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Nursery Closures

Research on the nature, impact and drivers of nursery closures in England

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Research commissioned by: Local Government Association

isos partnership

Local Government Association

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Foreword

A child's earliest years are their foundation; if we give them a great start, they have a much better chance of fulfilling their potential as they grow up. By the time disadvantaged young people sit their GCSEs at age 16 they are, on average, 18.4 months behind their peers and around 40 per cent of that gap has already emerged by age five. Pre-school has almost as much impact on a child's education achievement at age 11 as primary school - and the impact is even greater for those who may develop learning difficulties.

High quality early years provision can generate sustained and significant improvements on children's outcomes reducing disparities in later life. Not only does good quality provision have a positive impact on children's development, it also ensures that parents and carers can feel confident to access childcare. Securing enough high-quality childcare for the children in our area to get the places they need is something we need to invest our time and energy into. A mixed early years and childcare market can ensure there is flexibility to meet the needs of children and their families.

However, the current system does not always deliver this. We hear too often that it can be difficult for families who are working atypical hours, who live in rural areas, or who have children with additional needs to access provision. For some families, the cost of childcare can be too expensive. This is the case despite some providers struggling to make ends meet. The past few years have been particularly challenging for the early years provider market with the impact of Covid, changes to parental childcare patterns, rising level of need among children and the cost of living pressures in recent months. Workforce morale is impacting on recruitment and retention and there are increasing concerns around the sustainability of smaller providers in deprived areas.

There have been significant recent announcements about early years education and childcare, with a large expansion planned for the funded entitlements offer. Given this will result in an increase to the market share owned by the public purse, we need to ensure that the provision available for children and their families is cost-effective and results in positive outcomes for children.

For all these reasons, it was particularly important for us to explore the sustainability of the current market and its durability in the long term.

Councils' statutory abilities to intervene on quality in childcare settings and shape the market are extremely limited. Yet we know that around the country, they are working hard to facilitate highly effective networks, provide direct support to providers and offer training opportunities to improve standards wherever possible. This report explores what works for councils in delivering this support, and what they need from government to deliver their vital role as conveners, place-shapers and drivers of change.

We need to ensure that we have the tools we need to make the early years childcare and education offer sustainable and high quality. We owe every child a Bright Future.

Councillor Louise Gittins,
Chair, LGA Children and Young People Board.

Executive summary

Introduction

There has been a lot of media attention, and reports from sector-led bodies, about growing levels of nursery closures since the pandemic. These have been echoed in declining confidence amongst local authorities about 'sufficiency' of provision to deliver funded childcare entitlements and meet the needs of working families, as reported in the [2023 Coram childcare survey](https://www.familyandchildcaretrust.org/childcare-survey-2023).

So what is really going on now, how different is it to the past, and how concerned should we be for the future? With these questions in mind, the Local Government Association commissioned Isos Partnership in November 2022 to undertake a short research project. Our aim has been to better understand the trends, impacts and drivers of recent private and voluntary sector nursery closures, and consider the local and national implications.

The Chancellor's announcement in March 2023 of 30 hours of free childcare for every child with working parents aged from nine months to five years puts a significant premium on understanding these issues. If successful, the policy could raise parental demand for nursery places substantially, potentially benefitting significant numbers of children and families. But this will depend on securing enough good-quality places. Sector bodies remain concerned that the promised increase in funding from September will be too little too late, and that the entitlement extension itself, if not properly funded, could risk further closures and reduce capacity.

The work we have undertaken

Our analysis draws on: i) a rapid desk review and analysis of published data in December 2022; ii) a closures temperature-check survey with local authority early years teams in January 2023 (this received 98 responses, representing 65 per cent of upper-tier local authorities and county councils); and iii) focused fieldwork with local authorities and nursery managers and owners within three, very different, authorities, all experiencing high levels of closure, with interviews taking place in February and early March 2023. Findings have been brought together thematically.

Nursery closures in context

Private and voluntary nurseries account for around two thirds of early education and childcare places for children aged 0 to four, including around half of funded entitlement places. Whilst there has been a decrease in childminders since 2015 and an increase in school-based providers, the total number of private and voluntary nurseries and number of places they offer have been relatively stable, at least until recently.

However, the shape of private and voluntary sector provision has altered over the last decade. There are fewer single-site and voluntary nurseries, and many of these have been consolidated into larger private settings and chains offering full daycare, including some very large national chains – although most nurseries (over 60 per cent of private settings and 90 per cent of voluntary settings) are not part of chains, and most that are do not belong to very large national chains.

This evolving mixed market has broadly delivered a good level of provision for families in most local authority areas over time, although even prior to the recent closures there were always shortfalls in some areas and more pronounced gaps for some groups, including families with children aged two and under and those with disabled children.

Private and voluntary settings are very diverse, but evidence suggests that collectively they continue to play a unique, vital and valued role for families. Quality across the sector is widely judged to be at least 'Good' by Ofsted, and observational studies show it has improved over time. Private and voluntary settings offer more flexible provision than schools and maintained nurseries and operate across a range of communities. The vast majority of private and voluntary nurseries provide spaces for children with additional needs and disadvantaged two-year-olds, and nearly one in five also provide specialist services for children and families.

Nature of recent closures

Contrary to the impression given in the media and by the sector, national data from both Ofsted and the Department for Education (DfE) indicates that there was not a dramatic drop in the total number of private and voluntary nurseries or places in 2022. A slight increase in closures has been offset by new openings, and, broadly, the number of places remains stable at the national level, continuing the previous trend.

However, it is not a static picture. Our survey indicates that the trend around closures may be accelerating. Local authorities were less positive about the period October to December 2022 than they were about 2022 as a whole, with 40 per cent reporting more closures in the 2022 autumn term than in the 2021 autumn term, and only 16 per cent reporting fewer closures. Local authorities were also much more likely to say that places were down than they were to say places were up – echoing growing concerns about 'sufficiency' reported in the 2023 Coram survey.

Single-site settings – private and voluntary – and sessional providers appear increasingly vulnerable. The DfE provider survey indicates the number of private nurseries going up at a very slightly increased rate, and voluntary nurseries in slightly sharper decline from 2021/22 compared with the three years previously. Our survey, however, also puts the spotlight on single-site private settings. The greatest proportion of local authorities (62 per cent) flagged single-site private settings as the most significantly impacted by closures in their area in

2022. Sessional daycare and single-site voluntary settings were the next most frequently reported to be impacted.

Both our survey and Ofsted data highlight the striking variation across local areas – with a notable minority seeing very significant effects from closures. Over 13 per cent of local authorities told us they had seen 'significantly more closures' in the 2022 autumn term compared with the 2021 autumn term. The Ofsted Early Years Register reflects a similarly diverse picture – in the five months to September 2022, most areas saw no net change or an increase in settings, but 45 local authorities saw a net loss of at least 2.5 per cent of their registered nurseries, with one local authority area losing nearly 12 per cent of its settings.

Nurseries in the least deprived localities initially appear to have seen the largest numbers of closures, but the trend is not linear and less deprived local authorities are more likely to see nursery closures offset by nursery openings. **Place changes are not clearly correlated with deprivation either.** We explored correlation with area deprivation trends from a number of angles, including looking at the postcodes of those settings leaving the Early Years Register in the year to September 2022, the net impact of leavers and joiners (or 'net closures', as we have termed them) and changes in place numbers by local authority (which incorporates the effect of expansions as well as nursery closures and openings). Across all of these measures, there is no clear trend by deprivation.

Impacts of closures

When we asked local authorities to comment specifically on which communities and which areas were most affected by recent closures, the top answers were lower income families and areas with deprivation. Forty-five per cent of local authorities said lower income families had been most affected and 40 per cent flagged areas of high deprivation. Families with two-year-olds, families with three- to four-year-olds, families with disabled children, families with children aged 0 to one, and rural areas were also flagged as key concerns by at least a quarter of responding authorities.

Why are poorer families and communities considered by local authorities to be most impacted by closures when the data (reported above) seems to suggest no clear correlation with area deprivation? We found three likely explanations:

1. **There is a poorer supply of places in deprived areas in the first place.** Comparing age relevant Office for National Statistics (ONS) population data with Early Years Register places indicates that deprived areas have lower numbers of nursery places per child after controlling for school and childminder places. Therefore, any closures are likely to have a disproportionately high impact.
2. **There may be a disproportionate impact on settings serving lower income families in less deprived areas.**
3. **The experience and impact of closure is likely to be more challenging for more disadvantaged families**. When closures happen, local authorities commonly report

that the key issues are that families have to travel further and pay more. Both of these factors restrict the options available to lower income families more significantly, and especially those in rural communities without independent means of transport. For families with children with developmental issues or more complex needs (also more likely to be lower income), the upheaval from changing setting can be more of a concern and finding a suitable alternative harder, especially as more and more settings say they lack capacity to support children with additional needs.

Local authorities can help to mitigate the impact on families when closures happen, but not all families are supported. Local authorities we spoke to all worked in partnership with closing settings to present alternatives for those families affected and place more vulnerable children. They reported encouraging other local providers to step in, and gave examples of where they had successfully encouraged schools to provide additional places and children's centres to offer additional sessions. However, this is not always possible. Not all families are known to the local authority and variation was also apparent in the extent to which early years teams reach out to families who are not identified as 'vulnerable', or persist in finding alternative formal care solutions for those families who say they plan to revert to informal options. This may be due to differences in capacity. The increasingly abrupt nature of closures is also making it harder for local authorities to support impacted families effectively.

Looking ahead, the impact of closures on overall sufficiency is also a concern for many, even without potential new demand generated by an extended funded entitlement offer. Nearly half of surveyed local authorities were concerned that closures in 2022 created new risks to sufficiency in the year ahead in relation to at least some areas or groups – and 29 per cent reported that closures had happened in areas where there were already concerns about sufficiency. Illustrating this, within one fieldwork authority, the compounding effect of recent closures was that no funded places for two-year-olds would be available in the south of the city for another nine months. The vast majority (88 per cent) are at least slightly concerned that closures in 2023 will be significant and undermine sufficiency. Part of the issue in fieldwork authorities is that it is harder to attract new providers in some areas.

Drivers of closures

Insufficient income to meet rising costs and workforce-related issues are the two factors rated by local authorities as the two key drivers of closures in 2022, and there has been a perceived sea-change in their significance since the pandemic. Shifting demographics and negative Ofsted reports are also seen as factors by many. Competition between providers is rated far lower.

Within our fieldwork areas, nursery owners and managers gave powerful testimony about the challenges of simultaneously managing hikes in utility bills, rent, insurance, food and staff wages, and the growing discrepancy between delivery costs and government-funded

entitlement rates. Increases in the National Minimum Wage from April 2023 were especially noted as far outstripping rate increases and, at the time of our interviews, were already said to be proving a tipping point for some to leave the sector. It is unclear whether the further planned rate increases from September, announced since our interviews, will address this.

During our fieldwork, we heard that a lack of appropriate staff is increasingly preventing nurseries from being able to deliver to their full capacity. Some have shut rooms or close temporarily for days or weeks and there are many reports of settings limiting places for children with more complex needs. None of this is captured as 'closures' in the national data. Furthermore, difficulties in recruiting and retaining staff are also impacting on longer-term viability through increases in costs for recruitment and agency staff. Local authorities and nursery managers also reported upward pressure on staff salaries, so that they are more competitive with private sector roles that offer greater flexibility and better pay and progression opportunities, and school roles that offer clearer boundaries with fewer responsibilities. Where vacancies prevent providers from delivering to their full capacity, this can also limit income.

The challenge of managing staff shortages is also clearly driving closures through undermining the personal resilience and wellbeing of many owners/managers, leading some to retire early or opt out of the sector. Several managers we heard from expressed frustration at not being able to secure quality staff or meet increases in the Minimum Wage, despite feeling they should be paying more than this in recognition of the level of effort and complexity of skills required. More than one owner/manager described having no alternative but to cover for vacancies themselves over long periods, at times with no or limited recompense.

In this context, negative Ofsted outcomes are seen as more likely to occur – and more likely to lead to closure. All three fieldwork authorities said that settings were seeing more closures following poor Ofsted findings than in the past. As well as managers often experiencing lower personal resilience due to the myriad challenges in the sector, quality can be affected by pressurised staff or high numbers of temporary workers, and capacity to improve limited. Ofsted was not perceived to be sympathetic to the current challenging context.

Our fieldwork indicates that the drivers of closures appear more significant for smaller settings, those unable to draw on a wider business and those in more disadvantaged areas in at least four respects.

First, pressures from funded entitlement funding shortfalls are felt most keenly by settings with more limited ability to pass costs on to parents. Sessional providers that exclusively or mostly deliver funded entitlement provision, and those where families are on lower (or not high) levels of income and unable/unwilling to pay more, fall into this category.

Second, post-pandemic, many smaller providers are reported to lack the level of financial reserves they held previously. And smaller voluntary sector settings may be intrinsically more risk averse.

Third, workforce challenges appear to be biting more for those settings serving disadvantaged communities. Rising levels of poverty, complexity of needs and pandemic-related trauma are commonly impacting on children, parents and staff in these settings. Staff are said to be more likely to leave and managers more likely to burn out. In contrast, larger, more profitable, chains appear better equipped to buffer their settings with enticing offers and financial incentives to new staff.

And fourth, while 'competition' is not currently perceived to be a key driver of closures generally (as perhaps it once was), there appear to be rising concerns about some poorer quality private providers and chains, including those with a history of negative Ofsted judgements, undercutting long-standing quality community providers within more disadvantaged areas. Local authority early years teams are limited in their ability to prevent this.

Reflections and recommendations

Taken together, our analysis suggests that there is significant cause to be concerned about private and voluntary nursery closures, and in particular the growing and potential future impacts on disadvantaged families and communities. Reasonable stability at national level appears to mask signs of a worsening trend, significant variation by locality and type of provider and more pronounced impacts on lower income families and communities (even though closures are not concentrated in the poorest areas). Furthermore, the funding and workforce issues and related pressures that are driving closures now are biting more for small settings and those serving disadvantaged communities, suggesting their vulnerability may increase. Without reforms, we might expect to see a further escalation of closures of these types of settings, reduced capacity in more communities and an increased stratification of the childcare market.

Capacity within most local authority early years teams is very tight, but there may be more that some could do in the immediate term to build on existing effective practice. The research we have done suggests that useful areas of focus would be: ensuring sufficiency assessments are deep and thorough, providing good and bespoke financial advice and support to small providers; taking further steps to lighten the burdens on managers and owners of small, valued providers (for example harnessing in-kind support from schools and family hubs); consistently identifying and reaching out to families affected by closure, and working with partners to develop local early years workforce recruitment and retention strategies. Local leaders will need to support them.

It is beyond the scope of this project to calculate an appropriate future entitlement funding rate, but two key messages on national funding rates have emerged for government. First, future rates are likely to need to be more strongly differentiated by level of disadvantage, and probably by the scale of provider. Given the substantial differences across local markets, scope for greater local leeway for differentiation between providers from a larger pot may be required. And second, future rates need to lay the foundation to build a valued workforce, with pay to rival other sectors and halt the current exodus. On this basis, the funds allocated to increase rates in the March 2023 budget, which are broadly expected to protect funding in real terms with more for two-year-olds, are unlikely to be enough.

It is imperative to resolve workforce challenges if sustainability is to be improved, and these seem unlikely to be resolved through improved funding rates alone. There is an obvious need for a national strategy and recruitment drive that sets clear targets for growing the early years workforce, considers progression routes and better supports different types of experience and qualifications. More fundamentally, there is a strong case for a wholesale early education and childcare workforce review. This should consider how to make childcare a truly valued profession, recognised for its critical role as the daily frontline with young children and their families, including many who are vulnerable. This is a long-standing challenge, but there is a danger that the current direction of policy and rhetoric will undermine this further by positioning workers as ‘babysitters’.

Looking ahead, the newly extended free entitlement is an opportunity to strengthen the monitoring and management of the market – and increases the necessity of doing both. The proportion of places that will be delivered through government-funded entitlements is predicted to go up to around 80 per cent (from just under 50 per cent now), and this has the potential to give local authorities a much more critical role in managing local markets and securing a sufficient supply of quality provision to meet families’ needs. But to be more active commissioners, local authorities will require resource. And their ability to prevent poor-quality providers from threatening to displace valued settings will depend on them having stronger levers, for example to withhold funding where there is over-supply. Central government should be minded of this.

Improving the mechanisms for monitoring the level and nature of closures will also be important. Whilst there is no shortage of data in this area, there is no one comprehensive source, limited ability for local ‘foresight’ and a lack of differentiation at the sub-local-authority level. Our ability to understand the types of provider that might be most vulnerable – or most viable – is also limited by our basic understanding of closures in relation to chains. A better understanding of these factors would enable the development of a clearer future vision for a high quality and sustainable childcare market, with the appropriate provider mix to meet the needs of all families.

1. Introduction

It is hard to get away from headlines on childcare.

The Chancellor's new ambition to extend the entitlement to provider-funded childcare aims to radically improve childcare access and affordability for families with young children. The plan is that from September 2025 all children aged between nine months and five years with working parents will be able to access 30 hours of free provision per week, with roll-out to all two-year-olds beginning in spring 2024.

The starting context, however, is an escalation of reports of strain across the early years sector and questions about existing capacity. Since the pandemic, rising costs, reduced real-terms funding rates[1] and workforce pressures are said to be forcing up fees and threatening provision across the country.[2] The impression is that the long-term decline in childminders is spreading to closures of private and voluntary nurseries, where a far greater proportion of children attend provision. When nursery closures happen, media stories abound about upheaval for children and parents struggling to find accessible and affordable alternatives.[3] This picture was reflected in the Coram 2023 childcare survey, which showed a decline in the number of local authorities feeling confident about whether they have sufficient provision, with only half of local areas saying they have enough childcare for children under two.[4]

This is not the first time that the alarm has been raised on childcare – funding levels have long been challenged and past 'crises' have not always come to pass. **So what is really going on now, how different is it to the past, and how concerned should we be for the future?** With these questions in mind, the Local Government Association commissioned Isos Partnership in November 2022 to undertake a short research project to better understand the trends, impacts and drivers of private and voluntary sector nursery closures, and consider the implications.

The research was commissioned and largely conducted prior to the budget announcement, but the new commitment puts a significant premium on the need to grasp these issues better. If successful, the policy could raise parental demand for nursery places substantially, potentially benefitting significant numbers of children and families. But this will depend on

[1] IFS (2022) Early Years Spending Update: The impact of inflation: https://ifs.org.uk/publications/early-years-spending-update-impact-inflation
[2] Early Years Alliance (2023): https://www.eyalliance.org.uk/news/2023/02/almost-nine-10-early-years-providers-set-increase-fees-year
[3] For example: https://www.manchestereveningnews.co.uk/news/greater-manchester-news/parents-struggling-childcare-following-nursery-25909815; https://www.sussexexpress.co.uk/news/people/parents-left-shocked-and-angry-after-sudden-closure-of-sussex-childrens-nursery-3951375
[4] Coram (2023), Childcare survey 2023: https://www.familyandchildcaretrust.org/sites/default/files/Resource%20Library/Childcare%20Survey%202023_Coram%20Family%20and%20Childcare.pdf

securing enough good-quality places. The government has promised a rise in the rate of funding from September 2023, but whether it will be sufficient remains an open question (at the point of writing all that is known is that it should be enough to protect total spending in real terms over the next few years, with a 30 per cent increase in the rate for two-year-olds). Sector bodies fear that the increase will be 'too little, too late',[5] and if the rate does not fully cover delivery costs, the expansion could lead to further closures by encroaching on the space for settings to cross-subsidise through charges to parents for provision outside funded entitlements, as many currently do.

This report summarises our brief investigation, setting out **the work we have undertaken (p13)** and the **background context (p14)** in terms of our mixed market, long-term trends and the contribution of private and voluntary sector nurseries. It then goes on to describe our findings about the **nature of recent closures (p20)**, including most recent trends, the types of setting closing and location and interaction with deprivation. The next section brings together our insights on the **impacts on children, families and communities (p28)** and why some are more affected than others, local authorities' role in mitigating impacts and the outlook on sufficiency. The following sections explore the **drivers of recent closures (p36)** and why some settings are more at risk, drawing heavily on our fieldwork. Finally, we include our **reflections and recommendations (p46)**, considering actions at the local authority and national level.

[5] https://ndna.org.uk/news/budget-30-hours-to-include-children-from-nine-months-old/; https://www.eyalliance.org.uk/news/2023/03/chancellor-reveals-plans-extend-30-hours-offer

2. The work we have undertaken

The report draws on a rapid desk review and analysis of published data in December 2022, a temperature-check survey on nursery closures with local authority early years teams and focused fieldwork in three local authority areas that have been experiencing high levels of closure. Key messages and findings have been triangulated and brought together thematically.

→ **Desk review and analysis of available national data**

We explored Ofsted closures data, based on available published data in December 2022. This included observing trends in closures and place reductions since 2019, exploring local area characteristics of nurseries closing in the year to 31 August 2022 by postcode, and a focused look at closures and openings in the five months to 1 September 2022 to discern patterns at local authority level. Alongside this, in March 2023 we explored findings in the most recent DfE surveys of early years providers and parents, and other key national reports, including the Coram childcare survey.

→ **Closures survey with local authority heads of early years**

A short nursery closures temperature-check survey was circulated to all local authority directors of children's services, with a request to pass it on to early years teams. Responses were collected between 20 December 2022 and 16 January 2023. The survey explored recent changes in local nursery numbers (with a particular focus on the autumn 2022 term), drivers of closures, types of setting impacted, the impact on children, families and local communities and area sufficiency, and anticipated trends for 2023. In total, 98 local authorities responded to the survey (this included 65 per cent of upper-tier local authorities and county councils). Deprivation levels, based on the Income Deprivation Affecting Children Index (IDACI) 2019, were evenly split across those answering.

→ **Focused exploration within three local areas**

We identified three geographically and demographically diverse local authorities that, in our survey, had reported a notable increase in nurseries closing in 2022, had a relatively high rate of closures in autumn 2022 which were not offset by new openings, and had an overall decrease in places. Within these areas, we reviewed sufficiency assessments, conducted semi-structured interviews with early years teams and spoke to a small sample of private and voluntary sector nursery owners and managers, either individually or in groups. Across the three areas, we engaged 15 providers. Conversations took place over February and early March 2023.

3. Nursery closures in context

Private and voluntary nurseries account for the majority of early education and childcare places, including around half of funded 'free' entitlement places.[6] Whilst there has been a decrease in childminders since at least 2015 and an increase in school-based providers, the total number of private and voluntary nurseries and places they offer has been relatively stable, at least until recently. However, the shape of this provision has altered over time, with fewer single-site and voluntary nurseries and consolidation into larger private settings and chains – although most nurseries are not part of chains. This evolving mixed market has broadly delivered sufficient places for families over time, although there have always been pronounced and growing gaps for some groups. Both private and voluntary settings continue to play a vital and valued role for families in all types of communities, meeting needs not met by schools, maintained nursery schools or childminders.

England's mixed childcare market

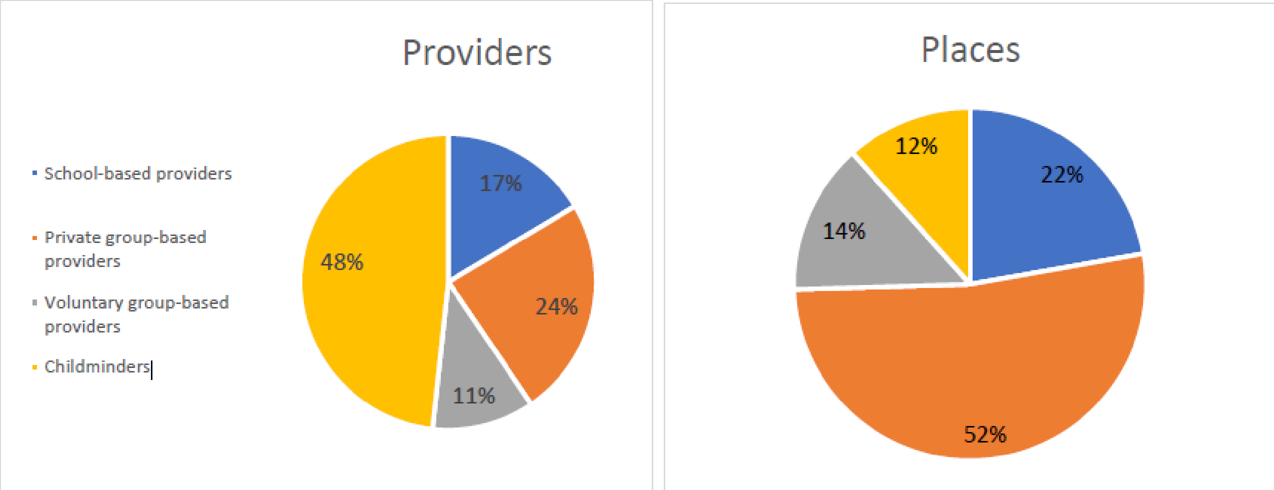
Private and voluntary nurseries account for the majority of early education and childcare places, including around half of funded 'free' entitlement places. There are currently around 60,000 registered providers and collectively they offer over 1.5 million Ofsted-registered childcare places to children aged 0 to four. Whilst childminders are the most numerous, private and voluntary nurseries deliver the large majority of places for children aged 0 to four. Private and voluntary sector nurseries make up just over one third of providers (21,000), yet account for around two thirds of early years places (see **figure 1**). They also account for around half of the funded entitlement places for three- and four-year-olds and the vast majority (86 per cent) of funded places for two-year-olds.[7] However, their presence varies significantly by local authority and by region – from 27 per cent of all providers in the north east to 39 per cent in the south west.

The prominent place of private and voluntary sector nurseries, and their varied presence across localities, is a product of the system's historical evolution. Until the introduction of universal part-time funded entitlement offers for three- and four-year-olds at the end of the 1990s, England's childcare for children aged 0 to three was almost entirely provided through private and voluntary nurseries, play-groups and childminders (with occasional public support). Alongside this, subsidised 'early education' in maintained nursery schools and nursery classes existed. But local councils were not required to offer this provision, and there was no one model. Northern local authorities and those in some more disadvantaged urban areas (historically industrialised areas with higher female employment) were more

[6] Throughout the report we use the term 'funded entitlement' to refer to places funded by the government via the supply side, intended to be free at the point of access to all qualifying parents, although sometimes there are fees attached.
[7] DfE (2022), Childcare and early years provider survey: https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-provider-survey

likely to have developed school-based provision.[8] Often, private and voluntary sector provision developed better in other areas. The introduction of the universal commitment required a wide harnessing of existing capacity, cementing the role of private and voluntary providers as part of a mixed market model.

Figure 1: Number of providers and places by type. Source: DfE provider survey, 2022



Long-term national trends in provision

The number of private and voluntary nurseries, and the places they provide, has remained broadly stable in recent years. The number of 'providers of childcare on non-domestic premises' on Ofsted's Early Years Register has remained broadly stable since it started to collate data in 2015, with recent years showing only a small slow decline (approximately 1 per cent annually). As **figure 2** shows, there were no signs of a dramatic shift over the course of the pandemic. The number of places they provide has also remained stable at a national level. The DfE providers survey[9] similarly finds broad stability in the total number of non-school-based group providers.

However, there have been some significant changes in the overall shape of private and voluntary sector early years provision.

Single-site playgroups and nurseries, especially voluntary settings and those providing sessional provision, have most often faced closure or been taken over or merged into larger private nurseries offering full daycare. The DfE providers survey reflects this, showing a slight upward trend of private group based settings (a growth of just under 4 per cent from 2018 to 2021) and a downturn in voluntary settings over the same period (a

[8] West and Noden (2016), Public funding of early years education in England: A historical perspective, LSE: https://core.ac.uk/download/pdf/46172863.pdf
[9] DfE (2022), Ibid.

decline of 600 or just over 7.5 per cent).[10] The survey also shows that the average size of a private nursery has gradually grown to around 55 places (compared to 51 in 2018), whilst voluntary settings have remained stable at an average of 35 places.

There has been a significant rise in the number of nurseries operating as part of a chain, and one might expect some increased turbulence as a result – although a relatively small proportion are in the largest chains. The latest DfE survey suggests that over a third (38 per cent) of private group-based providers and 10 per cent of voluntary group-based providers are now part of what they would term a chain.[11] The number of large chains has been growing in recent years, and the largest profit-making chains are known to operate highly commercialised models, characterised by acquisitions, mergers and debt, making them less stable and more prone to open and close settings.[12] Yet they still account for a relatively small proportion of the market. Based on figures from the end of January 2022, there are 24 chains operating 20+ settings, and only three with 100 or more settings.[13] The largest 25 chains (which include some not-for-profit companies but also a significant proportion backed by private equity) collectively provide 1,700 settings and around 137,000 places. In other words, they account for around 8 per cent of non-domestic settings on the Early Years Register, and 9 per cent of Ofsted-registered early years places.

These shifts are widely considered to be a consequence of the financial environment where government subsidy for the entitlement has always been tight and has fallen in real terms.[14] Larger and full daycare settings tend to have more possibilities to leverage economies of scale, and full daycare provision for younger children provides greater opportunities to cross-subsidise through fees to parents for hours outside the free entitlement.

Alongside the changing shape of private and voluntary nursery provision, there has been a long-term decline in registered childminders, which escalated over the pandemic. The number of childminders has been in decline since at least 2015. Figures on Ofsted's Early Years Register since 2019 suggest there has been a decrease of around 6 to 7 per cent of registered childminders annually over the pandemic, with a more dramatic reduction (nearly 13 per cent of the workforce) in the year to 31 August 2022 (see **figure 2**). Over four-and-a-half times more childminders left the register than joined it in this period.

At the same time, there has been a long-term decline in maintained nursery schools, but school-based early years provision has grown – with most of this growth relating to term-

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[10] DfE (2022), Ibid.

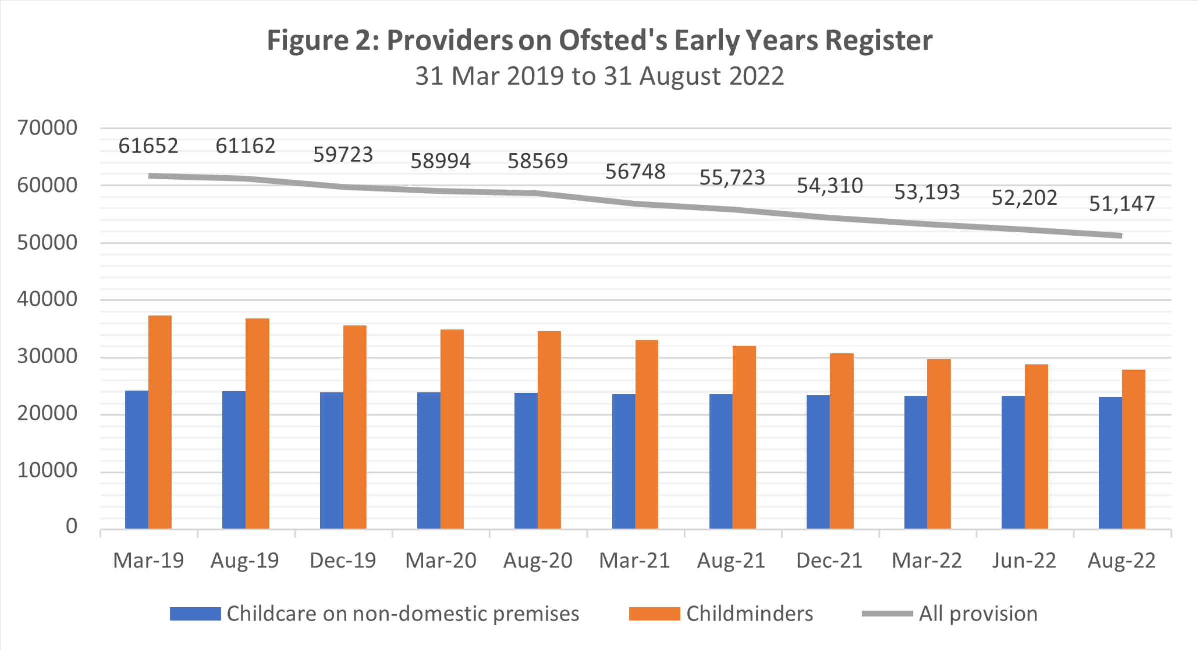
[11] DfE (2022), Childcare and early years provider survey, Ibid.

[12] Simon A, and others (2022), Acquisitions, Mergers and Debt: the new language of childcare – UCL Social Research Institute: https://www.nuffieldfoundation.org/wp-content/uploads/2022/01/The-new-language-of-childcare-Main-report.pdf

[13] Nursery World (2022), 'Nursery Chains 2022: Groups by size', 1 March 2022: https://www.nurseryworld.co.uk/features/article/nursery-chains-2022-groups-by-size-big-business

[14] IFS (2022): https://ifs.org.uk/publications/early-years-spending-update-impact-inflation

time, school day provision for three- and four-year-olds.** The number of school-based early years providers increased by 13 per cent from 2018 to 2022,[15] with many three- and four-year-olds now accessing their 30-hour places there. The number of two-year-olds in schools, however, has not changed significantly in recent years. Flexibility offered by schools also tends to remain limited, with fewer than 5 per cent of school-based providers offering nurseries that deliver provision which is open in the holidays.



Trends in sufficiency

The mixed childcare market described has, for the most part, delivered a good level of provision for most three- and four-year-olds, at least until recently. For over a decade there has consistently been over 90 per cent take-up of universal free entitlements (albeit access sometimes being conditional on the payment of fees for additional hours and services). And, until recently, around three quarters of local authorities have tended to report being able to deliver sufficient free provision for three- and four-year-olds (with the confidence of local authorities in the level of provision for this age group significantly increasing across the pandemic, likely due to growth in school-based provision).[16] However, levels of take-up have always varied between areas, with evidence that higher proportions of children with English as an additional language, greater population mobility and special educational needs and/or disabilities (SEND) are all associated with lower local take-up.[17]

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[15] DfE (2022), Early years and childcare provider survey, Ibid.
[16] Coram (2022), Family and childcare survey 2022: https://www.coram.org.uk/resource/coram-family-and-childcare-survey-2022
[17] Albakri and others (2018), Take-up of the early years entitlements: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738776/Take-up_of_free_early_education_entitlements.pdf

Long-standing shortfalls in provision that meets the needs of families with children aged two or under, and those who might be expected to require more flexible, local or personalised arrangements, have worsened. As childminder numbers have dropped and the shape of the private and voluntary sectors has evolved, local authorities have reported in Coram's annual childcare survey declining levels of confidence that there is sufficient childcare provision to meet the needs of families with disabled children, families with parents working atypical hours and families living in rural communities (in the early years and beyond).[18] At the start of 2022 the survey found that only 57 per cent of authorities were confident that there was sufficient childcare across all areas of their local authority for children aged two and under. This is 4 per cent fewer than prior to the pandemic and a clear contrast with the trend direction for three- and four-year-olds. However, it is still higher than the most recent figures alluded to in the introduction, which we go on to discuss in the next chapter.

Value of private and voluntary providers

There is of course huge variety across private and voluntary nurseries, and differences in terms of scale, quality and services, including some important distinctions between private and voluntary settings. Collectively, however, the evidence suggests that they continue to play a unique, vital and valued role for families.

Both private and voluntary nurseries are valued by parents for their flexibility. Private group-based providers are open on average 48 weeks per year – more than any other type of provider, including childminders – and for an average of 10 hours per day, in contrast to school-based providers, which are open on average seven hours a day. Voluntary group-based providers do not, on average, offer such long hours, but both private and voluntary group-based providers are less likely than school-based providers to restrict access to free entitlement hours to certain sessions or hours of the day or term-time only.[19]

The vast majority of private and voluntary settings cater to children with greater vulnerabilities or needs, and around one in five also provide specialist support services. Research has found that larger private chains tend to have a less explicit focus on meeting the needs of disadvantaged children and those with SEN,[20] but the latest DfE provider survey finds that the proportion of both private and voluntary providers who offer a place to at least one child with SEN has been going up over time and is now 83 per cent, with an average of five per setting, which is the same as the proportion of schools.[21] Private and

[18] Coram (2022), Family and childcare survey 2022, Ibid.
[19] DfE (2022), Childcare and early years provider survey, Ibid.
[20] Simon A, and others (2022), Acquisitions, Mergers and Debt: the new language of childcare – UCL Social Research Institute: https://www.nuffieldfoundation.org/wp-content/uploads/2022/01/The-new-language-of-childcare-Main-report.pdf
[21] DfE (2022): https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-provider-survey#main-content

voluntary nurseries also deliver the vast majority of targeted places for disadvantaged two-year-olds (only maintained nursery schools are more likely to offer these, and their small number means they account for far fewer places). And whilst schools, and in particular maintained nursery schools, provide a great deal in terms of specialist services and families support, around one in five private and voluntary group-based providers also offer specialist services for children, with a slightly smaller proportion also offering specialist family support.

In spite of ongoing workforce challenges, the quality of both private and voluntary sector nurseries has improved over time and is good in most settings. Past studies have found that the quality of provision in private and voluntary settings is more susceptible to levels of community disadvantage than in maintained settings/schools.[22] However, this is not very evident in current Ofsted data, which finds a slight tendency for more deprived areas to have fewer 'Outstanding' for-profit providers, but the relationship is not strong.[23] And whilst there is some scepticism about the quality of Ofsted judgments, contrasting large-scale observational studies (EPPE and SEED) also point towards a 'levelling up' of provision over time.[24] There remains a long way to go for equivalence in qualification levels with state maintained providers, but academics working on these studies have attributed improvements to advances in workforce professionalisation, and specifically to improved qualification levels in the private sector and better in-work training in voluntary settings.

Both private and voluntary providers continue to operate across a range of different communities. Some larger chains have a reputation for focusing exclusively on more profitable 'leafy suburbs'. However, whilst we have not found data on larger chains specifically, UCL analysis has found a broadly even distribution of private for-profit provision across England, with availability only weakly related to level of deprivation. Whilst the most deprived areas have fewer private providers than the least deprived, the differences are not large.[25] Many privately owned settings and small groups serve poorer areas, as well as voluntary settings.

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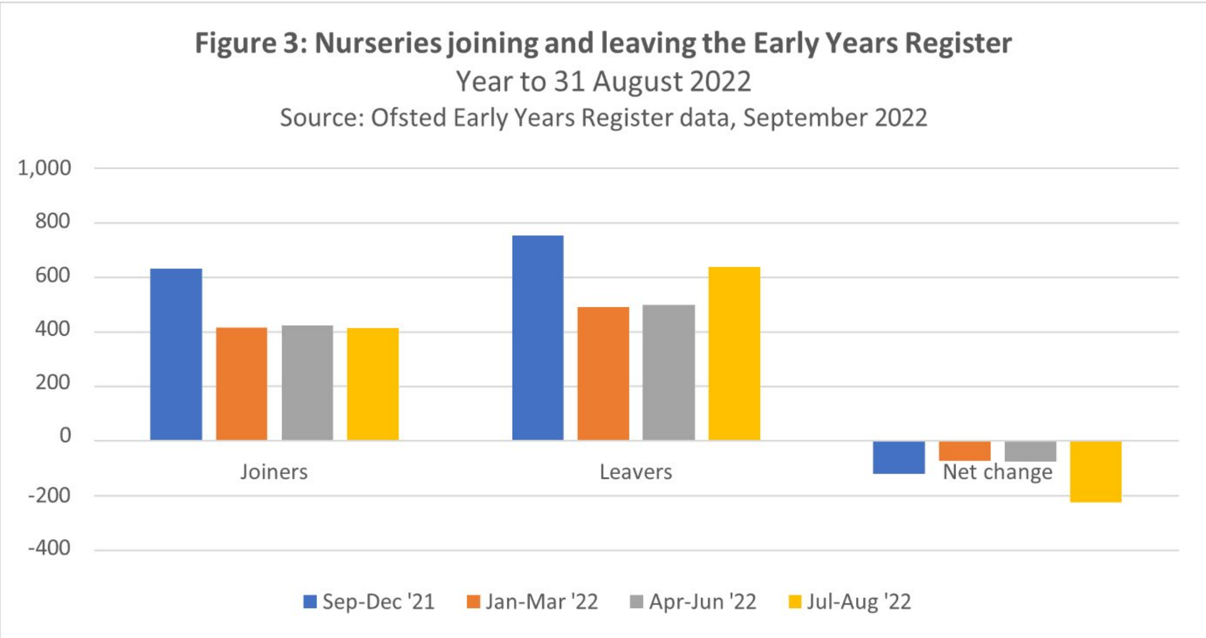
[22] Mathers and Smee (2014), Quality and Inequality: do three- and four-year-olds in deprived areas experience lower quality early years provision? https://www.nuffieldfoundation.org/wp-content/uploads/2019/12/Quality_inequality_childcare_mathers_29_05_14.pdf
[23] Simon A, and others (2022), Ibid.
[24] Melhuish and Gardiner (2019), Structural factors and policy change as related to the quality of early childhood education and care for 3-4 year olds in the UK: https://www.frontiersin.org/articles/10.3389/feduc.2019.00035/full
[25] Simon A, and others (2022), Ibid.

4. Nature of recent closures

Contrary to impressions from the media and sector, national data shows no dramatic drop in the total number of private and voluntary nurseries or places overall in the year to September 2022. However, there are signs that closures may be accelerating, with single-site settings – private and voluntary – and sessional daycare most impacted by closures. The picture remains extremely varied geographically, with stability in many areas but a notable minority of local authorities experiencing very high closures or reporting that the situation is much worse than a year ago. Nurseries in the least deprived localities initially appear to have seen the largest numbers of closures, but our analysis by postcode shows that the trend is far from linear and that less deprived local authorities are more likely to see nursery closures offset by nursery openings. Place changes are not clearly correlated with deprivation either.

The national picture for 2022

Ofsted data suggests that whilst closures of non-school-based nurseries have edged up on previous years, new openings have meant that the total number of settings did not change dramatically. There were 2,376 'childcare registered on non-domestic premises' settings which left Ofsted's Early Years Register in the year to September 2022. In the same period, 1,878 joined – leading to a net loss of 498 settings nationally. This contrasts to net losses of 263 and 300 the previous two years respectively, and thus an increase in the rate of decline (from around 1 per cent to 2 per cent). **Figure 3** shows the numbers of joiners and leavers.



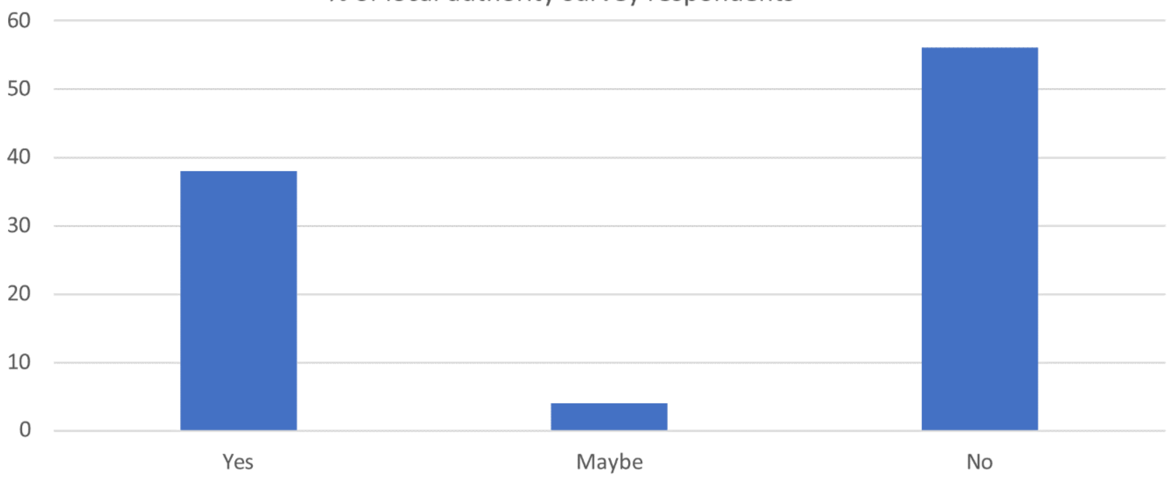
Meanwhile, the total number of <u>places</u> that private and voluntary nurseries provide has continued to grow steadily. In the year to August 2022, when the number of registered non-domestic settings reduced by 498, the total number of places offered nationally by this type of nursery went up by 3,634. And in the five months to 31 August 2022, which saw an accelerated drop of 302 registered settings, new places were also created, albeit at a much slower rate.

Analysis of the DfE survey similarly indicates little change in the total number of private and voluntary nurseries, and new nursery places helping to compensate for the decline in childminder places. Between 2021 and 2022, the total number of providers fell by 2,000 (3 per cent), but this was fully explained by a fall in the number of childminders. The number of group-based providers (including private and voluntary) slightly increased. And the number of places delivered by group-based providers increased by 58,100 (6 per cent) between 2021 and 2022.[26]

However, our survey of local authorities indicates that the trend around closures in private and voluntary nurseries may be accelerating.

When we asked local authorities to compare the level of closures over the whole of 2022 to previous years in our survey, responses were very polarised – but most did not report an increase in closures. We asked local authorities to give their view on whether there had been a notable increase in the number of Private, Voluntary and Independent (PVI) nurseries closing in 2022 compared with recent years (see **figure 4**). Whilst most (57 per cent) saw no notable increase, very few were unsure and more than a third (39 per cent) said that they **had** seen a notable increase in closures.

Figure 4: Did 2022 see a notable increase in the number of PVI nurseries closing in your local authority compared to recent years?
% of local authority survey respondents

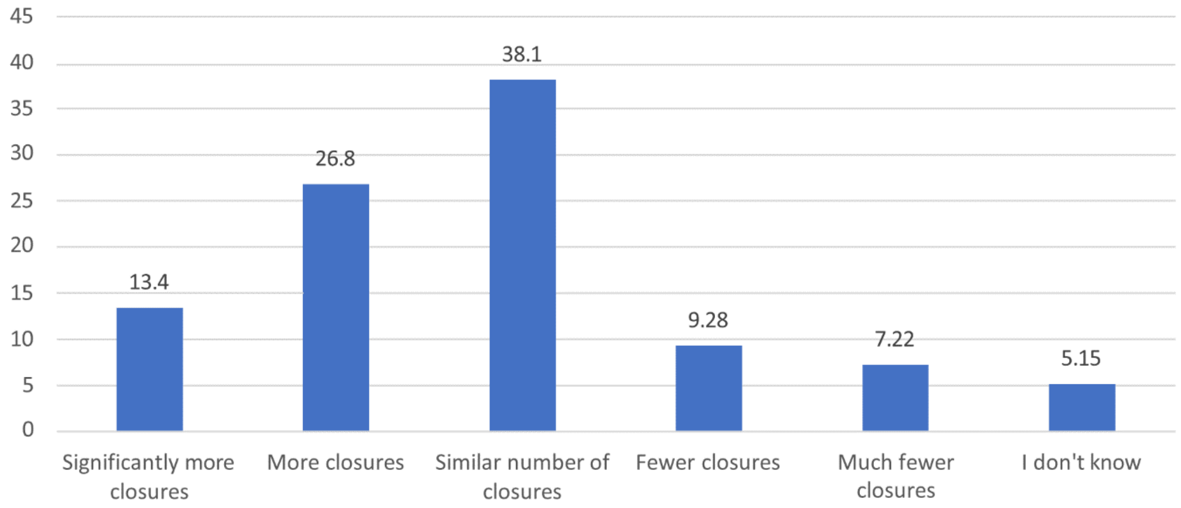


[26] DfE (2022), Early years and childcare provider survey, data table: https://explore-education-statistics.service.gov.uk/data-tables/fast-track/0b2993a1-4ea4-420e-3b15-08dad6b22a62

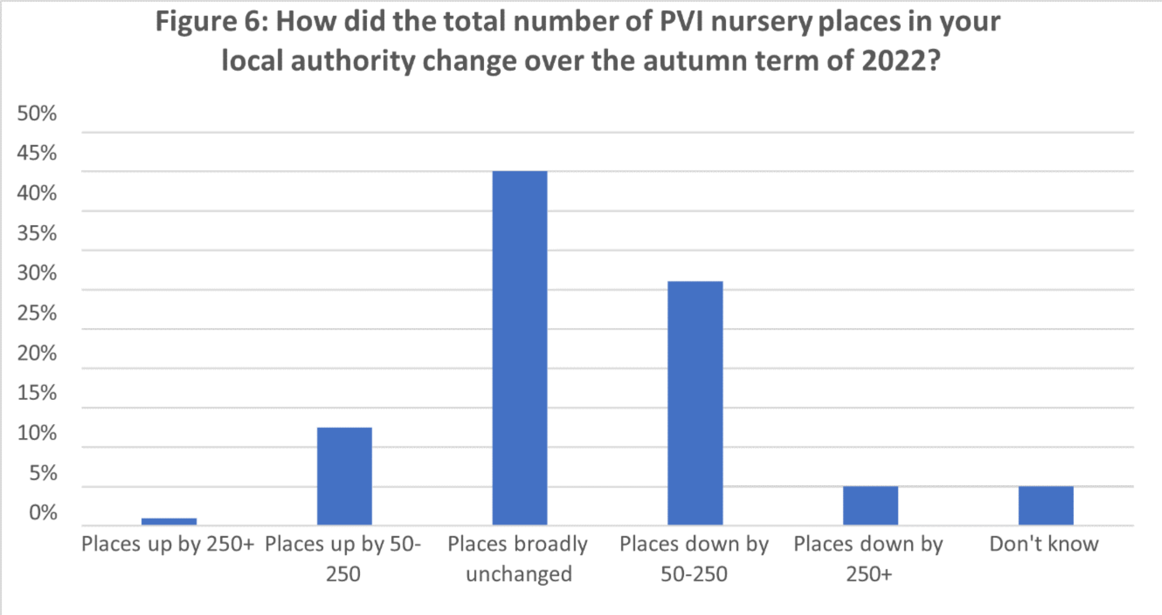
Focusing on the most recent period (autumn 2022), local authority responses were notably more tipped towards the negative. In our survey, the proportion of local authorities reporting an increase in closures (more closures or significantly more closures) in autumn 2022 compared to the previous autumn was 40 per cent. A similar proportion were broadly stable (38 per cent) and only a small minority reported fewer or much fewer closures compared to autumn 2021 (16 per cent) (see **figure 5** below). Local authorities that responded were over two and a half times more likely to report experiencing net closures in this period. Fifty-nine per cent of responding local authorities reported net closures, and only 22 per cent saw net openings (that is, the number of openings cancelling out the number of closures).

Figure 5: How did the number of closures during autumn term 2022 compare to the number during autumn term 2021?

% of local authority survey respondents identifying specific group



Most local authorities reported seeing no significant change in the number of places in the 2022 autumn term – but places were much more likely to be down than up. The largest proportion (45 per cent) of areas reported that the number of places offered through PVIs were broadly unchanged over the course of the 2022 autumn term (see **figure 6**). However, over double the proportion of local authorities reported that the number of places had reduced (36.5 per cent) as had increased in this period (13.5 per cent), reflecting the negative skew in closures and openings. Over three quarters of those who had seen a reduction of 50 places or more during this period also reported an increase in the number of private nurseries closing in 2022 compared to recent years, suggesting closures are a key driver in the decline.



The trends on closures reported in our survey echo the latest data from Coram, which shows a significant increase in the number of local authorities that are concerned about the sufficiency of provision. Coram's latest survey (referenced in the introduction and in section 3 on context above) has found that only half (50 per cent) of local authorities are now confident of there being sufficient childcare across all areas of their local authority for children aged two. This is 7 per cent fewer than the previous year (and 11 per cent fewer than prior to the pandemic). It also shows a marked decline of 11 per cent in the numbers reporting adequate provision for full-time working families, and a decline in confidence in rural areas.[27] The number of local authorities reporting sufficiency of provision for three- and four-year-olds is also significantly down in the 2023 data for the first time in recent years, with many providers reported to have reduced their free entitlement provision.[28]

Which types of setting are closing?

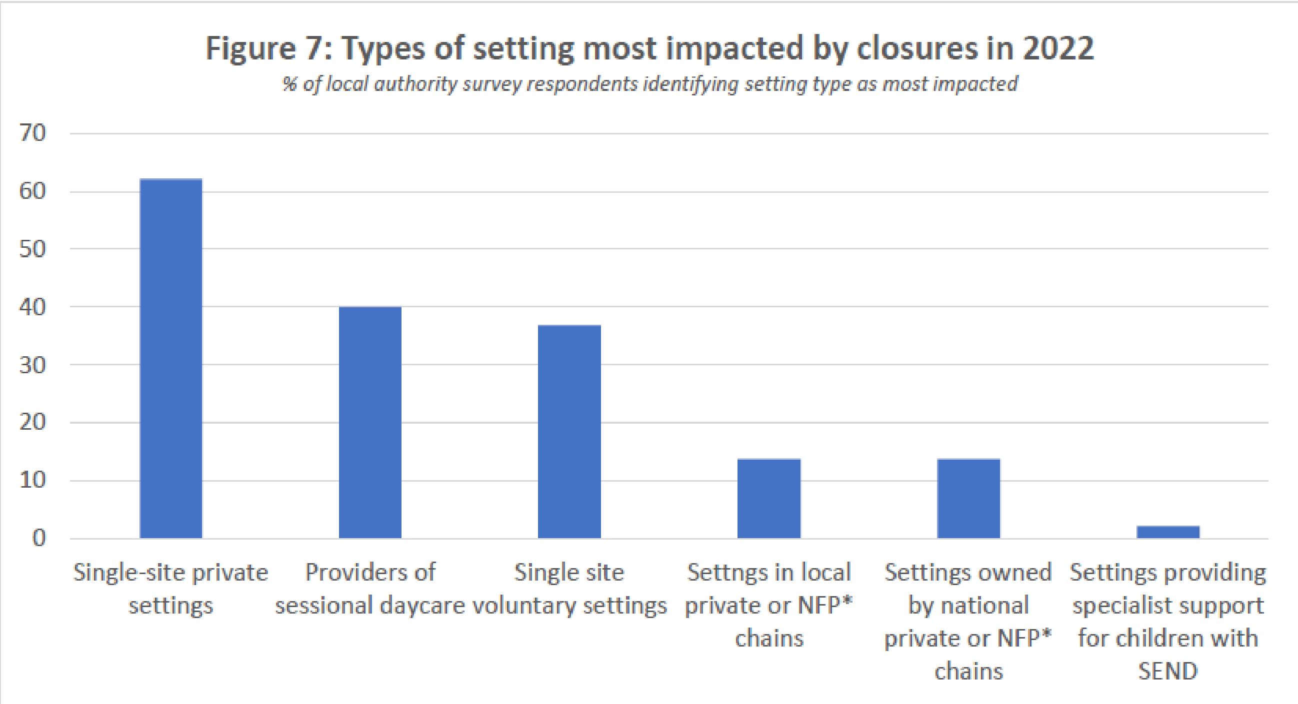
"Sessional provision, particularly voluntary, has been steadily closing over the past 10 years, however this seems to have sped up over since Covid." Local authority survey respondent

The DfE survey shows that the trend of growth in private group-based providers and decline in voluntary group-based providers is continuing – and possibly escalating. From 2021 to 2022 there was an increase of 800 private group-based providers (that is, a rise of 6 per cent, taking the total up to 14,200), and a decline of 700 in the number of voluntary sector group-based providers (that is, a drop of nearly 10 per cent, taking the total number down to 6,600). This represents a possible slight escalation in the previous trends (as reported above, there was a 4 per cent growth in private providers and a 7.5 per cent decline in voluntary providers over the three previous years – 2018 to 2021). The DfE survey

[27] Coram (2023), Family and childcare survey 2023: https://www.familyandchildcaretrust.org/sites/default/files/Resource%20Library/Childcare%20Survey%202023_Coram%20Family%20and%20Childcare.pdf
[28] Coram (2023), Family and childcare survey 2023.

also indicates a slight increase in private settings that are part of a chain and decrease in voluntary settings that are part of a chain.

Our survey puts the spotlight on single-site voluntary settings and sessional providers – but also very clearly on single-site private nurseries as facing significant closures in autumn 2022. The vast majority of our survey respondents reported that in autumn 2022 single-site private settings have been most significantly impacted by closures (62 per cent), followed by settings providing sessional care, such as playgroups and pre-schools (40 per cent), and single-site voluntary settings (38 per cent) – see **figure 7**. In our interviews, we also heard concerns about chains closing some settings, but this appeared to happen less frequently.



*Not-for-Profit

Where closures are happening

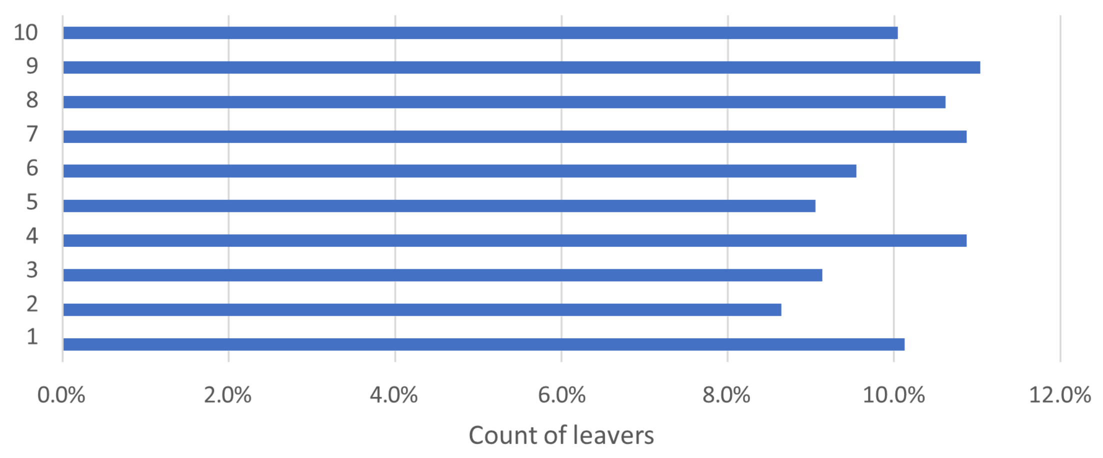
Very significant variation by local area in the level and impact of recent closures is evident in our survey. Figures 4 and 5 (above) both suggest quite polarised experiences across local authorities. Whilst 40 per cent reported more closures in the autumn 2022 term (a similar proportion to the number reporting little change), over 13 per cent of areas said there were 'significantly more closures'.

The picture of considerable local variation is also very apparent in national data from Ofsted. There are significant differences in the extent of providers leaving the Early Years Register by region. Whilst all regions have lost providers, Ofsted data for the five months to September 2022 shows a net reduction (that is, taking account of both closures and openings) of 40 or more nursery providers on the Early Years Register in each of the North West, West Midlands, London and the South West. Of these, we might be most concerned about the impact in the South West, where the Coram survey has shown a far lower proportion of local authorities reporting good sufficiency overall. Other regions, such as the North East, Yorkshire and Humber, and to a lesser extent the East Midlands, appear to be far less affected.

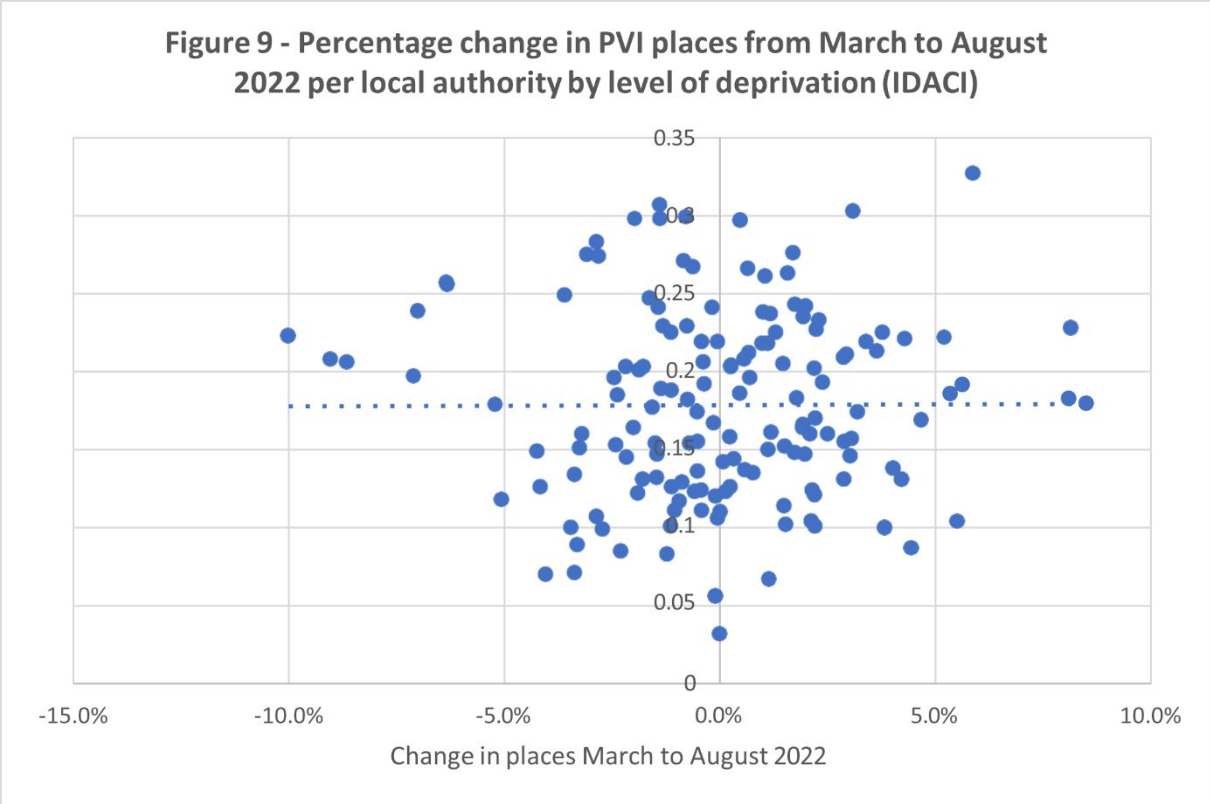
There also are significant differences in the extent of providers leaving the Early Years Register by local authority. According to Ofsted figures in the period we looked at, 45 local authority areas (or 30 per cent) saw a net loss of 2.5 per cent or more of their nurseries in the five months to 31 August 2022. Meanwhile, 30 saw no net change at all, and 28 saw a net increase. The highest proportionate loss was in North Lincolnshire, which lost 11.5 per cent of its private and voluntary sector nurseries. Although closures and losses of places are correlated, higher closures do not necessarily mean greater loss of places. Of the 36 local authorities that saw 10 or more settings leave the register, one third (22) actually saw an expansion in nursery places. Nursery expansion in these areas is likely to have played a role in compensating the number of places lost to closure, although the new places may have been in different locations. This is all indicative of very diverse local market dynamics.

Looking at postcode-level data, we have found that the least deprived areas are seeing large numbers of closures, but the trend is not at all linear and the most deprived areas are also seeing significant closures. We were able to identify postcodes of private and voluntary nurseries that had closed in the year to 31 August 2022 by comparing Ofsted's list of non-domestic childcare providers at 31 August 2021 with its list of providers at 31 August 2022. Mapping the postcodes of those who had disappeared from the register by their Index of Multiple Deprivation suggests no clear relationship between levels of deprivation and numbers of settings that closed. Settings that left the register were most likely to be in the four least deprived deciles and in the mid-ranking fourth decile, but decile one (the 10 per cent most deprived areas) also accounted for a high share of closures (see **figure 8**). We explored patterns using a range of deprivation measures and found a similar picture.

Figure 8: Distribution of nurseries leaving the Ofsted register in the year to September 2022 by postcode deprivation decile



Similarly, looking at local authority level, place changes do not appear to be correlated with deprivation. The chart below (**figure 9**) shows that the percentage change in nursery places between March and August on the Ofsted register does not appear to be correlated with deprivation.



Our analysis of Ofsted data also indicates that less deprived local authority areas are more likely to see nursery closures offset by nursery openings. It has unfortunately not been possible to analyse trends in the net effect of closures and openings at the postcode level, due to lack of published national data on new openings. However, we were able to ascertain changes in the number of openings and closures – or as we have termed them 'net closures' – at the local authority level and map these by local authority average levels of deprivation (based on the local authority IDACI average). We then compared these to closures as a proportion of provision and looked at how they mapped to local authority deprivation. This suggests that, in the five months to September 2022, less deprived local authorities were more likely to lose a greater proportion of their provision to closures (see trend line in **figure 10 – lower IDACI indicates lower child deprivation**). However, there was hardly any discernible correlation by local authority deprivation level in relation to *net closures* (see trend line in **figure 11**). In other words, new openings have been offsetting more pronounced closures in advantaged areas.

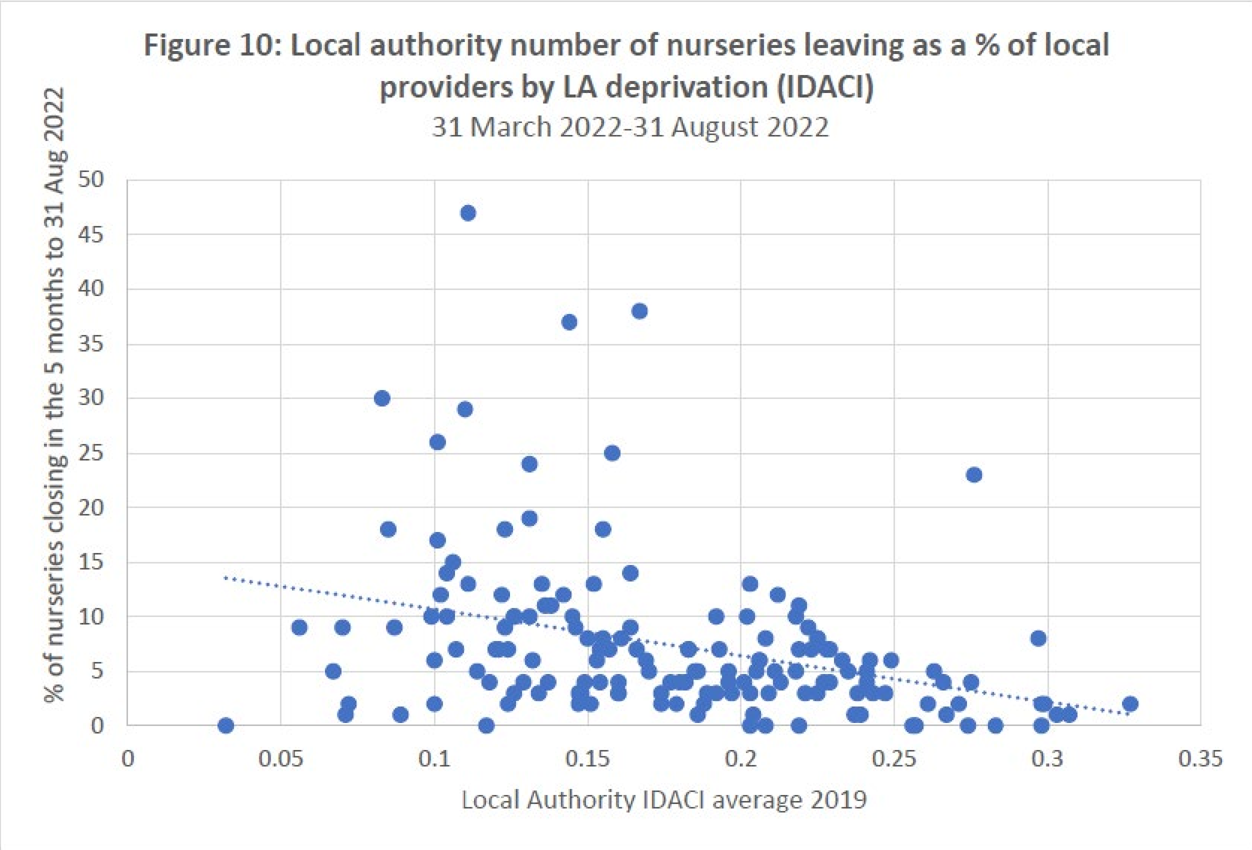


Figure 10: Local authority number of nurseries leaving as a % of local providers by LA deprivation (IDACI)
31 March 2022-31 August 2022
% of nurseries closing in the 5 months to 31 Aug 2022
0
5
10
15
20
25
30
35
40
45
50
0
0.05
0.1
0.15
0.2
0.25
0.3
0.35
Local Authority IDACI average 2019

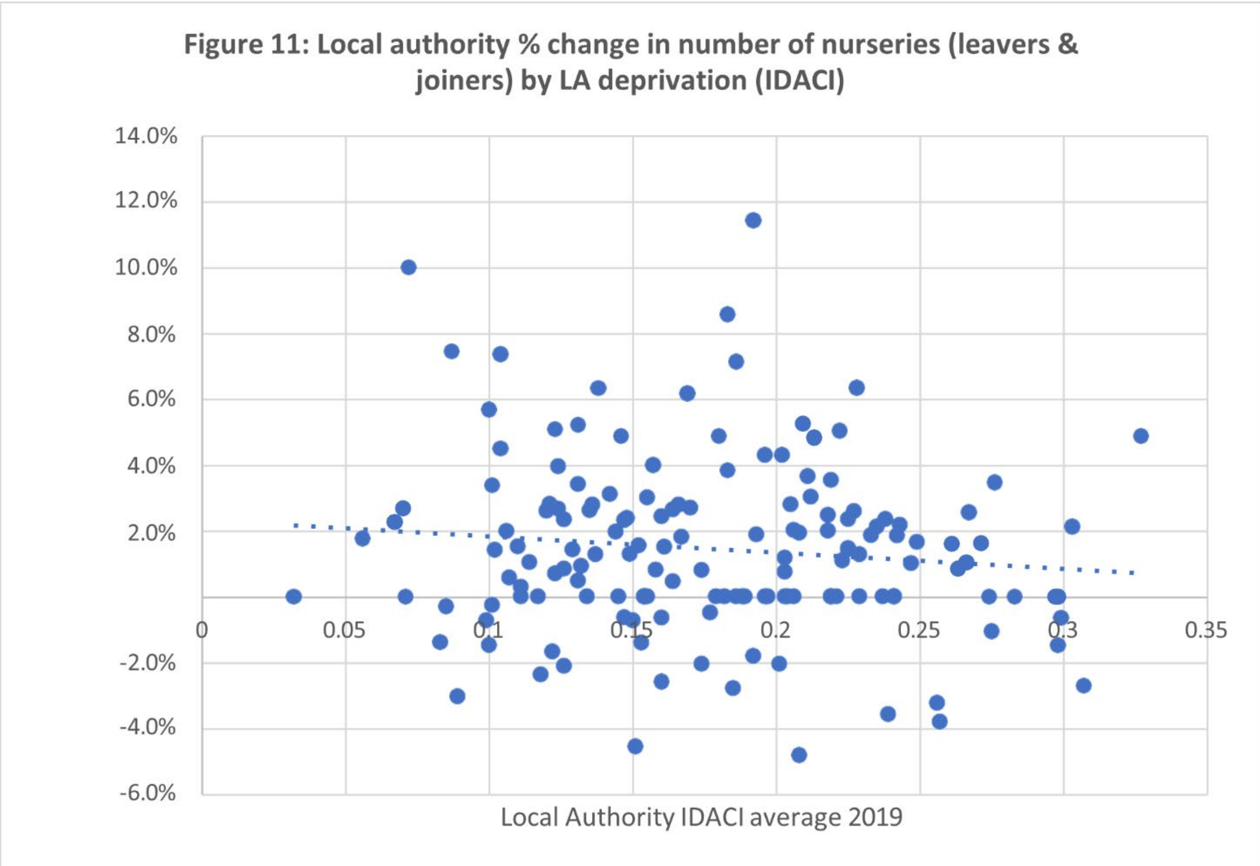


Figure 11: Local authority % change in number of nurseries (leavers & joiners) by LA deprivation (IDACI)
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
-2.0%
-4.0%
-6.0%
0
0.05
0.1
0.15
0.2
0.25
0.3
0.35
Local Authority IDACI average 2019

5. Impacts on children, families and communities

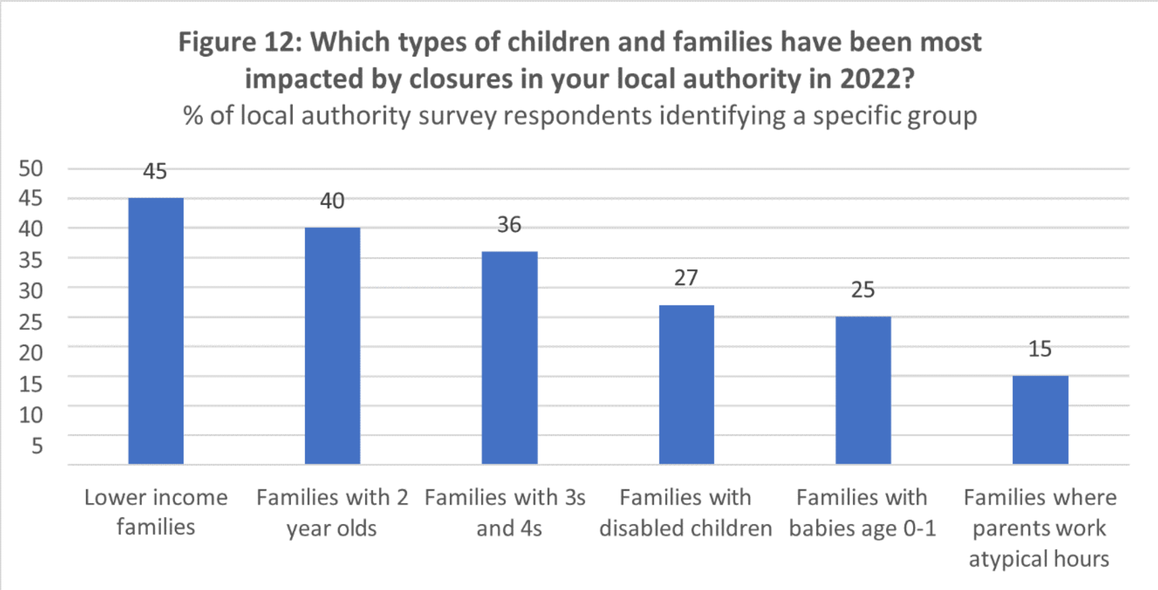
On the surface there appears to be a mismatch whereby national data suggests that disadvantaged areas are slightly less likely to experience nursery closures than advantaged areas and yet local authorities consistently report that disadvantaged families and communities, and families with two-year-olds, are the groups most impacted by the 2022 closures. Having spent time looking more deeply at this apparent contradiction, we believe that three factors are contributing to the disproportionate impact of closures on disadvantaged families and communities:

1) a poorer sufficiency of places in deprived areas in the first place, so that any closure is likely to have greater impact
2) within any area (deprived or not), settings serving lower income families being more likely to close
3) greater challenges and more limited options for more disadvantaged families when closure does occur – with families in rural areas and those with children with additional needs at particular risk. When closures happen, many end up travelling further, paying more or retreating to informal care.

Local authorities work hard to find alternatives for families and place more vulnerable children. But not all families are supported, especially when they are not known to local authorities. Increasingly abrupt closures are also making supporting families harder. Nearly half of local authorities are concerned about the 2022 closures creating new risks to sufficiency in the year ahead, and the vast majority are slightly or very concerned about significant further closures in 2023 (and lack of openings in some areas) undermining sufficiency.

Who is being impacted

We asked local authorities which groups of children and families had been most significantly impacted by nursery closures locally in 2022. The groups who are most likely to be reported as the most impacted by the 2022 closures are: lower income families (48 per cent) and families with two-year-olds (43 per cent), followed by families with three- to four-year-olds (38 per cent) and then families with disabled children (29 per cent) (see **figure 12**).



When we asked about the characteristics of those localities most impacted by 2022 closures, the top answer was 'areas with above-average deprivation' (40 per cent), although 20 per cent also flagged areas with below-average deprivation. The second top answer was 'rural areas' (25 per cent). Answers were evenly split in terms of whether respondents felt the whole local authority had been impacted evenly by closures or whether there were particular local 'hotspots' that were most impacted – 51 per cent said it was the whole area and 49 per cent said there were hotspots.

Why are disadvantaged families and areas more impacted?

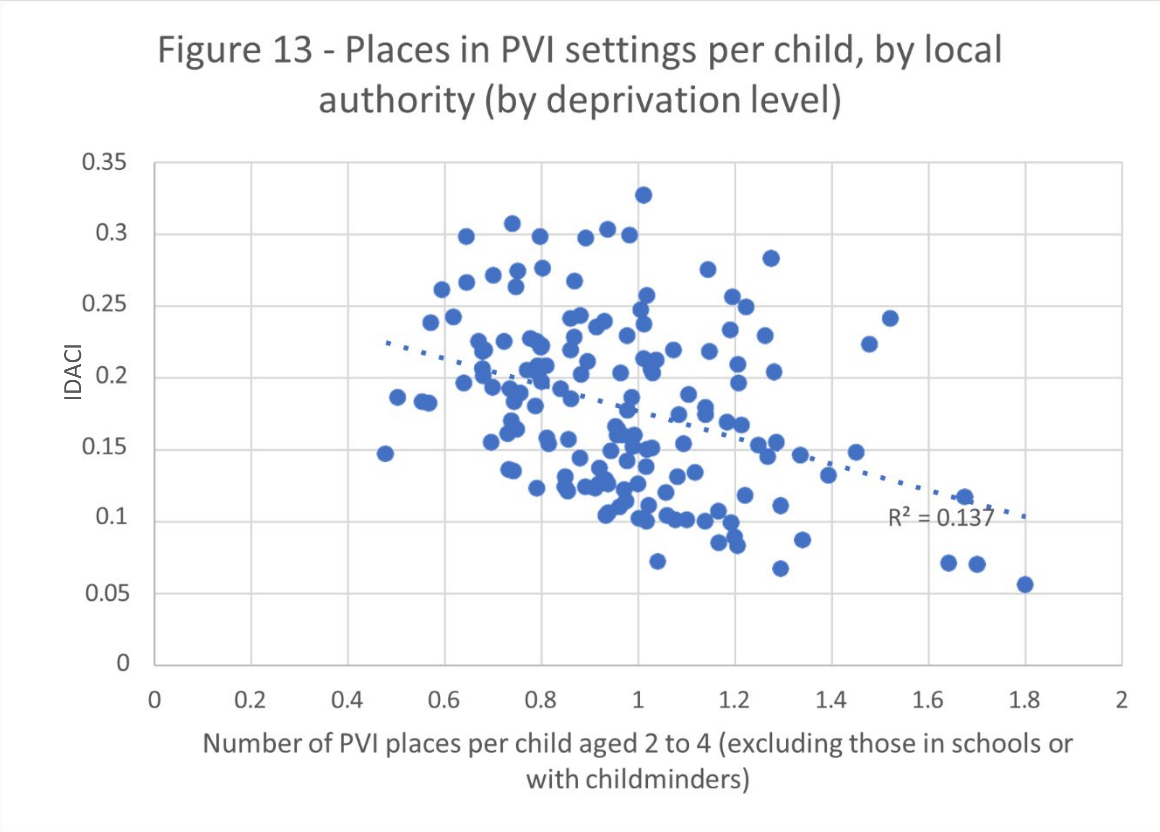
The level of concern about the impact on disadvantaged families and communities stands in marked contrast to the data presented in the previous section showing that closures are not greater in these areas and there is no particular correlation with deprivation based on geography. We have considered this issue and believe there are three main explanatory factors.

First, weaker 'starting points' in the level of provision in disadvantaged areas. National figures comparing the levels of sufficiency across areas are not readily available, so we have explored this ourselves using ONS population data and contrasting it with the supply of nursery places in different local authority areas in August 2022.[29] Our analysis suggests that those local authorities with higher deprivation have fewer private and voluntary places per

[29] Our method was to:

a) Calculate the total number of two-, three- and four-year-olds per local authority based on ONS mid-2020 population estimates
b) Deduct from that total, based on the January 2022 Early Years Census:
   a. The number of two-, three- and four-year-olds in state schools
   b. The number of two-, three- and four-year-olds in independent schools
   c. The number of two-, three- and four-year-olds with childminders
c) Compare the number of early years registered places with the number of remaining children, to get a number of places per child (excluding those in schools).

child, even once numbers in school and with childminders have been controlled for (see **figure 13**). Therefore, a squeeze on places in these areas may be felt more keenly – even if the numbers lost are not as great.



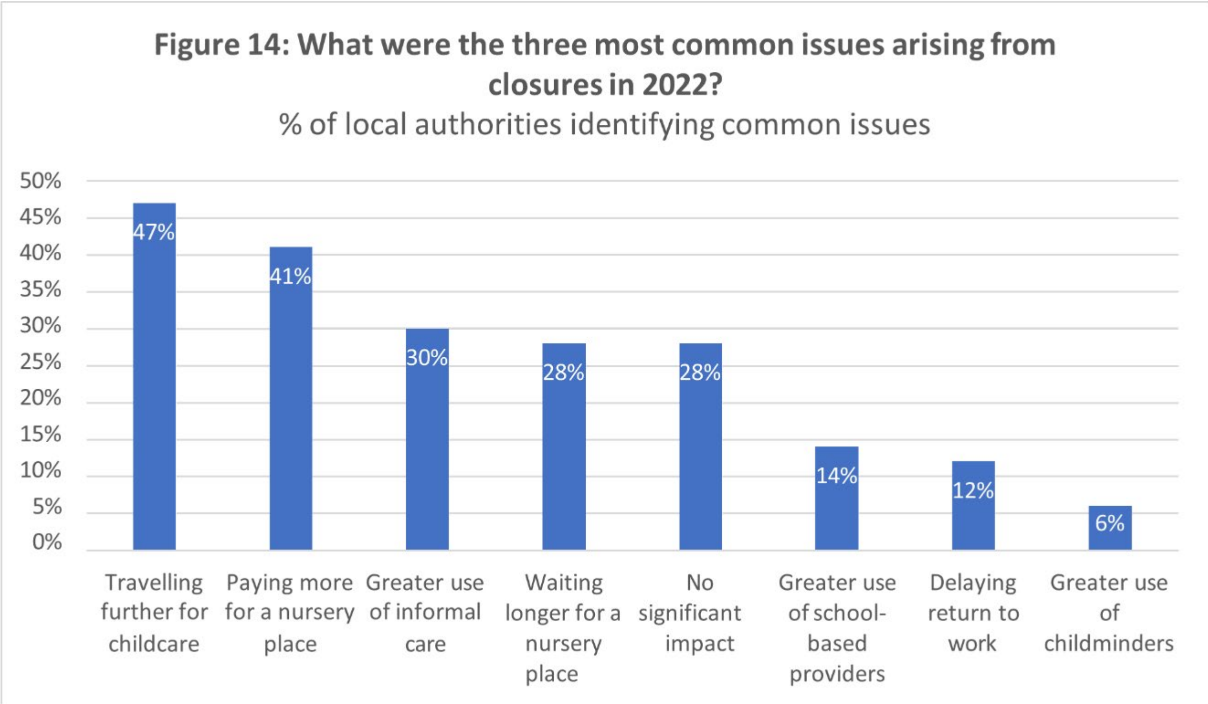
Second, settings serving lower income families in less deprived areas may be being disproportionately impacted. Many families live in mixed, relatively urban areas, with a variety of nurseries within travel distance offering provision at different price points. Therefore, what looks by its location like a 'less deprived nursery' may in fact serve a lower income intake. This would certainly make sense in the context of high reported closures by small, sessional providers that only deliver free entitlement provision, as reported in the previous section. Our fieldwork interviews reinforced the hypothesis that the settings most at risk of closure were those that had no opportunity to raise additional income by charging parents – that is, those serving less affluent families (this is discussed further in the next section on drivers). Analysis of closers by proportion of early years pupil premium children, or number of targeted two-year-old entitlement places, may shine a light on this – but to our knowledge this data is not collated on a national basis and published.

Third, the experience and impact of closure are likely to be more challenging for more disadvantaged families, and the alternatives fewer. In our survey, local authorities said that the most common issues arising from closures in 2022 were: travelling further for childcare (45 per cent) and paying more for a nursery place (41 per cent), followed by greater use of informal care (30%). Only a minority (28 per cent) said that the closures in 2022 had had no significant impact (see **figure 14**). In a context of high and rising prices and fees, there are likely to be fewer affordable alternatives within reasonable travel distance for a family on a lower income. It is notable that, based on figures collated up to July 2022, below-inflation fee increases have been reported in the voluntary sector group providers (1.4 per cent), yet private sector group providers on average increased their fees above inflation (5.1 per cent).[30] For some parents, this is likely to mean more stark differences in the cost of alternative options. Poorer families living in more rural areas were flagged by local authorities as a particular group of concern. The limited choices for families in rural areas, whose next-closest provision may be some distance but who lack independent transport, were emphasised in several interviews and survey responses.

> "Larger chains are buying smaller nurseries which is giving less flexibility and parental choice. Committee run and standalone pre-schools are struggling in areas where children are only accessing their free entitlement universal hours." Local authority survey respondent

> "Families living in rural areas particularly impacted – especially low income families who might not have a car to access a provider elsewhere." Local authority survey respondent

> "Closures over the last three years have seen a fall in the number of pre-school playgroups, this has had an impact of the distance some disadvantaged families have to travel - i.e. settings no longer in pram pushing distance." Local authority survey respondent



Families with children with SEND or emerging complex needs were also singled out as particularly vulnerable in the context of closure. Parents were described as more likely to be concerned about the impacts of upheaval from changing setting in these scenarios, less likely to find an alternative they are happy with, and more likely to keep their child home. All local authorities also relayed that children with emerging SEN are finding fewer alternative childcare options available to them. This is a result of both the decline in

[30] DfE (2022), Childcare and early years provider survey, Ibid.

childminders and reductions in nursery capacity due to the workforce crisis (as highlighted above). Even where inclusion funding is offered, settings are increasingly saying they are unable to recruit the additional staff needed to support children with more complex needs, although they might still be offering places to other children.

> "It is usually particularly difficult for children with particular needs because they lose important attachments to key staff and there will be an even greater impact from the upheaval and settling in somewhere else. We find in these cases the needs of the child are more likely to lead to parents thinking they won't put their child through another transition and are more likely to stay home." Local authority interviewee

> "As a local authority we might say we'll support you with some funding for a child with SEND but the provider is saying: 'the issue isn't giving me the money, I can't get a human to come and work with that child.'" Local authority interviewee

Local authorities' ability to mitigate impacts

When closures happen, local authorities tended to emphasise to us that families have usually been able to find alternative provision when they want it, and that they work hard to place more vulnerable children. Local authorities described working in partnership with closing settings to support children and find alternatives. Several examples were given of children moving as a group into a neighbouring setting, and staff from the closing nursery accompanying them too, which supported children's sense of familiarity and transition. Some local authorities also emphasised that their actions had minimised the impact of closures through their proactive efforts to find and establish new providers. There were also instances given of local authorities working closely with schools to provide additional places and with children's centres to offer additional sessions, where they were concerned about families withdrawing to informal options.

> "Currently the impact on families is not significant as other providers have had capacity for all families to access provision." – Local authority survey respondent

> "As far as we are aware all displaced children and their families have been supported to relocate to alternative childcare provision. This may have resulted in additional travel but we do not hold this level of detail." – Local authority survey respondent

> "We have generally found that access to childcare is able to be provided either on a closure of a provision or through a parent needing support to find a specific type of provision." – Local authority survey respondent

> "With any large nursery closure we work together to contact all the other providers to see if they have places. Recently [after rapid closures] we contacted parents directly." – Local authority interviewee

> "Some families said 'its ok I'm not working so I'm not too concerned' – but it was still a concern for us." – Local authority interviewee

Yet it is clear that not all families who experience nursery closure are supported. Variation across the early years teams we spoke to was apparent in the extent to which they reach out to families who are not 'vulnerable', or are persistent in finding alternative formal care solutions for those families who say they plan to revert to informal care provided by family and friends. This may have to do with differences in the capacity of local early years teams, or the relationships they have with their private and voluntary providers. Local authorities also emphasised that it can be hard to offer support where families are not known to them, for example because they are not yet accessing the free entitlement.

> "If we know about the children because they're funded we can try and support them and reach out…But there'll be privately paying parents that we have no knowledge of and it's about trying to get information to those families to say here's where you need to go for support." Local authority interviewee

In areas of 'high closure', fieldwork authorities emphasised that increasingly abrupt nursery closures mean it is becoming more difficult to reach out to all families. It was conveyed that in the normal order of things, when a setting closes, perhaps due to a retirement, there is typically time to discuss the closure and its implications months ahead of time and consider placement of families. However, abrupt and unplanned closures, without significant lead-in time, were reported to be occurring more often than in the past. One authority cited the example of three abrupt recent closures of long-established nurseries that had been considered solid providers, well engaged with the local authority and not at any imminent risk. This narrows the window for contacting families and working with them to find a suitable alternative. It was also observed that rapid closures, with little forewarning, can be unsettling for children.

> "We had a situation arise in the summer when a nursery closed very quickly and parents were left out of pocket. They'd had a bad Ofsted but it was the accountant that called it, not even the manager knew there was a risk. There was a lot of rallying round to find places for the children." Local authority interviewee

> "We closed for the summer holidays and were planning to open in September, but the owner said we can't re-open, we can't keep taking money from the other nursery and we can't make it work. So me and one of the staff went back into the nursery in the August and phoned all the parents and told them, and phoned the council and gave them all the details of the families. There would have been 10-15 families in the end…I have no idea if anything happened after I passed on the numbers." Nursery manager, small private nursery

Impacts on sufficiency and looking ahead

In a significant minority of areas, closures are impacting on areas which already have prior concerns about sufficiency, with some stark effects on sufficiency. Closures were reported to be mostly impacting on areas without significant prior concerns about sufficiency – but of those impacted, nearly a third (29 per cent) of local authorities said that they did have concerns before. The compounded effects could be quite serious. For example, in one of our fieldwork local authorities, a spike in recent closures had come on top of prior sufficiency challenges. The result was that no free entitlement spaces for two-year-olds were anticipated to be available across the south of the city for another nine months (until September 2023). Children from nurseries that had closed before Christmas had taken up all the spaces that would normally become available for January. Voluntary settings had virtually disappeared, and with them the majority of places allocated for children with SEND.

Even where there has been little change in the net number of nurseries, some local authorities with significant churn in their childcare market say this is leaving parents with less choice in real terms. Some local authorities in our survey reported that the changing nature of provision, and the replacement of voluntary sector provision with more private providers, is leading to less affordable options and options which are less responsive to needs. However, this was not the case across the board. In other areas, local authorities with similar levels of market churn, viewed changes in the shape of local provision as enhancing responsiveness to families.

> "Larger chains are buying smaller nurseries which is giving less flexibility and parental choice." Local authority survey respondent

> "We are seeing our market change to a larger proportion of chains...We find the market tends to respond even in this difficult context of increased costs." Local authority survey respondent

Nearly half of local authorities predicted that changes in the level of nursery provision in 2022 would create new risks to sufficiency in the year ahead. One third of our survey respondents (33 per cent) did not foresee any likely impact of 2022 closures on sufficiency in the year ahead, due to having seen no significant overall change in the amount of provision in 2022. There were other areas where closures are not anticipated to cause problems, either because parental demand was down anyway (7 per cent) or other providers or parts of the market were compensating (12 per cent). However, 48 per cent of respondents said that they expect that the 2022 closures will create new risks to sufficiency in 2023, broadly aligning with the Coram 2023 survey. In most cases, concern was isolated to within some localities or in relation to certain groups, but a small proportion of respondents (16 per cent) felt there would be new risks across the whole area.

> "Although provision has opened it is not necessarily where other provision has closed." Local authority respondent

The overwhelming majority were concerned about the rate of closures in 2023 being significant and further undermining sufficiency. The highest proportion (61 per cent) said they were slightly concerned, and 28 per cent said they were 'very concerned' about 2023 closures being significant and further impacting sufficiency. Only 11 per cent did not feel concerned at all. This was expanded on within the survey and interviews, with many local authorities noting increasing feedback from the sector that funding levels are not sustainable, and observations that in some places strong providers are less inclined to come forward to fill gaps in the market. There was a particular concern about future shortfalls in provision in disadvantaged areas and for younger children, with a sense that schools are not filling this gap. It should be highlighted here that the survey and fieldwork all took place prior to the announcement of plans for the extended entitlement.

> "In previous times when a childcare provider vacated a premises, a new provider would swoop in and improve the setting meaning no effect on the Council's sufficiency duty and parents retained a nearby option for their child. This is no longer the case and we are now losing available places." Local authority survey respondent

> "We have seen an increase in school-based provision, which often doesn't have two year olds places – local pre-schools close due to the opening of the school provision, however two year old children do not have anywhere local to go or have reduced choice in provision/access to flexible provision." Local authority survey respondent

> "None [of the larger chains] are coming into the more deprived areas we are seeing closures in. They do not see it as an attractive market." Local authority interviewee

6. Drivers of recent closures

Insufficient income to meet rising costs and workforce-related issues are rated by local authorities as the key drivers of closures in 2022. Both of these were issues before, but post-pandemic, and in light of rising costs, we are seeing a sea-change in their significance. Exceptional retention and recruitment pressures are affecting the ability of nurseries to stay open both directly in terms of reducing provider's capacity to find staff, and indirectly through increasing costs, affecting quality and damaging the resilience of managers and owners. These drivers are felt most keenly by smaller providers and those in disadvantaged areas, who tend to have less potential to charge parents and weakened financial resilience post-pandemic, and who face greater pressures to manage growing needs of children, parents and staff. Competition is not considered a key driver of closures currently, but remains a key future concern in some areas.

Factors driving closures nationally

"In previous years the reasons for closures were far more varied and individual to the provider – now they are mostly due to increased costs and inability to recruit." Local authority survey respondent

Insufficient income to meet rising costs and workforce issues are consistently ranked by local authorities as the key drivers of closures in 2022. In our local authority survey, we asked early years teams to rank the most critical drivers of 2022 closures in their authority (see **figure 15** below). This produced a very consistent picture at the top, with nearly all respondents saying the top two drivers were: 1. 'Nursery income insufficient to meet rising costs' and 2. 'Inability to recruit/retain staff to confidently deliver provision'. **The next most significant factors related to falling demand,** with 'Families opting out of childcare' and 'Drop in numbers of young children locally' ranked third and fourth respectively. **Ofsted was also quite often cited as a key driver.** The fifth most commonly cited critical factor was 'Poor Ofsted rating with knock-on impacts'. **Competition from new/expanded school-based providers, or from new/expanded private and voluntary sector nurseries, and take-overs by large chains were the least cited drivers** (seventh, eighth and ninth, respectively).

Figure 15: Thinking about all the PVI nurseries which closed in your local authority over 2022, what were the most critical factors driving this?	Rank	Weighted score
Nursery income insufficient to meet rising costs, e.g. Minimum Wage, utilities	1	804
Inability to recruit/retain staff to confidently deliver provision	2	764
Families opting out of childcare, e.g. due to changes in work patterns or cost concerns	3	586
Drop in numbers of young children locally	4	534
Poor Ofsted rating with knock-on impacts	5	468
'Natural closures' – e.g. retirement of owner	6	466
Competition from a new/expanded school-based providers	7	435
Competition from a new/expanded PVI nurseries	8	427
Take-overs by a larger nursery chain	9	396

Specific issues

Across our research it was clear that there is not usually one single factor leading to closure. Generally, there is a confluence of challenges that feed into and compound one another. Below we draw on our fieldwork insights and more in-depth survey feedback to expand on the top issues identified in the survey, highlighting how challenges often interrelate.

i. Funding and rising costs

Funding has always been an issue for many providers, but there has been a perceived sea-change in the significance of funding pressures since the pandemic.

Running costs have increased on a wide variety of fronts and the discrepancy between costs and what the government pays for the funded entitlements is felt to have grown. Settings emphasised consistently that they are now often simultaneously managing hikes in expenditure on utility bills, rent, insurance, food and staff. Sometimes these increases occur abruptly. Funded entitlement rates have dropped in real terms,[31] and are seen to be dropping further behind the true delivery costs that nurseries have faced in recent months. Some expected to see a boost in funding from the government post-pandemic, but this did not materialise.

> "Running costs have never been so out of sorts with funding rates before." Local authority survey respondent

> "The recent energy cost increases have had an impact on setting viability, some monthly charges have increased significantly. For settings that were just managing with their previous utility bills, this is having a huge impact." Local authority survey respondent

> "[Childcare] has been underfunded for years and now with the cost-of-living crisis as well and increases in heating and food costs this is having a significant impact on settings and their sufficiency." Local authority survey respondent

> "The recent funding increase has been very disappointing for providers as it was not enough to help them with the cost-of-living increase." Local authority survey respondent

The shortfall in the funded entitlement rate compared to planned increases in the National Minimum Wage is a tipping point for some. Many local authority teams and providers we spoke to highlighted the discrepancy between the rise in the National Minimum Wage and the increase in the average funded entitlement rate. The funded entitlement increase for 2023/24 is on average 3 to 4 per cent (although as little as 1 per cent in some areas) and falls far short of the 9.7 per cent rise in the Minimum Wage that employers will be required to pay from 1 April 2023. Fieldwork authorities noted that some

[31] IFS (2022), Ibid.

setting owners were taking the decision to leave the market in anticipation of Minimum Wage increases.

> "[Increased bills] will be compounded by the increase in the Minimum Wage to £10.42 a 9.7 per cent increase which is far more than the 1 per cent increase in government early years funding from central government." Local authority survey respondent

> "With the National Living Wage coming in April, plus business rates going up – some are bowing out now before they get to that point." Local authority interviewee

> "The thought of Minimum Wage going up is absolutely terrifying. We've got the rent, heat, electricity, pensions, food going up already. Every term I'm holding my breath 'are we going to make it'. At Christmas I took money out of my savings to keep us going – I've never had to do that in 23 years." Owner, sessional provider

ii. Staffing pressures

Lack of appropriate staff is leading directly to temporary or partial closures, and occasionally permanent closures. Recruitment and retention, like funding, is an area of long-standing challenge, but all types of early years settings are reporting employing more volunteers, apprentices and temporary staff than a year previously, and staff turnover rates are twice as high in group-based providers (18 per cent) as in school-based providers.[32] Echoing this shift, several local authorities reported seeing settings shutting as a direct result of being unable to find the right staff – this was viewed as a new phenomenon. Participants in all fieldwork authorities also spoke of increasing numbers of nurseries not necessarily closing but not being able to deliver to their full capacity. For example, the nurseries shut rooms or closed temporarily for days or weeks when ratios could not be met. Such closures were said by some to have a particular propensity to effect baby rooms, which require the highest levels of staffing. Whilst Ofsted will formally allow settings to deviate from ratios in emergencies, providers we spoke to said that this is a risk they are not willing to take in case there is an incident. Temporary closures or capacity reductions do not show up in any of the national data we have reported.

> "Some of our settings have had to close – one in X, another close now in Y, another Z – all due to not having enough staff to run the nursery. If they can't get a manager or deputy they cannot get the nursery open. They try and try and no-one wants to apply or step up because they feel it's too much responsibility. Some people just don't want that responsibility." Nursery manager within large not-for-profit chain

> 'In the past we have had issues on recruitment but it's got worse and worse and worse over the last 10 years to the point now where settings are saying there aren't even people in the agency.' Local authority interviewee

[32] DfE (2022), Childcare and early years provider survey, Ibid.

As well as staff shortages directly undermining the ability of settings to stay open, there are clear signs that difficulties in recruiting and retaining staff are leading to knock-on financial pressures, including increased time and costs for recruitment, additional costs associated with agency staff, and upward pressure on salaries and incentives, as groups of local nurseries compete for a small pool of prospective staff. Where vacancies are undermining the ability of providers to deliver to their full capacity of places or hours, this is also limiting their potential income and may render their model unsustainable in the long term.

> "It costs a lot of money to recruit new staff (advertising/training etc) and to attract/retain staff, settings are having to put up their salaries – in addition to rising costs of living and very low funding rates, more and more nurseries are becoming unsustainable." Local authority survey respondent

> "In the last year, [we have] experienced several well-established provisions close due to an inability to recruit staff. In addition, the premises and available space within existing provision is not fully utilised due to a lack of staff to cover the child ratio requirements." Local authority interviewee

> "For the first time in 40 years we are finding it incredible to attract and retain staff…We're all fighting for the same few staff which is pushing salaries up higher and we're having to offer more things on top of that." Manager of large full-time daycare

The challenge of managing staff shortages is undermining the personal wellbeing of some owners/managers, leading them to opt out of the sector. In our conversations with setting managers in areas where there have been above-average levels of nursery closures, we heard multiple instances of owners/managers questioning whether they had the personal resilience or desire to remain in the sector in the face of staffing and wider challenges. Many expressed frustration at not being able to meet increases in the Minimum Wage, despite feeling they should be paying more than this in recognition of the skills required and the complexity of the roles. Examples were given of owners fighting an ongoing battle to secure sufficient staff in the face of dwindling quality applicants and a shortage even of agency staff. More than one owner/manager described having no alternative but to cover for vacancies themselves over long periods, at times with no or limited recompense. In these types of stressful situations, owners/managers said they were reluctantly looking for options to close their business or take early retirement.

> "I interviewed so many times last year to the point they would fill out the application form and they would write one line 'I like working with children' and that was it, a lot of people would come who couldn't even speak English properly. It was exhausting." Community nursery manager

> "Several owners and managers are not taking a wage now, which is not sustainable." Local authority survey respondent

> "I don't want to let [the pre-school] go but the funding doesn't reflect costs. I've just had an email saying my rent is going up, the price of food is going up, come April I'm going to be… oh my goodness...I now do 3 jobs and I'm borrowing from

Peter and Paul just to make sure the team gets paid because without that we wouldn't have a pre-school. I'm 54, I'm tired and I never thought I'd be in this position." Owner, sessional pre-school

"If someone came to me now and said I should open a nursery I'd tell them not to do it. It's not worth the stress." Single-site private pre-school manager

Negative Ofsted results are seen as more likely to occur, and more likely to be a tipping point for closure in the context of current staffing challenges. Several instances were reported of staff shortages impacting quality, and triggering a negative Ofsted outcome. Ofsted's current approach came under fire across many of our conversations, with many feeling that inspectors did not sufficiently recognise the staffing challenges that settings are working under, and perceptions that settings were being held to a higher standard on some specific safeguarding areas without explanation and judgments were being unfairly based on observations of temporary staff who lacked established relationships with children. Some local areas and providers told us that the fragility of individual organisations is such that an adverse Ofsted inspection is more likely to lead to closure than it might have done in the past. One local authority told us that negative Ofsted outcomes had resulted in the recent closures of three long-standing, historically good or outstanding childcare providers. In the past poor Ofsted inspection outcomes had seldom led to closure in that authority, but now managers/owners felt it was unfeasible to implement changes or improvements with unstable or temporary staff.

"These three settings just didn't feel confident with the staff they'd have to bring in from agencies that they'd be able to make those strides. If they'd had their more long-standing staff in their more established phase then I think that would have felt more feasible." Local authority interviewee

"When [a poor Ofsted inspection] has happened in the past the majority go back to good and they're funded and it carries on. But in this instance, they decided to close because they said that with the wider context of staffing, cost of living and just trying to meet that standard they knew they have not got the capacity to carry on and closed. We think there are more coming." Local authority interviewee

There was broad consensus that the exodus of the childcare workforce is due to the dual effect of growing in-the-job pressures and opportunities for better paid and more attractive roles presenting themselves elsewhere. Staying open during COVID-19 was a stressful experience for many staff, and there is a sense that the numbers of children with additional or complex needs are continuing to increase post-pandemic. Some nursery workers are said to be going to schools, enticed by the prospect of less responsibility, more support and more limited hours than they would achieve in the private and voluntary sector – even if the pay is not vastly different. Others leave for better salaries and career progression opportunities in retail or hospitality jobs (where pay has increased significantly), office and call-centre work, which can be increasingly flexible and compatible with family life. More than one interviewee observed that younger workers seem less often content to settle for the low level of pay that is attainable in childcare roles.

> "Starting with Covid. People felt angry that they were made to stay open. Staff started moving to Lidl and Aldi." Local authority interviewee

> "Existing staff are leaving for a range of reasons, including higher paid less stressful roles in retail or administration. The average salary according to Indeed for a nursery assistant is £15,277 per year, and for job in retail it is £24,137. In addition, you will need a qualification to work in a childcare setting but not in retail, and you start immediately on a reasonable wage." Local authority survey respondent

> "People who want employment are querying post pandemic what lifestyle they want. Young people, they want cars and they want holidays and they have higher aspirations and that is presented to them: live the dream, that kind of aspirational lifestyle. If you can't fund it through working 8-6 in a nursery then maybe work in retail…." Local authority interviewee

> "If you're in a school as a nursery nurse – you're not the top of the tree, you're not being asked to be manager. You could be that same level 3 and be a manager of a private or voluntary nursery and be the SENCo, the DSL [designated safeguarding lead], the cook, the HR Department curriculum lead, or you can work in a school as a nursery nurse or a TA [teaching assistant] for the same money." Local authority survey respondent

> "Some of our girls were getting just £1000 a month. People need more money to get by, and they have goals they want to achieve. They think if they work in a call centre it's more flexible and they are making more money." Community nursery manager

iii. Changing nature of demand

Falling demand was a much-cited factor in our survey, and this is borne out in the data, which shows demographic factors are likely at play. The Early Years Census shows that the number of children eligible for the universal offer for three and four-year-olds has gone down significantly since 2018 – by 53,465 or 3.9 per cent. This would be equivalent to over 1,000 average private nurseries or over 1,500 voluntary sector nurseries based on current average sizes in the provider DfE survey. At least some natural decline in the market is therefore to be expected.

> "Our birth rates are falling drastically, and young families are not moving into the borough due to increased rental/house prices. Additionally, we feel there is still a slow return to working patterns that we saw pre-COVID." Local authority survey respondent

In relation to two-year-olds, the point at which a parent becomes eligible to claim has seen a dwindling proportion of the cohort qualifying. There has been a five-year freeze in the earnings threshold for qualifying for the offer for two-year-olds. Some local authorities reported that this was impacting on demand.

> "Some settings are reporting that fewer families [are] now eligible for 2-year-old funding because of the earnings thresholds… The problem with this is UC [universal credit] is based on earnings, and if you're on a zero-hours contract your entitlement's changing so doesn't seem like a stable childcare offer…People are really anxious about taking on different costs and childcare can seem like a luxury." Local authority interviewee

In our conversations, research participants also highlighted signs of the changing nature of demand from parents post-pandemic. Some local authorities reported reduced that parents were less inclined to pay for provision outside the funded entitlement, and this is reflected in national parent survey data.[33] Initially, drops in take-up were considered by many to reflect a caution about returning post-pandemic due to health concerns and anxieties, but several participants suggested that parents are more likely to work flexibly and have identified alternative informal options. This means that in some instances they require fewer hours, and in others may be less inclined to tolerate price increases.

> "Post pandemic closures have been largely due to lack of demand." Local authority survey respondent

> "Our data suggests parents are turning more to the free entitlements rather than paying for additional hours which provides an imbalance to the funding available now compared before pandemic." Local authority survey respondent

> "If they tried to put prices up, their families would pull out. Many more people working flexibly…We have a lot of families living in communities. Nurseries are struggling against that." Local authority interviewee

Why some types of setting are more at risk

The drivers of closures appear more significant for smaller settings and those in more disadvantaged areas in at least four respects.

First, pressures from increased costs are felt most keenly by settings with less ability or inclination to pass these on to parents and greater dependence on government-funded income. On average, nurseries have raised fees to cope with increasing costs,[34] but those in high closure areas emphasised that stand-alone and community-focused settings and small local chains serving disadvantaged communities have very limited scope or desire to do this. The families they serve tend to be strongly impacted by the cost-of-living crisis, and cannot afford to pay more. Often they deliver little or no provision beyond the funded entitlement. They are thus much more dependent on the (increasingly inadequate) funded entitlement rate.

> "The big theme [across the three significant providers who have shut recently] is high deprivation. They were not full day care, purely running on funded offers…they were in areas with the most vulnerable kids - funded 3 and 4-year-olds or 2-year-olds on 15 hours, high SEN, few working parents." Local authority interviewee

> "The cost of delivery is big for small pre-schools, as they rely on funded income more than fees from parents. The funding rates are not reflective of the cost of operating a small pre- school, halls are increasing rents, that with increased staff and utilities costs is making small pre-schools hard to sustain." Local authority survey respondent

[33] DfE (2022), Parent survey: https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and- early-years-survey-of-parents

[34] Coram (2023), Ibid.

"One of our [small local chains] found they needed an additional £150k to break even. In one of their settings parents may absorb it, but they have a lot of non-working parents in another. It's just not an option." Local authority interviewee

"We are 98 per cent funded children so I've not got any other option … We are lucky with well qualified staff but I'm petrified about holding on to them because I can't pay them any more" Manager, sessional pre-school

"We're at that point with all 3 of our settings that if we don't transfer the cost on to parents, there's no sustainability." Owner of three private full daycare settings

"In recent years closures have been more prevalent amongst settings which offer stand- alone early years free entitlement sessions. Early years free entitlement rates are so low [here] that they can't make the sums add up without selling non-funded places to parents." Local authority survey respondent

"[This city] has high levels of deprivation with increasing numbers of 2-year-old funded children taking up their placement resulting in less capacity for fee paying children. This has resulted in settings being less financially stable due to the low funding rates." Local authority survey respondent

Second, post-pandemic, many smaller providers appear to lack the level of reserves they held previously, and thus may be less resilient to current challenges. Whilst government funding for funded entitlements continued over lockdowns, occupancy rates diminished significantly for many settings over the course of the pandemic, with implications for their financial reserves. This was a common theme in our local authority conversations and the sufficiency assessments we looked at. Many early years teams have invested more time in providing financial support and advice since the pandemic, and some have created emergency sustainability funding pots to support private and voluntary settings. But they are finding small voluntary community sector settings to be intrinsically more risk-averse, with volunteer nursery management committee members from the community facing potential personal liability if wages or redundancies cannot be paid.

"Nurseries are finding themselves getting into difficult financial situations very quickly…The pandemic has depleted financial reserves and human capacity." Local authority interviewee

"Pre-Schools historically were able to build up contingencies over the years, however during COVID settings have reported that these funds have been depleted and have been closing due to the potential financial risks and concerns that they would not be able to pay any redundancies or cover any unexpected expenditure." Local authority survey respondent

Third, workforce recruitment and retention challenges appear to be biting more for those settings serving disadvantaged communities where families' needs are greater. A message we heard across our research was that pressures facing staff in settings serving the most disadvantaged communities have become markedly more acute. Rising levels of poverty, complexity of needs and pandemic-related trauma are commonly impacting on children, parents and staff in these settings. This appears to be contributing not only to escalating departures of staff in such settings but greater burdens on managers, and more sickness and disciplinary issues to manage. There was a clear sense across our interviews that this nexus of issues is leading managers of smaller settings in disadvantaged communities to be especially at risk of personal burn-out and wanting to leave the sector.

> "Last year we had staff leave because they couldn't cope with children who had SEND – you've got agencies who can give help but if you can't cope with the needs of the children… I lost two staff last year because of that. They said 'I'm not getting enough money to get bitten or hit every day.'" Sessional nursery manager

> "If you're a level 3 having to regularly make referrals into social services, dealing with really complex cases of neglect and child abuse on a fairly regular basis, would you choose that or go and work in a school or the retail industry?" Local authority interviewee

> "After Covid financially we have to follow the ratio to get the income but the problem is with the number of children with special needs, and more staff with mental health issues we were finding this challenging. Resilience levels were low with covid anxiety – they got better for a time and now again staff are really struggling." Manager, two non-profit full daycare settings

> "Every child 3+ should be on a ratio of 1:8 but it's impossible, as the needs we are seeing now around communication and language so many of them cannot function on less than 1:4." Nursery manager

At the same time, larger chains appear to be better equipped to buffer their settings against the impacts of the workforce crisis – although there is a sign that chains are withdrawing too from the poorest areas. Whilst we heard of instances of larger chains having to close settings due to insufficient staff and withdrawing from less profitable settings, we also heard multiple examples of larger businesses putting in place costly short-term measures to attract and retain staff in the current crisis. These included 'golden handshakes', health and lifestyle incentives and free childcare places for workers.

> "In terms of our chains, the bigger ones pay better. Two of our larger ones are giving £1000 golden handshakes…they've got the money to be able to do it. So some of our smaller providers are like 'how can I compete with that?'" Local authority interviewee

> "[My chain] now offers 100% free childcare for your own children introduced around September – it used to be 10% discount." Nursery manager

> "We have had high quality, local medium sized chains which are private and not-for-profit starting to withdraw...They serve very diverse communities, with staff that reflect the community, seem to have a social conscience, want to have a presence in those deprived areas but they are saying now to us that it's becoming too difficult – they are just bailing out those nurseries in deprived areas constantly…they are saying this is not feasible." Local authority interviewee

Fourth, looking to the future, aggressive competition from cheap but inferior quality private providers is a rising concern for those trying to preserve valued provision indisadvantaged areas. ‘Competition’ is not currently perceived to be a key driver of closures across the board, as it was indicated in interviews it once was (new/expanded school-based providers, private and voluntary sector nurseries, and chains were the least cited drivers of 2022 closures in our survey, as reported above). And the vast majority of provision delivered by for-profit chains is valued by local authorities, as well as being rated highly by Ofsted.

However, within the more disadvantaged areas within fieldwork authorities, we heard rising concerns about inexperienced or poor-quality small private chains coming in and undercutting long-standing community providers offering good provision. The concern in these areas was far less about larger national chains – who were perceived to be retreating to more profitable ‘leafy suburbs’ – as about some smaller, private providers or chains employing very low-qualified staff. Experience from the past had demonstrated that the local authority’s powers to prevent this were very limited – even where the providers had been given inadequate ratings by Ofsted in other settings.

> “We’ve got providers who’ve got an inadequate recently and now they’re trying to open somewhere else, whilst they’re getting an awful lot of support from the team around getting themselves out of inadequate yet they’re able to register a new provision.” Local authority interviewee

> “We had a situation a couple of years ago where a new nursery business opened adjacent to two of our established nurseries and undercut those nurseries substantially in their prices. The two of them had to shut. Since then, that nursery has required additional support from the council.” Local authority interviewee

> “I spent three years of my life trying to stop someone opening a new provision in an area where we didn’t need one.” Local authority interviewee

7. Reflections and recommendations

Taken together, our analysis suggests that there is significant cause to be concerned about private and voluntary nursery closures, and in particular the growing and potential future impacts on disadvantaged families and communities. Reasonable stability in the number of settings and places at the national level masks substantial local variation, with closures heavily impacting some areas, differences by provider type and signs of an overall worsening trend. And, whilst it is not immediately evident from geographical patterns of closures, the impacts are likely more pronounced for lower income families and communities due to weaker local starting points in terms of sufficiency, the types of setting affected and the lack of alternative options for those families. Those in rural areas or where children have emerging SEN or complex needs are particularly vulnerable. And whilst local authorities do what they can, the support available is not consistent for all.

Furthermore, without reform we might expect the picture to deteriorate. The funding and workforce issues and related pressures that are driving closures now are biting more for small settings and those serving disadvantaged communities, suggesting their vulnerability may increase. This could lead to a further escalation of closures, an increase in the number of communities where sufficiency becomes a real problem, and an increased stratification of the childcare market. Capacity issues also seem unlikely to be addressed effectively by the relaxation of staff-to-child ratios – sector leaders have argued clearly that this will not be popular, and the message we heard in our interviews was that many are wanting a more generous staff-to-child ratio, given the increase in children's needs. In this context, the newly extended entitlement may not materialise in any meaningful way to parents.

What local authorities could do now

For now, local authorities have clear duties and responsibilities to support childcare providers and help families to access suitable provision. Levers are not strong in law (for example, Ofsted is the 'sole arbiter of quality'),[35] and capacity within most local authority early years teams is very tight (with a maximum of 5 per cent of earmarked early years funding allowed to be retained centrally). Nonetheless, we observed over the course of this research that many are contributing very positively to both of these areas. There may be more that some authorities could do in the immediate term to recognise emerging challenges and build on existing effective practice, recognising that any increase in funding rate will not come in until September, and may not be sufficient when it does. We suggest five areas of focus.

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[35] DfE (2014), Early Education and Childcare: Statutory guidance for local authorities: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/298754/2014_Draft_Statutory_Guidance.pdf

1. **Ensuring that local assessments of sufficiency are thorough**

With changing demographics and demand and the range of factors impacting on providers, and an increasing sense that more providers may be on the tipping point or at risk of abrupt closure, it seems a particularly important moment to build a full and thorough understanding of local trends, informed by up-to-date feedback from providers and parents. Anticipated demand for the new extended offer also needs to be understood as part of this.

2. Providing good financial advice and support to small providers

A message we heard in this research, and have heard previously, is that financial support and advice targeted toward smaller providers are often greatly valued. The pandemic led many local authorities to develop and hone their support and advice in this area. However, many smaller providers remain hard to engage (especially when pressed by staff shortages). And some authorities offer much more bespoke advice than others. This is an area where local authorities may be able to learn from existing effective practice in other areas.

3. Lightening the burden on managers and owners of small, valued providers

There may be scope for local authorities to adopt more focused approaches to lighten the burdens that managers and owners face, for example through harnessing the potential of schools to provide training and leadership support, or even co-location. Family hubs or children's centres might also be able to provide in-kind support to smaller providers. There is an opportunity now in many areas to build this into development of new family hubs.

4. Identifying and reaching out to families affected by closure

This is another area where our research suggests there may be a good deal of inconsistency, for example in relation to families who are not known to local authorities. It has potential to take a lot of staff time, but looking at the practices of the most proactive authorities could prove instructive and help to support families currently inclined to be less visible and withdraw from formal care.

5. Early years workforce recruitment and retention strategies

Some local authorities have told us about the significant work they are doing in partnership with the early years private and voluntary sector and the wider education sector to help recruit, develop and retain staff. This includes local targeted marketing campaigns, working with schools and further education colleges and developing apprentices and placements. All local authorities would benefit from having a clear strategy in this area, which might also link to other parts of the local education or early years workforce.

What central government could do

Our research underlines that the most pressing areas for the government to focus on are ensuring fair rates for the newly extended free entitlement and addressing the workforce crisis. But a broader strategic approach to monitoring and managing the market will likely be required, and is essential if the new extended entitlements are to deliver a meaningful, quality future offer to all children and families.

Free entitlement funding rate to reflect costs

The significant increase in the proportion of childcare being funded through government-set rates raises the stakes even further for getting those rates right. Too low, and providers could opt out of delivering the new entitlement or even exit the market entirely. Too high and it could not only prove expensive but encourage a gold-rush, and hasten the shift in the market toward large chains backed by private equity investors, bringing a range of attached risks.

Calculating the effective rate is not an enviable task, and it is well beyond the scope of our exploration here to put a figure forward, but two key considerations have emerged from our work.

First, future rates need to go beyond reflecting ‘cost of living’ changes and rises in the National Minimum Wage. They need to lay the foundation to build a valued workforce with pay to rival other sectors, and halt the current exodus to jobs in retail or schools. Bringing pay up from the bottom rung has potential not only to secure capacity but to continue to drive quality upward and improve the life chances of many children. On this basis, whilst the funds allocated in the March 2023 budget are broadly expected to protect rates in real terms over the next few years, they are unlikely to be enough.

Second, funding rates need to be strongly differentiated by level of disadvantage within the intake and the community, and probably by the scale of provider in recognition of the differing opportunities for efficiency. Given the substantial differences across local markets, and the unique potential for local authorities to understand this, scope for greater local leeway for differentiation between providers through local formulas may be required, as well as a stronger early years pupil premium rate to match the schools pupil premium.

Urgent action on workforce

It is imperative to resolve workforce challenges if sustainability is to be improved, and improved funding rates alone will not be enough to achieve this.

There is an obvious need for a national strategy and recruitment drive that brings clarity and sets clear targets for growing the early years workforce, considers progression routes and improves routes into the sector, including better recognition of different types of experience and qualifications. It was clear from our provider discussions that nurseries attempting to secure skilled staff through creative routes often feel that their attempts are being stifled currently. Some elements of this are understood already to be being considered by government.

More fundamentally, there is a strong case for a wholesale early education and childcare workforce review. This would be an opportunity to rethink how to make childcare a truly valued workforce, recognised for its critical role as the daily frontline with young children and their families, including many who are vulnerable. This is something that others have previously made the case for.[36] The current shift in focus to 'working families' with the new free entitlement commitments, and the rhetoric narrowing to be about 'childcare' as opposed to 'childcare and early education', poses a risk that workforce perceptions go in the opposite direction and professionals feel they are being downgraded to babysitters.

Monitoring and managing the market

The findings presented throughout this report suggest that more of a strategic approach to maintaining and developing the capacity of the private and voluntary sector is likely to be required in order to ensure balance and that the diverse needs of all families in all areas can be met. The planned rapid expansion of the free entitlement makes this feel especially critical now – whilst competition is not currently considered a key driver of closures everywhere, it remains a key concern in some places and the risks of poor-quality providers seeking to enter and expand at the expense of small, valued providers in disadvantaged areas may well grow.

The proportion of places that will be delivered through government-funded entitlements is anticipated to go up to around 80 per cent (from just under 50 per cent now). Assuming local authorities remain responsible for the distribution of this funding, they will have a much more critical role to play in directing funds. And given the diversity of local childcare markets, they are uniquely positioned for this.

The newly extended early years funded entitlement is an opportunity to strengthen the ability of local authorities to become much more influential market managers and commissioners. Currently, many feel stymied by lack of resource for proactive commissioning and lack of powers to withhold funding even where there is a good case to do so – presently they have no levers to do this unless there is a poor Ofsted judgement. The government should consider strengthening local authority capacity for commissioning provision centrally and strengthening their levers, for example enabling them to withhold free entitlement funding where there is a good sufficiency case for this.

[36] https://www.nuffieldfoundation.org/series/changing-face-of-early-childhood-in-britain

And finally, a wider strategic approach to managing this market will also require better monitoring and understanding of trends in nursery closures. What has emerged strongly throughout our analysis is that, whilst data in this area in not in short supply, there is no one comprehensive source and limited ability to monitor the specific detail of closures, or identify patterns which suggest imminent closures, nationally or locally. Government should be in a position to know in advance when early years provision is at risk of 'falling over' in a particular area and to respond to this, but does not currently appear to have the tools to model this. Better data on closures could also enhance our ability to understand the type and scale of providers and chains that might be most vulnerable – or most viable – and the funding rate they require. This also would enable the development of a clearer future vision for a high quality and sustainable childcare market nationally, with the appropriate provider mix to meet the needs of all families.

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