



BRIEFING PAPER

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Childcare: the level of funding for free provision for 3 and 4 year olds (England)

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Summary

This House of Commons Library briefing paper considers the Government's funding rate for free childcare provided to eligible 3 and 4 year olds in England.

In addition to the 15 hours of free childcare available over 38 weeks of the year to all parents of 3 and 4 year olds, from September 2017 an additional 15 hours (also over 38 weeks) - known as the extended entitlement - was introduced across England for qualifying households subject to a means-test with a upper and lower limit (although some other parents qualified).

Following a review of childcare costs published alongside the Spending Review in November 2015, the Government set the hourly funding rate for childcare providers applicable to both the 15 and 30 hours of free childcare.

The Government has commissioned and published a one-year-on study of the impact of the extended entitlement, including how it has affected providers and parents. Research groups and representative bodies have also provided analysis of the funding rate and its impact.

There is a separate Library briefing paper which explains the Government's funding formula which determines funding allocations across England, entitled [New early years funding formula from 2017-18, including maintained nursery schools \(England\)](#).

In addition, the Library briefing paper [Childcare: "30 hours" of free childcare – eligibility, access codes and charges \(England\)](#) is also of relevance.

Childcare funding is a devolved matter; this paper applies to England only.

1. Government funded childcare hours

1.1 The universal free “15 hours” childcare provision

All three and four year olds are entitled to 570 hours a year of Government-funded childcare – usually taken as 15 hours over 38 weeks (and often referred to as “15 hours of free childcare”).

This entitlement is “universal”, and applies irrespective of the income of the parents or other conditions, including immigration status. It is not mandatory to take up the entitlement, although the Government has noted that take-up of the universal 15 hours of free childcare is “consistently more than 95%”.¹

Under the Coalition Government, similar provision was introduced for two year olds if certain conditions were met, including that their parents or carers were eligible for certain means tested-benefits, or if the child was, or had been, looked after by a local authority.² Funding for this is provided separately to the childcare provision for 3 and 4 year olds.

1.2 What is the “extended entitlement”?

On top of the universal “15 hours of free childcare”, the extended entitlement provides a further 570 hours of funded childcare to eligible children of qualifying parents. This, together with the universal 570 hours, is commonly taken as 30 hours over 38 weeks (and often referred to as the “30 hours of free childcare”). However, the entitlement can be “stretched” over more than 38 weeks (although it cannot be condensed to a period under 38 weeks) : the provision has be taken for at least 38 weeks of the year.³

There are constraints on how the funded childcare can be taken, including no session to be longer than 10 hours (although there is no minimum session length), and delivered between 6.00am and 8.00pm.⁴

1.3 No requirement on childcare providers to offer the extended entitlement

While funding for the extended entitlement comes from central government via local authorities, many childcare providers are privately owned. There is no obligation on them, or indeed any other provider such as maintained nursery schools or voluntary providers, to offer the extended entitlement as confirmed in December 2017 by the then Children and Families Minister, Robert Goodwill.⁵

¹ [HL Deb 16 June 2015 c1082](#)

² For more details, see GOV.UK, [Help paying for childcare – 3. Free education and childcare for 2-year-olds if you get benefits](#), webpage [accessed on 9 January 2018]

³ Department for Education, [Early education and childcare – Statutory guidance for local authorities](#), March 2017, p8, para A1.6

⁴ Department for Education, [Early years entitlements: operational guidance – For local authorities and providers](#), July 2017, p20

⁵ [PQ 118064 15 December 2017](#)

2. Planning for the introduction

2.1 Pilot and early innovators

From September 2016, the additional 15 hours were available to some (or in the case of York, all) eligible parents in a number of pilot “early implementer” or “early delivery” areas, and also “early innovator” local authority areas, following an open competition for interested local authorities.⁶

On 2 February 2016, the Government announced the eight local authorities that would be pilot areas: Wigan, Staffordshire, Swindon, Portsmouth, Northumberland, York, Newham and Hertfordshire.⁷

On 27 January 2017, it was reported that the Government would launch pilots in a further four local authority areas – Dorset, Leicestershire, North Yorkshire and Tower Hamlets – in April 2017. The DfE explained that their addition was to “provide a broader mix of geographic areas and levels of deprivation to the trial”,⁸ with the Minister adding that “these areas will test specific elements of 30 hours delivery, including the impact of rurality and high parental eligibility”.⁹ These were “early roll-out” areas – in all four a universal offer of extended hours places was made for all eligible children.¹⁰

Except in York, not all eligible parents in the pilot areas received the extra 15 hours during the pilots; it was reported that “it will be up to each local authority to decide how they will offer the places during the trial”.¹¹ The then Parliamentary Under Secretary of State for Schools, Lord Nash, told Peers on 2 February 2016 that “around 5,000 children” residing in the original eight pilot local authorities would benefit.¹²

The DfE explained that:

These early implementer areas will:

1. test provider capacity to deliver the entitlement in a way that suits working parents’ employment patterns and helps more parents to return to work or work more hours;
2. test market innovation around sufficiency and flexibility of provision, and partnership working; and
3. provide the government and local authorities with early intelligence on how it can refine the system in preparation for full implementation from 2017.¹³

A further 25 other local authorities were designated to “look specifically at innovative ways of making sure childcare is accessible to as many parents as possible”. These “early innovators” were, by region:

- North West: Stockport, Bolton, Trafford, Cheshire West and Chester, Bury
- Midlands: Nottinghamshire, Nottingham City, Walsall;
- South West: Cornwall;
- South East: Hampshire, West Sussex, Medway, East Sussex, Brighton and Hove;

⁶ Department for Education, [A year until first working parents receive doubled free childcare](#), press release, 26 August 2015

⁷ As above

⁸ [“Four more councils to join free childcare pilot”](#), *Children and Young People Now*, 27 January 2017

⁹ [PQ66477 8 March 2017](#)

¹⁰ Department for Education, [Evaluation of Early Rollout of 30 Hours Free Childcare](#), August 2017, p25

¹¹ [“DfE names 30-hour childcare pilot areas”](#), *Nursery World*, 2 February 2016

¹² [HL Deb 2 February 2016 c1741](#)

¹³ Department for Education, [Childcare free entitlement: delivery model – Government consultation](#), 3 April 2016, p8

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- London and East of England: Kingston and Richmond, Barking and Dagenham, Islington, Ealing, Hillingdon;
- North East and Yorkshire and the Humber: Gateshead, Bradford, Sheffield, East Riding, Wakefield, North Yorkshire.

The DfE explained that “early innovators in each local cluster will work together to focus on special educational needs and disability, flexibility, availability of places, and making work pay”.¹⁴

2.2 Funding for the pilots

The Government said in February 2016 that £30 million had been allocated to the eight pilots, with £4m allocated to the “early innovator” areas.¹⁵

Funding for the pilots in York attracted considerable attention, not least because, according to *Nursery World*, it was the “largest pilot and seen as key, as it is the only local authority area that will include all eligible children in all types of childcare, including nurseries, childminders, pre-schools and schools”.¹⁶

It was reported that City of York Council would pay local nurseries an hourly rate of £3.95 in respect of the extra 15 hours in the pilot, but continue to pay the existing rate of £3.38 per hour for the first, universal, 15 hours of free childcare.¹⁷ In response, of 30 providers who attended a meeting it was reported that “not one was prepared to commit to be involved in this pilot on the current formula and rate”.¹⁸

Subsequently, following meetings between the DfE and the local authority, it was announced in May 2016 that “childcare providers in York will now receive a flat rate of £4 an hour across the 30 hours for all three- and four-year-olds that are eligible for the pilot”, although “three- and four-year-olds who are only eligible for 15 hours will continue to receive £3.38 an hour”.¹⁹ In addition, it was reported that:

The DfE has also confirmed that the other early implementer areas will also receive an ‘uplift’ in funding rates for the trial, which starts in September.

Officials have also now stated that local authorities in the early implementer areas will be expected to offer one flat rate for children taking up a 30-hour place.²⁰

It was reported in June 2016 by *Nursery World* that “most of the other early implementer areas will also receive an uplift in rates”, although “three of the eight early implementer areas are yet to confirm funding rates”.²¹

It was reported that three of the four “early roll-out” pilots areas starting in April 2017 were provided with the “the lowest possible level funding rate” of £4.30 per hour, while the hourly rate for the fourth – Tower Hamlets, an area of high deprivation – was “one of the very highest rates” at £8.51.²²

2.3 Evaluation of the pilot areas

Two independent reports were published by the DfE:

¹⁴ GOV.UK, [Thousands of parents benefit from 30 hours' free childcare early](#), press release, 2 February 2016

¹⁵ [HL Deb 2 February 2016 c1756](#)

¹⁶ [“30-hour childcare pilot in crisis”](#), *Nursery World*, 4 May 2016

¹⁷ [“Nurseries' warning over 30-hour childcare pilot”](#), *Nursery World*, 27 April 2016

¹⁸ [“30-hour childcare pilot in crisis”](#), *Nursery World*, 4 May 2016

¹⁹ [“York nurseries win rise to 30-hour childcare pilot funding”](#), *Nursery World*, 27 May 2016

²⁰ As above

²¹ [“Pilot areas win extra funding for 30 hours”](#), *Nursery World*, 13 June 2016

²² [“Four more councils to join free childcare pilot”](#), *Children and Young People Now*, 27 January 2017

- in July 2017, a report concerning the original eight “early implementer” local authorities and the 24 “early innovators” local authority areas – this evaluation report was entitled [Evaluation of Early Implementation of 30 Hours Free Childcare](#); and
- in August 2017, a report looking at the four “early roll-out” local authority areas that began providing the extended entitlement from April 2017 – this report was called the [Evaluation of Early Rollout of 30 Hours Free Childcare](#).

In terms of the availability of places, the first report found that at the time of the census in January 2017:

- in the local authority (York) offering the extended entitlement pilot to all families, “the number of places substantially exceeded the DfE estimate. In this area, 50 percent of three and four year olds using the universal free entitlement took up the extended hours and 80 percent of free entitlement providers delivered extended hours”;
- “the proportion of all free entitlement providers offering the extended hours also varied across the [other] seven LAs [local authorities] with rationing, from 9 percent of providers ... to 51 percent of providers ... reflecting to some extent the size of the LA as was the case with the proportion of children taking extended hours”;
- “on average, each provider offered extended hours to six children, constituting an average of 44 percent of the three and four year olds who were receiving any free entitlement hours from them”, although “this number varied from 1 to 60 across providers”;²³

By comparison, for the four early roll-out areas using data collected at the start of the summer term in April 2017 and also “ad-hoc data collection” during May - July 2017:

- 72% of children estimated to be eligible were receiving the extended entitlement on average, although this masked wide variations with 86%, 78%, 54% and 37% being the actual figures in each of the areas, with the lowest figure in the local authority with high deprivation (codenamed “M”, almost certainly the London Borough of Tower Hamlets);²⁴
- on average, “83 percent of providers delivering the free entitlement to three and four year olds ... delivered free entitlement hours to children receiving the extended hours. The proportions of free entitlement providers were highest in LAs K and L (91 percent and 88 percent respectively)”, while in the high deprivation local authority (“M”) the figure was 35%;
- “on average, each provider delivering an extended hours place had eight children receiving the extended hours, constituting an average of 55 percent of the three and four year olds who were receiving any free entitlement hours from them”, although “this number varied from 1 to 62 across providers”.

²³ Department for Education, [Evaluation of Early Implementation of 30 Hours Free Childcare](#); July 2017, pp14 and 62

²⁴ Department for Education, [Evaluation of Early Rollout of 30 Hours Free Childcare](#), August 2017, pp42–43 and Table 7

3. Government funding announcement

3.1 Level of hourly funding rate set

In the 2015 Spending Review the then Chancellor announced that to fund an increase in rates paid to childcare providers for the free entitlement “we will increase the funding for the sector by £300 million”,²⁵ meaning that the total estimated cost of the extended entitlement policy would be “more than £1 billion a year ... by 2019-20”.²⁶

The then Education Secretary confirmed that the average hourly national funding rate would increase to £4.88 (from £4.56) for free childcare funding for 3 and 4 year olds (including the early years pupil premium);^{27 28} the increased rate would apply to both the universal 15 hours provision and the 15 hours of extended entitlement.²⁹ The increased rates were announced following the [Review of childcare costs](#) funding review undertaken by the DfE.³⁰

It should be noted that the figure of £4.88 referred to the *national average* hourly funding rate, and did not mean that each childcare provider across England would receive £4.88 per hour. Further, the Government permitted local authorities to keep 7% of the funding allocation for their central services or services in kind related to childcare (falling to 5% from 2018-19), so reducing the hourly amount for providers.

In December 2016, the Government published the funding rates for each local authority in 2017–18, which is available at the [GOV.UK website](#).

Alongside the funding rates, the DfE noted that for 2017–18 the “government has committed that every LA [local authority] will receive a minimum funding rate of at least £4.30 per hour. This will be paid for by additional investment of approximately £30m, which raises the final national average hourly rate to £4.94”.³¹

3.2 Reaction to the increased funding rate

Evidence submitted to the Public Bill Committee (December 2015)

Following the announcement of the increase in the national average funding rate, the then Education Secretary told the House that the DfE was “confident, based on the evidence we have gathered, that that increase will provide high-quality childcare for children in ... the country”.³²

Shortly afterwards, interested parties submitted evidence to the Public Bill Committee that was scrutinising the legislation for the extended entitlement. The following commentaries on the funding rate were submitted:

²⁵ [HC Deb 25 November 2015 c1369](#)

²⁶ [HC Deb 25 November 2015 c1416](#)

²⁷ In addition, the Government announced that the rate would increase to £5.39 (from £5.09) for the 15 hours of free childcare for eligible 2 year olds.

²⁸ [HC Deb 25 November 2015 c1417](#)

²⁹ [HC Deb 25 November 2015 c1452](#)

³⁰ Department for Education, [Review of childcare costs](#), 25 November 2015

³¹ Department for Education, [Early years national funding formula: technical note](#), December 2016, p6, para 13

³² [HC Deb 25 November 2015 c1417](#)

- the (now former) charity 4Children said the additional funding was “welcome”, and that it would be “vital to ensure that funding for places enables providers to cover the costs of delivery” for the policy to be sustainable;³³
- Polly Anna’s Nursery in York – “The current proposal to up lift by the meagre amounts as announced ... will fail to attract many providers of the current 15 hours to offer these additional hours”;³⁴
- Family and Childcare Trust – while also welcoming the additional funding, the Trust cautioned that it was “unlikely to be sufficient to address the strategic challenge the 30 hour offer present[s] of moving from an inflexible part-time model to a flexible full-time model, nor prevent at least some providers continuing to opt out of either the free two-year-old offer or the three- and four-year-old offer”;³⁵
- Professional Association for Childcare and Early Years (PACEY) – “[the] uplift [in funding rates] is welcome and likely to make it more financially viable for a larger number of providers to deliver the entitlement”;³⁶
- The Pre-school Learning Alliance questioned the DfE’s methodology, claiming its analysis was “based on outdated data and unrealistic childcare business models”,³⁷ and said “we do not believe that the published funding review is a strong enough basis on which to base funding and rate decisions ahead of the roll-out of the 30-hours offer”.³⁸

³³ Public Bill Committee (Childcare Bill), [Written Evidence](#), PBC (Bill 084) 2015–2016, p1

³⁴ As above, p2

³⁵ As above, p11, para 19

³⁶ As above, p40, para 5

³⁷ As above, p17, para 1.1

³⁸ As above, p19, para 2.2.6

4. National Audit Office and Public Accounts Committee inquiries

4.1 National Audit Office report (March 2016)

In March 2016, the NAO published its report, *Entitlement to free early education and childcare*.

The report found that “stakeholders [parents] are broadly positive about increasing the entitlement to 30 hours, but providers have concerns about the levels of funding they will receive”.³⁹ The report’s findings about the likely demand for the extended entitlement can be found in section 6 below.

In terms of funding, the NAO’s view of the DfE’s “Review of Childcare Costs” was that it was “thorough and wide-ranging and used a variety of sources, including evidence from 2,000 providers and other stakeholders; survey data on providers’ current operating models and subsequent focus groups and thematic discussions”. It added that the DfE had told the NAO that “it felt there was scope [for providers] to make efficiencies, for example, by taking a more flexible approach to staffing and by operating at statutory minimum ratios of adults to children”.⁴⁰

The NAO said that “offering the right rate of funding is essential to ensure that providers feel confident to deliver the new entitlement”, adding:

The new average funding rate will require providers to operate more efficiently in future as well as meaning that some will continue to rely on cross-subsidisation and volunteering. Potential economies of scale may create an incentive for some providers to expand, but others – particular those that cannot expand – may fear reductions in the opportunity to charge parents for additional hours. The Department will need to pay particular attention to the impact of new funding rates on take-up in deprived areas. Our analysis showed that deprived areas have more maintained settings, (Figure 14) which typically have less opportunity to cross-subsidise and higher costs. The Department has the opportunity to test the affordability of the new entitlement in the pilots it will run from September 2016.⁴¹

Figure 14 is reproduced below.

The NAO also commented that there is “a risk that the new entitlement will have a negative impact on the further success of the [free] entitlement for disadvantaged 2-year-olds ... Expanding the number of hours which many 3- and 4-year-olds are entitled to may encourage providers to do more work with them and less with 2-year-olds”.⁴²

³⁹ National Audit Office, [Entitlement to free early education and childcare](#), 2015-16 HC 853, 2 March 2016, p10, para 19

⁴⁰ As above, p29, para 2.17

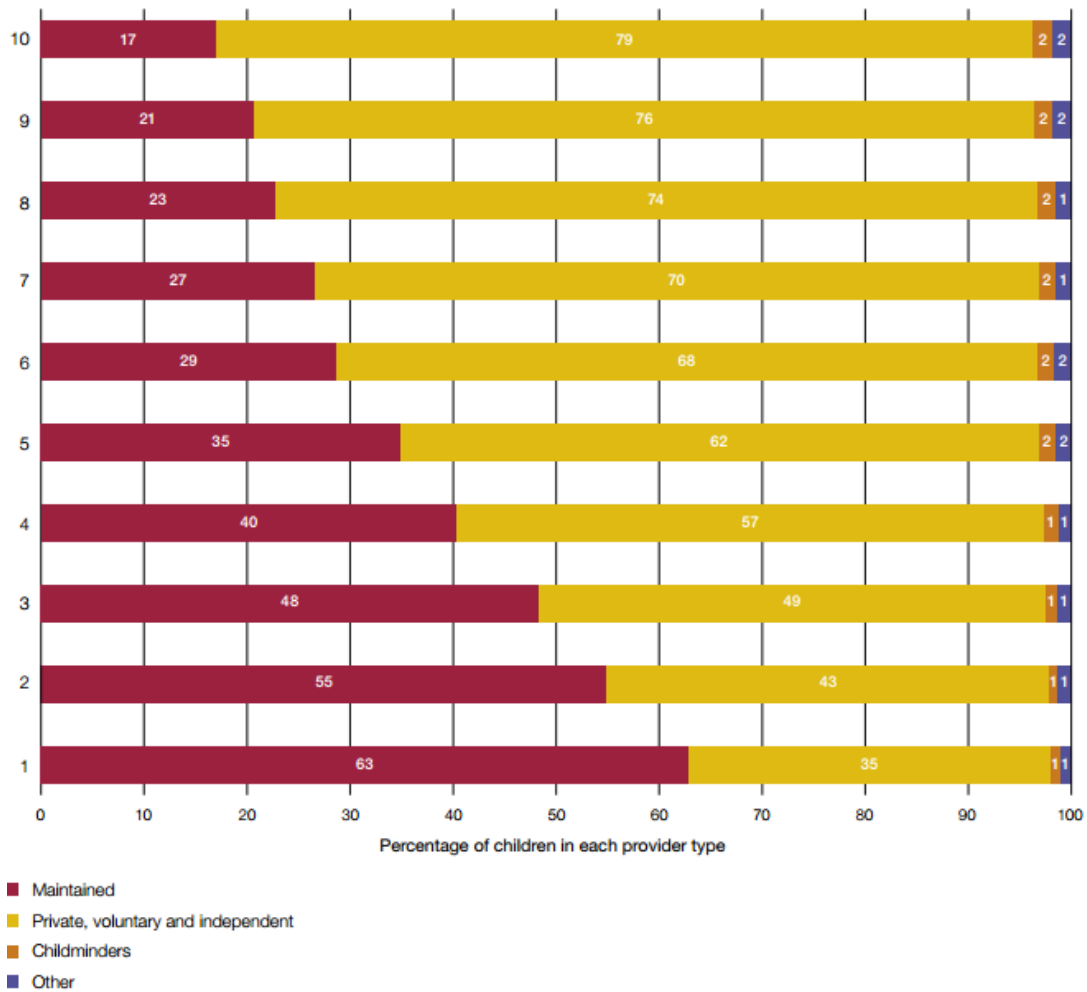
⁴¹ As above, p38, paras 3.10 and 3.11

⁴² As above, p37, para 3.9

Percentage of 3-year-olds in provider types by areas of disadvantage

Disadvantaged children are more likely to be in maintained settings than in private, voluntary and independent settings

Deprivation decile of children's addresses (1 is most deprived)



4.2 Public Accounts Committee report (June 2016)

The Commons Public Accounts Committee (PAC) considered the NAO’s report and took evidence relating to it, including from the Permanent Secretary at the DfE.

The subsequent report of the Committee, published in June 2016, covered a number of topics, including the proposed roll-out of the 30 hours of free childcare.

The Committee cautioned that “there may not be enough providers willing to provide the additional 15 hours of free childcare being introduced in 2017”, and the report noted that the reduced opportunities for cross-subsidisation under the 30 hours policy would “limit their [childcare providers’] ability to offer the new entitlement to children and would disproportionately affect disadvantaged children as these settings are more likely to operate in disadvantaged areas”.⁴³

The Committee recommended that:

Given the real risk that there will not be enough places, the Department should use the pilots to test providers’ capacity to meet the expected demand for the new entitlement for more free hours and assess how feasible it is for providers to operate with the new funding rates. The Department should set out to the Committee how it

⁴³ Public Accounts Committee, [Entitlement to free early years education and childcare](#), 2015-16 HC224, 15 June 2016, p5, para 1

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plans to evaluate the pilots and implement any changes required before the full rollout in September 2017.⁴⁴

The Committee observed that while the Department “has the opportunity to test providers’ capacity in its pilots commencing in September this year”, it would have “very little time to evaluate the results before it rolls out the new entitlement in September 2017”.⁴⁵

The PAC also considered the role of local authorities in the childcare market in their area (see Box 1 below).

The Committee noted that it had “asked the Department what assurance it has that local authorities are effective at managing their markets”, and was told by the DfE that it “relied on data such as take-up rates, Ofsted ratings, the number of providers and average funding rates to monitor local childcare markets”, but the Department admitted that “it does not know how well local authorities understand demand for and the supply of free childcare”.

Box 1: the childcare market and local authority duties

There are a number of duties on local authorities, under the *Childcare Act 2006* as amended in regard to the childcare market, including:

1. Section 6, which places a duty on English local authorities to secure sufficient childcare for working parents.
2. Section 7 (as substituted by section 1 of the Education Act 2011), which places a duty on English local authorities to secure early years provision free of charge. Regulations made under section 7 set out the type and amount of free provision and the children who benefit from the free provision.
3. Section 7A (as inserted by the Children and Families Act 2014). Regulations made under section 7A make provision about how local authorities should discharge their duty under section 7.
4. Section 9A (as inserted by the Children and Families Act 2014). Regulations made under section 9A limit the requirements local authorities can impose when they make arrangements to deliver early education places for two-, three- and four-year-olds.
5. Section 12 which places a duty on English local authorities to provide information, advice and assistance to parents and prospective parents.
6. Section 13, which places a duty on English local authorities to provide information, advice and training to childcare providers.⁴⁶

The Committee also said that:

The Department told us that when it identified an issue on take-up or quality, it tended to use informal interventions to address them, such as conversations with the relevant authority. The Department noted that “we have never used our formal intervention powers in local government on an early years issue as we have in children’s services...” and has thus not intervened formally in a local authority childcare market. Currently there is no sign that providers are withdrawing from the childcare market in significant numbers. But the Department admitted that it does not have a strategy in place should this position change to intervene in local authorities with insufficient free childcare places.⁴⁷

⁴⁴ As above, p5, para 1

⁴⁵ As above, p5, para 1

⁴⁶ Department for Education, [Early education and childcare – Statutory guidance for local authorities](#), September 2014, p3

⁴⁷ Public Accounts Committee, [Entitlement to free early years education and childcare](#), 2015-16 HC224, 15 June 2016, p11, para 16

4.3 Government response to the Public Accounts Committee's report

In November 2016, the Government published a "Treasury Minute" setting out its response to the Committee's report.

The Government said that it agreed with the Committee's recommendation that "the Department should use the pilots to test providers' capacity to meet the expected demand for the new entitlement for more free hours and assess how feasible it is for providers to operate with the new funding rates", and noted that the pilots would "play a vital role in exploring delivery approaches, identifying and addressing potential barriers to success and sharing lessons learned ahead of national roll-out in September 2017".⁴⁸

In terms of the role of local authorities in the local childcare market, and the PAC's recommendation that "the Department should set out how it will oversee local authorities' role in ensuring that there are sufficient places for childcare and intervene where local authorities are not managing the childcare market in their area effectively", the Government agreed with this and added:

The Department has appointed a local authority delivery team of officials to monitor local authorities' implementation activity. Between October 2016 and October 2018 this team will be complemented by a £3 million delivery contract. Both the officials and contractor are charged with ensuring that all local authorities are making the necessary preparations for the smooth delivery of the entitlement, targeting local areas which have the greatest sufficiency challenges, and supporting them to deliver post go-live. Together the delivery team and contractor will regularly assess data from local authorities about the childcare market and preparations for 30 hours, and put in place bespoke intervention packages as appropriate to the local area.⁴⁹

⁴⁸ HM Government, [Treasury Minutes – Government responses to the Committee of Public Accounts on the Thirty Seventh and the Thirty Ninth reports from Session 2015-16; and the First to the Thirteenth reports from Session 2016-17](#), Cm 9351, November 2016, p28, paras 1.1 and 1.2

⁴⁹ As above, p29, paras 2.1 and 2.3

5. DfE research report on the cost and funding of early education (Jan 2017)

The survey – entitled Study of Early Education and Development (SEED): The cost and funding of early education – was published in January 2017, but based on fieldwork that took place during April to December 2015 – i.e. before the introduction of the 30 hours extended entitlement.⁵⁰ Salary data was obtained for 94% of “staff”⁵¹, although for some staff, in particular, childminders, there was a need for “salary imputation”.⁵²

Based on 158 observations, the report found that the average hourly cost per child by age of child for three and four year olds was £3.72, although the report noted that “there is considerable variation in hourly costs across settings”:

- private – £3.12
- voluntary – £3.45
- nursery class – £3.96
- maintained nursery school – £6.65
- local authority/Children’s Centre – £5.33
- childminder – £4.77.⁵³

In terms of the average total weekly cost for a childcare setting, the report noted that:

- The average total weekly cost for a setting is just under £5,000;
- On average, 32 percent of costs are for core running such as general administration and 68 percent can be allocated to specific sessions with children.
- On average, 75 percent of costs are for staff, 12 percent for venue-related costs and 12 percent for other costs;
- The evidence suggests that the hourly cost is directly influenced by the type of provider, region, size of setting, child age profile and month in the school year, while hourly cost is not influenced by whether the provider is single site or multisite, urbanity, local deprivation level or whether the setting is graduate-led;
- Although hourly cost is greatest for the highest quality settings, the difference is not statistically significant, suggesting that the quality measures considered here either do not influence cost or influence cost to an insufficient degree to be robustly identified in a sample of the size used here.⁵⁴

In terms of revenue sources, the report found that “almost all revenue is from parental fees and the free early education entitlement (FEEE)”, but that “on average, settings received £0.44 less per hour from the FEEE than from parental fees for three/four year olds”. In addition, “cross-subsidisation in revenue from older children to younger children is strongest in private and voluntary settings”.⁵⁵

⁵⁰ Department for Education, [Study of Early Education and Development \(SEED\): The cost and funding of early education – Research report](#), January 2017, p25 (hereafter *SEED report*)

⁵¹ The term “staff” had the following caveat in the report: “small numbers of staff (typically working short hours) were grouped together in the collection of salary and time usage information and the number of specific individuals was slightly higher than this” [*SEED report*, p28, footnote 23]

⁵² Salary imputation was calculated by taking “the ONS average by qualification level is the median hourly pay from Q1 2010 ... uprated to January 2015 using the ONS earnings index”. [*SEED report*, footnote 25]

⁵³ *SEED report*, p10 and table 1 and p11, table 2

⁵⁴ As above, p33

⁵⁵ As above, p66

6. Pre-implementation concerns

Before the national roll-out of the extended entitlement, a number of childcare organisations surveyed their members in order to anticipate the likely availability of places for parents.

6.1 National Day Nurseries Association (February 2016)

In terms of the current universal 15 hours of free provision, a survey undertaken by the National Day Nurseries Association (NDNA) found that:

Nurseries are just about managing to offer three and four-year-olds their 15 hours' funded places because they "cross-subsidise" to plug the shortfall.

In practice, this means parents pay a higher rate for additional hours beyond the free 15 hours.

The average nursery has to absorb £34,000 a year due to this funding shortfall with 89% of nurseries making a loss on these places ... The survey reveals the funding gap is now the highest ever at £1.68 per hour on average per three and four year-old place.⁵⁶

The NDNA argued that "doubling this entitlement to 30 funded hours for working parents of three and four-year-olds is going to increase this shortfall further but leave nurseries with no means of making up that loss".⁵⁷

The survey found that "only 45% of nurseries say they are likely or very likely to get involved in the scheme with a quarter unlikely or very unlikely at this stage to increase funded places. A third are unsure". It reported that "barriers to joining include inadequate funding and lack of space. Many don't believe they could sustain the funded hours at current rates of funding". The NDNA concluded that "at this point, success [of the policy] is far from guaranteed".⁵⁸

The Chief Executive of the NDNA, Purnima Tanuku, said:

"The nursery sector and the Government want the same thing. We all want to make 30 free hours childcare workable and sustainable.

"To achieve this, the sums have to add up. Urgent steps must now be taken to bring about the funding reform promised by the Government, so an economically viable hourly rate for high-quality childcare reaches the front line.

"NDNA today urges the Government to use the 30 free hour pilots this year to test out innovative funding solutions so that next year, all families can take up their much wanted and needed places".⁵⁹

The survey results were published in February 2016, based on the 485 responses received from nurseries across England. The survey was conducted online in December 2015 and January 2016 i.e. shortly after the Government's announcement of the increase in the national average funding rate.⁶⁰

⁵⁶ National Day Nurseries Association, [Annual Nursery Survey 2016 - England](#), February 2016, pp 3 and 4

⁵⁷ As above, p4

⁵⁸ As above, pp3 and 11

⁵⁹ National Day Nurseries Association, [NDNA Annual Nursey Survey 2016 – England](#), press release, 17 February 2016

⁶⁰ National Day Nurseries Association, [Annual Nursery Survey 2016 - England](#), February 2016, p15

6.2 Family and Childcare Trust (February 2016)

The Trust's survey found that "only 45 per cent of councils in England had enough childcare for parents who work full-time", and in particular noted that "childminder numbers and places in pre-schools and sessional creches have declined since the 2006 [Childcare Act]".⁶¹

The Trust argued that:

Shortages of childminders may also compromise the Government's plans to offer parents additional hours of free early education in 2017 ... While many parents will want to take their extra free hours in the same setting, it is uncertain whether all providers will be able to accommodate additional parental demands. At present 58 per cent of three and four year olds receive their free early education in public sector provision, most usually in nursery and reception classes attached to primary schools. Limited physical space for expansion, a lack of capital funding and the 'baby-boom' – leading to competing demands for 5-11 place growth – may act to prevent schools from expanding their nurseries. Without premises expansion, it is likely that many schools will be unable to offer more than 15 hours of free early education per week, and probably would not want to do so, as this would mean halving the number of children to whom they offer high quality early education places. For example, a school would face a decision to offer 15 hours free early education to 100 three year olds, or 30 hours to 50 three year olds.⁶²

The Trust sent a survey to all local authority Family Information Services in England and Wales, and Children's Information Services in Scotland in November 2015. A total of 197 responses were received from 206 local authorities.⁶³

6.3 Pre-school Learning Alliance (April 2016)

The Alliance reported that its survey on the extended entitlement found that:

1. 49% of providers think there's a risk that they could close as a result of the 30-hour free childcare extension (with a further 1% already planning on closing)
2. 48% think that the 30-hour offer will cause them to reduce the number of places they offer to other age groups
3. 50% don't feel confident that they have the capacity to meet the demand for places under the 30-hour offer
4. 58% expect the 30-hour offer to have a negative financial impact on their business
5. 19% aren't planning to offer the 30-hour offer, while a further 51% aren't sure – in comparison, 98% of respondents currently offer the 15 hour free entitlement.⁶⁴

The chief executive of the Pre-school Learning Alliance, Neil Leitch, said:

"These figures are a stark warning of what could happen if the government insists on rolling out an underfunded, under-resourced free entitlement offer. While we welcome plans to increase average early years funding rates as an important first step, independent research has shown that, with continued cost pressures including the introduction of the 'national living wage', this will still leave a significant funding gap for early years providers. Given that the move to 30 hours means that most providers will no longer be able to cross-subsidise in order to plug this gap, it's no surprise that so many are fearing for their future".

⁶¹ Family and Childcare Trust, [2016 Childcare Survey](#), February 2016, pp4 and 7

⁶² As above, pp41–42

⁶³ As above, p13

⁶⁴ Pre-school Learning Alliance, [Childcare providers fear closure over 30-hour offer, survey reveals](#), press release, 20 April 2016

[...]

“This policy has been sold as a solution for working parents, but unless the sector is adequately supported to deliver it, it’s only going to create more problems.

“We want the 30-hour offer to be a success, for the sake of both parents and providers, but the only way that this will happen is if the government and the sector work together. As such, we look forward to working in partnership with the DfE on addressing these serious concerns and working towards our shared aim of a quality, affordable and, crucially, sustainable early years sector”.⁶⁵

There were 1,443 responses to the survey which was conducted online in March 2016.

6.4 Pre-School Learning Alliance (April 2017)

A survey by the Alliance of 1,332 childcare providers conducted in March 2017 found that “just 44% said that they plan to offer the 30-hours, compared to 95% who currently offer the existing 15-hours offer”. The Alliance reported that:

Six out of 10 providers asked said that the funding rate for the 30-hours does not cover their delivery cost and a quarter of providers said they were likely to close as a result of the offer.

Those that said they were expecting the 30-hours offer to have a negative effect on their business were planning a number of steps to limit the damage. Just over half of those asked said that they would increase their fees for additional, non-funded hours and just under half said they would charge extra for goods and services that they have previously offered for free. Four in 10 said that they were planning to restrict the times and days when the funded hours could be used.⁶⁶

⁶⁵ As above

⁶⁶ Pre-school Learning Alliance, [Less than half of providers plan to offer 30-hours, survey suggests](#), news story, 3 April 2017

7. Launch of the extended entitlement and early findings

7.1 Treasury Select Committee report on childcare (March 2018)

In its wide-ranging report entitled *Childcare*, the Committee posed the question “is there a funding shortfall?” and noted that the National Day Nursery Association (NDNA), the Pre-School Learning Alliance and Professional Association for Childcare and Early Years had stated that “the level of funding provided by the Government was insufficient”.

The NDNA told the Committee that “the introduction of 30-hours funded early years entitlement has directly threatened the business viability of nurseries in England”. What the NDNA described as “chronic insufficient funding from central government” had also meant that “15 per cent of nurseries (rising to 19 per cent in London) have told us [the NDNA] they don’t intend to deliver 30-hours funded places”.

However, the Committee noted that it had received evidence “that demonstrated how the 30-hours had improved outcomes for children and their parents”, with one nursery saying that “the 30-hour funding has had a significant impact on learning and development and attainment for those children who have accessed it”, and that “a number of families who are ‘just about managing’ have benefited significantly from having 30-hours”.⁶⁷

The Committee noted that “research conducted by Ceeda in the 2017–18 autumn term, found that only 46 per cent of the places offered under the 30-hours entitlement are completely free of charge”, with parents being asked to pay for additional services such as food and activities as well as restrictions being placed on when the free childcare could be taken.⁶⁸

The Committee contended that while “the Government has stated that it provides £4.94 per hour to fund 30-hours free childcare”, in the view of the Committee “such a figure is misleading firstly because not all this money is passed onto childcare providers—a proportion is retained by local authorities—and secondly, because it includes money for some specific schemes, such as the Early Years Fund, which many providers do not receive”. It highlighted that “the average rate passed on to private, voluntary and independent providers was £4.34 per hour”.

The Committee said that it had “not seen any evidence to justify the Chief Secretary to the Treasury’s evidence that the increases in the National Living Wage have been factored into the hourly rates provided by central Government to local authorities and childcare providers”, and that it was “highly likely” that other costs pressures were also not taken into consideration, such as “pension auto-enrolment and business rates”. The Committee therefore recommended the following: “The Government must ensure that the hourly rate paid to providers reflects their current costs. It should also ensure that the hourly rate is updated annually in line with cost increases”.

It also recommended that:

⁶⁷ Treasury Committee, [Childcare](#), 2017–19 HC757, 25 March 2018, p30, para 97–99

⁶⁸ As above, p31, para 100

The Government should explain how it is ensuring that no lower-income parents lose out as a result of its decision to fund 15-hour free childcare to all parents regardless of income, and 30-hours free childcare for parents with incomes up to £100,000.⁶⁹

7.2 Government responses to the Treasury Committee report (June 2018) and recent parliamentary questions

Response to the Treasury Committee's report

In its response to the Committee's two recommendations on the 30 hours of free childcare, the Government said that the hourly funding rate of £4.94 for three and four year olds "was based on DfE's 'Review of Childcare Costs'" and that this review "factored in modelling of current and future cost pressures" although it added that the "DfE will continue to monitor delivery costs".

The Government noted that the National Audit Office had described the DfE's review as "thorough and wide ranging", and that, in the Government's view, the "average hourly funding rate to authorities for three- and four-year-olds also compares very favourably with published independent research into the hourly cost of childcare".

It was also noted that the DfE had "introduced a business sustainability package and is working with partners to make available further materials to support providers to help them deliver high quality childcare and early education".

On the Committee's second recommendation concerning the impact on low-income households of the Government's childcare funding policies, the Government said that: "the national rollout of 30 hours for three and four year-olds has been successful, and DfE's recent evaluation of Early Implementation and Early Rollout found no negative impact on the existing free entitlements".

Noting that an evaluation study examining the first year of the 30 hours policy would be published in September 2018 (see section 7.4), the Government added that the DfE "continue to monitor delivery costs and have commissioned new research to provide robust and detailed cost data of under five-year-olds from a representative sample of early years providers".

In terms of the impact of the extended entitlement on parents' working hours:

Early implementation and early rollout evaluation reports have shown that 30 hours made a significant difference to families' lives in early delivery with almost a quarter of mothers and almost a tenth of fathers reporting that they had increased their work hours as a result of the extended hours. This effect was notably stronger for families with relatively low incomes—lone parent families need only earn just over £6,500 and couple families just over £13,000 to be entitled to the additional hours. In addition, the childcare element of UC [Universal Credit] provides direct support with Childcare costs, with support for up to 85% of eligible costs as of April 2016.⁷⁰

Selected answers to parliamentary questions

In May 2018, the Parliamentary Under Secretary of State for Children and Families, Nadhim Zahawi, told the House that:

The department is still in the first year of national delivery of 30 hours free childcare which rolled out in September 2017. 294,000 children benefited from a 30 hours

⁶⁹ As above, pp34 and 35, paras 110, 111 and 113

⁷⁰ Treasury Committee, [Childcare: Government Response to the Committee's Ninth Report](#), 2017–19 HC 1196, 20 June 2018, pp7–8

place in the spring term which, representing 89% of those who received an eligibility code.

The independent evaluation of our early rollout areas showed that 83% of providers who were delivering the existing entitlements were willing and able to deliver 30 hours free childcare. According to the termly statistics published by Ofsted in March 2018, the number of places offered by providers on the Early Years Register (EYR) has remained stable at approximately 1.3 million since 31 August 2017. The number of places offered by non-domestic providers has increased slightly, while the number of childminder places has fallen slightly. The department will continue to monitor childcare provision going forward, via the Ofsted statistics and engagement with the profession.

The quality of childcare has remained stable with 94% of providers on the EYR judged to be good or outstanding as at 31 December 2017 – the highest ever percentage.

The independent evaluation reports of the early implementation and early rollout of 30 hours free childcare found no substantial adverse impact on the existing free entitlements. The department's delivery support contractor, Childcare Works, has been working with providers and local authorities to promote the continued importance of the existing entitlements within the wider 30 hours free childcare delivery context.⁷¹

In a separate answer given later that month on a question concerning nursery closures, the Minister noted that "no nursery needs protecting from the introduction of 30 hours free childcare as providers don't have to offer places if it doesn't work with their business model", adding that:

In fact, evidence from the evaluation of early delivery of 30 hours free childcare found that the majority of providers already delivering early years entitlements were willing and able to deliver 30 hours free childcare.

By 2019-20, we will be spending an extra £1 billion annually on higher funding rates to deliver 30 hours free childcare. The rates are based on our review of childcare costs, which was described as both thorough and wide-ranging by the National Audit Office. We continue to monitor the delivery costs of early education and have commissioned new research to provide us with robust and detailed cost data of under five-year-olds from a representative sample of early year's providers.⁷²

In subsequent answers, the Minister added that "by 2019-20 we will be spending around £6 billion on childcare support – a record amount".⁷³

7.3 National Day Nurseries Association survey (June 2018)

In its 2018 Nursery Survey England, the National Day Nurseries Association (NDNA) said that "the way government funds the 30 hours 'free' childcare policy is not up to scratch", adding that "outdated and complex funding arrangements are putting huge strains on nurseries which have unintended consequences for the sector". It argued that:

The overwhelming majority of settings say the hourly rate does not cover the costs of providing quality childcare. The policy's rollout is directly threatening the viability of many in the sector.

Funding rates for 2018/19 in England are frozen across 70% of local authorities and 21 local authorities are seeing funding drop. Among them are some of the most deprived areas in the country, including Liverpool, Sunderland, Bradford and Stoke-

⁷¹ [PQ 139475 3 May 2018](#)

⁷² [PQ 145298 25 May 2018](#)

⁷³ [PQ 166217 24 July 2018](#)

on-Trent. A total of 47 local authorities receive the lowest possible rate of £4.30, with 22 of these areas being in the North of England.

In order to cope, nurseries are having to increase fees. The rate of fee increases is growing as nurseries must offset greater losses on hours of funded childcare. Furthermore, many nurseries are having to make additional, or optional, charges to parents with children in funded places. As a result, more disadvantaged families with children in 15 hours places are having to pick up the costs. This inadvertently transfers the burden onto disadvantaged children who need support the most. Strikingly, almost a third of our respondents intend to limit the number of funded places they offer in the future. Despite government's recent funding reforms, nurseries are still not seeing the funding rates they need at a local level. Many say they cannot cover their costs or continue to operate sustainably.

In terms of funding for three and four year olds, the NDNA reported that:

Our survey results show that, since the introduction of the 30 hours in September 2017, the majority of nurseries (90%) are providing funded places for three and four-year-olds. However, as providers have reported, they are only able to do so by limiting the places they offer and by charging parents for extras. Nurseries have also explained they feel under pressure to provide the 30 hours, as they are worried they will lose vital business if they do not.

Most significantly, 87% of settings say the hourly funding rate does not cover their costs, an increase from last year's survey.

While our survey results showed the average hourly rate nurseries receive has increased – £4.25 in 2018 compared to £3.94 in 2017 – the average shortfall per child, per hour, has risen. It now amounts to £1.90 or an annual loss of £2,166 per child, per year for 30 hours a week during term time. This is a marked increase from our 2017 survey, where the average hourly shortfall came to £1.68 or £958 per year.

By doubling the number of funded hours without increasing the hourly rate, the government has more than doubled the average annual shortfall providers incur.⁷⁴

7.4 DfE research report (September 2018)

In September 2018, one year after the nationwide roll-out of the extended entitlement, the DfE published an evaluation of the first 12 months in a research report it had commissioned, written by Frontier Economics and the University of East London, alongside three other related reports.⁷⁵

Based on data taken from providers in 12 local authority areas that were chosen because of their "balanced mix of local childcare provision, early years policy (such as funding rates), and regional and socio-economic context", the report's findings included that:

- Overall, LA staff reported no problems in meeting demand for extended places. There had been no or rare complaints from parents who could not get an extended place and feedback from providers suggested there were no major gaps in provision;
- However, due to the lack of reliable eligibility estimates discussed earlier, LAs had little evidence to establish take-up among all eligible parents, including take-up among families who face potential barriers (such as children with additional needs, ethnic minorities and low income families);
- all LAs believed that, so far, the extended offer had not affected the availability of other funded places and some thought this was likely to continue to be the case in future. However, in other LAs, feedback from some local providers had

⁷⁴ National Day Nurseries Association survey, [Nursery Survey England](#), June 2018, pp2, 4 and 8

⁷⁵ Namely: [Childcare and early years survey of parents: 2017 follow-up survey](#), [Early education and outcomes to age 4](#), and [Take-up of free early education entitlements](#).

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raised concerns that there could be adverse consequences going forward and some had already acted to prevent future sufficiency problems;

In terms of responses from providers, the study found that:

- most extended hours places were delivered by private providers: according to the census data, 61 percent were delivered by private providers, while 16 percent were delivered by school nursery classes, 10 percent by voluntary providers and 8 percent by childminders;
- just over three quarters (76 percent) of funded providers (those delivering any free entitlement places) delivered the extended hours, but this proportion varied from 67 percent to 84 percent across LAs;
- business consequences were the most important factors in the decision to deliver, both in terms of a positive fit with the providers' delivery model and in terms of a negative risk of losing parents. The degree of focus in purpose on delivering childcare and providing support for working parents played a much smaller role.

The study found that the extended entitlement provision "had mixed financial impacts for Providers", with 39% of providers reporting that there had been a reduction in their profit or surplus due to the extended hours, while 46% reported no impact and 16% reported that their profit or surplus had increased. It added that "62 percent of providers reported that their parent paid fee was higher than the funding rate, although this proportion was notably higher for private providers than other types".

In addition, "almost a third (32 percent) of providers reported that delivering the extended hours meant that they had crossed a threshold between being in profit or surplus; just about breaking even; and being in loss".

In terms of access to the extended entitlement by parents, the survey reported that:

32 percent of three and four year olds using the universal free entitlement used extended hours in January 2018. This proportion varied from 21 percent to 47 percent across the LAs reflecting differences in eligibility rates and take-up (but it was not possible to distinguish between these). The proportion was higher for children aged four, without the EYPP (Early Years Pupil Premium), without SEN (Special Educational Needs), living in rural areas and of white ethnicity. Unsurprisingly given the eligibility requirements, the survey showed that parents using the extended hours tended to be from the higher end of the income distribution and to be more highly educated.

In terms of reasons for parents using the extended entitlement, it was found that:

the main reason that most parents used the extended hours was to support them working (52 percent reported the main reason as helping a parent to work or to work longer hours), while reducing the amount spent on childcare was the main reason for around a third (36 percent) and supporting the child's development for 11 percent. These responses differed across income level, with support for parent's work and the child's development more prevalent reasons for families in the lower income group and reducing childcare payments the most common reason for families in the higher income group.⁷⁶

7.5 CEEDA report (September 2018)

Ceeda, a research company, published its 2017/18 annual report at the end of September 2018. An article on *Nursery World's* website summarised the key points of the report, including that "for three- and four-year-olds, average funding rates of £4.34 [after the amount that a local authority can retain for central services has been deducted] have

⁷⁶ Department for Education, [Evaluation of the first year of the national rollout of 30 hours free childcare – Research report](#), September 2018, pp10 and 13–22

increased by just 1.8 per cent in real terms since 2013/14, with average hourly costs 17 per cent higher than funding rates at £5.08”.

The report noted that “funded hours now account for 58 per cent of a setting’s occupied hours on average. As expected, this has increased since the full roll-out of the 30 hours entitlement in September 2017, when it stood at 52 per cent”, and therefore reduced the opportunity for cross-subsidisation (of Government-funded provision by privately-purchased hours), Ceeda’s report contends that “the market’s ability to recoup costs across the customer base is increasingly challenged by the expansion of funded provision at rates which have failed to keep pace with costs”.

The *Nursery World* article also noted that, according to Ceeda:

The pipeline of early years staff has shrunk, ‘due in large part to the removal of functional skills as an alternative to GCSEs’ for Level 3 qualifications, notes the report. Between July-September 2012 and the same period in 2016 there was a drop of 41 per cent (20,820 to 12,325) in certifications of Level 3 childcare qualifications. There was a slight recovery to 13,275 in 2017, and the report notes the upward trend is continuing ‘though full recovery will take time if indeed it is ever achieved given the labour market and funding trends’.⁷⁷

⁷⁷ [“CEEDA DATA: 2017/18 annual report - Pressure and pride”](#), *Nursery World*, 30 September 2018

Other Library briefings on childcare

- [New early years funding formula from 2017-18, including maintained nursery schools \(England\)](#)
- [Childcare: "30 hours" of free childcare – eligibility, access codes and charges \(England\)](#)

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