Llywodraeth Cymru
Welsh Government

RESEARCH

Review of business rate relief for registered childcare properties

Since April 2019, registered childcare providers in Wales can receive 100% rate relief.

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Introduction

Non-Domestic Rates (NDR, also known as business rates) are charges on non-domestic or business properties that help pay for local services. Since April 2019, registered childcare providers in Wales can receive 100% rate relief. This scheme has been confirmed up until 31 March 2022. During this time the Welsh Government has collected monitoring information and wider evidence to evaluate its effect. This report provides a review of this evidence.

There are over 3,500 registered childcare and play settings in Wales, a little over half of these are day care settings (around 1,800). Of these day care settings about 22% own their registered premises (about 400 settings)[1], so would be able to directly benefit from rate relief. Landlords are able to claim rate relief for properties let to registered childcare settings, and could choose to pass on their savings to childcare providers by reducing the fees they charge.

As part of this internal review we have considered a wide range of evidence. This includes:

- local authority non-domestic rate (NDR) billing data
- evidence from our sector 'health check' survey
- National Day Nursery Association (NDNA) workforce survey findings
- Scottish Government review
- the review of the business rates system for England
- wider secondary evidence on business rate relief

The next section of this document outlines the background to this review. An overview of the evidence is then set out in the following sections of this report.

[1] Care Inspectorate Wales registration data and Self-Assessment of Service Statement (SASS) 2020. Unpublished. These figures are estimates as not all settings responded to the SASS (those that didn't could be more or less likely to

own their premises) and the picture may have changed since this data was collected.

Background

Non Domestic Rates (NDR) are also known as business rates and are taxes to help pay for local services. These are charges on most non domestic properties (**Business Wales website: Business Rates Relief in Wales**). The scheme is administered by local authorities and is automatically applied to the bills of eligible ratepayers.

In order to ensure that the distribution of rates bills reflects changing property rental values over time, the tax base is revalued periodically. The most recent revaluation came into effect on April 1st 2017. Revaluations are intended to redistribute the tax base to reflect shifts in market values that have taken place since the last revaluation and are not intended to increase the overall tax burden. (**Welsh Government (2021) Small business rates relief survey analysis**)

The then Finance Secretary, Mark Drakeford and Minister for Children, Huw Irranca-Davies announced on the 27 September 2018 that the Welsh Government will provide all registered childcare properties with 100% rates relief from April 2019 up to March 2022. The scheme provided all registered childcare properties with 100% rates relief at an estimated cost of £2.5m a year and an estimated £7.5m of additional support to childcare providers over three years. (**Welsh Government press release: 100% rates relief for childcare providers in Wales**)

The Welsh Government introduced a new permanent small business rates relief (SBRR) scheme to support small businesses with their non-domestic rates bills in 2018; this included increasing the relief available for registered childcare providers. The new exemption for childcare premises from April 2019, reducing rates bills for childcare providers to zero, builds on the permanent SBRR scheme.

Scottish Government operates a similar scheme for childcare rate relief, and in England there is guidance for local authorities in administering the business rates nursery discount in response to COVID-19. (**Ministry of Housing, Communities and Local Government: Business rates: nursery (childcare) discount 2020 to 2021: coronavirus response – local authority guidance**)

The Welsh Government's **10-year Childcare, Play and Early Years Workforce plan**, which was published in December 2017, aims to professionalise the sector and recognises its key economic enabler role by supporting parents and carers to access and remain in employment. The childcare sector generates an estimated £1.2bn for the Welsh economy. (**Alma Economics (2018) Review of the Childcare Sector in Wales. Welsh Government**)

Rate relief for the sector is intended to help childcare providers become more established, supporting the sector to operate and grow. It is expected to help to create new childcare jobs and help to create new and maintain existing childcare places across Wales.

However, the pandemic has created new challenges. Increased pressure on the sector due to COVID-19 and wider implications are well documented by sector representative bodies (for example, see **PACEY survey of childminders and other childcare providers**) and academics (see for example, London School of Economics explain why nurseries are continuing to struggle financially. **COVID-19 and childcare: why many nurseries will struggle to weather the storm**). Evidence the Welsh Government has collected on the pressures on childcare business is presented in the **Health check survey section**.

The issue

Sector representative bodies have argued childcare businesses should be exempt from paying business rates as they are providing an essential service to parents and children, and they are exempt from VAT on the basis HMRC regard the sector as providing welfare services to children and are not therefore not seen as operating in the normal goods and services market.

The childcare sector has a unique business operating model, and is subject to the Welsh Government's National Minimum Standards for Regulating Childcare (NMS). These regulatory standards, whilst highly important for safeguarding children, place a number of financial constraints on childcare providers which means their non-domestic rates can represent a higher proportion of the costs for the sector compared to other small businesses.

Local Authorities currently engage private childcare providers to deliver Foundation Phase and Flying Start programmes (and in some areas provide nursery provision within schools). Unlike schools and local authority buildings, childcare providers have before the introduction of rate relief, needed to pay business rates despite delivering children's provision in the same way as maintained settings. Business rates are often viewed as an unfair tax policy and an additional burden on providers which maintained settings do not face. Also schools do not incur the current cost of regulation given they are categorised as public services.

Rising staff costs (National Minimum and Living Wage and employer pension contributions) add to the financial challenges faced by the sector to operate and grow sustainably. And required employer contributions to these has increased. The sector's ability to generate income is limited as its main source of income comes from parents. Income, when balanced against the regulatory requirements in practice and increasing operating costs, shows a large proportion of the sector currently operates at a loss.

This evidence was supported by Alma Economics **Review of the Childcare Sector in Wales** published in January 2018. Alma Economics reported the following.

- Most childcare providers operate on relatively low profit margins. The survey estimates that approximately 75% of childcare providers reported losses in the preceding financial year (2015-16).
- The sector generates an estimated £1.2bn for the Welsh economy.
- In 2015-16, approximately £190m was spent by the sector on operating costs (premises, rent, utilities and staffing), of which two-thirds was accounted for by day-care providers.

Business rates could be seen as a disincentive to expand or invest in a nursery property as more space and investment in the property drive up its value and therefore the rateable value is likely to increase, meaning higher business rates.

Local authority NDR billing data

This section provides estimates based on local authority NDR billing data. It includes 2020/2021 data, compared to the previous financial year 2019/2020.

In total there are an estimated 370 childcare properties receiving 100% small business rates relief (280 last year). The additional cost of providing this, over and above the general small business rates relief scheme, is estimated to be between £1.9m and £2.6m. Note that this is the *additional* cost of the childcare scheme. It does not include the original cost of providing relief to childcare properties with a rateable value of under £12,000, as they would already be receiving rates relief through the general small business rates relief criteria.

Taking all properties classified by the VOA as ‘Day Nursery & Premises’ as being childcare providers for 2020-21, of these it is estimated that:

- 165 properties have a rateable value of over £12k (115 last year). This means that, without the childcare scheme, they would not receive any small business rates relief. The total relief for these properties is £1.9m (£1.3m last year).
- 135 properties have a rateable value of £6k to £12k (110 last year). The total relief being provided is £0.7m. But each of these would receive some relief under the general SBRR scheme just not 100%. So the additional funding is somewhere between £0 to £0.7m (£0 to £0.5m last year).
- 70 properties have a rateable value <£6k (60 last year). These would already receive 100% relief under the general SBRR scheme, so are not gaining anything from the childcare scheme.

Note that figures are rounded to the nearest 5 properties and £0.1m.

We tried to match Care Inspectorate Wales (CIW) registration data with information on those receiving rate relief as 'Day Nursery & Premises' and were not able to match most beneficiaries. This may mean that non-registered settings are benefitting from this scheme, or it could be that the property receiving this benefit is used for multiple purposes including childcare but the relief has been claimed under a different business name to CIW registration database.

This review has not examined local authority processes. It is therefore unclear if unregistered childcare provision may be benefitting too. Some types of childcare provision is exempt from childcare registration, such as sessions under 2 hours per day and specialist activities.

The total rate relief claimed to date is a very small financial contribution compared to the estimated value of the childcare sector to the economy (as noted above, independent consultants estimated the sector contributes £1.2bn to the Welsh economy. **Alma Economics (2018) Review of the Childcare Sector in Wales. Welsh Government**).

Health check survey

The Welsh Government commissioned Arad Research to undertake a survey to understand the ‘health’ of the registered childcare and play sector. The latest wave of the survey opened on 4 February and closed on the 18 February 2021. It was sent via email directly to settings registered with Care Inspectorate Wales who had given permission for their contact details to be shared (over 80% of registered settings). 387 settings completed the survey in full, and 131 partial responses were also collected.

The survey includes responses from all categories of registered childcare and play services (broadly reflective of the sector; nearly 50% of responses were from childminders), and includes settings from all 22 local authorities.

Most relevant to this review:

- COVID-19 has disrupted childcare businesses: Over two thirds (71%) of settings that responded have closed at some point in time during the pandemic, and over half of settings (55%) that had closed at some point, have closed for more than 13 weeks in total
- Settings are struggling financially: a quarter reported the reason they had closed as being because it was no longer financially sustainable to open. Nearly 1 in 10 (9%) said they are not financially sustainable in the short-term
- Settings rely on business rate relief: Over a tenth (12%) had accessed the Small Business Rates Relief Grant.

More detailed findings from this survey are presented in **Annex A**. Findings from an earlier survey, which asked similar questions, are shown in **Annex B**.

National Day Nursery Association evidence

The National Day Nursery Association (NDNA) last **workforce survey report (2019)** asked their members questions on business rate relief, but we do not know how many members they have, and it is unclear how many answered this question. For these reasons this information must be treated with caution.

The survey suggests business rate relief has been vital for the viability of day care nurseries, and has helped them to continue to operate. NDNA states “two thirds (65%) of those who had received the relief were able to provide positive examples of its impact on their sustainability”.

Although details of the calculation are not provided in the report (we have requested this information but not yet received this detail), the NDNA report states “the average saving reported was £8,204.” This supports the statements that the scheme has had an impact on sustainability of childcare businesses.

Workforce surveys have tended to be undertaken annually by NDNA, but since 2019 the survey has not yet been repeated.

Scottish Government review

Since 1 April 2018 all Scottish nursery businesses were able to apply to receive full business rates relief following a decision made by the Scottish Government in 2017 as a result of the Barclay Review. As in Wales, the Nursery Rates Relief Scheme provides 100% relief on non-domestic rates for premises used only as a day nursery or mainly as a day nursery.

The Scottish Government announced on 4 December 2020 that that the **Nursery Rates Relief Scheme will be extended until at least June 2023**.

The Scheme was originally legislated to expire on 31 March 2021, but has since been extended to help mitigate the impact of COVID-19 on childcare settings. The extension will allow for a full evaluation of the impact of the Scheme on providers, parents and carers, which was a recommendation of the Barclay Review of non-domestic rates. (**Scottish Government website: Coronavirus (COVID-19): support to the childcare sector**)

The Barclay review of business rates published its report on 22 August 2017, making 30 separate recommendations to Ministers. One of those was to create the 3 year relief for nurseries at a cost estimated to be around £7 million per year. This review was supported by Scottish Government petition evidence. Parents, childcare providers, sector representative bodies, and local authorities presented compelling evidence that rate relief is needed to keep childcare affordable for families. (**PE01648: Nursery business rates - Getting Involved : Scottish Parliament**)

When introducing the Programme for Government 2017-18 to the Scottish Parliament on 5 September 2017, the First Minister accepted this and confirmed that the Scottish Government would introduce a rate relief for day nurseries.

Review of the business rates system For England

Business rates have frequently been blamed for exacerbating economic divides and further disadvantaging already struggling businesses and places. Business rates are, together with council tax, one of the most important taxes for local authorities and should be designed to encourage cities and large towns to improve their business environments thereby attracting productive businesses. However, in the current system, these incentives are not always in place.

In light of these and other criticisms, the Chancellor announced a fundamental review of the business rates system for England. The review follows on from the

Treasury Select Committee's 2019 inquiry into the impact of business rates, which argued that the current English system is broken. The terms of reference of the Treasury's review state that the Government believes revenue should continue to be raised through the taxation of non-residential land and property.

On the 29 October 2020 the Centre for Cities published '**A 10-point plan for ensuring that a reformed business rates system puts local economic growth at its heart**'. This highlights four key issues with current business rates relief system.

1. Timeliness
2. Complexity
3. De-incentivises investment
4. Does not incentivise local growth

One of the 10 independent review recommendations is for the government to abolish business rate relief, but with some important exceptions. The review suggests potentially business rate relief for childcare nurseries should be maintained. This is in recognition that there may be public policy objectives that the Government wants to pursue via reliefs, such as reducing the cost of childcare.

The reasons the report gives for abolishing rates for other types of businesses is because revising the rate methodology and enabling rates to reflect actual economic situation should remove the need for relief. Although it recognises even with the recommended changes challenges for small businesses are likely to persist, and there may still be a case for rate relief for all small businesses. The vast majority of childcare nurseries in Wales are small businesses.

Wider evidence

In January 2021 the Welsh Government published '**Small business rates relief: survey analysis**', based on 504 telephone interviews undertaken between 7 and 25 October 2019. These interviews may or may not have included childcare businesses.

The majority of surveyed businesses receiving business rate relief believed that rates relief schemes:

- help small businesses to survive
- enable small businesses to survive in remote rural communities
- offer support to small businesses to survive in deprived communities

Emerging evidence from the UK and United States suggests that many small businesses were already financially fragile at the start of the pandemic (Bartik, et al., 2020), and that businesses more widely were experiencing a decrease in turnover after reopening (Office for National Statistics, 2020). Therefore, findings presented in this latest report may underestimate the current reality of financial hardship that SMEs in Wales are experiencing.

The assessed perceptions of whether small business rate relief has helped SMEs in Wales may provide some relevant lessons for childcare business rate relief if it continues. In brief, the Welsh Government may need to consider the following.

Awareness among the childcare sector

Out of the three rates relief schemes mentioned in the survey, businesses had greatest awareness of small business rates relief. However, over a third of businesses had not heard of any of the three schemes. It could be those interviewed are not eligible, but among businesses that received rate relief, the majority did not know that Welsh Government had made the small business rate relief scheme permanent (this is not applicable to the 100% registered childcare rate relief) (**Permanent Small Business Rates Relief Scheme for Wales**). We know NDNA and others have been actively promoting rate relief to the childcare sector, but awareness raising might usefully be considered. Where possible business rate relief is awarded automatically, but if a setting is not correctly registered with their local authority as a childcare provider then this will not happen.

Accessibility of the scheme

Given the proportion of businesses that had heard of the schemes, not all the SMEs received SBRR; this suggests that awareness is not the sole factor preventing businesses receiving rates relief, although given the design of this survey, it may be that not all businesses in the sample were eligible. There was no consensus as to why businesses do not always receive support with the rates relief, with a range of reasons provided by respondents. Businesses that said they did not receive small business rate relief was most pronounced in Mid Wales, which could suggest geographically targeted marketing may be beneficial to ensure businesses are correctly registered.

Qualitative research to learn more

The report recommends commissioning qualitative research with businesses to explore in greater depth the rationale behind some of these findings, given the range of perceptions across businesses, and under claiming identified.

Note: This research builds on evidence from the Welsh Government **evaluation of the small business rates relief Scheme 2010**.

Conclusions and recommendations

The review has considered:

- local authority NDR billing data
- evidence from the ‘health check survey’
- NDNA workforce survey findings and member views
- Scottish Government review
- the review of the business rates system for England
- wider secondary evidence around business rate relief

This evidence has shown registered childcare settings:

- face significant financial operational difficulties
- are relying on business rate relief to enable them to sustain their operation, meet regulation requirements, and keep parent childcare fees affordable

This information provides a compelling case for continued business rate relief for registered day care nurseries, not least because of additional pressures this review has cited which have been created by the pandemic.

Evidence from research exploring similar schemes, and given take up of the scheme so far, suggests it may be beneficial for the Welsh Government and/or local authorities to consider how they might improve awareness of the importance of accurate business registration and the accessibility of scheme if it is continued. Application processes may need to be examined to ensure only registered childcare premises are benefitting from the scheme.

An in-depth study involving economic appraisal of childcare business operational costs would provide a robust evidence base to consider government support more widely (ie. government funding rates for early childhood education and care) in the long term. This could help to improve sustainability and enable growth in the childcare sector, given the sectors strategic importance in terms of employment, the economy, child development, and post COVID-19 recovery planning.

Annex A: registered childcare and play settings survey, February 2021

The Welsh Government commissioned Arad Research to undertake a ‘health check’ survey of the registered childcare and play sector. The survey opened on 4 February and closed on the 18 February 2021.

The survey was sent via email directly to settings registered with Care Inspectorate Wales who had given permission for their contact details to be shared (over 80% of registered settings). The survey is more reliable than an open survey; we know only registered settings have responded.

387 settings completed the survey in full. We received 131 partial responses were also collected and upon their analysis, only 8 were deemed appropriate to include in the final set of survey responses (based on how much of the survey they had completed before exiting) bringing the total completed responses to 395. This includes responses from all categories of childcare and play settings (broadly reflective of the sector; nearly 50% of responses were from childminders), and includes settings from all 22 local authorities.

Main findings

Open/closed

- Nearly a third (29%) of settings that responded have not closed at any time during the pandemic

- Over half of settings (55%) that had closed at some point, have closed for more than 13 weeks in total
- Lack of demand was the most common reason for closure reported by just over half of respondents (53%), this finding is consistent with Care Inspectorate Wales closure notification reports.
- Most likely relatedly to the reported lack of demand, a quarter reported a reason they had closed because it was no longer financially sustainable to open. Other reasons for closing included restrictions made by premises (for example, landlord, community centres, or school site rules) (16%), and because of advice they received from a membership or representative body (16%)
- Just over a third of settings (34%) had changed their opening times (earlier or later):
    - Around two thirds of these settings (65%) reported they are now open less. The mean average reduction in hours was by 11 hours per week
    - For those that had changed their hours and reported they are open more (11%), the mean average increase in hours was .7 hours per week.

Demand

- Nearly a fifth of settings (19%) that responded expect demand for childcare to increase this year in their setting, but more than a quarter (26%) expected demand for childcare to decrease in their setting
- Those that anticipated an increase were notably more likely to anticipate the change to be permanent (51% v 12%). Less than 10% that anticipated a decrease in demand thought it would be permanent (nearly a half didn't know).
- Nearly half (47%) of those that thought there would be an increase thought this would be because of an increased preference for formal childcare (eg. to reduce contact with grandparents because of the virus). Closure of other settings locally (29%) and anticipated changes in parent employment (eg.

travelling further for work, or working longer hours) (34%) were also frequently given reasons for an anticipated increase (around a third of settings gave these reasons)
- Most settings (86%) that thought there would be a decrease thought this would be because of changes in parents' work (eg. working from home so need less care). Affordability and concerns about reducing social contact because of the pandemic were also given as reasons by more than half of settings that anticipated a decrease in demand (58% and 65% respectively).

Supply

- Nearly half of settings (48%) that responded to the survey are confident they will be financially sustainable to continue for another year or longer
- Nearly 1 in 10 (9%) said they are not financially sustainable in the short-term, and are not confident they will be able to continue to operate their childcare provision. Additionally 15% said they did not know
- In general the total number of staff in settings has not changed since before COVID-19 among those that responded to the survey, but more are now working part-time
- Settings have furloughed staff too (see below).

Government support

- Since the first national lockdown in March 2020 38% of settings have furloughed staff, and 46% received support from the Self-Employment Income Support Scheme (nearly all childminders that responded)
- A quarter (25%) had accessed Local Authority funding support, and 7% had applied but not (yet) received support
- Nearly a fifth (18%) had accessed the Welsh Government Childcare Provider Grant, and 5% had applied but not (yet) received support
- Over a tenth (12%) had accessed Small Business Rates Relief Grant

- Local Authority was the most commonly reported source of advice and guidance by a large margin (68%). Sector representative body (22%), Business Wales (12%), and Social Care Wales (9%) were mentioned by significantly fewer settings. Less than 10% hadn't received any advice or guidance at all.

Provider views on the impact of COVID-19 and wider implications on children in their settings

Views on child development were mixed, but these questions were only designed to give us an indication of providers concerns (if any). These findings should be treated with some caution as respondents are not necessarily trained in assessing child development:

- Over a third of settings (34%) reported deterioration in behavioural development, and more than a quarter (26%) thought there had been a mixture of improvements and deterioration in the children they care for
- Over a third of settings (35%) reported they felt there had been a deterioration in social development, and nearly a quarter (24%) thought there had been a mixture of improvements and deterioration in the children they care for
- Nearly one fifth of settings (19%) reported deterioration in cognitive development in some children, and more than a quarter (27%) thought there had been a mixture of improvements and deterioration in cognitive development
- A small number of settings (less than 5%) only reported improvements in the cognitive, social, or behavioural development of some children in their setting.

Annex B: survey of childcare providers, August

2020

Background

During the last two weeks of August, on behalf of the Welsh Government, Arad Research conducted a survey with childcare settings in order to assess the impact of COVID-19.

The survey link was sent directly to those who registered to deliver the childcare offer. This is the vast majority (over 80%) of registered childcare and play services.

Response

We received a response rate of approximately 20%. 474 childcare providers submitted either a full return or had answered a sufficient number of questions to be included in the analysis. Over half of providers that responded were childminders and just over a quarter were full day care providers, which broadly matches the split of setting types in the sector as a whole.

76% of childcare providers reported that they were open at the time of completing the survey and 23% were temporarily closed. 1.5% of childcare providers that responded to the survey have permanently closed and no longer offer childcare provision; these were excluded from the majority of the survey questions.

Findings

The sector is starting to see a recovery. However, settings are expecting a drop in attendance and income over the Autumn term compared with what they would expect in the absence of COVID-19. Settings are also open for fewer hours and with fewer staff than pre-COVID levels and there is uncertainty amongst some providers about the sustainability of their businesses.

Including government support, providers received approximately 40% less in childcare fees per week on average during the 2020 Summer term than they would have expected in the absence of COVID-19.

On average, childcare providers are expecting approximately 30% fewer children per week during the 2020 Autumn term than they would expect in the absence of COVID-19, with a corresponding expected 25% drop in income.

90% of childcare providers that were still open accessed support from at least one Government support scheme, including:

- Welsh Government continuing to pay booked hours under Childcare Offer (59%)
- UK Government Self-Employment Income Support Scheme (SEISS) (49%)
- Coronavirus Childcare Assistance Scheme (C-CAS) (42%)
- Coronavirus Job Retention Scheme (41%)

Providers indicated that on average they are currently open for a shorter amount of time compared to before COVID-19. 46% of providers have not reduced their opening hours. However, on average across all settings, the number of days per week settings were open decreased by approximately half a day from 4.8 days to 4.4 days. Typical opening hours per day have reduced by approximately one hour per day on average from 10 hours per day pre-COVID-19 to 9 hours currently.

The greatest drivers of reduced opening hours were lack of demand from parents and the additional time needed to introduce COVID prevention and control measures.

38% of providers were reasonably confident that it would be financially sustainable to continue to run their provision for another year or more, whereas 25% were only confident that their provision could continue until some point within the year. 37% reported that they didn’t know for how long it would be financially sustainable to continue to run their provision.

On average, the number of staff in childcare settings has decreased by approximately 2 members of staff, from 13 to 11, compared with before COVID-19. This excludes childminders due to the vast majority only having a single member of staff.

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Views expressed in this report are those of the researcher and not necessarily those of the Welsh Government.

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