

Economy Committee – 21 January 2016**Transcript of Item 8 – Extending Childcare Provision – An Ambition too Far? –
Session One**

Fiona Twycross AM (Chair): Can I welcome our guests, our first for today, and ask each one of you to introduce yourselves and tell us whom you are representing?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): I am Jill Rutter. I am Head of Policy and Research at the Family and Childcare Trust. I am, obviously, representing them.

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): I am Shannon Hawthorne. I am the Press and Public Affairs Director at the Pre-school Learning Alliance. We are an early-years membership organisation and also a voluntary provider of childcare.

Claire Schofield (Director of Membership, Policy and Communications, National Day Nurseries Association): I am Claire Schofield. I am the Director of Membership, Policy and Communications for the National Day Nurseries Association (NDNA). We are the charity and membership association for nurseries across the United Kingdom (UK).

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, London Borough of Merton): I am Allison Jones from the London Borough of Merton (LB Merton). I am the Lead for Early Years. We are a provider of nursery services and we are also the facilitator of funding to the private, voluntary and independent (PVI) sector and schools.

Penny Kenway (Head of Early Years and Childcare, London Borough of Islington): I am Penny Kenway. I am the Head of Early Years and Childcare at Islington Council (London Borough of Islington, LB Islington). We, too, are direct providers of nursery services and facilitate and support the PVI sector and schools with nursery services as well.

Fiona Twycross AM (Chair): Thank you. Could we start with quite an open question to all guests, really, about what the experience of providing the current childcare commitment in London has been and whether it is possible to deliver childcare in London to the extent to which the policy anticipates generally?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): Is that the 30-hour extension or the current 15 hour commitment--

Fiona Twycross AM (Chair): The current childcare commitment is only 15 hours at the moment. Stephen [Knight AM] will go on to talk about the extension in a few minutes.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): Uptake of free early education for both two-year-olds and three-and-four-year-olds is significantly lower in London than anywhere else in the country. There are boroughs where it is particularly low and they are not just inner London boroughs. Barnet, Enfield and Hounslow are local authorities where uptake is particularly low.

The reasons for this are either demand-side, from the parents' point of view with parents not wanting placing, or supply-side, with insufficient places. In terms of demand-side factors, high residential mobility and also the

belief among some parents that two-year-olds are too young to go to nursery are factors. That is more prevalent in some minority ethnic groups.

In terms of supply-side, we have quite significant numbers of providers opting out. In my written evidence, I have given the actual numbers on that. They opt out, mostly, because they argue that the funding is not sufficient. We have providers rationing places. We have sheer physical space constraints mostly acutely in inner London, where providers, even if they want to offer places, are unable to expand.

Also, in some London local authorities - not any of them here today - there has been quite poor market management of the private and voluntary sector. Providers have not been helped to develop our provision. In my written evidence, I have said something about that. 12 London local authorities are not fulfilling legal obligations by undertaking childcare sufficiency reviews. That sums up what I want to say.

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): We would always say that it is quite well known that the current 15-hour entitlement is underfunded. I think that most people on the panel would agree with that. We commissioned a piece of independent research at the end of 2014 with a company called Ceeda. It tracked the cost of delivering childcare for 5,000 children over 180,000 hours and it found that there was a 17% shortfall in funding for three-and-four-year-olds and a 15% shortfall for two-year-olds.

Essentially, what is happening - and I think the discussion will move on to this - is that providers are having to find a way to plug this gap. What our members say to us is that the "free" entitlement is misleading. It is actually subsidised but the cost is not covered. Someone has to pay for it and it ends up being the providers to some extent and, of course, the costs get passed on to parents in terms of parental costs.

One of the things that we have done in the past is a freedom of information request (FOI) to all local authorities, not just in London but nationally, to find out what they are doing to monitor the cost of delivery. When the single funding formula, which is how funding is currently allocated, was introduced, the idea was that local authorities would speak to providers, do some kind of cost analysis, find out what costs providers had and then, regularly going forward, would monitor to see if that changed and if the funding formula needed to change. We found that 70% of local authorities - and it was also about 70% in London specifically - had not done that. I would say that local authorities did say that in some cases there was no point because central funding was not increasing and so they could not increase their funding. I know that we will go on to the 30 hours later, but I would just say that there is a real shortfall in the 15 hours.

Because we specifically represent PVI providers, I should point out as well that the funding rates for different provision types are very different. If you look at what a PVI provider gets compared to a nursery school or compared to a primary school nursery, PVI providers tend to get the lowest amount. If we are looking at sufficiency and looking at how much of the free entitlement PVI providers do provide, the majority of it comes from the PVI sector. It is really important to look at this, as well as area-by-area and what is happening in London, on a sector-by-sector basis, too.

Claire Schofield (Director of Membership, Policy and Communications, NDNA): I would add to that: fundamentally, to participate, nurseries need to do it in a way that is sustainable. If they want to deliver high-quality places, they have to also balance their books. That is why you get things happening like rationing of places. We have seen nurseries, particularly with a two-year-old offer and where it is not a universal offer, limiting their involvement and they are doing that because, effectively, if they are making a loss on every place they provide, to balance the books they cannot afford to provide unlimited numbers of two-year-old places.

The other thing that is starting to threaten capacity and further expansion is the workforce. Members are increasingly reporting to us problems in terms of recruitment and retention of qualified early-years practitioners. We are just doing an analysis of our annual survey, which will come out at the end of February. We can see already from that that it is a national trend but London is worse, as you would expect because of the pressures on employment in London being particularly tough.

The current issue is that the model is chronically underfunded. We know that the House of Lords Committee on Affordable Childcare picked up on that as a particular issue for the private and voluntary sector. That constrains capacity and availability because of the way that nurseries are forced to manage to remain viable.

Then we also have some issues in the future in terms of the challenges that we need to address. What do we do so that supply is not limited not only by funding but also by the availability of the workforce that we need for future expansion?

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): I do not know if you want me to speak from a Council perspective. Obviously, I am from an outer London borough.

Penny Kenway (Head of Early Years and Childcare, LB Islington): I am from inner London.

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): Of course, there will be slightly different issues. Everything is true in terms of our position. I am talking about our role as the commissioner or the market management, not about our role as a provider of nursery education.

It is a complex picture out there. We are looking at a mixed-market model. Even our cost analysis is very difficult when you are looking at an independent school, maybe, compared to a local playgroup or a childminder. Even going through some kind of cost analysis provides quite big challenges because the infrastructure and the costs associated with that large mixed-market model are quite a challenge. How do you factor in a profit margin? What could or should be covered through a profit margin? How do you manage that part of the market when a lot of your market is non-profitmaking? There are those tensions within the overall policy, which are quite difficult to manage.

The cost analysis is interesting, but what we would like - and I do not know if the same for you in Islington - is some guidance around how we could or should be doing that. It is quite easy to say that local authorities have the responsibility around understanding the cost of provision and we have tried to do that. It is a challenge. I do not know if that is something that you would agree with.

Penny Kenway (Head of Early Years and Childcare, LB Islington): Yes, I would agree.

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): Already we are working in quite a complex market. The way that the 15 hours is delivered is also a challenge. It is delivered over a 38-week model, which tends to align itself with an academic year. Because of the way that Easter falls, it is very difficult to give all children a 570-hour offer from the time that they are born because quite often providers will work around school-time dates. I am interested as to how that will pan out as we start to move towards a 30-hour offer. There are some tensions within the policy that do not help. For some providers, if they are open on a term-time only offer, they may start in April and are following the school term-time. Because the school term starts in September and we work in financial years, there may be only 36 weeks within that cycle and not 38. Already we are looking at some funding tensions if you have those within the policy. It is a complex picture out there.

In terms of supply and in terms of demand, I would like to think that we manage that fairly well. We publish a sufficiency statement.

The local authority infrastructure is absolutely critical. As the market facilitators, local authorities have to be able to commit to that role. As you will appreciate, local authorities are under pressure financially. I do wonder if some of those financial pressures are playing out in terms of how well each local authority can manage that market. That is probably all I am going to say, but the local authority as the facilitator of the market is critical. We are there to support supply and to support demand.

In our local authority, we are extending provision extensively across all markets. One size will not fit all and every local authority is different. We have a very specific three-and-four-year-old market, predominantly delivered through our schools. We have a very strong early-years policy around nursery classes and 75% of our children take up that offer within a school environment. That is not the same across the rest of London. There are different issues for different local authorities.

Fiona Twycross AM (Chair): Penny, do you have a different view in Islington?

Penny Kenway (Head of Early Years and Childcare, LB Islington): I agree with what has been said and I particularly agree with what Claire [Schofield] said about this tension between balancing the books, which is extremely hard, and also the workforce tensions, which are really rising up again. Having gone through a period where we had quite a lot of support for the workforce, all of that funding has just about now gone and we are really reaching a crisis in terms of being able to recruit good-quality practitioners.

In Islington, we are an inner London borough with huge and stark differences in terms of income. We have the very rich and the very poor. We have a private sector that caters very largely for the very rich. They are not interested in taking up, for example, the two-year-old funded places. We have had very few, partly for the reason that they want to be able to charge to get additional hours from those parents and they are unlikely to do it. This is despite the fact that in Islington we pay a higher rate than the Government gives us for two-year-olds. It could cause funding pressures in the future if we are going to retain that [rate]. We pay it partly as an incentive but we pay it also because we think it is very important to have well-qualified staff working with two-year-olds. If we want to employ graduates, we have to pay them at a reasonable level.

We have a very strong maintained sector with nursery classes in schools. We have children's centres that all have nurseries. These completely predate our children's centres. We have a series of subsidised childcare for the under-fives and for the over-fives, which works on a sliding scale. All of these things are under pressure at the moment.

At the moment, our take-up for two-year-olds is 66% in Islington, which is good for inner London. We have done that largely because we have managed to get schools to start two-year-old provision. For three-year-olds it is 87%. We need to work on that. I am concerned about that. For four-year-olds it is 100%. We have good take-up.

However, I see all of these things as under real pressure with funding cuts to local authorities, the issue about the extension to 30 hours and the fact that what the Government gives us is just not enough. The third thing that is going to influence all of this is a general squeeze on the early-years Dedicated Schools Grant block of funding, which could be quite serious.

Fiona Twycross AM (Chair): How can you explain three-and-four-year-olds benefiting to a greater extent than eligible two-year-olds?

Penny Kenway (Head of Early Years and Childcare, LB Islington): It has been around for longer and, obviously, take-up takes time to get people to understand. I think most people now would accept that three-and-four-year-olds should have nursery education. Jill [Rutter] mentioned that with two-year-olds we actually have more places than take-up at the moment. We are managing to build incrementally. Through our children's centres we do outreach work to those families.

A lot of it is that there are groups that think two years old is too young. If you think when you are talking to those parents that their child is not two yet and so you have a one-year-old coming up to two, somebody is saying, "They need a nursery place. Have you thought about this? You will be eligible". For some people, it is just too young. We do find that it picks up around the age of two-and-a-half. There is that combination of reasons, really.

The other thing is that people want to go where they want to go and there might not always be a place in the nursery they particularly choose to go. As I said, our private sector has not taken it up; our voluntary sector has as far as it can.

Fiona Twycross AM (Chair): Thank you. Does anybody have anything else to add on that point?

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): Just in addition to Claire's [Schofield] point on the supply-side issues in terms of take-up of two-year-olds and the fact that providers are declining to do so because they say that the funding is not enough, one of the things that providers have raised to us is that because it is a targeted scheme some of the children that were taking up places have additional needs and there are additional costs that come with that in terms of liaising with agencies and more one-to-one care. When the funding rate was announced, it was, "This is for two-year-olds", without taking into account the fact that it is a particular group of two-year-olds. That has led to a reticence and a reluctance to offer places because, if you are going to offer places for two-year-olds from disadvantaged backgrounds who may have additional needs, they need to be high-quality places and they need to have the time to offer good input.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): I have two points very quickly. One of the issues around funding - and we have talked quite a lot about funding - is that the rate that a provider will get varies considerably across London even though costs might be quite similar. We know that the Government is going to be undertaking a funding review this year. Hopefully, that will iron out some of the differences and lead to a more equitable system.

The other thing that I want to say around funding is that the nursery sector is quite economically inefficient. We have lots of small providers. It would be a good idea if there were more mergers or business collaborations to enable sharing of back-office costs. We have lots of single-site providers that have higher unit costs partly because of that and so it is a very inefficient sector in some ways.

Fiona Twycross AM (Chair): Would the difference in costs from area to area explain why a greater proportion of eligible children in outer London access provision or are there other reasons why there would be higher levels of uptake in outer London.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): There are lots of reasons. Some of it is down to physical space. Some of it is down to the nature of the population. Some of it is down to the outreach that the local authority has done. There is no single factor that causes this difference in uptake.

Penny Kenway (Head of Early Years and Childcare, LB Islington): From what I see working in a borough like Islington, space is a real issue in inner London. It is more of an issue. Our nurseries are already constrained. Our children have very small outside spaces. When we look at possible places to develop new nurseries or use of community buildings, the issue is often that these buildings are within perhaps housing estates, they are quite small already and there is a small outside space. You have tensions about who can use that space even when you start to negotiate with residents. We have certainly had quite a lot of residents who do not want a nursery in the middle of their estate because of the noise and parents coming to drop children off and those sorts of things.

Therefore, while I appreciate that the funding is inequitable between inner London and outer London and that outer London boroughs obviously have some difficulties, the space issue is particularly an issue in boroughs like Islington, Camden and Westminster perhaps, where there is so little room to expand and real estate is so expensive.

Fiona Twycross AM (Chair): We will come on a bit more to infrastructure shortly.

Stephen Knight AM (Deputy Chair): Allison, you said that in Merton 75% of three-and-four-year-olds are in state primary school-based nursery provision, which I thought was a very high figure. In my own borough, which is Richmond, not far away from Merton, the figure is reversed. There are 25% in nursery classes and 75% in the voluntary sector. Apart from the lack of places in the primary sector, one of the things that is a problem with some of the primary school-provided places is that although parents love the fact that they get 15 hours absolutely free unlike the PVI sector where they have to pay additional charges, often there is no wraparound for that. Therefore, if you are working, even part-time, 15 hours is next to useless or is worse than useless, in effect, because you have to virtually pay a nanny to do the picking up and the dropping off.

How do you manage that when you have such a high proportion doing that? Do the primary schools provide wraparound [support for] the nurseries?

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): Merton has had a long history of nursery classes. Even before three-and-four-year-old funding was universal, children in Merton had access to nursery education. That is our market base.

When the funding flowed through with all of the expansion for childcare, out-of-school clubs, wraparound and all of the old lottery funding, the strategy in Merton was to build our childcare market around our nursery class offer. Nearly all of our primary schools have wraparound services and have links with childminders to provide holiday, after-school and after-nursery collection and then will have onsite wraparound services like breakfast and after-school clubs. Many of our schools have that and that is our childcare model. However, that has been a real challenge for us with two-year-olds. We have very few providers offering just 15 hours outside of the school sector.

That is why every local authority will be different and each market will be different based on what was there 20 or 30 years ago and how that has moved through.

Stephen Knight AM (Deputy Chair): My experience in my borough is that the only people who could afford to take up the offer either were so affluent that they were stay-at-home parents who did not have to work or, at the other end of the scale, were not working and could take the --

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): That is not the case in our --

Stephen Knight AM (Deputy Chair): Everybody else was having, effectively, to pay top-up fees in the private and voluntary sector.

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): No, that is not the case in Merton. That was by default, almost, yes.

Stephen Knight AM (Deputy Chair): It was interesting. I just wondered how typical Merton is. Are most London boroughs at 75% in state-maintained?

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): It is not typical because we have a rolling intake into our nursery classes. We probably have one of the higher take-ups of provision in our nursery classes. Every child can access a nursery class place the term after they turn three. Some children get five terms, some four and some three.

Stephen Knight AM (Deputy Chair): That sounds like an amazing model that everyone else could look to.

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): It is quite a challenge, actually, yes

Claire Schofield (Director of Membership, Policy and Communications, NDNA): Just to add in terms of that partnership working between schools, nurseries and childminders to do the wraparound, about 40% of our members are involved in partnership with schools in one way or another. This is something that obviously needs to be encouraged and supported.

There is an opportunity because the Government is consulting on the right to request provision of childcare on school sites now for parents but also for childcare providers. There will be a process and we can go through that. Something to note in that is that at the moment the suggestion is that that is for [school] Year 1 onwards.¹ One of the things that we will be saying is that we need to think about this right to request being extended into the early years. That would help to drive in the direction that we need to go in terms of a bit more joined-up support for parents.

Penny Kenway (Head of Early Years and Childcare, LB Islington): I just wanted to say to Stephen in terms of the take-up of nursery education in primary schools that it is far more a feature of inner London boroughs than it is of outer London boroughs, historically.

Stephen Knight AM (Deputy Chair): What is a feature?

Penny Kenway (Head of Early Years and Childcare, LB Islington): Nursery classes in schools for children. We have a similar 70% of our children in nursery classes in schools. In Islington, up to 80% of those children will get a fulltime place as well. That is historic. It was put in place because it was felt that nursery education was proved to be a factor in improving outcomes and so was seen as a very positive investment for the borough. Whether we can continue to do that for all of these children is another matter in the future. It is more of a feature of inner London and other metropolitan authorities across the country. It is those inner-city places that tend to have more nursery class places in schools.

¹ Subsequent clarification from NDNA, received 29 January 2016: this provision will be from Reception onwards, not from Year 1 as originally stated.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): I have the exact figure for London, which is that 48% of three-year-olds are receiving their free early education in state provision like primary school nursery classes or sometimes children's centres or freestanding state nurseries.

Stephen Knight AM (Deputy Chair): That is for three-year-olds, though, not for three/four-year-olds?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): When you move to four, it is a very different figure because --

Stephen Knight AM (Deputy Chair): Because then you are in reception?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): -- it is reception classes and you have almost universal uptake of reception classes. This 15 hours in schools will still apply when parents become eligible for 30 hours of free early education. School provision is of higher quality than in the private sector because you have a better qualified workforce generally, although not always and I am not saying that private provision is of bad quality but parents' perception is that state provision is of higher quality as well.

Schools in 2016 and 2017 will have a dilemma. Will they offer 30 hours free provision to 50 children - for example - or 15 hours to 100 children, assuming that they do not expand the size of their nursery classes, which many cannot do anyway? The reality of London is that even after 2017 and the 30 hours, we will have children receiving their 15 free hours in a state nursery class and then having to go for the other 15 free hours elsewhere.

Whether the childminder sector will be able to offer that additional 15 free hours is debatable because, in London, we have seen a 9% decline in the number of childminders working between 2013 and 2015. It is not even. We really do need in London to nurture the childminder sector more than we are at present. Those local authorities that are doing that are not seeing such a steep drop-off rate.

Stephen Knight AM (Deputy Chair): In my own borough, hardly any childminders are willing to accept the early years funding because it is just too low to cover their costs. It is particularly low in my borough. It is £3.60 an hour as opposed to the private sector rate that parents pay of about £7 an hour or more. It is a 50% funding gap. I am sure that that is at the extreme end but nevertheless --

Kit Malthouse AM MP: Just a minute. You said that they will not accept the money?

Stephen Knight AM (Deputy Chair): They will not, no, because --

Kit Malthouse AM MP: Can they not accept it and then top up and then decline it subsequently?

Stephen Knight AM (Deputy Chair): We have a whole industry that is doing just that, but it is much more difficult, apparently. I do not know the details; perhaps somebody can explain why. Childminders find it much more difficult to charge additional fees without falling foul of the regulations than some of the other providers.

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): You cannot make top-up fees a condition. You cannot say to a parent, "You can get your 15 hours only if you pay more". If a parent chooses to take up 20 hours, you can then charge them [for the additional hours]. When you use the phrase 'top-up fees', you have to be a little bit careful because you cannot say, "We will give you this place only if you take 20 hours". When parents take up 15 hours, they are entitled to take just the free entitlement. Because parents do tend to take up more, providers will then have the right to --

Stephen Knight AM (Deputy Chair): How many providers will offer just the 15 hours?

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): A lot of them do if [for example] you have sessional pre-schools in more rural areas. That is why there is a real concern because they have that struggle. If the 15 hours are not funded correctly - and a lot of parents are taking up only those 15 hours; it does happen - and you do have that funding gap, other providers might be able to plug that gap by charging more than they naturally would for the additional hours. There are a lot of pre-schools that would face that problem of parents just taking up the 15 hours and no more.

Stephen Knight AM (Deputy Chair): To what extent is the current level of Government grant sufficient to support free childcare in the capital? To what extent is the funding that local authorities get and pass on sufficient to make this happen? We have heard the answer to some extent that it is not.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): We are doing a unit cost exercise for an outer London local authority at present. Deloitte for the Department for Education (DfE) did a similar exercise and something quite similar has also happened in Birmingham.

It is our opinion at the Family and Childcare Trust that funding for the two-year-old offer is inadequate. It is about £5.23 in London. It is a flat rate for the two-year-old offer with an area cost adjustment. For three-and-four-year-olds, you do not have a flat rate. It is historical precedent. Camden, for example, gets over £9 an hour to deliver free early education for three-and-four-year-olds and, at the other end of the spectrum, Richmond and Barking and Dagenham get far less. The funding review aims to sort out those inequities.

There are providers that are making things work at the moment within their current levels of funding and business models. As I said earlier, the sector is quite economically inefficient. In the last couple of the years, we have seen a growth in what we call 'regional chains', which could be five or six nurseries, a pre-school and an after-school club that operate in pretty much the same area. They can share back-office costs and they can deploy their bank staff to cover staff absences a bit more efficiently. There is quite a lot of scope for mergers, sharing of back-office costs and business collaboration between providers. Maybe the Greater London Authority (GLA) could catalyse that in some way. In Glasgow, for example, there was a project to build business collaboration between different types of childcare providers, not just for the under-fives, and that saved some back-office costs.

Coming back to the space issue, our rent, rates and mortgage repayments are much higher in London. The GLA could look at space issues. The Mayor owns public land: why not use decommissioned police stations as nurseries, for example?

Stephen Knight AM (Deputy Chair): Would you say that the rent increases have driven inflation in childcare costs in London? I am told that we have seen childcare costs increasing far greater than the rate of inflation with 69% compared with 29%. I am not quite sure what period that covers. We have certainly seen childcare costs in London go up at a rate faster than consumer prices, but maybe that is driven by rental increases.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): We do an annual childcare costs survey. I am just scrunching this year's figures, to be launched in February, at the moment and I can safely say that we have had an increase in London well above the rate of inflation. London and the southeast are pulling away from the rest of the country.

One of the drivers is, obviously, higher staff costs in London. Comparatively few London providers are paying less than £7.20 an hour, which is good in a way because they will not be affected by the new National Living Wage. Also, our rent and rates are higher in London as well and that is quite a significant driver.

Stephen Knight AM (Deputy Chair): Shannon, perhaps you can comment on this issue. In particular, can you tell us what the typical real cost of providing a place for a two-year-old and, indeed, a three-to-four-year-old in London? Can you give us a flavour of that?

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): Yes. We have done research on that. This is national research and so it would not be London-specific. The cost for a three-or a four-year-old has changed now because of the National Living Wage, but it was £4.68 an hour that our analysis came out as, compared to --

Stephen Knight AM (Deputy Chair): That sounds cheap compared to what I have been paying.

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): Yes. This is the cost of delivery. With the Government's new rates that it has proposed for 30 hours, one of the issues was that the rates that it has given are average rates across the sectors again. When you break that down for PVI - and everything that I am saying refers to PVI - it would be about £4.27 and so there is a gap there.

Stephen Knight AM (Deputy Chair): That is a national figure?

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): This is nationally. This is not London-specific. The two-year-old figure is £6.19 an hour for cost of delivery compared to a Government PVI funding rate of £5.39. You can see that there is a gap in terms of cost of delivery versus the funding rate and that is why maybe the --

Stephen Knight AM (Deputy Chair): We would expect, presumably, that gap to be much bigger in London given the higher costs.

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): Exactly. On the point that Jill [Rutter] made about staffing costs, staffing costs account for 70%-plus of business costs for providers. When you have high staffing costs in London, the overall business costs are going to rise. We also have this push at the moment in the sector for a better-qualified sector. We want as many qualified staff of [National Vocational Qualification] Level 3 or above and more graduate-level provision, which is great, but if you are then having to pay much higher rates your overall business costs will increase significantly. It is that balance between making your business sustainable and affordable and also offering the best quality that you can for young children. That does have a real impact.

The point to make would be that business costs are rising quite steadily and you have things like pension contributions and National Insurance contributions as well, whereas funding rates are staying really quite flat. When I looked at the benchmarking data from the DfE, there were 12 local authorities in London between 2014/15 and 2015/16 where the average rate of funding had actually declined. You can imagine for providers what that means in terms of a real-term drop. If funding rates are not increasing along with inflation, essentially providers are experiencing a real-term drop anyway. If local authorities then decrease the rates, it is going to be extremely severe. The issue is - and I am sure my local authority colleagues will say - that if the

money from central Government is not coming into local authorities, there is not that much they can do in terms of making sure that their rate increases to match the increased costs of delivery. It is a real challenge.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): The single point of entry to primary school reception classes, which has come in in the last two years, has put financial challenges on some providers. Suddenly in July/August you lose all of your four-year-old children because they have all gone off to primary school and so you have lots of vacant, unfilled places throughout the autumn. That has driven higher costs.

The 30-hour extension will also put financial pressures on providers because it eats into their capacity to cross-subsidise loss-making free early education.

Stephen Knight AM (Deputy Chair): The Government suggested that one way that providers can save money is by changing the staffing ratios, the mix of employees used at different times of the day, etc. How realistic is that and is --

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): Unrealistic. That would be the quick word. To elaborate on that slightly, I would say that the cost of funding review that they published acknowledges this saying that that the reason that providers do that is a quality measure and they do not want to be working to maximum ratios. We were a bit baffled by the suggestion that for many years the sector has been underfunded and providers have complained that they are really struggling to get on and it is because they have not realised that they can work to these ratios. Providers well know that they can work to maximum ratios. They choose not to because they do need a bit of slack if something happens.

In terms of three-to-four ratios, where you have a graduate-led provision, it is 1:13 and it is 1:8 if it is non-graduate-led. There was a parents survey that the DfE did - it was the most recent one but I think it might have been 2013 or 2014 - where 59% of parents said that they did not like the idea of having a 1:13 ratio and they felt that it was too high, which I think most people would agree with. It is unrealistic, yes.

Kit Malthouse AM MP: I am just slightly confused. The very significant subsidy for childcare at the moment and the significant increase that is coming is a good thing, right?

All right. I just wanted to establish that. I think we are getting trapped into a conversation about something that seemed to be a disaster when, actually, it is a good thing. We are talking about making a good thing better.

Claire Schofield (Director of Membership, Policy and Communications, NDNA): We are talking about making a good thing work. Our members would say that 30 hours free childcare and more help for more parents is a good thing and certainly they have seen recent initiatives, like the ones you have been involved in and the two-year-old offer, making a real difference for children. There are some fantastic success stories also with the families being able to move into work and the initiative is really working. The principle is all good.

It is how we make it work in practice and there are a whole lot of things to do to sort that out, to make it viable and to make it work.

Kit Malthouse AM MP: Fine. I understand that. It was just Jill's last contribution about how going to 30 hours is going to put significant strain and cause problems and all the rest of it. You were talking as if you would rather it did not happen --

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): On some of them.

Kit Malthouse AM MP: -- whereas, in fact, we would all rather it would go to 30 hours and we just have to work out how to make it work best. Yes? Good. I just wanted to get that right.

Stephen Knight AM (Deputy Chair): My concern is that we are struggling to meet the current commitment and it seems that announcing that you are going to double it without putting the resources in is not necessarily going to deliver it.

Kit Malthouse AM MP: Would you rather that they did not announce that they were going to do this?

Stephen Knight AM (Deputy Chair): No, I absolutely want them to announce it, but I want them to resource it properly so that they actually deliver it. Anyway, we should not be --

Fiona Twycross AM (Chair): Can we stick to questioning the panel rather than each other?

Stephen Knight AM (Deputy Chair): Yes, absolutely. I was going to ask about the National Living Wage but Jill has mentioned that in London at least people are --

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): We have some research coming out in March that tracks wage levels according to Office for Standards in Education, Children's Services and Skills (Ofsted) grades regionally. Your 'good' and 'outstanding' providers in London are paying above the National Living Wage. The impact in London of the National Living Wage will be insignificant. We are more concerned about making the 30 hours work at the moment.

Stephen Knight AM (Deputy Chair): I understand. Can I just bring Claire in as well on these issues? In terms of the funding being sufficient, we have talked about providers - or at least the best ones - are already meeting the new higher National Living Wage. Are any providers paying the London Living Wage? Does anyone know?

Claire Schofield (Director of Membership, Policy and Communications, NDNA): It is fairly limited. There will be a few exceptional providers that have opted in and are paying it. We put this question to our London members in advance of this session and their senior staff will be above the London Living Wage, but certainly for junior staff to move towards that will be an issue. They are not there.

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): A key point in terms of talking about the National Living Wage and the London Living Wage is the need to maintain those wage differentials between junior and senior members of staff. If a nursery or a pre-school was paying below the National Living Wage and needed to change to move up, it is not the case that everybody is then on £7.20. They need to maintain it and so there are additional costs.

I also wanted to make the point that the National Living Wage comes in before this additional funding that the Government has promised the sector and so there is a gap. It said, "With this new funding, the National Living Wage will be covered with no problem", but they do not actually come in at the same time. In the interim--

Stephen Knight AM (Deputy Chair): Can I ask both Claire and Shannon? Are there any providers that you are aware of that are able to provide the 15 hours free-of-charge without any top-up charges at all on what they are given by their local authority?

Claire Schofield (Director of Membership, Policy and Communications, NDNA): Our members are full day-care providers and so their model is 52 weeks a year of full day-care. They will be able to provide --

Stephen Knight AM (Deputy Chair): Sure, but their hourly rate, presumably, is normally significantly higher than the --

Claire Schofield (Director of Membership, Policy and Communications, NDNA): Yes, exactly, because of the need to cross-subsidise, they typically will have parents who are buying additional hours. That is the real reservation and the fear about 30 hours. It is the same amount of hours provided for each parent but you get a rate that does not cover your costs anymore for more of the hours and so it does not add up.

Stephen Knight AM (Deputy Chair): Do you think a lot of your members will simply opt out of the system?

Claire Schofield (Director of Membership, Policy and Communications, NDNA): Again, in terms of opting out, I would say that we are seeing more anxiety and uncertainty about to what extent they will get involved and whether they will want to stick with a 15-hour offer, which is very challenging for local authorities and for parents. You want to be able to say to any parent, "You can have your universal entitlement where you want to". That is the way the system has worked, but potentially we can see some providers saying, "We cannot go there. We are going to do only 15 hours here". In terms of how that works locally, it will be very interesting to see how that works out. Some providers will offer a limited number of 15-hour places for two-year-olds and for a certain number of three-and-four-year-olds. In practice, they will have to make sure that they have enough parents who are buying additional hours to balance the books.

Just to expand on Jill's [Rutter] points about the variation in the funding rates, looking at the evidence from the reporting that local authorities do to the DfE for its early years benchmarking tool, the rates that are reported as base rates going to PVI providers in London vary from £2.40 an hour to £6.00 and so the variation is huge. To provide quality childcare for £2.40 an hour --

Stephen Knight AM (Deputy Chair): Who is paying £2.40 an hour?

Claire Schofield (Director of Membership, Policy and Communications, NDNA): I will have to look it up. I knew you were going to that but I will have to look it up.

Stephen Knight AM (Deputy Chair): I have to say that I had thought of my own borough as the lowest. I had been told that and that is currently £3.60 an hour.

Claire Schofield (Director of Membership, Policy and Communications, NDNA): I can check now for the third quarter.

Stephen Knight AM (Deputy Chair): If there is someone paying £2.40, I would be interested.

Claire Schofield (Director of Membership, Policy and Communications, NDNA): This is what is reported on the DfE benchmarking tool.

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): We need some caution in terms of how that data is produced.

Claire Schofield (Director of Membership, Policy and Communications, NDNA): Yes, but that is what they reported. It is Harrow according to the early years benchmarking tool.

Penny Kenway (Head of Early Years and Childcare, LB Islington): There is no consistency in the way local authorities report and so that data is quite questionable, really. I know it is reported like that but --

Claire Schofield (Director of Membership, Policy and Communications, NDNA): The point is that there is massive variation for what is meant to be the same model.

Stephen Knight AM (Deputy Chair): Thank you very much. Can I turn now to our local authority members? With the school nursery classes that currently do provide 15 hours without any top-up fees, how is it that schools or local authorities are able to fund that within their own provision and within the resources available without charging top-up fees but in the PVI sector it is not viable? Are you dramatically more efficient or --

Penny Kenway (Head of Early Years and Childcare, LB Islington): There are economies of scale. They are more efficient. They are larger. They can take more children, often. All of those things contribute to it.

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): They can absorb costs throughout. If you have 600 pupils in a primary school, you can absorb some of them and be flexible about how you do it.

Penny Kenway (Head of Early Years and Childcare, LB Islington): We also can offer 15 hours through our maintained nurseries, which are run through the children's centres and a couple of other places, and our voluntary sector. That is partly because, as I said before, we have a subsidy for childcare. Some of those parents are buying additional hours. We also have some economies of scale there.

We are not making a profit. That is another thing. I know that some in the private sector find it hard, but nevertheless we are not there to make a profit at all. It can be done, but I absolutely appreciate that, when you think about it, the voluntary sector does not pay rates and the private sector has to meet business rates. Schools and some of our own nurseries tend to be larger. There are all sorts of things that offset each other, which means --

Stephen Knight AM (Deputy Chair): They do not have rents *per se*. Rent is --

Penny Kenway (Head of Early Years and Childcare, LB Islington): Yes, schools and our own nurseries do not really have a rent. There is one, sort of, but it is a peppercorn [rent] type of thing.

Stephen Knight AM (Deputy Chair): I do not know if that 48% was a London figure.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): It is a London-wide figure, yes.

Stephen Knight AM (Deputy Chair): That is a London figure. In a sense, the sector is providing a minority - 48% - of places for three-and-four-year-olds is dramatically more efficient than the sector that is providing a majority. Does that not tell us something about the model in which we are providing childcare?

Penny Kenway (Head of Early Years and Childcare, LB Islington): Yes, it does.

Stephen Knight AM (Deputy Chair): Jill, do you want to come in? You sit outside of the --

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): We represent parents. It is a flawed system but there is nothing that we can do to turn the clock back. We do not have a time machine. We have a flawed system. If we expand our state sector, we risk undercutting our private providers, which is exactly what has happened in Scotland. We have big shortages of childcare with parents unable to find any free place. It is a really complex issue, managing this complex mixed market.

However, the current Government is going in the right direction by trying to make the state provision more flexible and expanding the offer to 30 hours. That is something that is going in the right direction. We have an innovation where some schools - academies, free schools and even maintained primary schools - are now running attached nurseries as social enterprises. They are not making a profit. They are using the expertise of a head teacher and are running a business with a smooth transition of children from, essentially, a private or not-for-profit nursery into the school. Encouraging more flexibility in the state sector is where we need to go at present and making the 30-hour offer work.

Kit Malthouse AM MP: Could you just expand a little? You talked about Scotland. Could you just expand a little on what they tried to do and what happened?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): In Scotland, they have a much greater proportion of free early education places in the state sector, which does not have some of the costs of the private sector. They have free rents. They have equipment and facilities. That state provision has undercut the private and voluntary sector in Scotland and has made parts of Scotland very difficult places for private providers to operate.

Claire Schofield (Director of Membership, Policy and Communications, NDNA): I would just add to that because we have members in Scotland. In Scotland, parents cannot choose where to take their early-years entitlement. They are allocated a place, a bit like the school system, by their Council.

One of the issues that is now emerging in Scotland - because they are also trying to expand their childcare hugely - is that they do not have enough places to go around. Funding is rationed and parents cannot choose where their child goes, which is causing real problems with flexible childcare because the state provision is very much in term time with shorter hours, generally. It has come from a different place but exactly the same kinds of things are emerging in terms of how we provide flexible childcare to meet parents' needs and to enable them to work and so on.

Kit Malthouse AM MP: Is it the case under the Scottish model from what you are saying that people are reluctant to start private nurseries that could be in receipt of subsidy because they are, basically, undercut?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): There is less private provision because there is more state provision, which can run at a lower unit cost. It is not attractive. Very few of the big chains operate in Scotland outside the posh parts of Edinburgh and Glasgow.

Fiona Twycross AM (Chair): Can we come back to London?

Kit Malthouse AM MP: It was just that I was interested in comparison.

Fiona Twycross AM (Chair): It is an interesting point but it is worth getting back to --

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): You have this tension around offering more provision in the state sector. You do not want to drive private providers out of business because then parents will not have any childcare.

Murad Qureshi AM: Sometimes the state is more efficient in doing things.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): The state is more efficient, yes.

Murad Qureshi AM: True. That is often the case, actually.

Kit Malthouse AM MP: No, hold on. The state is cheaper.

Fiona Twycross AM (Chair): Let us not get into more political arguments. Murad, do you have a question in relation to --

Kit Malthouse AM MP: It is cheaper, not necessarily more efficient. It is efficiency.

Murad Qureshi AM: I was not going to ask for a comparison, but actually the only comparison I would like to know is if there are any useful European comparisons if we are going to get Scotland because I think there are some useful models in the northern [Europe].

Kit Malthouse AM MP: Efficiency implies quality of outcome and that is not necessarily the case.

Fiona Twycross AM (Chair): If there is an example from overseas that can be provided --

Dr Onkar Sahota AM: -- weave it into the next replies.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): Norway is an interesting example because its state subsidies for childcare go pretty much exclusively to providers, 50% of whom are private and 50% state. The private and state providers have to meet quality criteria in order to get the state subsidies. In Britain, we give money to parents through tax credits, vouchers and this new tax-free childcare scheme and also to providers. Parental subsidies have the capacity to be inflationary and do not always drive up quality.

One of the things we have not talked about is the quality gap in London. There is a tail end of low-quality, inefficient provision in London, which is more likely to be used by poorer families and families from minority ethnic groups and children do not get the same benefits. How we drive up quality in London is a real issue as well that we do not debate nearly enough.

Fiona Twycross AM (Chair): Thank you for that. That was an interesting point. Onkar, shall we move on to your question? Some of it has already been covered in this session.

Dr Onkar Sahota AM: Certainly. Some of it has already been covered. This is one of the problems that one has with a range of politicians along one side of the table talking about issues. Anyway, just to kick off, I am looking at this section about the implications of the extension of the childcare commitment and the effects that will have on councils and also on providers in London.

My first question, Jill, is just to start you off: how many children do you estimate will benefit from the extension to 30 hours of free childcare?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): The extension will apply only to working parents who are working 16 hours at the equivalent of the National Minimum Wage. At the moment, about 58% of mothers of three-year-olds are working in London and so it will apply to them. It is difficult to predict how many more - it is largely mothers who will go back to work - because of the offer, but it is likely to be in the thousands. The offer is also coming in in the same year as increased support through Universal Credit and the new tax-free childcare scheme. In 2017, there will be a significant boost in the support that you will get for your childcare. We are talking about thousands more here. It is difficult to predict parents' behaviour but there will be an extra demand for places, in our opinion.

Dr Onkar Sahota AM: Do any of you have any idea of what the uptake will be for people with children and parents? Who aren't using the provision currently, but will come into taking on the provision once the 30 hours are available? Do you have any idea about that?

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): The Government says that on average parents take up 18 hours a week at the moment. Obviously, there is a very high take-up of the 15 hours. On average it is 18 hours.

In terms of how many people are going to be eligible, there has been a bit of confusion about this and we have tried to get from the DfE on a national scale a bit of clarity because the eligibility criteria changed recently. Initially, it said that about 600,000 families would be eligible. When it changed the eligibility criteria, the Government said that 390,000 families would be eligible and it also said that the number of families that would be eligible had reduced by only 50,000, which does not quite add up. There is a lot of confusion, basically, about that.

Dr Onkar Sahota AM: Can you explain it to me? What was the change? I am not --

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): Before it was saying that parents working for the equivalent of the National Minimum Wage or Living Wage - depending on if they were over 25 or under 25 - for eight hours a week would get it. That was the original eligibility criteria. It changed to 16 hours a week on the bottom end and so that increased. Also, if a parent earned over £100,000 a year on the top end, they were now excluded from it. From the [Pre-school Learning] Alliance's point of view, we appreciate that £100,000. We do think that if you have limited resources it makes sense to target it at the families who need it most.

However, we are very concerned that moving the eligibility criteria from the equivalent of eight hours - it is about earnings, not hours worked - to 16 hours is going to exclude that a lot of people who thought they might be eligible. For example, if someone is working the equivalent of 15 hours a week at the Minimum Wage and is also going to evening classes because they want to get back into the workforce for another few hours of the week, they are not eligible for it because it does not include education and training at the moment. I would make the point that the Childcare Bill is still going through and that is a point that is being argued about this eligibility. The idea is that the eligibility criteria will be in the secondary legislation and not in the body of the Bill and so, again, that could change.

In terms of things like the pilots and London preparing, one of the problems we have is that the uptake is really unclear at the moment. It is really unclear how many parents will take it up and who will even be eligible for it if that does change.

Dr Onkar Sahota AM: Does this extension create any specific problems for London or does it make any problems already existing even worse?

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): It depends if the provider is offering sessional care or full-day care. For example, one of our managers from Bexley has children that come in the morning for three hours and then a separate set of children that comes in in the afternoon for three hours. If they are now having to provide full-day care, they have no spaces because they cannot have both at the same time. They do not have the space. If you have people that are offering that kind of structure, the issue is going to be capacity.

On the other end, if you have parents who are taking up a full day and are taking up 30 hours a week already, 15 hours are free and then they pay for the additional 15 hours. The issue then for the provider is that if the amount the Government is paying them for those additional 15 hours is not what those parents have paid them, they suddenly have a shortfall in funding that they have to make up. Again, it is that issue of cross-subsidy. If the ability to charge that bit extra to make up for the fact that funding has been historically insufficient suddenly goes and if the Government does not make sure that the figure is enough, they are really facing a problem. Where do they claw back that money from? It could be younger children or it could be their baby provision. It starts to become very tight.

What we are saying, as was pointed out, is that we are trying to look at ways to make this work. It is not that we want to be negative about the scheme. People have written in to me or to the Alliance saying:

"We cannot increase fees any more, but we are frequently asked to pay staff a living wage and fund workplace pensions and just cannot afford to."

We had one [response] when I emailed out:

"The 30-hour offer would cripple me, taking into account the hourly rates stated by the Government. It would not cover the fees required to provide the learning and care we provide. I would seriously consider throwing in the towel."

That was from someone in Bromley. From someone in Bexley:

"Our overheads are high enough as they are. Introducing more free hours and 15 hours free childcare would be catastrophic to many small independent providers like myself, who are just trying to give the local community a high level of service for the next generation."

When we are warning about this, it is not hyperbole. It is not to say, "We have this positive-in-theory scheme and the sector is being negative about it". This is what we are getting from our members. It is, "We would love to provide it and we would love to be able to pay our staff a living wage and we would love to be able to pay our staff the London Living Wage, but we cannot afford it with the money that is coming in". It really does need to be addressed quite urgently.

Dr Onkar Sahota AM: Some providers will 'throw in the towel', in your words?

Shannon Hawthorne (Press and Public Affairs Director, Pre-school Learning Alliance): This is what we are seeing now. One of the points that has been made by the Government is that [the free entitlement offer] went from 12.5 hours to 15 hours and everybody complained but they did it. It went beyond to a two-year-old offer, but they did it. If we just do it again, it will work somehow. However, as has been raised, the

issue of cross-subsidy has always been the thing that has been the saving grace. If you have 15 hours free and parents take up on average, say, 18 hours, there is that little bit of manoeuvring and some will take up more. Once you start offering 30 hours, that is completely gone and that is what has been relied on very heavily to date. That is why there are some providers that will have no choice.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): Conversely, we have seen new entrants to the day-care market in London.

My concern about providers is around childminders. London has proportionately fewer childminders per head of child population than the rest of the country and we have local authorities like Kensington and Chelsea with only 51 childminders. We have seen a 9% decline in childminder numbers. Childminders will be needed to make the 30-hour offer work, but they are also needed for commuting parents and parents with atypical work patterns. Traditionally, childminders are a bit more flexible than nurseries and they can care for a child up until 7.00 pm if mum or dad is working late. The caring issue for parents with atypical work patterns is a real issue in London because few of us live near grandparents who can provide that flexible one-off care. We need to be concerned about childminders in London.

Kit Malthouse AM MP: When you talk about childminders, are you talking about Ofsted-registered childminders in decline?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): Yes.

Kit Malthouse AM MP: Has there been a consequent growth in non-registered childcare? Where we are, there is a big market in *au pairs* and nannies who will pick up at 3.00pm and look after the kids until mum or dad gets home. If you go on Gumtree or whatever, there are thousands of people advertising their services to do those kinds of things. They might not be Ofsted-registered but they are Criminal Records Bureau (now the Disclosure and Barring Service) checked. They are very often trained. They will have qualifications. Are they taking up the slack?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): Nanny use is much higher in London and in the southeast than in the rest of the country. About 8% of families in London are using nannies and *au pairs*, some of whom are registered with Ofsted and that means that parents can claim tax credits if they want to. If you have one child, it is horrendously expensive to employ a nanny. If you have three children, it is often more economical to use a nanny than to send your child to nursery, although lots of parents want their children to go to nurseries because of the group interaction and learning. We do have higher use of nannies. However, if you do not have a spare room, it is often quite difficult to employ a nanny. If you have only one child under five, it is horrendously expensive.

Kit Malthouse AM MP: Yes.

Dr Onkar Sahota AM: Given that parents do want 30 hours or want more provision and that this is creating problems for providers, is there any model that can co-exist? Can we think of a new model with which we can provide the provision but still make this thing viable for the providers?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): Make sure that funding is sufficient. Nurture your childminders. See if we can use public buildings to get over some of these space issues. They are three effective things.

The Government has offered £50 million in capital funding to make the three-and-four-year-old offer work, but that figure is quite derisory. It will not --

Dr Onkar Sahota AM: This is for the whole country?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): Yes, this is for the whole country. It works out at just over £3,000 per provider. For the two-year-old offer, London did manage to secure some extra funding. The Mayor could go and visit the DfE and put the case for some extra capital funding for providers that do wish to expand.

Claire Schofield (Director of Membership, Policy and Communications, NDNA): Also, in terms of what could happen to support business costs, we heard about business rates. Particularly in London, those are a major burden. You are talking about tens of thousands of pounds for small businesses a year. Is there anything that could be done to help with relief on business rates particularly, maybe linked in with planning as well?

We hear a lot about objections. Providers want to expand and there is demand, but with planning objections the whole thing grinds to a halt.

Two areas to provide some practical support would be what could be done to alleviate business rates for childcare providers in London and also what else can be done to speed up planning processes and overcome some of the issues around objections where there is demand.

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): Use section 106 planning agreements when you have new housing developments. The Mayor of Newham [Sir Robin Wales] required the developers of the Westfield shopping centre to have some nursery space in that shopping centre by using a section 106 agreement.

Dr Onkar Sahota AM: That is a smart way--

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): Very smart, yes.

Fiona Twycross AM (Chair): Murad, do you want to move on to your questions?

Murad Qureshi AM: Yes. We have already gone into this area. Thank you, Onkar, for the leading the guests and experts into this area.

Let me just ask it more openly of our local authority experts. What kind of spare physical capacity exists already within the London childcare sector to take on this move from 15 hours to 30 hours?

Penny Kenway (Head of Early Years and Childcare, LB Islington): Relatively little, actually, if I am talking about where Islington is. We do have some spare capacity for three-year-olds. On occupancy levels, our data from the autumn term shows that we have some spare capacity, but that is because we are undergoing a little bit of a fluctuation in terms of population.

Generally, in terms of the three-and-four-year-olds and the 30-hour offer, there will be a lot of our families in the private sector who will be eligible and who will already have 30 hours if that is what they need because they are buying it at the moment and so it will be more of a swap in funding.

It will have more of an impact in supporting parents back to work. As Stephen [Knight AM] said at the beginning, 15 hours is not really very useful but 30 hours is. Of course, there is an awful lot of pressure on parents now to get themselves ready to go back to work by the time their child is five. Therefore, we could see that expand.

We also have the issue that two-year-olds who are coming in as funded two-year-olds very largely will not be eligible unless parents go back to work or up the number of hours that they are working. That might actually be a positive thing because it might help them, but then we are going to see a squeeze because, at the moment, we have part-time funded two-year-old places and those children will then quite possibly become 30-hour funded three-year-old places. There is going to have to be some expansion. In Islington, we are lucky because we have a lot of fulltime nursery education in primary schools and so we might be able to manage it that way, but there is going to be a squeeze.

Murad Qureshi AM: Much of what happens in Islington can be replicated for the rest of central and inner London, presumably?

Penny Kenway (Head of Early Years and Childcare, LB Islington): I would think so, particularly inner London boroughs. Camden is very similar to us, in particular.

Murad Qureshi AM: One of the advantages of central and inner London is that proximity to other local authorities. Are local authorities getting together to assist?

Penny Kenway (Head of Early Years and Childcare, LB Islington): Around the 30 hours?

Murad Qureshi AM: Yes.

Penny Kenway (Head of Early Years and Childcare, LB Islington): I am sure that they will do. It is all very new at the moment and of course the Government has not even announced who the pilot boroughs are. We have put in to be a pilot borough, but actually not a lot of inner London has put in to be a pilot borough. It is us and Tower Hamlets and Haringey.

Murad Qureshi AM: I just said that because I have a niece who gets 15 hours. She and her mother are residents of the City of Westminster and she is going to the Royal Borough of Kensington and Chelsea next door. That makes a lot of sense to me given that there are hardly any children in the Royal Borough. That is the kind of movement that you are going to have to do.

Penny Kenway (Head of Early Years and Childcare, LB Islington): Yes, I would agree. If we get the pilot, part of what we will do is to work with our neighbouring boroughs to see how it works because there are always a lot of cross-border children moving from one borough to another. That is what happens in London.

Murad Qureshi AM: Yes, of course, indeed, but that is in inner London. In outer London, is there less scope to do that or is there more space?

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): There is broadly similar scope. There will be a cohort of parents, as you have said, who are already accessing 50 hours a week. This will be music to their ears. They will get 30 hours a week free. They will see a reduction in their bills. That might represent 20% or 30% of those eligible families already. Those people are already in the provision. For those families, this is a quick win. They are in the services, they are taking up 50 hours and,

instead of getting 15 hours, they will get 30. It is working out the cohort and how many of your families will fall into that category.

Then it is the other category of children and space. We will be challenged for space, but it will be about working with the sector, about innovation, about partnership and about looking at available spaces, wraparound services and childminding networks.

As you have said, mostly, we do just get on with it. The biggest issue will be funding. What we may see is a change in provider base because, when you have those small providers that will struggle if it is going to be just a 15-hour offer or a 30-hour offer, parents will vote with their feet. It may result in some of those smaller providers closing. However, our experience is quite often that other players will come into the market and the private sector possibly would pick up some of the flexibility around that.

Murad Qureshi AM: Local authorities have an advantage insofar as you can spread the overheads whether it is the business rates, the rent or the personnel cost that is undoubtedly required.

Let us go to the private sector now. To what extent are you physically limited in your expansion onsite in inner London?

Claire Schofield (Director of Membership, Policy and Communications, NDNA): Yes, in London there are physical limitations and also a lot of nurseries are very full. Occupancy tends to be higher than elsewhere in the country and so there are capacity squeezes. That is why we have seen, in a sense, the behaviour where people have done things like limit two-year-old places because they have not needed to get involved in that initiative to the same extent maybe as elsewhere.

Again, it comes back down to funding. We have talked about profit, but these are mostly small private businesses that have invested their mortgages or their life savings in setting up and running a nursery. For them to take the risk of expanding on the back of this there has to be a viable funding rate for it to be worthwhile. The funding rate that you get per hour per child is critical to presenting a case to your bank manager.

The other thing also is what can be done, as Jill [Rutter] said, in terms of capital funding to support people with the initial set-up costs. If they have the potential to expand a room or to build on or something like that so that they can expand, then where does the capital support come for that as well?

We did some work with Netmums [parenting website] when the initiative was first announced and certainly had very clear indications that parents would be more likely to move back into work and to work more hours. It is early days but, as it is established, you can see demand definitely increasing because people who are working a few hours and topping up with help from family and friends at around 15 hours will now think, "Hang on. I have 30 hours free and so I do not need to get someone to help me get to the end of my working day over and above the 15 hours. I will use the nursery", or, "I will use the childminder". Again, the demand is going to come. It is a question of what can we do to enable providers in the private and voluntary sector to respond to that demand.

Murad Qureshi AM: Also, with the local authority predominantly in schools, school buildings and what have you, do you have provision in business estates like the More London estate that we are in at the moment? Are businesses providing space for nurseries? Presumably it would be in their interests to help their employees come back to work if they have a nursery provision at the place of work as much as local schools.

Claire Schofield (Director of Membership, Policy and Communications, NDNA): Yes, absolutely, and that is happening. Again, it would be something to explore in terms of how employers can see this as part of their responsibility and what they can do to support childcare provision. Again, as we talked about, we fully support the idea of new developments having requirements on them to provide facilities for childcare.

Murad Qureshi AM: My only concern about that is that they, as you have suggested, tend to price other people out though, do they not? It is a bit like a posh restaurant: the way they keep the plebs out is make sure the prices are high enough.

Claire Schofield (Director of Membership, Policy and Communications, NDNA): For nurseries, fundamentally, it is about the quality. Quite honestly, the two-year-old initiative is a great initiative. From members who are involved – and most of them are involved, I have to say; it is not that the private does not take two-year-olds; most of our members are providing two-year-old places – we know that they see how it is really making a difference.

However, quite honestly, if you want to make a difference and do the right thing by those children, you do not necessarily say, “I will take a lot more children than I can cope with and do it on a shoestring”. You want to have well-qualified staff that you can train and develop and you want to be able to have those good interactions with parents and support them and you do not want to be doing it in a substandard way. That is what it is about.

Murad Qureshi AM: Are the big residential developments making space for nurseries?

Jill Rutter (Head of Policy and Research, Family and Childcare Trust): Not always.

Murad Qureshi AM: OK, I am coming to you, Jill. You will have the last word.

Claire Schofield (Director of Membership, Policy and Communications, NDNA): I do not have feedback on that particular aspect.

Murad Qureshi AM: You do not overall in that context. Shannon, do you have anything to say?

Shannon Hawthorne (Press and Public Affairs Director, the Pre-school Learning Alliance): Yes. I was going to say on the capital funding issue that one of the concerns that we have is that PVI is represented because there seemed to be a lot of implication that it was going to be directed towards the maintained sector a lot. When the Conservative manifesto [for the 2015 General Election] announced the 30 hours initially it talked about capital funding for schools and the Local Government Association (LGA) recently said that the announcement of at least £50 million capital funds is welcome, particularly now that councils have the freedom to invest in extending provision in maintained schools. Our concern would be to make sure that the PVI sector does have that investment.

We would also make the point that physical capacity is vital but, obviously, if you are taking more children, if you do get a plug of funding for capital and if you do manage to expand your space, you will need to make sure you have the staff to keep your ratios as well and to hire more staff. Staff costs are such big part of the business costs that, as Claire [Schofield] said, it comes back to the funding. I know it sounds like it just all comes around to, “We need more money, we need more money”, but if the funding is not there, the point that we always make is there needs to be a mechanism that means that if the funding is sufficient this year it is still sufficient in five years’ time. This year there is a consultation about a national funding formula and we would really want to see in that some kind of mechanism inbuilt to make sure that going forward our funding

continues to cover business costs and is not a one-off kind of burst of money that once inflation kicks in does not mean anything. That would be our view.

Murad Qureshi AM: As a rule of thumb, how much space does a nursery need?

Shannon Hawthorne (Press and Public Affairs Director, the Pre-school Learning Alliance): It completely differs. From the feedback that we have from our members that we ask questions to, there are some providers who have 80 places and some people who have 12. It just completely differs and it differs from borough to borough as well as demographically and things like that.

Murad Qureshi AM: Penny, do you want to take this?

Penny Kenway (Head of Early Years and Childcare, LB Islington): Yes, I just wanted to say in terms of space that there is a square meterage that you have to have and it is embedded in the foundation stage framework. The other thing about it is that for nurseries, at least in London where we have looked at our nurseries, for them really to be viable and sustainable they need to have a 60-place nursery and that is quite a lot of space that is then needed. It is one of the tensions that we have a lot of small nurseries. Financially they are not terribly sustainable, but those are the buildings we have.

Stephen Knight AM (Deputy Chair): I wonder if we could just clarify from Allison and Penny [Kenway] because we talked about earlier the issue about going from 15 to 30 hours and a lot of nurseries currently taking a morning session and an afternoon session, talking particularly about the school-based nurseries. Clearly, £50 million is not going to pay for all of those school-based nurseries to be expanded. It would probably need £50 billion, not £50 million, for that.

What is going to happen? Essentially, are they going to carry on being 15-hour nurseries or are they going to halve in size? This was the dilemma that Jill [Rutter] put earlier. Are we going to see your 75% of four-to-five-year-old places halve because they are only going to be taking half as many children or are you going to somehow find the money to expand?

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): We have not actually tested the market yet because we are waiting for further guidance and further clarification about what this may look like, but my hunch is that actually very little will change. The majority of our nursery classes will continue to offer 15 hours and for those children that want to purchase the wraparound will get their other 15 hours. The majority of our schools will have either a partnership or a facility where they can go for those 15 hours.

Stephen Knight AM (Deputy Chair): In a school setting where parents are currently buying an extra 15 hours' wraparound --

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): They would just get that.

Stephen Knight AM (Deputy Chair): -- to cover the school day, it will be provided for free?

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): Yes.

Stephen Knight AM (Deputy Chair): That works where there is that --

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): In theory. It gets back to the point about whether or not it is 15 hours or 18 or whatever.

Stephen Knight AM (Deputy Chair): Yes. That works where schools have that wraparound facility in place, but what proportion of schools in London have that now?

Allison Jones (Service Manager, Early Years, Childcare and Children's Centres, LB Merton): Yes, that is what London needs to think about and it will differ for every local authority. We have already had our academies particularly looking at this in a little bit of an innovative, opportunist way and they are also starting to provide two-year places directly, whereas our maintained schools by the local authority are tending to hold back a little bit and see what will happen around the market. It is quite early days yet, although it may feel that we will be taking quite a slow process because there will be natural solutions within the market itself because the market will respond. Some of those families are already in provision and what we do not have is a sense of what the supply and demand may or may not be.

Fiona Twycross AM (Chair): OK. Thank you. If anybody has other points or comments or things that you think you did not get to add or that you think about afterwards, I wonder if you could email them in.

Thank you so much for all of your contributions. They are going to be invaluable for our investigation and please do send in additional comments if you have not had a chance to say everything that you would like to have said. Thank you very much.