

<b>Title:</b> CHILDCARE (FEES) REGULATIONS 2012 <b>IA No:</b> DfE: 0038  <b>Lead department or agency:</b> Department for Education  <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>			
	<b>Date:</b> 6 July 2012			
	<b>Stage:</b> Final			
	<b>Source of intervention:</b> Domestic			
	<b>Type of measure:</b> Secondary legislation			
	<b>Contact for enquiries:</b> Patrick Agius 020 7349 7339 or Jonathan Savage 0114 274 2126			

<b>Summary: Intervention and Options</b>	<b>RPC Opinion:</b> RPC Opinion Status
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Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£0m	£2.85m	£-0.33m	No
			NA

**What is the problem under consideration? Why is government intervention necessary?**

The Government, through regulations, sets fee levels for early years providers registered with Ofsted. DfE Ministers have decided to maintain the fees at current levels until August 2015. The resources to cover the costs are fully provided for within Ofsted's SR settlement. The current regulations include transitional arrangements for fee subsidies for some 8,200 'sessional' childcare providers. These transitional provisions will expire on 1 September 2012, unless we extend them by amending existing regulations. If they do expire, the annual cost for these 8,200 providers will increase from £50 to £220 per year per provider. A key concern is that the extra cost for these providers would either be passed on to parents or could lead to a reduction in quality of provision (eg, not being able to afford higher quality staff), a reduction in hours provided, or closure of provision (particularly in the most deprived areas).

**What are the policy objectives and the intended effects?**

A key policy aim is to ensure sufficiency of high quality childcare provision, particularly in the most deprived areas - there is a wealth of evidence that quality provision is synonymous with improved child outcomes. On 19 June, the Prime Minister established a Commission reduce regulatory costs to childcare providers and promote affordable childcare. Maintaining the subsidy is entirely consistent with the Commission's aims. Mandatory registration of early years providers helps to ensure provision in these settings is of good quality. The subsidy ensures registration does not become unaffordable for these 'sessional' providers. Thus, the subsidy reduces financial burdens on early years providers and helps to keep the costs of childcare as low as possible for parents.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

Option 1 – Do nothing  
 Option 2 (preferred option) – extend the existing subsidy for registration fees to the Ofsted-managed early years register until 31 August 2015 (the fee payment period runs from September to August to conform with the academic year).

**Will the policy be reviewed? It will/will not be reviewed. If applicable, set review date: Month/Year**

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b>		<b>Non-traded:</b>

***I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.***

Signed by the responsible Minister: Sarah Teather Date: 10 July 2012

# Summary: Analysis & Evidence

# Policy Option 1

Description:

## FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	High: 0	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	0.41	3.71

### Description and scale of key monetised costs by 'main affected groups'

Extending the existing subsidy until 31 August 2015 would be an annual cost to Ofsted relative to the baseline of letting the subsidy expire.

### Other key non-monetised costs by 'main affected groups'

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate			

### Description and scale of key monetised benefits by 'main affected groups'

Extending the existing subsidy until 31 August 2015 would benefit the existing 8,200 providers, saving them £170 per year each – a total annual saving to the sector of £1.39m per year over the time period covered by the extension.

### Other key non-monetised benefits by 'main affected groups'

Extending the subsidy avoids placing additional burdens on 'sessional' childcare providers at a time when many are already struggling financially, and avoids the risk that the additional cost may be passed on to parents who already face high childcare costs. This option also mitigates the risk that providers may choose not to re-register and cease to operate. This would result in a loss of tax revenues, and a reduction in childcare places, of which there is a shortage in many areas.

<b>Key assumptions/sensitivities/risks</b>	<b>Discount rate (%)</b>	3.5
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Maximum of 5 lines Assumption providers cannot absorb increased fee levels without detrimental impacts on price, availability and quality of childcare provision.

## BUSINESS ASSESSMENT (Option 1)

<b>Direct impact on business (Equivalent Annual) £m:</b>			<b>In scope of OIOO?</b>	<b>Measure qualifies as</b>
<b>Costs:</b> 0	<b>Benefits:</b> 0.33	<b>Net:</b> 0.33	No	NA

## Evidence Base (for summary sheets)

- Problem under consideration
- All childcare providers must be registered with Ofsted, which quality assures provision. The 2008 Childcare (Fees) Regulations SI 1804 prescribe all the fees payable to Ofsted by childcare providers registered under Part 3 of the Childcare Act 2006. They prescribe both the application fees for registration as a childcare provider, and annual fees thereafter for those who are so registered. Application fees and annual fees for those registered (on the Early years register, or EYR) are based on 3 “bands”:
  - Band 1: Childminders
  - Band 2: Other childcare providers (not childminders) below the operating time thresholds of Band 3 providers
  - Band 3: Other childcare providers (not childminders) which operate for at least 3 hours per day and at least 5 days per week and at least 45 weeks per year.
- The consultation entitled “Childcare Act 2006: Future Approach to Fees and Subsidies” set out proposals for EYR fee increases that would increase the contribution of EYR fee revenue to Ofsted’s costs of quality assuring early years settings. In its response to the consultation, the Government announced a phased increase in EYR fees over a 3 year period to 2010. The fees applicable from 1st September 2010 were £35 for Bands 1 and 2, and £220 for Band 3. The different fee rates exist to reflect the size of providers: Band 1 are individual childminders who can by law not look after more than 6 children in total; Band 2 are typically before and after school clubs or holiday play schemes; Band 3 are full time day care providers (typically private and voluntary sector nurseries). There have been no registration fee increases since 2010
- The Government recognised in its consultation response that, prior to the introduction of the EYR in September 2008, there existed a particular group of ‘sessional’ childcare providers. These were typically pre-schools and play schemes, and were not considered to be full time day care providers as they did not run for 4 or more hours a day. The fee rates set for these ‘sessional’ providers prior to September 2008 was similar to that for what is currently described as Band 2 providers. In September 2008, when they were registered on the EYR, those ‘sessional’ providers which operated for more than 3 hours but less than 4 hours per day were technically classed as Band 3 providers. However, recognising that for these ‘sessional’ providers the Band 3 fee rate represented a significantly increased fee (at 2008 prices, the fee would have risen from £30 per year to £200 per year), transitional provisions were included in the Fees regulations to allow them to enjoy a ‘discount’ from the Band 3 fee for a period of time. A reduced fee (which, from 2010, is £50 per year) was therefore set for these ‘sessional’ providers, where they provided childcare for between 3 and 4 hours a day. This ‘discount’ is due to expire on 1 September 2012.
- DfE Ministers have decided that levels should remain as they are for all providers until 2015. The purpose of the new Childcare (Fees) (Amendment) Regulations 2012 is to ensure that transitional arrangements for those sessional providers currently subject to them – ie, the ones for whom a £50 fee currently applies – is retained until 2015, thus ensuring that, like all other providers, they do not experience a rise in fees.
- The numbers of providers, based on Ofsted’s provider data for 2008 when numbers of sessional providers were last recorded, amounts to 8,200.
- There is evidence to suggest that many childcare providers are already struggling in the current economic climate. Only 28% of sessional providers made a profit in 2010, with 46% just breaking even and 20% making a loss. The proportion making a loss rose to 27% in the 30% most disadvantaged areas. Some providers have felt unable to pass on cost increases to parents in recent years, but childcare costs have tended to rise at above the rate of inflation over the last decade. International evidence suggests that childcare costs as a proportion of net family income are amongst the highest in the OECD. Around a quarter of parents found it difficult or very difficult to meet the costs of childcare in 2009, and this proportion is likely to have risen since the reduction of childcare support through Working Tax Credit in April 2011.
- Allowing the current regulations to lapse would further increase costs to childcare providers, which may in turn be passed on to parents. Some providers may choose to provide fewer hours to avoid

paying the increased fee or be forced to close, therefore reducing childcare availability. Sufficiency of childcare places is already a concern, with over half of LAs saying that parents reported a lack of childcare in the previous 12 months<sup>iii</sup>. This problem is likely to be concentrated in disadvantaged areas, where businesses are already more marginal and parents are less likely to be able to accept price rises.

- Removing the mandatory registration requirements for these providers is not an option. The regulatory framework is required for the safeguarding of children, and for setting quality standards. There is a wealth of evidence that quality provision is synonymous with improved child outcomes
- Rationale for intervention
- Government intervention is required to maintain the fee subsidy for the mandatory registration of 'sessional' childcare providers on the Ofsted-managed early years register to alleviate financial pressures on both providers and parents, in order to support the policy objectives of delivering a sufficient level of high quality affordable childcare.
- In addition, early years registration fees and subsidies are likely to be considered as part of wider work on affordability and regulation of childcare due to report in the Autumn to the Prime Minister. Any changes to the status quo run the risk of undermining or hindering any changes that this work might recommend.
- Policy objective
- To reduce burdens on businesses and ensure sufficient provision of high quality affordable childcare.
- Description of options considered
- Option 1 – Do nothing. Fees would rise when current regulations end on 31 August 2012.
- Option 2 (preferred option) – extend existing fees subsidy to end of spending review period in March 2015
- Monetised and non-monetised costs and benefits of each option (including administrative burden)
- Option 1 – Do Nothing. No additional costs or benefits
- Option 2 (preferred option) – extend existing fees subsidy to end of spending review period in 2015
  - Monetised Costs and Benefits
    - Costs
      - ◆ One off: None
      - ◆ Annual:
        - Monetised cost to government of extending the subsidy to sessional providers at £170 each, based on the 8,200 providers captured by the transitional provisions. This is £1.39m per year.
        - Costs are assumed to apply until 31 August 2015, and have been apportioned to calendar years accordingly. Only one quarter of the annual costs have been apportioned in 2012 and two thirds in 2015. Regulations covering September 2015 onwards will need to be reviewed (which is planned for January 2015), so we have made no assumptions that there are any costs relative to the baseline from that point onwards.
    - Benefits
      - ◆ One off: None
      - ◆ Annual: Monetised benefit of subsidy to 8,200 sessional providers at £170 each: £1.39m. These benefits are assumed to apply until August 2015, and have been apportioned to calendar years accordingly. Only one quarter of the annual benefits have been apportioned in 2012 and two thirds in 2015. Regulations covering September 2015 onwards will need to be reviewed, so we have made no assumptions that there are any benefits relative to the baseline from that point onwards.
  - Non-monetised Costs and Benefits

- Costs: none
- Benefits: extending the subsidy avoids placing additional burdens on childcare providers at a time when many are already struggling financially, and avoids the risk that the additional cost may be passed on to parents, who already face high childcare costs. This option also mitigates the risk that providers may choose to provide fewer hours to pay a lower fee or not to re-register and cease to operate. This would result in a loss of tax revenues, and a reduction in childcare places, of which there is a shortage in many areas.
- Rationale and evidence that justify the level of analysis used in the IA (proportionality approach)
  - This is a minor regulatory change intended to maintain the existing balance of inspection costs between government and providers. Direct costs and benefits are known and have been included; wider costs and benefits have not been quantified as the impacts are not clear (the policy has been like this since September 2008) and the costs of trying to estimate these impacts would be disproportionate for a minor regulatory change that is intended to maintain the current system.
  - Direct costs and benefits to business calculations (following OIOO methodology);

This policy only affects the level of fees paid by childcare providers and is not associated with an expansion or contraction in regulatory activity. It is therefore out of scope for One-In-One-Out purposes.