

Early Intervention and Prevention  
222 Upper Street  
London N1 1XR

Report of: Executive Member for Children, Young People and Families

Meeting of: Executive

Date: 18 May 2023

Ward(s): all

## Under 5s childcare fee increase consultation

### 1. Synopsis

- 1.1. This paper sets out the summary responses and draft council recommendations from the Under 5s childcare fee increase consultation which ran from 19 January to 9 March 2023. There were 192 responses to the consultation from parents and providers. The draft Under 5s childcare fee increase consultation report (Annex 1) summarises the consultation responses and our proposed adjustments to the proposed model.

### 2. Recommendations

- 2.1. To approve under 5s childcare fee increases with the following adjustments:
- Reduce the increase to fees for higher earning households from 8% down to 6% in year 1
  - Raise the household income threshold for a 6% increase in year 1 from £90K (band 9) to £100K and above (bands 10, 11 and non-subsidised/market)
  - Review increases in year 2 and 3 for household incomes above £100K depending on inflation, occupancy at council subsidised nurseries, and the financial implications of the new free childcare entitlements outlined in the spring budget 2023
- 2.2 To approve the consultation report to allow for implementation of the childcare fee increases in September 2023

## 3. Background

- 3.1. At Joint Board in December 2022, a range of options for childcare fee increases were presented. It was agreed to go out to consultation on the following proposed increases:
- Fees for households with incomes less than £90,000 (charging bands 1-8) will have a 0% increase in 2023-23; with a 2% increase in 2024-25 and 2025-26
  - Fees for households with incomes more than £90,000 (charging bands 9, 10 and 11 and non-subsidised/marketed) will be increased by 8% in 2023-24, 2024-25 and 2025-26
- 3.2. As a result of consultation and engagement responses from parents and providers, the consultation report recommends proceeding with the broad outline of the proposals with the adjustments as described at Section 2, Recommendations, above.

### 3.3 Rationale for recommendations

- **Reduce the increase to fees for higher earning households from 8% down to 6% in year 1; review % increase for year 2 and 3**

By reducing the fee increase in year 1, the council is acknowledging that while private nursery fees are on average 7% higher than the LBI marketed rate for babies and toddlers, there is a danger that the differential between the two sectors will be significantly reduced if fees in Islington nurseries are increased by 8% each year over 3 years. This could drive a significant number of families away from Islington nurseries to the private sector; just over one third (34%) of paying families at Islington subsidised nurseries are in Band 10+, which represents approximately £1.5 million revenue. Furthermore, by committing to review the increase for year 2 and 3, we are acknowledging that the national rates of inflation are unclear, but unlikely to be as high as 8% year on year. Reviewing in year 2 and 3 also enables us to understand and cost the implications of the government's new childcare funding announcements.

- **Raise the household income threshold for a 6% increase in year 1 from £90K to £100K**

Responses to the consultation are that the impact of higher fees on Band 9 (£90-£100K) families could be considerable, reducing the number of hours they could afford to pay or having to leave the workforce altogether. However, only 3% of families paying for places in 2022 were income assessed at band 9. There will, therefore, be a relatively small financial impact for the council on raising the threshold for the higher fee increases to £100K and above, band 10, 11 and non-subsidised/marketed. We, therefore, recommend that this is a fair and reasonable adjustment to the proposed fee increases.

## 4. Implications

### 4.1. Financial Implications

Each September the Council’s standard policy is to increase childcare fees by 2%, delivering a saving of £100k against the childcare subsidy budget. This has been built into the Council’s MTFS for 2023/24. Five twelfths (£42k) of this saving have already been delivered in 2023/24 from the increase in September 2022, with the remaining seven twelfths (£58k) to be delivered this year. The proposal consulted on would have increased this saving to £634k over 4 years.

Changing the threshold of higher rate increases from Band 9 (family incomes over £90k) to Band 10 , 11 and non-subsidised (family incomes over £100k), and reducing the higher rate increase from 8% to 6% over 3 years, would reduce the saving to £454k. However, the proposal to review the increase after 12 months is sensible as it will allow:

- the impact of the first year’s increases on demand to be assessed;
- updated market testing to be carried out to ensure the Council’s fees remain competitive; and
- the implications of the government announcements regarding entitlements to free childcare to be better understood.

Two alternative scenarios have been modelled for years 2 and 3 for illustrative purposes, in the event that it is decided not to continue to increase fees for families with incomes of more than £100k by 6% in these years. Scenario 1 reverts to the standard policy of increasing fees by 2% each September, and Scenario 2 increases fees by 3% instead.

**Scenario 1:** This will deliver savings of £371k over 4 years.

Bands 1-9: 0% year 1, 2% years 2&3; Band 10+: 6% year 1, 2% years 2&3

Income band	Increase Year 1	Increase Year 2	Increase Year 3
Bands 1-9	0%	2%	2%
Bands 10+	6%	2%	2%

**Scenario 2:** This will deliver savings of £392k over 4 years.

Bands 1-9: 0% year 1, 2% years 2&3; Band 10+: 6% year 1, 3% years 2&3

Income band	Increase Year 1	Increase Year 2	Increase Year 3
Bands 1-9	0%	2%	2%
Bands 10+	6%	3%	3%

A summary of the savings from the proposal consulted on, and the alternative proposals / scenarios are provided below for comparative purposes.

	23/24 £k	24/25 £k	25/26 £k	26/27 £k	Total £k
Saving built into MTFS based on standard 2% increase in September 2023	58				58
Option consulted on: Bands 1-8: 0% year 1, 2% years 2&3 Band 9+: 8% years 1, 2&3	65	197	262	110	634
Increase higher rate threshold / reduce increase to 6%: Bands 1-9: 0% year 1, 2% years 2&3 Band 10+: 6% years 1, 2&3	30	138	202	84	454
Scenario 1: Bands 1-9: 0% year 1, 2% years 2&3 Band 10+: 6% year 1, 2% years 2&3	30	114	161	67	372
Scenario 2: Bands 1-9: 0% year 1, 2% years 2&3 Band 10+: 6% year 1, 3% years 2&3	30	120	171	71	392

## 4.2. Legal Implications

4.2.1. The Childcare Act 2006, section 6 sets out the duties on local authorities to secure, so far as is reasonably practicable, that the provision of childcare (whether or not by them) is sufficient to meet the requirements of parents in their area who require childcare in order to enable them to take up or remain in work or undertake education or training which could reasonably be expected to assist them to obtain work.

4.2.2. The duties of local authorities are further defined in that Act and importantly the power to charge is set out in section 10 of the 2006 Act, section 10(1) providing:

*‘An English local authority may enter into an agreement under which payments are made to the authority for the provision by the authority of childcare for a child.’*

4.2.3. The local authority must have regard to the needs of the parents in their area for provision of childcare in respect of which the childcare element of working tax credit is payable and the amount of childcare costs that would be included in a calculation of an award for universal credit.

4.2.4. The local authority should also take into account:

- 4.2.4.1. Provision of childcare suitable for disabled children
- 4.2.4.2. Any statutory guidance
- 4.2.4.3. The guidance on Early Education and Childcare from June 2018 applies to the free entitlements for two-, three- and four-year-olds;
- 4.2.5. The local authority may have regard to any childcare which they expect to be available outside their area.
  - 4.2.5.1. securing sufficient childcare for working parents; providing information advice and assistance to parents; and providing information, advice and training to childcare providers.
  - 4.2.5.2. The consultation exercise relevant to this report is clear, was available on the council's website and responses have been taken into account.
  - 4.2.5.3. Potential legal challenges might be launched on the basis that the recipients of the previous annual 2% increase in fees could have a reasonable expectation that the council would not increase its fees by a greater percentage. However, the proposed increase is available through the statutory mechanism and would be justified on current budgetary pressures.
  - 4.2.5.4. One other factor as is already noted in this report is the potential impact of the government's announcement of increased provision in the Spring 2023 budget.

### 4.3. **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030**

- 4.3.1. There are no environmental implications.

### 4.4. **Equalities Impact Assessment**

- 4.4.1. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take

account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

Full EQIA has been completed with potential negative impacts identified for women and low-income families. Mitigations for any potential negative impacts are provided in the EQIA document.

## 5. Conclusion and reasons for recommendations

- We have consulted with parents and providers on the proposed fee increases
- We have adjusted the proposals based on the feedback received and on recent government announcements on free childcare
- It is recommended that CMB approves the proposed fee increases and the final report in order to move forward to the implementation phase in Autumn 23.
- If the recommendations are not agreed the standard 2% increase will be applied to all income bands as per the council's charging policy

### **Appendices:**

Appendix 1: Under 5s Childcare Fee Increase Consultation Report, March 2023, DRAFT

Appendix 2: Illustrations of weekly costs for under 2s, spreadsheet

Appendix 3: EQIA

Appendix 4: Childcare fee increase consultation timeline 2023

### **Final report clearance:**

Signed by:

Executive Member for Children Executive Member for Children, Young People  
and Families

Date: 5 May 2023

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