

Pay slip

Many settings are wondering how they are going to afford the upcoming 5 per cent increase to the National Living Wage, let alone keep pay differentials to reward senior staff. So what are the options? **Annette Rawstrone** reports

Nurseries are already being strangled by lack of funding and now the National Living Wage (NLW) is pulling the noose tighter around our necks,' says nursery proprietor Debbie Moliterno, who owns Cheeky Monkeys Day Nurseries in Bedford and Borehamwood, Hertfordshire. She explains, 'I'm based in a deprived area so we struggle to charge parents extra money because many can't afford it.'

Despite this, Ms Moliterno feels compelled to raise fees by £1 a day from April – knowing that this will be unpopular. 'I want to look after my staff, but it's hard to keep up their morale and raise their wages on the pittance of funding that we receive,' she says.

The 38p rise in NLW amounts to an annual salary increase of about £690 for a full-time employee. Ms Moliterno says for her this equates to £13,000 a year extra on the wage bill. 'Despite being a private nursery we are effectively capped in what we can charge by the lack of

Government funding,' she says. 'We have no extra money for resources once staff are paid, and we have to look at all our spending very closely.'

The new minimum wage (called the National Living Wage for over-25s) was introduced in 2016, and was £7.20 per hour – a rise then of 50p. It will rise 4.9 per cent from the current rate to £8.21 on 1 April, and is set to reach more than £8.50 by 2020, according to the latest forecast.

Yet with employer pension contributions reaching 3 per cent from April, increases for many in business rates bills and a funding rate which has been stagnant since the introduction of the 30 hours in 2017, many settings are operating with wafer-thin margins, says Purnima Tanuku, chief executive of the National Day Nurseries Association.

'Childcare is not like retail or the leisure industry. With more parents taking up funded hours, the ability to alter price to take account of costs becomes more limited,' says Ms Tanuku. 'We have warned the Government that they can't keep funding stagnant on one

FURTHER READING

- www.gov.uk/national-minimum-wage-rates
- **Model Agreement: Early years provision free of charge and free childcare**, <https://bit.ly/2EhH3D1>
- **'Increase early years funding in line with minimum pay rises' petition**, <https://bit.ly/2ECgFoO>
- **Nursery World's series on reducing costs, including how to appeal business rates**, <https://www.nurseryworld.co.uk/costs>



hand and then impose cost increases through the living wage and pension contributions on the other. They seem to want to turn a blind eye to the illogical funding of childcare hours.'

Childcare businesses operate on many different models but, with salaries often representing 75 per cent of costs, providers are left with a small amount of budget from which to make savings. In reality, there are just a handful of financial models available, with many settings juggling a mix of these to keep operating. We have spoken to managers and financial bosses to lay out the main options, below.

INCREASE FEES

The most obvious option, but fee increases come with drawbacks – the risk of becoming uncompetitive with other local settings and therefore losing children from the books being one.

The key is considering a maximum increase you can afford

to inflict on parents versus the level that fees need to remain under in order to stay competitive, says Keith Appleyard, treasurer of Fiveways Playcentre in Brighton and former head of governance, risk and compliance at American Express.

Rather than putting fees up this April as a response to the rise in NLW, Mr Appleyard increased fees last September as usual so the nursery could start banking the money before having to pay it out in salaries and to keep consistency for parents. 'My fees are already £6.24 per hour, so until my competition creep up above £6 I daren't go higher than £6.30 or else I'll price myself out of the marketplace,' he says.

Windmill Hill City Farm Nursery in Bristol will be increasing its fees by 4 per cent from April. Chief executive Steve Sayers says it always gives at least three months' notice of any increase. He regularly liaises with parents and considers feedback on what is considered

reasonable. 'I'm confident that we won't lose any parents because we have communicated well with them and they have been very supportive,' he says.

Despite having a Good Ofsted rating, Cheeky Monkeys Day Nurseries is not running at full capacity, and Ms Moliterno is worried that she will lose families when she increases fees by £1 a day in April.

Sam Ashfield, owner of Battenhall Nursery in Worcester, acknowledges she is 'lucky' that her nursery is situated in an area where most parents work so she is in a position to pass on cost increases, although she also draws little salary from the business herself (see box on reducing costs). She will be increasing all her staff wages by 4.9 per cent from April to maintain pay differentials, which will result in the nursery charging an extra £3 per session.

It is also important that managers are not tying themselves up with

1st Friends Day Nursery in Gillingham, Kent found offering unlimited 30 hours places was unsustainable

contracts that do not allow fee increases more than once per year, or which constrain them to measures that don't bear any relation to their costs, such as inflationary indexes.

CHARGE FOR CONSUMABLES

While charges cannot be a condition of a free childcare place, settings can ask parents to pay for extras. What this means in practice is a notoriously grey area as many local authorities interpret the guidance differently.

The DfE has said, 'Our guidance makes clear that providers may charge for additional services such as lunches, but parents must not be required to buy these in order to take up their child's free early education place – parents should be offered the option of providing a packed lunch instead.'

At Battenhall Nursery, families taking up funded places have always been charged for

“ I daren't go higher than £6.30 or else I'll price myself out of the market ”



1st Friends Day Nursery says anecdotal evidence suggests its problems are not unique

consumables, but this is being increased by £3 a day to £13 for an 8am-3.30pm session in addition to the fee increases. 'I tell parents that the rate the Government gives is a lot less, so the charge is to cover food and art and craft materials,' says Ms Ashfield. 'Just one parent has questioned that the places are supposed to be free and I explained that the difference is nearly £2 an hour – as a nursery business it would be suicide to absorb that, so that's my pricing strategy and I break the costs down in all my literature. That parent is still with us.'

Last year, Fiveways Playcentre introduced a charge of £15 per half-term for consumables and only about half of the families receiving funded places paid it. Mr Appleyard says it 'crashed' when the charge was increased to £20 in September, even though the charge worked out at less than £1 per day.

'We have decided to change the fee to £30 per term but to not send that request out with the invoices and it seems to have been better received,' he says. 'We are currently looking at a more "scientific" approach to calculating the shortfall, which we'll get alignment with the local authority on, before presenting it back to parents.'



1st Friends' owner says she lowers staff costs by working long shifts herself

Tops Day Nurseries also got councils' help in drafting a policy to get around this problem. Managing director Cheryl Hadland says, 'We offer some free places with no extras at all, then we can charge extras for things that are beyond the scope of the EYFS – e.g. lunch food and yoga can be extra.'

Parents currently taking between 15 and 30 hours will have to pay the charges, though they don't apply when parents take hours at traditionally quiet times. When quiet times are,

and which charges are incurred, will depend on the setting. Ms Hadland says councils 'do understand the problem' of underfunding, adding that one official told her, 'Never agree that you have a place for a child until you know what they need – you can then say no if it is funded-only in favour of those who are going to attend all day and pay the extra to compensate for taking a loss on the funded hours.'

The fact that any additional charge must be 'voluntary for

the parent' has some providers concerned that this is not a viable business model because it is not a guaranteed income. Some have got around this by making the consumable charge a condition for getting any place at the setting. They ensure that the consumable charge:

- is for both fee-paying and funded children
- is clear and transparent on invoices
- One suggests writing a letter to all parents, which must be signed by them, stating the

How to increase fees

Rises in the NLW are planned beyond 2019 and should be factored into financial plans.

'No parent ever welcomes the news of an increase in their childcare fees, so it's important that if you are increasing your rates this year, you're able to clearly justify your reasons for doing so,' says Shannon Pite, press and public affairs director at Early Years Alliance. 'While this doesn't mean having to detail your workings to parents, it's important you have a solid business case for any rises as a starting point.' She advises:

- Knowing your own delivery costs is key to making, and justifying, changes to fee levels. The Early Years Alliance's cost calculator can help with this, www.eyalliance.org.uk/costcalculator.
- Gain a good understanding of how local childcare fee levels compare to your setting.
- Forecast short-term and long-term

occupancy and how this might impact your income.

- Check out local occupancy and funding figures in the *About Early Years* annual report from Ceeda, www.ceeda.co.uk.
- If you offer funded places, compare your local funding rate (or the funding rate your council is set to receive in April if your rate hasn't been confirmed) to how much it costs to deliver the place.

Telling parents

'It's tempting to become overly formal when you're writing a letter to parents about finances – but this isn't always a good thing,' says Ms Pite. 'You and your colleagues are likely to have close relationships with your parents, so this should be reflected in the tone of your letter.' She advises:

- Acknowledge you are aware that childcare is a significant cost for

families and make it clear that the decision to raise fees isn't one you have taken lightly.

- Be transparent about the changes you are making: exactly how much fees are increasing by, which sessions changes apply to and when the rises are set to come into effect.
- If your fee increases have been driven by Government underfunding, explain this to your parents so that they understand the wider context (see *Nursery Management's* childcare funding guide for parents on page 16). This won't necessarily change parents' feelings about paying more, but it will make clear that the increase is beyond your control.
- Check out other fee increase letters for inspiration or get templates from early years organisations – the Early Years Alliance has one available for members at www.eyalliance.org.uk/members-area.

amount of the consumable charge and what it covers, making sure the list of items is not exhaustive.

OFFER FEWER FUNDED PLACES

Reducing the number of Government-funded places, or restricting hours, looks increasingly popular.

Suzanne Pigott, director of 1st Friends Day Nursery in Gillingham, Kent is reviewing her nursery's offer. 'I used to offer an unlimited 30 hours offer from 11am to 5pm every day, but I found that if parents didn't want to pay the extra money for the rest of the day then I couldn't fill the space,' she says. 'So I now offer it from 12 noon to 6pm every day because more parents want mornings, so they have to pay for that.'

She will also be limiting 30 hours funded places to six children from September. 'Previously we've had more than double this but we can't afford to keep that going with a £1 an hour shortfall,' she explains. 'I don't want to turn away a family in need, but I have spoken to nurseries who are making the same noises because we can't afford to carry on the way it is. If we don't impose a limit then we will be in financial deficit.'

Windmill Hill City Farm Nursery used to be 'liberal' with when families could use funded

places but has also reviewed this. From April, funded places will be restricted to 9am to 12 noon and 1pm to 4pm, with hours outside those charged for. Children attending for a full day get lunch included, while those attending for part of the day or on funded hours either pay for a meal or bring a packed lunch.

'Most parents work and want these early and later hours so we hope they will buy them at £6 an hour rather than the £4.88 funding, which will mean that we recoup more of the shortfall,' explains Mr Sayers. 'We don't want to restrict the hours but we have got to survive.'

At Fiveways Playcentre, 30 hours is not offered and the universal 15 hours is subject to a 50:50 capacity cap. 'In practice our average (under)-funded child comes for 22 hours, i.e. the parents take their 15 hours and "buy" at full price another seven hours, which narrows but doesn't completely eradicate the deficit,' says Mr Appleyard.

CUT COSTS

Corinne Finlay, owner of Rainbow Pre-school in Southampton, says with the funding freeze and increases in NLW and pension costs, she has had to 'get creative'. She has reduced training costs by becoming qualified to deliver Emergency Paediatric First Aid and first-aid at work.

Help with reducing costs

A range of companies offer to help nurseries reduce costs, including:

- **One Unite Partnership** – a not-for-profit company which helps charities and businesses that support their community, including private nurseries, to lower energy and telecoms tariffs, and then passes the commission back to them (www.oneunite.org.uk).
- **Exchange Utility** advises on comparing and switching energy suppliers

(www.exchangeutility.co.uk).

- **Greenvision** helps to introduce energy-saving measures to cut bills while being environmentally friendly, such as LED lighting, solar panels and energy-efficient heating solutions (www.greenvisionenergy.co.uk).
- **The Tax Guys** aim to help businesses reduce their taxes and better manage cash flow (www.thetaxguys.co.uk).

'This didn't cost much more than training two members of staff in first-aid, so I can now train my own staff,' she says. 'I use the Early Years Alliance free online training courses for other essential training, substantially reducing all training costs.'

She is also speaking to her landlords about not putting up the rent this year, renegotiating prices for professional services such as human resources and health and safety, and switching broadband and telephone suppliers (see box, above).

Instead of the pre-school paying for large pieces of equipment or resources, it now makes savings by fundraising through cake sales, raffles and themed days. It tells parents

what they are fundraising for and has the target displayed in the lobby. 'We have found that when families leave at the end of the year, they are now more likely to make a financial donation because the target poster is clearly visible,' adds Ms Finlay. 'I'm hoping this will keep us just above the red for the next financial year.'

There has been a pay freeze at Fiveways Playcentre for two years in order to cut wage costs. Mr Appleyard says, 'Being a "Real Living Wage" employer, we had a pre-existing buffer, but our premium has been eroded so 50 per cent of staff will get a small rise this April to stay compliant with the £9 an hour minimum, but it has seriously compromised the pay differentials, meaning that the difference between a newly qualified ex-apprentice and a room leader with at least 15 years' experience is only 20 per cent.'

Reluctantly he has decided not to take on an apprentice this year in order to cut costs.

Nursery owners are also reducing how much salary they take from the business. 'My full-time practitioners earn double my salary,' says Battenhall's Ms Ashfield. 'In fact, I'm sure if you worked out my hourly rate of pay, you'd find it was well below the NLW. But thankfully owners don't count when it comes to NLW.'

1st Friends' Ms Pigott works long shifts herself to keep staff hours to a minimum, but she acknowledges that this is not sustainable. ■



1st Friends will be limiting 30 hours places from September to reduce its funding shortfall