Suffolk County Council

C

Committee:	Schools Forum
Meeting Date:	14 January 2016
Title:	Financial pressures in Early Years
Author:	Alison Manning, Strategic Lead Early Years and Childcare and Fiona Heath, Schools Funding Policy Manager, Resource Management
Decision making / consultative / information:	Information

What is the Forum being asked to decide?

1. The Forum is being asked to note the information in the paper and the potential implications for the Early Years sector in the future and more generally it follows from discussion about pressure on schools budgets at the July meeting of the Forum.

2. This paper is the first of two papers, the second of which will be presented at a future meeting and will include specific data collected from Suffolk Private, Voluntary and Independent (PVI) early years providers on the costs of providing early years places, in a similar way to the paper presented by Secondary Heads. The second paper will also be informed by future decisions taken by the DfE.

Reason for recommendation

3. No specific recommendation however, Schools Forum is asked to note the current government agenda for the Early Years sector and the financial implications of these. These issues will need to be considered when looking at the resource distribution and budget for 2017/18.

Alternative options

4. As there are no recommendations in this paper no alternative options are presented.

Who will be affected by this decision?

5. As noted above, the Government policies in relation to the Early Years sector will have an impact on all early years providers as well as children and families.

6. Should a decision be taken at any point in the future to reallocate funding between blocks this would affect schools and/or high needs blocks.

Main body of the Report

Background

7. This paper sets out the forthcoming pressures facing the early years and childcare sector and in particular, the private, voluntary and independent (PVI) part of the sector. The pressures stem from national policy changes which the letter at annex A from a provider to Nursery World seeks to outline. However, concern amongst this sector about business financial viability is not new; it has been an issue which has been a high priority for Suffolk to understand and address for some time. It may be helpful therefore to consider the changes that have already taken place to support the early years sector in Suffolk before the current issues are explored.

8. In summary, DSG Early Years block has been redistributed over a period of four years in order to increase the hourly rates for the free entitlement of 15 hours per week for 38 weeks a year. The key milestones are outlined in table 1 below and further background information is available in the paper prepared for the Resource Allocation Working Group and Value for Money Group in November 2014 at annex B.

Table 1

Key dates	Strategic changes	Overarching outcomes
2011	Restructure and reduction of County Early Years and Childcare Service (EYCS) as part of wider CYP directorate restructure.	Reduction in budget available for county EYC service.
2013 January and July	DfE papers published outlining the requirement for Local Authorities to pass more funding to providers.	Review of county EYCS and Suffolk Early Years Single Funding Formula.
2014	Further restructure and reduction of County EYCS in order to pass further funding to providers.	Increase in hourly rates for Suffolk EY sector from April 2014.
2015	Savings from 2014 EYCS restructure released to providers. Schools Forum advised of overspend on free entitlement budget for 3 and 4 year olds. Childcare Bill - Government announces 30 hours of free early education/childcare for working parents from September 2017	Further increase in hourly rates for Suffolk EY sector from April 2015. Schools Forum agreed additional in year funding of £500K together with additional place funding from the DfE of £622K.

9. As a result of the above changes and in partnership with the Early Years Sector, the Early Years and Childcare Service is proud to report that the effective use of resources has recently delivered a number of significant successes.

10. These include:

- A year on year improvement in the Early Years Foundation Stage Profile since 2008 and for the first time, results in 2015 which are better than England;
- 89% of PVI providers are offering a Good or Outstanding setting for our youngest children;
- 79% of eligible 2 year olds, 91% of 3 year olds and 94% of 4 year olds taking up a free place;
- An increase in the percentage of PVI providers with staff qualified at QTS or equivalent. Suffolk compares well at 40% with the East of England and all England highest of 46% and 42% respectively. This enables providers in Suffolk to claim the higher hourly rate.

11. These successes are important because it means that more of our youngest children are in receipt of a high quality early learning experience and therefore much better prepared for school.

12. There is a wealth of evidence which supports the premise that where 2, 3 and 4 year olds access high quality early education there can be lasting benefits to their social, physical and mental development, including helping them to prepare for school. This is particularly relevant for disadvantaged children however; the benefits exist for all children.

13. It is therefore vital to ensure that appropriate resources are available to support the continued development and sustainability of high quality places for Suffolk's youngest children, thereby making a lasting impact for each child and strategically 'raising the bar'.

14. In order to ensure the effective use of resources in the future there is a need to know about and understand the issues faced by the early years sector.

The future

15. The Early Years sector and in particular the PVI, is currently anxious about the future and the impact of forthcoming changes announced by the Government in 2015 on their budgets and longer term sustainability.

16. These include three non-negotiable changes where providers will need to bear the costs:

- The announcement in the 2015 budget that workers over 25 will be entitled to the national living wage (NLW) of £7.20 per hour from April 2016. Clearly this will have a direct impact on a provider's on-costs where they employ staff over 25 years. There may also be an indirect impact as some pay rates may need to increase in order to maintain the pay differentials to reflect qualifications.

  It also worth noting that this planned change will not impact the maintained sector in quite the same way, this is because the staff in Nursery classes are required to hold QTS and are already paid in excess of £7.20 per hour.

It is a known fact that the PVI sector as a whole would generally want its staff to be paid more and it welcomes the principle of the NLW, but unfortunately, what a provider can pay is directly related to their income.

A provider's income is in turn, related in part, to the funding it receives from the Local Authority for the eligible 2, 3 and 4 year olds in its care. (Current rates paid by Suffolk can be seen at table 3 below).

As a result of the introduction of the NLW there will be additional National Insurance (NI) costs for both employers (and employees).

It should be noted that there will be some support for smaller businesses as they will receive a government subsidy by ensuring that a company could employ up to 4 people full time on NLW and pay no NI at all. This is known as the Employment Allowance. Initially set at £2K it will increase to £3K in 2016.

- The introduction of auto-enrolment contributions, again from April 2016, will be a further cost pressure for providers.

The Childcare Bill 2015

17. In addition to the above changes, the Government also announced in 2015 that working parents will be entitled to 30 hours of free childcare from September 2017.

18. The Childcare Bill 2015 is continuing its journey through Parliament and so the full detail of this new policy is not yet known.

19. The most recent development is that 30 hours free childcare for parents will be available to those working 16 hours or more, an increase from the initial thinking of 8 hours or more. This is likely to reduce the number of additional places required in the market but could still impact a setting's sustainability as outlined in table 2 below.

20. The recent article in Nursery World at annex C provides further insight and raises questions on funding the 30 hours.

21. ***Table 2 – figures are based on current funding rates and a setting's fees in Suffolk.***

Child in setting for 25 hours per week	Total income from local authority per week at highest rate of £4.24 per hour	Total income from parent per week at Provider hourly rate/fee of £4.98	Total income per week for provider
15 hours free	£63.60	£49.80	£113.40
When up to 30 hours are free for working parents of 3 and 4 year olds	£106	£0	£106 = Reduction of £7.40

22. This simple example illustrates the issue causing concern for the PVI sector and is based on just one child's income. It shows the provider will be receiving £7.40 less per week for the same child and number of hours taken up. When the full impact of the loss of income from parents' fees is factored in for additional children at the setting and across the year it means the setting would have a deficit of £8,436. This could seriously affect a providers decision to deliver the additional 15 hours free of charge. If providers are not sustainable this will impact Suffolk's ability to meet its duty to secure sufficient places for parents.

Next Steps in response to these pressures

23. The Early Years and Childcare Service has supported the Early Years and Childcare Consultative Forum (including the 2 Early Years Schools Forum representatives) to survey the Suffolk PVI sector about their costs and the impact of the increases. To date, there have been 139 responses including 60 providers who are willing to provide more detailed information.

24. There have been a number of additional sector specific policy announcements in the Comprehensive Spending Review in November 2015 which also need to be noted.

25. The Government has committed to a consultation on what a national Funding Formula for the Early Years sector might look like and it expects to undertake this work early in 2016, with a planned implementation in April 2017.

26. It also announced that national average funding rates will be increased from April 2017 as follows:

    - For 3 and 4 year olds from £4.51 per hour currently to £4.88 per hour including £0.05p per hour for Early Years Pupil Premium.
    - For eligible 2 year olds the national average hourly rate will be £5.39.

    *Whilst these rates are national averages it has not previously been the case that the rates are allocated to Suffolk.

27. The current rates paid by Suffolk are illustrated below.

28. **Table 3**

Free entitlement for Maximum of 15 hours per week over 38 weeks a year (total of 570 hours)	Suffolk rates 2015/16 and 2016/17	National average rates to be increased from April 2017*
Eligible 2 year olds	£5.15 per hour	£5.39
All 3 and 4 year olds		£4.88
Band A Qualified Teacher Status (QTS) or Early Years Professional (EYP) Status or the new EYTS	£4.24 per hour	
Band B Qualifications at Level 5/6	£4.13 per hour	
Band C Qualifications at Level 4	£3.92 per hour	
Band D Qualifications at Level 3	£3.71 per hour	
Band E Registered Childminder not qualified at Level 3 or above	£3.50 per hour	

29. Further information on additional payments available for Suffolk providers can be found at:

http://www.suffolklearning.co.uk/suffolklearning_images/users/Early_Years_Team_CYP/2015MAYLOPSectionC.pdf

30. The data from the Provider survey and any national decisions the Government takes in relation to a national funding formula and its implementation, the actual amounts per hour available for Suffolk from April 2017 and any further changes to the Childcare Bill 2015 and the likely impact on providers will be used to inform the second paper to Schools Forum.

Conclusions

31. There are new cost pressures for early years providers from NLW, NI, auto enrolment and the provision of 30 hours childcare. When combined with the existing pressures this presents a significant financial challenge to the sector and in particular for the PVI.

32. At this stage the financial implications cannot be fully quantified, hence the need for a further paper.

33. If these financial issues are not addressed satisfactorily this could result in provider failure, the implications of which are that the local authority would not meet its statutory duties to secure sufficient early years places and therefore children's school readiness will be seriously compromised. Clearly this will impact on subsequent key stages and it is important that this risk is recognised and mitigated.

Previous Schools Forum papers for further information

Paper F – Schools Forum 28 June 2013

http://www.suffolklearning.co.uk/cms/view_folder.asp?rootid=6&depth=5&level1=6&level1id=6&level2=3379&level2id=3379&level3=3381&level3id=3381&level4=3511&level4id=3511&nextlevel=3526&folderid=3526

Paper C - Schools Forum 18 October 2013

http://www.suffolklearning.co.uk/cms/view_folder.asp?rootid=6&depth=5&level1=6&level1id=6&level2=3379&level2id=3379&level3=3381&level3id=3381&level4=3511&level4id=3511&nextlevel=3525&folderid=3525

Paper B - Schools Forum 13 December 2013

http://www.suffolklearning.co.uk/cms/view_folder.asp?rootid=6&depth=5&level1=6&level1id=6&level2=3379&level2id=3379&level3=3381&level3id=3381&level4=3511&level4id=3511&nextlevel=3524&folderid=3524

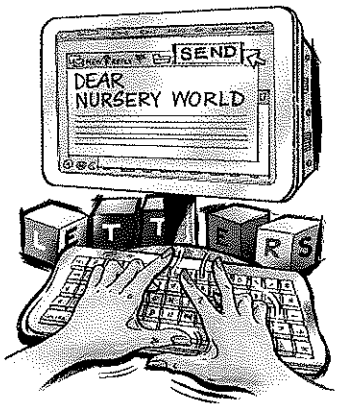
SEND YOUR LETTERS AND COMMENTS TO...

The Editor, Nursery World, St Jude's Church, Dulwich Road, London SE24 0PB

letters.nw@markallengroup.com

Twitter @NurseryWorld
Facebook www.facebook.com

LinkedIn Nursery World group www.linkedin.com



STAR LETTER
TIME FOR CHANGE

As a sole trader who runs a pack-away pre-school in a church hall, I am looking for a career change once I have completed my BA in Early Years ('Editor's view: Drowning in paper', 2-15 November).

Local authority savings have indirectly increased my workload and costs as have increases in minimum wage, pension, vat etc.

I am unable to keep a contingency fund without it being treated as my money and subject to tax and national insurance, so each year is budgeted on a term-by-term basis to ensure I can pay my rent and wage bill. I get what is left at the end, which results in paydays in July and April and, if I am fortunate, sometimes also in December. A hike in rent of 33 per cent has caused extra stress to try and save even more costs.

The local authority response to this was to open more hours. Their reasoning was that we could take more children and increase our funding. However, these additional hours incur extra costs in the form of rent and staff. Without the ability to charge parents a 'top-up' on the free entitlement, the only actual way to increase income is to make parents take up more than the free entitlement and charge them excessively for this.

Since the Coalition Government took office in 2010, I have received two increases in the early years free entitlement: one for 1p per child per hour and the other for 11p per child per hour.

I gave a detailed response to the recent Government consultation, but the Government claimed that this consultation did not give it the information required. I cannot spend what I don't receive. The only recourse is to cut my takings further, but I am no longer prepared to work a 30-hour week (including admin) for less than £9,000.

I can reduce my stress levels by working in my local supermarket for this money and when I leave at the end of the day I can relax and switch off.

Linda, online

Our star letter wins £30 worth of books

UNAFFORDABLE

Re 'Tax credit cuts a "mistake" when savings can be made elsewhere', online, 6 November.

I was at the Resolution Foundation presentation. I found some of the opposing comments offensive, in that critics were claiming that employers deliberately offered low wages so that employees could claim tax credits and employers could make more profit.

That may be true for the larger employers, but no one spoke in defence of smaller employers, such as the childcare sector, in that we can only afford to pay wages commensurate with the underfunding we get from Government.

Keith Appleyard, online

EXPERT VOICES

Re 'Secret Life of Four-Year-Olds returns as a series', online, 2 November.

Wonderful insight into children's development, but why don't teachers/practitioners get a say? With respect to the psychologists involved, the teachers employed to work with the children do this every day; it's a shame they don't get any acknowledgement.

Ali MacIntyre, online

HELP WANTED

I wondered if anyone would be willing to help? I'm currently in my final year of my BA Hons in working with children young people and families. For my dissertation I am looking at how the free funding entitlement influences 'child readiness for school'.

I'm looking to hear from Reception teachers about the difference they find between the children that attend school from a nursery as opposed to straight from home.

With the expansion to 30 hours, I'm keen to assess whether it has a developmental benefit for the children who access it.

Please email any comments to charjhall77@gmail.com. All your comments will remain anonymous and I will send you a letter of consent via email. I look forward to hearing your thoughts.

Charlotte Hall, by email

DOING WELL?

Well – here we are again ('More five-year-olds achieving a 'good level of development', 14 October, online).

The EYFS Profile results for England have just been published. Physical Development does brilliantly – along with 'technology.' More than 90 per cent of children gained an 'expected' level in both domains.

When we know that 90 per cent of young children are not experiencing a level of physical activity to support their overall health and well-being – obesity rates for this age group remain alarming – and oral health is woeful, the statistics seem to bear very little relation to reality.

As for 'technology' – one of the prime reasons for low activity levels and sedentary behaviour is known to be the rise in use of digital technology.

So, where is the incentive here for practitioners to fully support health initiatives when – in education terms – children are physically doing just fine?'

Dr Lala Manners, director, activematters

QUOTE OF THE WEEK

@resfoundation @NurseryWorld morally no excuse for anyone employing cleaner gardener child care personally paying less than #LivingWage *@Guy_Stallard*

● Go to Twitter @NurseryWorld

EDITORIAL 020 7501 + direct extension; news.nw@markallengroup.com **Editor** Liz Roberts (6693) **Deputy Editor** Ruth Thomson (6695) **News and Online Editor** Catherine Gaunt (6696) **Section Editor** Hannah Crown (6770) **Senior Reporter** Katy Morton (6697) **Art Editor** VeeSun Ho (6797) ADVERTISING 020 7501 + direct extension **Advertising Manager** Jacki Rosendale (6698) **Senior sales executive** Rachael Sarson (6699) **Group Classified Sales Director** Rachel McElhinney (6728) **Classified Sales Manager** Lauren York (6686) **Events Manager** Ed Wyre (6742) BUSINESS **Managing Director** Matt Govett **Production Director** Richard Hamshere **Group Production Manager** Jon Redmayne **Chief Executive Officer** Ben Allen **Chairman** Mark Allen

NURSERY WORLD is published by MA Education Ltd, St Jude's Church, Dulwich Road, Herne Hill, London SE24 0PB. Registered at the Post Office as a newspaper. Printed by Pensord Press Ltd, Pontllanfraith, Blackwood, Gwent NP12 2YA SUBSCRIPTIONS www.magsubscriptions.com 0800 137201; **UK Personal subscription rates:** Quarterly Direct Debit £24.20, Annual Direct Debit £95.70, Annual Credit Card £112.20 (plus VAT, inc P&P).
Vol 115 No4382 ISSN 0029 6422

MA Education Ltd is part of the Mark Allen Group

A MARK ALLEN GROUP PUBLICATION

recycle When you have finished with this magazine please recycle it.

The paper used within this publication has been sourced from Chain-of-Custody certified manufacturers, operating within international environmental standards, to ensure sustainable sourcing of the raw materials, sustainable production and to minimise our carbon footprint.

ILLUSTRATION: DON SEED

Early Years and Childcare

Budget Briefing paper for Resource Allocation Working Group and Value for Money Group

4th and 5th December 2014 respectively

Context

The local authority has a number of statutory duties under sections 6, 7, 7A, 9A, 12 and 13 of the Childcare Act 2006. These are set out in the Early education and childcare statutory guidance for local authorities, September 2014 published by the DfE.

Specifically the duties are:

- Section 6, which places a duty on English local authorities to secure sufficient childcare for working parents.
- 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.
- 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.
- 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.
- Section 12 which places a duty on English local authorities to provide information, advice and assistance to parents and prospective parents.
- Section 13, which places a duty on English local authorities to provide information, advice and training to childcare providers.

The Early Years and Childcare Service has specific responsibility for ensuring these duties are discharged.

The importance of high quality early education for 2, 3 and 4 year olds

There is a wealth of evidence which supports the premise that where 2, 3 and 4 year olds access high quality early education there can be lasting benefits to their social, physical and mental development, including helping them to prepare for school. This is particularly relevant for disadvantaged children however; the benefits exist for all children.

It is therefore vital to ensure that appropriate resources are available to support the continued development and sustainability of high quality places for Suffolk's

youngest children, thereby making a lasting impact for each child and strategically 'raising the bar'.

Background

In January 2013 the Early Years and Childcare Service embarked on a significant piece of work to look into the financial issues faced, in particular, by the private, voluntary and independent (PVI), early years and childcare sector. This was with the aim of passing more funding to providers (i.e. retaining less within the LA) and in the context that no new funding was available from the government.

At the same time, the government launched the first of two consultation documents which included a proposal that local authorities should aim to pass more funding to providers. For reference, links to these documents can be found in the Sufficiency report embedded below.

The outcome of both Suffolk's and the government's work is outlined in the following documents:

1. The Sufficiency report produced by Graham Lovitt, Consultant to the Early Years and Childcare Service.

Sufficiency Report

2. The paper (C, EYSFF SF) presented to and agreed by, Suffolk's Schools Forum on 21st October 2013.

https://www.schoolsurf.suffolkcc.gov.uk/docs/unrestricted/Consultative_Groups/Schools_Forum/2013-10-18_Meeting_Papers/index.aspx

In summary, the Early Years and Childcare Service identified a sum of £500K in the Service's pay budget (posts held as vacant at the time) which it included in the Single Funding Formula and which was paid to providers in an increased hourly rate from April 2014.

Providers also received additional monies which were added to the hourly rate as a result of changing procedures for claiming for children with additional needs. The processes were thought to be unnecessarily bureaucratic for both the providers claiming, and the LA processing them. This approach was also in line with the schools funding formula and it was therefore agreed.

In addition, the Early Years and Childcare Service embarked on a re-structure during 2014, implementing a more streamlined service from September 2014 to reflect the changes required of local authorities by the DfE in the Statutory Guidance July 2013.

It was envisaged that these changes would be the beginning of a wider review of how the early years and childcare market is funded and supported by the LA in future.

The future for the Early Years and Childcare Sector in Suffolk

The statutory duties informed the redesign of the Early Years and Childcare service. To ensure the LA can meet its statutory duties it is clear that it must continue to have a role in developing and shaping the market particularly as the demand for places increases.
The increase in demand is affected in Suffolk by two key drivers:

1. The widening of the national criteria in September 2014 for eligibility for a 2 year old place to include approximately 40% of the 2 year old population (DfE estimates this to be 2721 in Suffolk) and
2. The housing developments across our county which require additional places for 2, 3 and 4 year olds to be available so that they are all to be able to take up their entitlement.

In addition, service staff and the broader CYP workforce continue to encourage families to take up their full 15 hours entitlement.

This responsibility is complex as it involves understanding the peaks and troughs of demand across the year both from a provider's perspective and a more strategic LA perspective.

The market continues to be affected by the throughput of children over the course of the year; for example, the PVI sector expects to have fewer children in their care in the autumn term because the majority of 4 year olds will take up their place in schools (the maintained sector). This requires the PVI provider to take a robust approach to financial planning in order to have sufficient funds to support it until an increased number of children and therefore income is available, usually in the spring and summer terms.

This cycle is unlikely to change even with the introduction of free early years and childcare places for 40% of two year olds from September 2014.

Budget issues

In summary, the allocated budget for the 3 and 4 year old places is not based on the actual take up. However, the payments made to providers are based on their actual claims i.e. the number of children and the hours they take up in their care. This is a statutory requirement. This means that the budget will overspend because it is less than the claims from providers.

Historically, the Suffolk LA budget allocation for 3 and 4 year old places has been less than that generated by the January census data which is then used by the DfE to calculate the total amount for early years places in Suffolk.

This year the budget allocation of £ **16,600,040** is expected to be overspent by £500K and it is anticipated that this will continue in future unless sufficient budget is allocated at the beginning of the financial year.

It should be noted that the 3 and 4 year old place budget is separate to the budgets used to run the Early Years and Childcare Service.

There are a number of reasons why the 3 and 4 year old place budget is no longer sufficient and will be overspent.

The early years and childcare market is changing:

1. Demand has increased – more children are taking up all or more of their 15 hours. It should be noted this is a positive, given the likely outcomes for children, families and the impact on 'raising the bar'.
2. The hourly rate has increased as previously described.
3. More providers are able to claim the highest rate because they hold higher qualifications. It should be noted this is a positive as evidence suggests higher qualifications have a significant impact on raising standards and therefore children's outcomes.

This year the over spend on the 3 and 4 year old free entitlement budget can be offset by an under spend on the 2 year old budget. This is because the 2 year old DfE budget allocation has been based on an estimate of take up, which is currently higher than the actual take up. However, going forward (from April 2015) this will not be the case, as the 2 year old allocation will be calculated in the same way as the 3 and 4 year old allocations, i.e. based on take up on census day in January of any one year.

To roll the 3 and 4 year old budget forward from one year to another does not therefore take account of the additional costs via the provider claims process which as described, is based on actuals.

Proposal

In order to avoid a year on year overspend on the 3 and 4 year old free entitlement budget and to create a sustainable service which can meet the DfE requirements of increased provision and de-centralisation of costs, it is proposed that the place budget is increased to a level that reflects the funding allocated by the DfE (based on census data).

This could be achieved by using the census count to inform the Suffolk LA budget allocation for 2, 3 and 4 year old place funding.

This approach would reduce the risk of the budget continuing to overspend in future years as a result of actual take up of places being greater than those that are funded.

POLICY

Does the 30-hour funding stack up?

Following the announcements made in the Chancellor's Autumn Spending Review, *Dr Jo Verrill*, managing director of research agency Ceeda, examines how providers will be affected financially

National hourly funding rates of £4.88 for three- to four-year-olds (including Early Years Pupil Premium), £5.39 for two-year-olds and narrower eligibility criteria for the 30-hour offer were among the key announcements in the Government's Autumn Spending Review.

Much is yet unknown about how the national rates, inclusive of administrative funds retained by local authorities, will translate into monies received by childcare providers in different parts of the country. Consultation commences in the new year on what a National Funding Formula might look like, with plans to introduce an Early Years National Funding Formula from April 2017.

Ceeda has been taking a look at the detail of the announcements and the assumptions underpinning DfE cost-modelling. We share our initial thoughts here.

Figure 1: England averages for three- to four-year-olds

	Private, voluntary and independent	Nursery schools	Primary nursery places
Average delegated budget allocated to providers per hour in 2015/16*	£3.99	£7.19	£4.22
Expressed as a % of the 2015/16 national rate of £4.51			
Average delegated hourly rate as a % of the national rate	88.5%	159%	94%
The national rate from April 2017 is £4.83			
April 2017 average delegated hourly rates if LAs distribute the new rate in the same way	£4.27	£7.70	£4.52

**Delegated rates as published by the DfE[2]. Rates include the hourly base rate plus LA defined supplements, e.g. quality, flexibility and deprivation. Figures exclude EYPP and discretionary funding for children with additional needs.*

THE HOURLY RATES IN CONTEXT

In this period of uncertainty it is helpful to place the announced rates in context so we can assess the challenges an Early Years Funding Formula will need to tackle. This can be done by looking at current distributions.

Looking first at funding rates for three- and four-year-olds, the DfE has confirmed that the EYPP element of announced rates is approximately £0.05 per hour. When this is deducted, the national rate for three- and four-year-olds will increase from £4.51 to £4.83[1].

Figure one shows how the 2015/16 national funding rate translated into monies paid to different types of provider, based on England averages. It then compares how this would look in April 2017 if local authorities distribute the new rate in the same way.

Assuming local authorities distribute the new rate in the same way as 2015/16 funds have been delegated, private, voluntary and independent providers (PVIs) can expect to receive an average of £4.27 of the £4.83 national hourly rate.

The Pre-school Learning Alliance commissioned Ceeda to produce forecasts of non-domestic PVI delivery costs using data from extensive research in 2014 and factoring in recent and forthcoming statutory pay and pension changes[3]. Forecasts for the financial year ending March 2017 indicate breakeven delivery costs will increase to an average of £4.68 per hour across the PVI sector, rising to £4.75 in graduate-led settings; leaving funding gaps of 10 per cent and 11 per cent respectively (www.ceeda.co.uk/news/our-latest-research-findings/counting-the-cost-of-a-national-living-wage).

Turning to the picture for funded two-year-olds, national rates will rise from £5.09 to £5.39 per hour in April 2017. According to DfE figures, local authorities paid PVI providers an hourly rate of £5.09 on average in 2015/16; equal to the current national two-year-old funding rate.

The average two-year-old rate paid to PVI providers in England has been falling consistently year on year from £5.20 in 2013/14 to £5.15 in 2014/15, and down again this year to £5.09. When the new rate is introduced in April 2017 it will represent a 3.7 per cent increase on rates paid four years previously.

Ceeda forecasts indicate average breakeven delivery costs in the financial year ending

PHOTO: ISTOCK

March 2017 of £6.19 across the PVI sector, rising to £6.43 in graduate-led settings; leaving funding gaps of 15 per cent and 19 per cent respectively.

CAN FUNDING GAPS BE NARROWED BY SLICING THE CAKE UP DIFFERENTLY?

In the case of three- and four-year-olds, funding gaps can potentially be narrowed where there is a significant shift in funding allocations. This may involve, for example, changing the way funds are distributed across providers and reducing the central spend retained by local authorities. There are, however, two important points to bear in mind.

The higher hourly rates paid to maintained nursery and primary school settings are associated with higher qualifications, pay and rewards for the workforce. It is a shared policy goal to improve qualification and pay levels in the PVI sector and any redistribution of funds must ensure that all parts of the sector can (continue to) recruit and retain a well-qualified workforce.

Second, local authority budgets are under increasing pressure as a result of austerity cuts; in the absence of ring-fencing, early years budgets remain vulnerable. Coupled with this, an extended 30-hour entitlement with complex eligibility criteria contingent on parents' changing circumstances is likely to increase local authority administration costs.

Turning to two-year-old provision, there is significantly less variance in the average delegated funds received by PVI, maintained nurseries and primary school settings. Furthermore, and again looking at PVI averages, authorities passed on the full national rate in 2015/16. It is therefore difficult to see any significant scope for reducing funding gaps within the proposed levels of investment.

WHY IS THE PROPOSED FUNDING UNLIKELY TO FULLY MEET DELIVERY COSTS?

National funding rates have been determined on the basis of cost-modelling produced by the DfE and detailed in a recent funding review report[4]. The underlying analysis of delivery costs outlined in the report produced significantly lower estimates than Ceeda's breakeven forecasts. Why is that, then?

Many questions are raised by the Review of Childcare Costs report; some of the issues are summarised here.

Hourly rates of pay: Ceeda forecasts reflect statutory pay and pension changes including the National Living Wage and the inflationary pressures the latter is likely to bring. The DfE states that its costings are based on average hourly pay by qualification level using data collected in 2013/14 and inflated to 2014/15 values using HM Treasury analysis[4]. A National Living Wage will be introduced from April 2016.

Our question is: Do pay rates used in the costing model account for the direct impact of the National Living Wage and the inflationary pressures that it will stimulate?

Employment on-costs: As well as employer NI and auto-enrolment contributions, employee on-costs include things such as time lost due to sickness, holiday entitlements and training. Ceeda's forecasts factor in these costs using published national statistics and statutory minimum holiday allowance. Statutory holiday entitlement alone accounts for 11 per cent of staff time. The DfE report states that 'staffing requirements are uplifted by 10 per cent for training, sickness and holiday entitlements'[5].

Our question is: What percentage of employee time has been attributed to each of the following costs – sickness absence, participation in training, holiday entitlements and maternity/paternity leave?

Administration and managerial time: The DfE model uses data on supernumerary staff costs published by Ceeda[5] to inform its estimates of time spent on administration and managerial activities. Published data has been adapted by the department and usage, as described in the DfE funding review report[4], is not consistent with Ceeda modelling.

Our question is: Has DfE cost-modelling properly accounted for administration and managerial time given that input variables sourced from Ceeda research have not been used in a manner consistent with the original methodology?

Many more questions have been raised by the funding review report and the scope the DfE identifies for providers to make efficiency savings. Ceeda looks forward to working with the early years sector and the DfE analytical team in exploring these issues further as the Childcare Bill continues its passage through Parliament. ■

REFERENCES

1. As announced in the funding review and clarified in subsequent Q & A releases. www.foundationyears.org.uk/files/2015/11/Childcare-FAQs.pdf
2. Department for Education (2015) Early Years Benchmarking Tool: Delegated budgets allocated to PVI providers per pupil per hour 2015/2016. https://www.gov.uk/government/publications/early-years-benchmarking-tool
3. Ceeda (2015) Counting the Cost: The Impact of a National Living Wage
4. DfE (2015) Review of childcare costs: the analytical report. Reference DFE-00295-2015
5. Ceeda (2014) Counting the Cost: An analysis of delivery costs for funded early education and childcare.

Figure 2: England averages for two-year-olds

	Private, voluntary and independent	Nursery schools	Primary nursery places
Average delegated budget allocated to providers per hour in 2015/16*	£5.09	£5.41	£5.17
Expressed as a % of the 2015/16 national rate of £5.09			
Average delegated hourly rate as a % of the national rate	100%	106%	102%
The national rate from April 2017 is £5.39			
April 2017 average delegated hourly rates if LAs distribute the new rate in the same way	£5.39	£5.73	£5.47

Delegated rates as published by the DfE[2].