

# Quality costs: paying for Early Childhood Education and Care

The Government's vision, outlined in its Ten Year Strategy on Childcare, included the ambition that in future early childhood education and care (ECEC) provision in this country will be among the best in the world with a better qualified workforce; more workers trained to professional level; greater involvement of parents in planning and delivering services; and reformed regulatory and inspection systems. This vision marked a very significant step in the aspirations for ECEC, and has been followed by an expansion of provision. Although the quality of this available provision is improving, it is still variable and there is some way to go to achieve high quality ECEC for all pre-school children.



Daycare Trust has always insisted that quality is one of the foremost necessities of early years provision but, while great strides have been made in expanding services, it is now generally accepted that quality remains the last piece of the jigsaw to be fully addressed.

*Quality costs* aims to identify the elements required for high quality provision of ECEC and to establish and cost a high quality model. Crucially, the current costs and levels of funding for ECEC are identified, and funding options for the high quality model are explored in depth, to identify ways in which ECEC can be subsidised to ensure that the fees do not become prohibitive for parents.

## What is high quality ECEC?

*Quality costs* confirms the conclusion in earlier literature reviews that there is no agreed understanding or definition of 'quality' in ECEC provision. Moreover, it is not possible to come to one given that it is a very subjective issue. It varies with the subject's perceived objectives for the provision, the influence of cultural values, and – where consideration is being given to future outcomes for children – which outcomes are being prioritised.

Despite this, it is clear that a distinction can be drawn between 'structural' and 'process' aspects of quality. 'Process' dimensions are the characteristics of the child's experience – for example interactions with others, learning experiences, variety in stimulation, responsiveness in environment – whereas 'structural' dimensions focus on aspects of the environment that are fixed, such as staff and manager qualifications, staff pay, stability/retention of staff, adult-child ratio, group size, management structure, premises, and the interaction between these factors. When looking at the financial implications of high quality ECEC, 'process' factors do not appear to have a price tag attached to them which is separate from any structural issues; it is the 'structural' aspects that directly require additional funding (although it is likely that the improvement brought about by structural factors will enhance the process factors).

The research evidence shows which of these elements has a demonstrable effect on the outcomes for children, and the extent to which they do so. It is clear that a significant increase in staff qualifications and pay is required if high quality ECEC provision is to be achieved in the UK. This is not to say that a better qualified, rewarded and managed staff in itself can form a guarantee that every child experiences high quality ECEC, but it should reduce staff turnover and lay the foundations in which the process factors can flourish.

Drawing on the research evidence Daycare Trust developed a 'high quality' ECEC model, based on better paid and more highly qualified staff. Within this model were two variants of increased staff qualifications and pay, one more stretching than the other and with a range of costings to provide improvement to premises. The current adult: child ratios were maintained.

The top of this quality range was based on:

- For children aged 2 years and over: half of staff as graduates (Level 6 qualified) and the rest Level 3 qualified;
- For children aged under 2: one-third of staff as graduates, the rest Level 3 qualified;

- Pay scales based on equivalent roles in schools; and
- Other non-staff costs (premises costs, expenditure on insurance, food, materials, etc) set at one-third of the staff costs.

## What is the cost of high quality?

Under the Daycare Trust high quality model, the costs of ECEC in full daycare and sessional settings would be around 200 per cent higher than current costs. This huge increase would be reduced to (a still very high) 150 per cent when a cap on 'other' (non-staff) costs is applied. Full daycare in children's centres would also see a sharp increase in costs, but substantially less than those for full daycare and sessional provision: the increases would be around 135 per cent or 100 per cent when the cap on other costs is applied.

This increase reflects the fact that, in full daycare and sessional provision, current costs are very low due to low staff wages, so there needs to be an approximate trebling of costs to reach the spending required for high quality provision. Even with a cap on other costs, staff need to be paid at least double their current average wages in order to achieve the sort of remuneration needed to attract and retain personnel with the required qualifications.

Staff qualifications and wages in nursery schools and nursery classes are already almost at the level described in the high quality model, so the difference for those settings is minimal compared to those in other settings: only around 15 per cent increase in costs for nursery schools, or 10 per cent if a cap on other costs is assumed. Cost increases in nursery classes within primary schools are slightly higher, at 27 per cent and 20 per cent for costs with and without a cap on other costs respectively.

The report also indicates that nursery classes are actually the most cost-effective type of provision in the high quality model, followed by full daycare in children's centres. This is because in nursery classes the headteacher costs and other indirect costs are spread over a much larger number of children than, for example, in nursery schools. Therefore, the high quality cost model represents only a relatively small cost increase (between 10 and 27 per cent) for maintained settings, but a very significant increase (up to 200 per cent) for Private, Voluntary and Independent (PVI) settings. However, the PVI sector still represents the vast majority of settings (accounting for 87 per cent of full daycare settings and 93 per cent of sessional settings.)

**Table 1: Cost for one hour of ECEC provision**

	Ratios	Cost with current staffing	High quality cost	
Under twos	1:3	£4.09–£5.05	£10.37–£12.48	In London costs are 20% higher
Two year olds	1:4	£3.27–£4.11	£8.26–£10.40	
Three–four year olds	1:8	£1.85–£4.44	£4.23–£6.17	
	1:13	£2.23–£3.07	£2.69–£4.54	

## Who pays what currently?

The different surveys indicate that the average hourly spend by parents is between £2.58 [from the DCSF Parents Survey] at the lower end and £3.30 [Family Resources Survey] at the upper end, although the average will be lower in some regions and higher in others (such as London). Both of these figures include the average costs for informal as well as formal care, and so the average spend by parents will be higher than these figures once informal care and those with little or no cost are excluded. Many parents will be able to access free places for their three- and four-year-olds (and in some cases two-year-olds), plus financial support with fees through tax credits and employer-supported childcare.

The average fees charged by group providers are between £3.04 and £3.34 an hour, again with higher amounts in London. This will often include an element of cross-subsidy (ie providers undercharging for babies and overcharging for three- and four-year-olds).

Looking at what government currently pays for ECEC, if all the elements of its funding are added together (such as free early education entitlement, childcare element of the Working Tax Credit (WTC), employer supported childcare etc), the Government is currently spending in the region of £3.5 – £4 billion a year (representing around 0.4 per cent of England's GDP). If the funding for children's centres (including capital investment), and Sure Start Local Programmes are added, the spending level rises by £1.2 billion. These areas of spending were excluded from the overall figures because they are concerned with wider early years provision, rather than ECEC per se.

This has been a large increase in funding levels since the beginning of the ten-year childcare strategy, but there is still some way to go before investment reaches the levels required to secure the high quality childcare presented by Daycare Trust in the high quality model – whilst ensuring it remains affordable to parents.

## Paying for high quality provision

There would be a substantial increase in the cost of ECEC associated with the high quality model, especially for children under the age of three. The report calculates that if the high quality costings were introduced overnight with the costs passed on entirely in fees to parents, this would mean that the amount spent by parents in England (after any entitlement to the childcare element of WTC is taken into account) would increase from £2.6 billion per year to £4.9 billion, while Government expenditure would increase from £1.5 billion per year to £2.1 billion. Expenditure on the childcare element of WTC for families with children under the age of five in England doubles to £0.8 billion, but the cost of the current free entitlement for three- and four-year olds would not need to increase from its current level of expenditure of £1.2 – £1.4 billion per year.

The average spend on ECEC per family using centre-based care would rise with the increase to high quality from £49 to £93 a week. A significant minority of parents already struggle to pay for early education, and if the hourly costs required for the high quality model were to be passed on to parents it would become completely untenable for large numbers of parents (in practice usually mothers) to remain in employment while they had pre-school children. This would have serious knock-on effects on their ability to return to the employment market and their long-term earning potential.

Therefore, Daycare Trust asked the Institute for Fiscal Studies to cost a number of different options for funding the increased cost of high quality ECEC. From these models Daycare Trust concludes that if parents are to continue to make a contribution to their children's early education, the best way to ensure that the high quality ECEC is sustainable is to include a combination of methods set out below.

## Recommendations from Daycare Trust

Currently, parents are paying approximately two-thirds of the cost of ECEC. After the full package of reforms, parents will be paying approximately one-quarter of the increased spend (which is much more in line with other countries offering high quality ECEC provision).

### **Free entitlement to early education**

#### **Increasing hourly payments to settings**

The hourly rate paid for free nursery places via the Early Years Single Funding Formula (EYSFF) needs to reflect the costs of providing high quality childcare. However this should be the cost of providing good quality ECEC for the relevant age group, not at a level which allows the settings to subsidise the cost for other younger age groups. Instead the aim is to enable settings to increase pay as they employ more highly qualified staff or their own staff become further qualified. The total cost of paying the high quality rate laid down by Daycare Trust's model to settings for three- and four-year-olds will not increase the Government's bill for the current offer of fifteen hours, although it will require higher funding for places for two years old which are more expensive, because of the higher staff ratio.

The hourly rates set down by the Daycare Trust high quality model should be paid for free places to all settings meeting the model's expectation on qualifications. There should be a tiered approach to payments with increasing amounts related to increasing percentages of qualifications up to the maximum set by the high quality model. Therefore, as settings improve their qualification rates and move gradually towards the high quality model, they would be rewarded with a higher rate of funding for the free places, thus enabling them to increase the pay of qualified staff. It also gives protection to those settings which are currently more expensive because they are employing graduates. This approach also has the advantage of allowing the Government to plan ahead with expenditure increasing incrementally as qualification levels increase.

The top of the high quality range should be paid for each age group, ie £4.50 per hour for three- and four-year-olds and £10.40 for two-year-olds (with additions for London). The EYSFF also has a deprivation supplement for settings in disadvantaged areas and the 1:8 payment for three- and four-year-olds (£6.20 an hour) could be the maximum level payment for those settings rather than the £4.50 calculated at the 1:13 adult-child ratio. Local authorities would need to be compensated for these payments from the Government, as it would not be desirable for local authorities with more high quality settings to be penalised.

#### **Increasing numbers of free hours of early years education**

Daycare Trust would like to see 20 hours of free childcare a week for all two to four-year-olds as soon as is feasible. The pace of expansion of free places for two

years olds could be limited by the number of settings judged as good or outstanding. It is suggested the progress should continue in an incremental fashion to allow public expenditure to be phased accordingly. If the primary aim is to improve outcomes for disadvantaged children, then it makes sense to prioritise extending places for disadvantaged two-year-olds; however if the aim is to tackle poverty by helping parents to take paid employment now, then extending places to 20 hours becomes pressing.

*Quality costs* calculates that the cost to the Government for providing additional hours (ie up to 20 hours per week, 48 weeks of the year for three- and four-year-olds and 15 hours per week, 38 weeks of the year for two-year-olds) at the high quality level (assuming that 90 per cent of the hours are used for three- and four-year-olds and 80 per cent for two-year-olds) is estimated to be £4.2 billion. More than half of this increase is the expansion of places for all two-year-olds to fifteen hours a week.

### **Government subsidy for high quality places for the under threes**

Even with the increased number of hours of free places for two to four-year-olds described above, improving staff wages in order to provide high quality care would still leave many parents paying higher costs both for additional hours over and above the free entitlement and particularly for children under the age of two where the increase in cost is the greatest.

Therefore, without subsidy, it is unlikely that the PVI sector would be able to afford to employ staff at the wages in the high quality model to work with children under the age of three (and especially under the age of two), particularly without cross-subsidy of fees. In order to achieve high quality ECEC for children under the age of three at a price parents can afford, a quality subsidy to settings needs to be considered.

The report shows that the cost of a subsidy equal to 50 per cent of the increase between the current cost and the high quality model cost would be approximately £1 billion a year in England. This would be the maximum paid, assuming there was not an increase in the use of paid-for ECEC for this age group as a result of these changes. The level of payment to settings would be increased as their quality improved, with the result that the Government's contribution would increase as the quality of provision rises.

As proposed for the free places, one way of implementing



**Table 2: Summary of costs to parents and Government of ECEC in England**

(£bn/yr)	Parents	Total Gov't	Of which:			Total (parents and Gov't)
			Early education entitlement (EEE)	Childcare element of WTC for families with children under 5	New quality subsidy to providers for ECEC for under 3s	
Current level of spend, existing childcare element of WTC (the Government also currently spends around £0.4 billion on employer-supported childcare).	2.6	1.6–1.8	1.2–1.4	0.4	0.0	4.2–4.4
<b>Additional costs of high quality</b>						
Existing EEE (15 hrs/wk, 38 wks/yr for 3–4 year olds)	2.3	0.4	0.0	0.4	0.0	2.6
With increased EEE, quality subsidy top providers for under 3s, and reformed childcare element of WTC	-0.7	5.7	4.2	0.5	1.0	4.9
<b>Total costs with high quality</b>						
Existing EEE and childcare element of WTC	4.9	2–2.2	1.2–1.4	0.8	0.0	6.8–7.0
Daycare Trust package of reforms	1.9	7.3–7.5	5.4–5.6	0.9	1.0	9.2–9.4

this could be by local authorities paying the maximum level of subsidy to settings that already meet the qualification criteria expected in the high quality model for each hour that a child attends. In the interim lower subsidies would be paid on a sliding scale to providers which reach intermediate milestones on qualifications. As with the free places, this phasing would allow settings to increase wages incrementally to recruit and retain better qualified staff. This Government subsidy would incentivise the employment of graduates and other qualified staff; it is a 'quality premium' which would have the effect of reducing the fees charged to parents in higher quality settings.

An alternative method would be to expect certain proportions of qualifications as minimum standards — for example enforced by Ofsted — and settings that fail to meet these standards by set dates being forced to close.

As long as ECEC use does not change, the introduction of a quality subsidy for the under threes alongside the high quality fees reduces the average net family spend (after childcare element of WTC) by approximately three per cent (although in cash terms this favours higher income families who spend more on childcare).

### ***Reforming the childcare element of WTC***

The childcare element of WTC is the route by which we ensure those on lowest income can afford ECEC. In its current form, despite being a much more generous contribution towards childcare costs than has existed previously, the childcare element of WTC is not very well targeted at those on the lowest incomes. This is in part due to the requirement that parents must be in paid work for more than 16 hours per week. In addition under

the current scheme even those on the lowest income have to pay 20 per cent of the ECEC costs themselves, which can leave them worse off in paid work. Reforms to the childcare element would be even more important as fees increase due to staff wage rises necessary to achieve high quality provision.

Therefore, removing the 'work test' — in effect opening up the childcare element to all on Child Tax Credit— helps those at the bottom of the income spectrum. This combined with the removal of the 80 per cent cap is the reform which has the greatest impact on the lowest income families.

## **Conclusion**

In order to provide high quality ECEC provision, research findings show there must be more highly qualified, better paid staff. Improving staff qualifications and wages will increase the hourly cost of high quality ECEC for each child. The introduction of fees to cover these costs would lead to an increase in fees charged to parents from £3 billion to £5.3 billion a year. The vast majority of parents could not afford to pay these costs, and therefore Government subsidy is required to deliver high quality provision.

If the Government were to foot the entire bill for centre-based ECEC at high quality rates, it would involve expenditure of just above £9 billion a year in England. (assuming ECEC usage outside the free entitlement remains at its current level).

Daycare Trust is acutely aware that its recommendations for high levels of investment come at a bad time

politically and economically. However, to put this investment into perspective, the country spends £23.4 billion a year on higher education and £30.1 billion a year on secondary schools in England. Furthermore it is argued that ECEC provision is also a wise investment as it would provide children with the grounding to reach their potential later in life and will save on other public investment in the long run.

Daycare Trust has also suggested a three-pronged reform package (which includes the increased hours of the free entitlement already aspired to by this Government). This package would cost the Government approximately £7.5 billion a year with another just under £2 billion from parents. Government expenditure on ECEC would increase by just below 0.5 per cent of GDP and so the package of reforms would see England with expenditure on ECEC of approximately 1 per cent, in line with international targets and still below that in the Scandinavian countries.

## Methodology

*Quality costs* explores the nature of high quality ECEC through a literature review, interviews and roundtable discussions. The Childcare and Early Years Providers Survey produced by the Department for Children, Schools and Families is used to form the basis of the modelling of current costs, which are then compared to the costs associated with Daycare Trust's high quality model. As the survey is limited to providers in England, *Quality costs* has similarly limited its scope. The project also undertakes a quantitative analysis of different policy options that could help meet the total cost, using Institute for Fiscal Studies (IFS) micro simulation model, TAXBEN.

Daycare Trust worked with the Social Market Foundation and the IFS, whose expertise in financial modelling has been critical to the success of the project. The project team was also supported by an Advisory Board and two informative roundtable meetings.

The project's outputs consist of five working papers in addition to the final report. The working papers contain the detailed methodology for the different chapters presented in the final report.

Daycare Trust, the national childcare charity, is campaigning for quality, accessible, affordable childcare for all and raising the voices of children, parents and carers. We lead the national childcare campaign by producing high quality research, developing credible policy recommendations through publications and the media, and by working with others. Our advice and information on childcare assists parents and carers, providers, employers and trade unions and policymakers.

Daycare Trust offers a range of services which includes:

- Childcare Information line – 0845 872 6251
- Consultancy and training
- Membership

To find out more about these services visit [www.daycaretrust.org.uk](http://www.daycaretrust.org.uk)

The Nuffield Foundation is a charitable trust with the aim of advancing social well-being. It funds research and provides expertise, predominantly in social policy and education. It has supported this project, but the views expressed are those of the authors and not necessarily those of the Foundation. More information is available at [www.nuffieldfoundation.org](http://www.nuffieldfoundation.org)

NATIONAL CHILD CARE CAMPAIGN

**daycare**  
trust

### Daycare Trust

**Tel: 020 7840 3350**

**Fax: 020 7840 3355**

**Email: [info@daycaretrust.org.uk](mailto:info@daycaretrust.org.uk)**

**Website: [www.daycaretrust.org.uk](http://www.daycaretrust.org.uk)**

### November 2009

**Copies of the *Quality costs* final report and working papers are available to buy from Daycare Trust, priced £25**

Daycare Trust is a registered charity: 327279 and a company limited by guarantee: 02063604, registered in England and Wales. VAT registered: 830 9847 06.

**All rights reserved. © Daycare Trust 2009**