providers

On our evidence, there was little interest amongst most private daycare providers in the two-year-old entitlement (most of whom in our sample were serving more affluent families as well). They thought that the hourly rate would be lower than what they currently charge. They also did not want to offer part-time places to children when they could fill their spaces with full time children. The one exception was a private provider operating in a disadvantaged area in Model 3 who regarded the two-year-old entitlement as a means of filling empty spaces. Private providers did not regard it as worth their while to take out loans to expand their premises for the offer.

6.5.4 Childminders

Evidence from our interviews with childminders suggested that their involvement in the roll-out is by no means certain without a lot of support and encouragement from local authorities. Childminders had concerns about bringing 'vulnerable' children into their homes and that involvement in the two-year-old entitlement could result in an increase in bureaucracy, notably paperwork which was already perceived as onerous.

6.6 The roll-out of the two-year-old entitlement in disadvantaged areas- local authority perspective

Whilst local authority strategists shared some of the positive views expressed by providers about the entitlement (see above), they had a number of concerns.

- They did not feel that the vacancies available were sufficient to meet the numbers required for the roll-out (this was the case of all the models);
- They felt that the **lead in time is too short** for the expansion/adaptation of premises and that they will need to raise quality standards amongst a number of providers who do have capacity.

There was a strong need amongst all of the local authorities for **capital funding** to enable their currently-funded providers or voluntary independent sector providers, and/or schools to expand and improve their provision, and to help them pay for the gap between the expansion of premises and filling up places with funded two-year-olds. There was also a need for financial support for providers to increase their staff ratios to enable them to take on more two-year-olds and meet the needs of these children adequately. There was also a need for workforce development to meet the standards required in time for the roll-out.

6.7 Key local authority priorities

In terms of the two-year-old entitlement, but also more generally, most of the local authorities sampled felt it was important to **increase the number of childminders within their areas**. Given the difficult financial situation of group-based daycare in the PVI sector in disadvantaged areas (Models 1, 2 and 4), and the low number of daycare places within local-authority funded provision (Model 3), local authorities felt that childminders were a good option for daycare. They saw them as able to provide more flexible childcare for parents and as less costly to the local authority in terms of the levels of business support and sustainability funding they would need to provide.

Childminders were also seen by many local authorities as a cost-efficient way of helping to meet some of the capacity for the two-year-old roll-out; as there is no cost in terms of making adaptations to premises. Some felt that childminders provided a particularly suitable environment for younger children. Some key challenges were evident, namely, the negative perceptions amongst some families in disadvantaged areas might have towards childminders (see above) and whether childminders would be willing to become involved in the roll-out given concerns described above.

Further priorities for local authorities in relation to their pre-school childcare in disadvantaged areas were:

- Exploring ways of supporting the financial sustainability of providers operating in the free market model. These included reviewing the adequacy of three- and four-year-old funding, and exploring how the two-year-old entitlement can help sustainability.
- Continuing to look at ways of promoting the benefits of using formal childcare to parents in disadvantaged areas particularly those who had historical or cultural barriers to it, and to improve knowledge and take-up of the childcare element of the Working Tax Credit.

6.8 Summary

This research has found that childcare provision in disadvantaged areas needs to be publicly funded in one form or another. The market alone struggles to deliver – this is clearly articulated by providers in terms of concerns about financial sustainability particularly those in Models 1 and 2.

It will not be possible to achieve enough places of sufficient quality for roll-out of the two-year-old entitlement through market forces alone. Private providers did not

think it will be financially worth their while to deliver these places and voluntary and independent sector providers and local authority-funded providers will need capital funding to expand or adapt their premises. Voluntary and independent sector providers will also need considerable support to deliver the entitlement. Childminders may respond to market demand to a certain extent, but there is a question over whether there will be demand for their services without a change in parents' perceptions of childminders, a particular issue in disadvantaged areas. It is also uncertain whether childminders will see involvement in the entitlement as worth their while if it brings additional bureaucracy.

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Appendix A Topic Guide for Providers



Study of childcare sufficiency and sustainability

Topic Guide for childcare providers

Aim of the interview

The purpose of the provider interviews is to build up a picture at a local case study level of the operation of local childcare markets in disadvantaged areas and thereby to understand the extent to which there are sufficient and sustainable places in these areas. It explores the main facilitators and challenges faced by providers in terms of meeting demand, filling places and achieving financial sustainability. The impact of the 2YO offer on these areas is also explored.

The topic guide

This guide sets out a number of a number of necessary contextual and factual questions that will need to be covered with all respondents. The guide does not contain follow-up questions like `why`, `when`, `how`, etc. as participants' contributions will be explored where appropriate using prompts and probes in order to understand how and why views, behaviours and experiences have arisen. The interview will last for **45 minutes**.

1. INTRODUCTION

- Introduce yourself & NatCen
- Introduce study:
 - funded by Department for Education
 - study looking at the sufficiency and sustainability of childcare
- Focusing on local authority implementation and childcare providers' experience
- Digital recording – check OK, and reassure re: confidentiality
- How we'll report findings
- Reminder of interview length – (45 mins) check OK
- Any questions/concerns?

2. PERSONAL DETAILS

- Job title
- Length of time in setting (as a member or staff and/or as a manager)
- Role and responsibilities
- Professional background

3. SETTING UP AND CURRENT PROVISION

- **Nature** of organisation
 - part of a single organisation or part of a larger organisation (i.e. Children's Centre)
- **Status** of organisation
- **Setting up...**
 - impetus for setting up
 - market information accessed
 - funding sources accessed
 - how learned about
 - experiences of applying
 - impact on decisions made
 - advice accessed and how helpful
 - key challenges/facilitators to setting up
- **Details of current provision...**
 - organisation opening times
 - whether offer fixed or flexible sessions
 - age range catered for
 - whether offer flexible provision, or fixed sessions
 - primary ethos
 - promote a particular type of childcare?
 - target specific families?
 - any links to other providers or services and details
 - numbers and qualifications of employees
 - anyone with Early Years Professional status or teacher status?
 - price levels and how determine
- Details of provision under **2YO offer** specifically
 - whether providing places under 2YO offer
 - when started and why
 - number and nature – any changes over time
 - capacity for children with SEN/disabilities
 - hours offered and why – how flexible
 - fit of funding with fee level
 - whether additional family services offered and why

4. SUFFICIENCY AND SUSTAINABILITY OF PROVISION – CHALLENGES AND FACILITATORS

- **Numbers** of children on books overall
 - numbers receiving three-and-four-year-oldnursery education funding
- Whether full or have empty places

If full...

- What they attribute this to
- Whether unmet demand locally for their services?
- How they manage this demand
 - waiting lists?
 - priority to certain families?
- Whether planning to offer more places in the future
 - facilitators
 - barriers

If have unused places...

- What they attribute this to
- Impact on financial viability of setting
- Whether have plans in place to fill empty places
 - nature of plans
 - advice/support received
 - main facilitators and barriers to filling places
- **2YO offer specifically...**
 - whether enough places to meet needs of local families
 - whether any spare capacity
 - why, why not
- How **financially healthy** is their organisation?
- What are their main sources of revenue?
 - fees
 - three-and-four-year-old money
 - 2YO funding
 - additional funding
- Extent to which rely on funding for financial sustainability
- Main **facilitators** to achieving financial sustainability
- Main **challenges** to achieving financial sustainability
- Views on how challenges could best be overcome
 - action by them?
 - LA action?
 - government action?
- Key **support** needed to remain financially sustainable

The headings below cover areas respondents are likely to mention in relation to successes and challenges. If mentioned spontaneously, explore in relation to the topics below. If not mentioned spontaneously, probe for each one the role it has played/is playing in aiding/hindering their ability to meet demand, fill places and remain financially sustainable.

GOVERNMENT POLICIES/FUNDING STREAMS

Note that there is a separate heading for the 2YO offer below

- Impact of the following on numbers of places offered/financial sustainability
 - Nursery education for three and four year olds funding
 - boosting numbers?
 - encouraging children to start earlier?
 - Sure Start/Children's Centre funding (where relevant)
 - Childcare element of the WTC
 - boosting/sustaining demand?
- Whether receiving any other **grants/funding**
 - how learned about
 - experiences of applying
 - impact of funding on
 - size of provision
 - filling unfilled places
 - financial sustainability of provision
 -

The following are relevant funding streams to prompt on here...

- Revenue funding/Capital Funding
- The Childcare Quality and Access Grant

- Importance of *ongoing* funding to financial sustainability
- Impact (where relevant) if funding has ceased/is going to cease
 - on number of places offered
 - on ability to fill places
 - on prices
 - on viability of service

ROLE OF CURRENT 2YO OFFER

- Impact of 2YO offer on **numbers** of places offered
 - encouraged them to expand provision so far?
 - challenges/facilitators to doing so in future
- Implications of offering more 2YO places in future on
 - premises
 - staff numbers and qualifications
 - staff training requirements
- Role of 2YO offer on **financial sustainability** of setting
 - sufficiency of funding to cover costs of programme
 - why, why not and impact
 - helping to fill otherwise unfilled places?
 - impact of the following requirements on setting...
 - offering part time places
 - employing a graduate
 - meeting quality standards
 - catering for children with SEN/disabilities
 - impact of additional funding (if accessed)...
 - i.e. *Inclusion Fund, Sure Start funding, Disabled Children's Access to Childcare*

ROLE OF ADVICE AND SUPPORT

- Main sources of advice and support
 - National voluntary organisations
 - LA
 - other local providers
- Nature and role of advice and support
- Usefulness of advice and support
- Impact of advice and support on
 - filling unfilled places
 - expanding provision
 - achieving financial sustainability
 - 2YO offer
- Any areas where more advice/support needed and why

NATURE OF LOCAL DEMAND FOR CHILDCARE

- Nature of their **catchment area**
 - main determining factors

- **Types of families** using the service
 - socio-demographic profile including ethnicity
 - working status
 - whether using full time, part time, for 3&4YO/2YO funded hours only, or for wraparound care
 - use of childcare vouchers/childcare element of the WTC
 - why they families choose them...
 - quality of service
 - local reputation
 - proximity to local services
 - transport links
 - flexibility
- Whether any differences in terms of families using them for **2YO offer**
- Reasons for differences
- Whether happy with **service user numbers/profile**
 - want to attract more local families and why?
 - want to attract more families from further afield and why?

If planning to expand...

- Which types of families want to provide for and why
- Any **barriers** to local families using their service
- Nature of barriers
- How barriers could be overcome
- Whether any differences in terms of **2YO offer** specifically

MARKETING THEIR SERVICE TO PARENTS

- How parents hear about them
 - own marketing
 - FIS
 - word of mouth
 - other
- Views on most important sources of info to local parents
- Perceptions of their local reputation
 - what influences this?
- Any **outreach strategies** and nature of
- Views on success of marketing/outreach strategies
- Views on whether are parents in area who...
 - do not know about them
 - have misconceptions about them
 - perceived reasons for this
- Key **facilitators/challenges** to successful marketing/outreach
- Views on how could improve
 - knowledge about their service
 - understanding of their service
- Any differences in terms of the above in relation to the **2YO offer** specifically?
- Key **support needs** in terms of marketing service

NATURE OF LOCAL SUPPLY OF CHILDCARE, AND RELATIONSHIPS WITH OTHER PROVIDERS

- Other **main providers** in area
- Whether in competition with other providers...
 - impact of other providers on market share
 - which providers 'lose out' to and why
- Extent of collaboration with other providers
 - nature
 - impact on number of places offered/sustainability

If planning to expand...

- anticipated impact on other local providers

WIDER CONTEXTUAL FACTORS

- Impact of any **other wider contextual factors** on ability to fill unfilled places/expand/operate on a basis of financial sustainability
 - which ones aid the above
 - which ones hinder the above

ROLE OF QUALITY ISSUES

- Last **OFSTED inspection**
 - nature of rating
 - satisfaction with rating
 - nature of plans to improve rating
 - main actions taken
- Role/nature of other local/national quality regulations they need to comply with
- Challenges/facilitators to complying with quality regulations
- Support received from LA in complying with/improving quality ratings
- Whether additional support required
 - nature of
 - source
- Impact of quality rating on numbers and financial sustainability
 - local reputation affected?
 - any loss/gain in numbers following OFSTED inspection?
 - At expense/gain of other providers?
- Impact of **2YO** offer on quality
 - improvements to premises/facilities
 - additional staff training?
 - qualifications of staff in setting?

6. THE FUTURE AND ROLL-OUT OF THE 2YO OFFER IN 2013

- Where they see themselves in the **future** in terms of
 - type of service offered
 - financial viability
 - sources of funding
 - service users
 - 2YO offer specifically

If not already covered by previous discussion...

- Views on taking on children under 2YO offer in 2013
 - facilitators
 - barriers
 - support needs
 - anticipated impact on
 - numbers of places offered
 - ability to fill places
 - quality of service
 - financial viability

7. SUGGESTIONS FOR SUPPORT

If not already covered by previous discussion...

- Reflections on any other ways to help them...
 - fill places
 - meet unmet demand
 - achieve financially sustainable provision
- Any questions for the researcher?
- Thank and close

8. CONCLUDING THOUGHTS

- Any final reflections?
 - Would like to be sent link to report when available?
 - Any questions for the researcher?
 - Thank and close.
-

Appendix B Topic Guide for Childminders



Study of childcare sufficiency and sustainability

Topic Guide for childminders

Aim of the interview

The purpose of these interviews is to explore where childminders fit into the local childcare markets in disadvantaged areas and thereby to understand the extent to which there are sufficient and sustainable places in these areas. It explores the main facilitators and challenges faced by childminders in terms of meeting demand, filling places and achieving financial sustainability. The impact of the 2YO offer on these areas is also explored.

The topic guide

This guide sets out a number of a number of necessary contextual and factual questions that will need to be covered with all respondents. The guide does not contain follow-up questions like `why`, `when`, `how`, etc. as participants' contributions will be fully explored throughout using prompts and probes in order to understand how and why views, behaviours and experiences have arisen. The interview will last for **45 minutes**.

1. Introduction – 5 minutes

- Introduce yourself & NatCen
- Introduce study:
 - funded by Department for Education
 - study looking at the sufficiency and sustainability of childcare
- Focusing on local authority implementation and childcare providers' experience
- Digital recording – check OK, and reassure re: confidentiality
- How we'll report findings
- Reminder of interview length – (45 mins) check OK
- Any questions/concerns?

1. PERSONAL DETAILS

- Length of time as childminder
- Professional background
- Childcare qualifications – achieved, working towards
- Own family circumstances
- Personal aspirations
 - length of time envisage working as childminder
 - childminding as career choice?
 - stop gap before going into some other type of work?

2. SETTING UP AND CURRENT PROVISION

- **Setting up...**
 - impetus for setting up
 - market information accessed
 - reasons for childminding rather than other childcare work
 - funding sources accessed
 - how learned about
 - experiences of applying
 - impact on decisions made
 - advice accessed in setting up and how helpful
 - role of LA childminding team
 - key challenges/facilitators to setting up

- **Details of current provision...**
 - hours offered
 - whether offer fixed or flexible sessions
 - age range catered for
 - whether qualified to offer three-and-four-year-old places – working towards?
 - number of places
 - primary ethos
 - promote a particular type of childcare?
 - target specific families?
 - any links to other providers or services and details
 - (If working with another childminder or an assistant) numbers and qualifications
 - price levels and how determine

- Details of provision under **2YO offer** specifically
 - whether can provide places under 2YO offer

Note that currently would need to be in a network and qualified to NVQ level 3

 - when started and why
 - number and nature – any changes over time
 - capacity for children with SEN/disabilities
 - hours offered and why – how flexible
 - fit of funding with fee level
 - whether additional family services offered and why

Note that childminders might not have heard about the 2YO offer, or know its details. IF NOT, interviewer to explain that the 2YO offer has been phased in since 2006 and will by 2013 offer 15 hours of free childcare to all disadvantaged two-year-olds. Whilst in the past childminders needed to be qualified to NVQ level 3 and be in a network to be able to take funded children, from 2013 they will be able to take funded two-year-olds if they are rated 'good' or 'outstanding.'

4. SUFFICIENCY AND SUSTAINABILITY OF PROVISION – CHALLENGES AND FACILITATORS

- **Numbers and ages** of children on books
 - numbers receiving three-and-four-year old funding
 - whether require 'top up' from parents
 - numbers receiving 2YO funding
- Hours of children on books
- Whether full or have empty places

If full...

- What they attribute this to
- Whether unmet demand locally for their services?

- How they manage this demand
 - waiting lists?
 - priority to certain families?
- Whether planning to offer more places in the future
 - facilitators
 - barriers

If have unused places...

- What they attribute this to
- Impact on their financial viability
- Whether have plans in place to fill empty places
 - nature of plans
 - advice/support received
 - main facilitators and barriers to filling places
- Whether have **financial targets** they want to meet as a childminder?
 - specifically, how much money they want/need to make per week to carry on?
- Extent to which meeting target figures
- Perceived reasons for any shortfalls
- Main sources of revenue
 - fees
 - three-and-four-year-old funding
 - 2YO funding
 - any other additional funding
- Main **facilitators** to meeting financial targets
- Main **challenges** to meeting financial targets
- Views on how challenges could best be overcome
 - action by them?
 - LA action?
 - government action?
- Key **support** needed to remain financially viable

The headings below cover areas respondents are likely to mention in relation to successes and challenges. If mentioned spontaneously, explore in relation to the topics below. If not mentioned spontaneously, probe for each one the role it has played/is playing in aiding/hindering the childminder's ability to meet demand, fill places and remain financially viable

GOVERNMENT/LA FUNDING

Note that there is a separate heading for the 2YO offer below

- Details of funding received
 - Revenue/capital funding
 - Start up grants
 - Ongoing grants
 - nature
 - role
 - application process
 - conditions attached?
 - ability to meet conditions
 - Impact of grants on
 - size of provision
 - filling unfilled places

- nature of demand for services
- financial viability of provision
- Importance of *ongoing* funding to financial sustainability
- Impact (where relevant) if funding has ceased/is going to cease
 - on number of places offered
 - on ability to fill places
 - on prices
 - on financial viability of service

ROLE OF CURRENT 2YO OFFER

- Impact (where relevant) of involvement in 2YO offer on **numbers** of places offered
- Role played by 2YO offer in aiding **financial viability**
 - sufficiency of funding to cover costs of programme
 - why, why not and impact
 - helped fill unfilled places?
 - impact of the following requirements on viability of their service...
 - offering part time places
 - catering for children with SEN/disabilities
 - impact of additional funding (if accessed)...
 - i.e. *Inclusion Fund, Sure Start funding, Disabled Children's Access to Childcare*

ROLE OF ADVICE AND SUPPORT

- Main sources of advice and support
 - NCMA
 - LA
 - other childminders
 - children's Centre
 - friends
- Nature and role of advice and support
- Usefulness of advice and support
- Impact of advice and support on
 - filling unfilled places
 - expanding provision
 - achieving financial sustainability
 - 2YO offer
- Any areas where more advice/support needed and why

NATURE OF LOCAL DEMAND

- Nature of their **catchment area**
 - main determining factors
- **Types of families** using their service
 - socio-demographic profile including ethnicity
 - working status
 - whether using full time, part time, for 3&4YO/2YO funded hours only, or for wraparound care
 - use of childcare vouchers/childcare element of the WTC

- why their families choose them over other childminders/other types of provision...
 - availability
 - quality of service
 - local reputation
 - proximity to local services
 - transport links
 - flexibility
- Whether any differences in terms of families using them for **2YO offer**
- Reasons for differences
- Whether happy with **service user numbers/profile**
 - want to attract more local families and why?
 - want to attract more families from further afield and why?

If planning to expand...

- Which types of families want to provide for and why
- Any **barriers** to local families using their service
- Nature of barriers
- How barriers could be overcome
- Whether any differences in terms of **2YO offer** specifically

MARKETING THEIR SERVICE TO PARENTS

- How parents hear about them
 - own marketing
 - FIS
 - word of mouth
 - other
- Views on most important sources of info to local parents
- Perceptions of their local reputation
 - what influences this?
- Key **facilitators/challenges** to successful marketing
- Views on how could improve
 - knowledge about their service
 - understanding of their service
- Any differences in terms of the above in relation to the **2YO** offer specifically?
- Key **support needs** in terms of marketing service

NATURE OF LOCAL SUPPLY OF CHILDCARE, AND RELATIONSHIPS WITH OTHER PROVIDERS

- Main group-based providers in area
- Numbers of other childminders in area
 - turnover
 - under or over supply and why?
- Nature of contact with other providers
- Whether in competition with other providers...
 - which providers 'lose out' to and why
- Whether regard themselves as working with other providers
 - Nature of collaboration
 - i.e. information sharing

- use of resources
- impact of other providers/relationships with other providers on
 - market share
 - service offered
 - number of places offered
 - financial viability

If planning to expand...

- anticipated impact on other local providers

WIDER CONTEXTUAL FACTORS

- Impact of any **other wider contextual factors** on ability to fill unfilled places/expand/operate on a basis of financial sustainability
 - which ones aid the above
 - which ones hinder the above

ROLE OF QUALITY ISSUES

- Last **OFSTED inspection**
 - nature of rating
 - satisfaction with rating
 - nature of plans to improve rating
 - main actions taken

Note that this is particularly relevant to childminders who have received a 'satisfactory' rating, because they will need to be 'good' or 'outstanding' to be able to offer places under the roll-out of the 2YO offer in 2013

- Role/nature of other local/national quality regulations they need to comply with
- Challenges/facilitators to complying with quality regulations
- Support received from LA in complying with/improving quality ratings
- Whether additional support required
 - nature of
 - source
- Impact of quality rating on numbers and financial sustainability
 - local reputation affected?
 - any loss/gain in numbers following OFSTED inspection?
 - At expense/gain of other providers?
 - If so, which ones?
- Impact of **2YO** offer on quality
 - improvements to premises/facilities
 - additional staff training?
 - qualifications of staff in setting?

6. THE FUTURE AND ROLL-OUT OF THE 2YO OFFER IN 2013

- Where they see themselves in the **future** in terms of
 - type of service offered
 - financial viability
 - sources of funding
 - service users

- Views on taking on children under **2YO offer in 2013**
 - facilitators
 - barriers
 - support needs
 - anticipated impact on
 - numbers of places offered
 - ability to fill places
 - quality of service
 - financial viability
 -

7. SUGGESTIONS FOR SUPPORT

If not already covered by previous discussion...

- Reflections on any other ways to help them...
 - fill places
 - meet unmet demand
 - achieve financially sustainable provision

8. CONCLUDING THOUGHTS

- Any final reflections?
- Would like to be sent link to report when available?
- Any questions for the researcher?
- Thank and close.

Appendix C Topic Guide for LA Strategists



Study of childcare sufficiency and sustainability in disadvantaged areas

Topic Guide for the LA strategists

Aim of the interview

The aim of these interviews is to explore the actions that the LA has taken in the past and is currently taking to ensure sustainability and sufficiency of pre-school childcare places in the disadvantaged areas within the LA. It explores the main facilitators and challenges to ensuring sufficiency and sustainability of pre-school places overall, and in relation to the 2YO offer specifically, particularly in the context of the 2013 roll-out.

The topic guide

This guide sets out a number of a number of necessary contextual and factual questions that will need to be covered with all respondents. The guide does not contain follow-up questions like 'why', 'when', 'how', etc. as participants' contributions will be explored where relevant using prompts and probes in order to understand how and why views, behaviours and experiences have arisen. The interview will last for **60 minutes**.

1. INTRODUCTION

- Introduce yourself & NatCen
- Introduce study:
 - funded by Department for Education
 - study looking at the sufficiency and sustainability of childcare in disadvantaged areas
- Focusing on local authority implementation and childcare providers' experience
- Exploring views and experiences on factors helping or hindering sufficiency and sustainability generally, but very much with a view to answering the question of what it will take to realise the roll-out of the 2YO entitlement
- Digital recording – check OK, and reassure re: confidentiality
- How we'll report findings – confidential/anonymised
- Reminder of interview length – (60 mins) check OK
- Any questions/concerns?

2. SETTING THE CONTEXT

- Job title and role

- Length of time in role?
- Team based in within the LA?
- Rationale for structure

Explain to the respondent that this study is focusing on pre-school childcare provision in disadvantaged areas in particular. Explain that NatCen have carried out postcode analysis of their LA to identify the areas which fit this description. Check that interviewer and respondent have a shared understanding of which areas within the LA they are going to be discussing for the remainder of the interview.

3. CURRENT PRE-SCHOOL PROVISION IN DISADVANTAGED AREAS

- Key features of **current** pre-school childcare provision in disadvantaged areas within the LA
 - Provider types operating
 - Fit of number of places with demand
 - Shortfall in relation to demand?
 - Oversupply in relation to demand?
 - Perceived reasons for this
 - Quality of places available
 - Financial viability/ sustainability of providers mentioned – key threats
 - Differences by provider type – *cover nurseries, sessional care, childminders*
- Key features of current provision in relation to **2YO offer specifically** in disadvantaged areas within the LA
 - Provider types offering places
 - Number of places offered
 - Nature of eligibility criteria/outreach
 - Sufficiency of places – nature of/reasons for shortfalls
- History of childcare provision in disadvantaged areas
 - Key changes in recent past
 - LA proactive in stimulating supply?
 - Providers set up in response to demand?
 - Differences by provider type

4. LA PLANNING IN RELATION TO PRE-SCHOOL PROVISION IN DISADVANTAGED AREAS

- Key challenges in assessing childcare sufficiency/gathering data about supply and demand
- Key features of **current childcare plan...**
 - 1) how they will go about achieving sufficient numbers of pre-school childcare places in disadvantaged areas
 - 2) how they will go about ensuring that the pre-school provision in disadvantaged areas is financially sustainable
 - 3) how they will go about ensuring that provision is of sufficiently high quality
- **Supply** - key areas of focus
 - Increasing number of providers?

- Increasing capacity of current providers?
- Helping to sustain current providers?
- Improving quality of providers?
- Any differences by provider type – *cover nurseries, sessional, childminders*
- **Demand** – key areas of focus
 - Improving parental knowledge about use of formal childcare?
 - Take up of free nursery education places for three-and-four-year-olds?
 - Influencing parental attitudes towards formal childcare?

Note that 2YO planning covered separately in Section 6 below.

- Differences in relation to the above between different disadvantaged areas within the LA - reasons for differences

5. CHALLENGES AND FACILITATORS

- Key **successes/examples of best practice** so far in achieving
 - Sufficiency of pre-school childcare places in disadvantaged areas
 - The financial sustainability of providers in disadvantaged areas
 - Differences by provider type – *cover nurseries, sessional, childminders*
- What do they attribute these successes to?
 - Government policies/funding streams
 - Actions on the part of the LA
 - Provision of advice/support
 - Aiding funding applications
 - Actions on the part of providers
- Key **challenges** to achieving
 - Sufficiency of childcare places in disadvantaged areas in LA
 - The financial sustainability of childcare providers in these areas
 - Differences by provider type – *cover nurseries, sessional, childminders*
- What do they attribute these challenges to?
- Views on how challenges could best be overcome...
 - LA action?
 - Provider action?
 - Government action?
- Main **successes/challenges** in terms of achieving sufficient and sustainable **quality** of provision
- Main facilitators/challenges anticipated in the future

The headings below cover areas respondents are likely to mention in relation to successes and challenges. If mentioned spontaneously, explore in relation to the topics below. If not mentioned spontaneously, probe for each one the role it has played/is playing in aiding/hindering the achievement of 1) sufficient number of childcare places in disadvantaged areas 2) the sustainability of childcare places in disadvantaged areas.

ROLE OF GOVERNMENT POLICIES AND FUNDING STREAMS

- **Role played/being played by government policies in the creation of sufficient/sustainable pre-school childcare places in disadvantaged areas in the recent past and currently**

- Impact of introduction of nursery education funding for three-and-four-year olds
- Ongoing role of three-and-four-year-old funding
- Impact of Sure Start/Children's Centre funding
- Impact of introduction of demand-side funding
 - Childcare element of WTC
 - Childcare vouchers

Note 2YO offer covered in separate section below.

- **Role played/being played by other government funding streams in the creation of sufficient/sustainable pre-school childcare places in disadvantaged areas**

The following are relevant funding streams to prompt on here...

- Revenue funding/Capital Funding
- The Childcare Quality and Access Grant
- Childminder grants
- Additional funding to support 2YO offer: *Inclusion Fund, Sure Start funding, Disabled Children's Access to Childcare*

- **For all policies/funding streams mentioned...**
 - Have they encouraged/are they encouraging new providers to set up and how?
 - Have they helped/are they helping to sustain provision and how?
 - Have they helped/are they helping to sustain demand and how?
- Anticipated role played by government funding in the future...
- How necessary is *ongoing* revenue and/or capital funding for the financial sustainability of providers in these areas?
 - If so, which types of provider and why?
- Overall impact of policies/funding – what childcare provision would look like in these areas without these policies/funding streams

ROLE OF LA ADVICE AND SUPPORT

- **Role and impact of LA advice and support in creating sufficient/sustainable numbers of pre-school childcare places in disadvantaged areas in the recent past and currently**
 - What type of advice/support has been important/is important...
 - In encouraging new provision
 - In increasing number of places in current providers
 - In sustaining current provision
 - Impact of advice on providers
 - Any areas where more advice/support needed
- Main types of advice/support expected to be needed in the future

MARKET CONDITIONS

- **Role and impact of market conditions in creating sufficient/sustainable numbers of pre-school childcare places in disadvantaged areas in the recent past and currently**

Demand side factors...

- Over/under supply in relation to demand, and why
- Nature of demand in disadvantaged areas, and impact on childcare provision
 - Types of providers preferred by parents
 - Distance parents prepared to travel
 - Cultural/social reasons for childcare use
 - Local habits/transport links/positioning of local schools/local employment market
 - Take-up of three-and-four-year-old places and impact on childcare choices
 - Take-up of 2YO offer and impact on childcare choices
 - Any key areas of lack of knowledge/understanding amongst parents?

Supply side factors...

- Whether single dominant providers – and impact on others
- Extent of provider cooperation and impact
- Extent of provider competition and impact
- Main drivers for pricing strategies
- Role of areas bordering on disadvantaged areas
 - Bring in business from outside and impact?
 - People from disadvantaged areas using providers outside of the area and impact?
- Any anticipated change to market conditions in the future and predicted impact

WIDER CONTEXTUAL FACTORS

- **Impact of any other contextual factors on achieving sufficient numbers of/sustainable pre-school provision in disadvantaged areas in the recent past and currently**
 - Which ones aid the above
 - Which ones hinder the above
- Predicted impact in the future of any other contextual factors

ROLE OF 2YO OFFER

- **Whether 2YO offer helping to boost numbers of pre-school places in disadvantaged areas**
 - Encouraging new providers to set up?
 - Encouraging current providers to expand?
 - Why, why not?
 - Which ones? – *cover nurseries, sessional care, childminders*
- **Whether 2YO offer having positive/negative impact on financial sustainability of providers in disadvantaged areas**
 - Helping to fill otherwise unfilled places?
 - Offering viable hourly rate?
 - Impact of the following requirements on provider sustainability...
 - Offering part time places
 - Employing a graduate
 - Meeting quality standards
 - Catering for children with SEN/disabilities
 - Impact of additional funding (if accessed)...
 - i.e. *Inclusion Fund, Sure Start funding, Disabled Children's Access to Childcare*

Note that the future role of the 2YO offer is covered in section 6

ROLE OF QUALITY ISSUES

- **Role and impact of quality issues in creating sufficient/sustainable numbers of pre-school childcare places in disadvantaged areas in the recent past and currently**
 - Impact of quality requirements on providers setting up
 - Any sense that quality requirements deterring new providers?
 - Impact on sustainability
 - Effect of positive/negative OFSTED ratings on business
 - Ease/difficulties complying with OFSTED/other quality standards, *i.e. other local/national quality improvement processes* and impact
- Anticipated future impact of quality issues

6. ROLL-OUT OF 2YO PILOT IN 2013

- Key features of **current plan in relation to 2YO offer specifically** in disadvantaged areas
 - Extent to which focus is on increasing number of current providers
 - If so, which provider types and why?
 - Extent to which focus is on increasing capacity of current providers
 - Extent to which focus is on improving quality of current providers
- Main **successes/challenges** in terms of achieving sufficient and sustainable supply of 2YO places in 2013 roll-out
 - Extent to which they think they will be able to meet demand – why/why not
- Anticipated impact on provider sustainability in disadvantaged areas and why
- Likelihood of meeting through 'market forces' alone
- Anticipated need for additional funding
 - nature
 - reasons
- Views on how challenges could best be overcome...
 - LA action?
 - Provider action?
 - Government action?

7. DISCUSSION OF CASE STUDY AREAS

Interviewer to explain that research team would like to focus in on one or two case study areas within the LA, and to interview all the main providers in these areas. Interviewer to explain geographical scope of case study areas – *'pram pushing' distance in urban areas, wider spread in rural areas.* Researcher to discuss with the respondent which areas it would be useful to include.

8. CONCLUDING THOUGHTS

- Any final reflections?
 - Any key messages for DfE/central government?
 - Would like to be sent link to report when available?
 - Any questions for the researcher?
 - Thank and close.
-

Ref: DFE-RR246

ISBN: 978-1-78105-151-1

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December 2012