





December 2018

# NurseryWorld

## **DfE ordered to explain how funding rates were calculated**

Katy Morton

**Friday, October 25, 2019**

**The Department for Education (DfE) has been ordered by the Information Commissioner's Office (ICO) to disclose withheld information on how current early years funding levels were determined.**

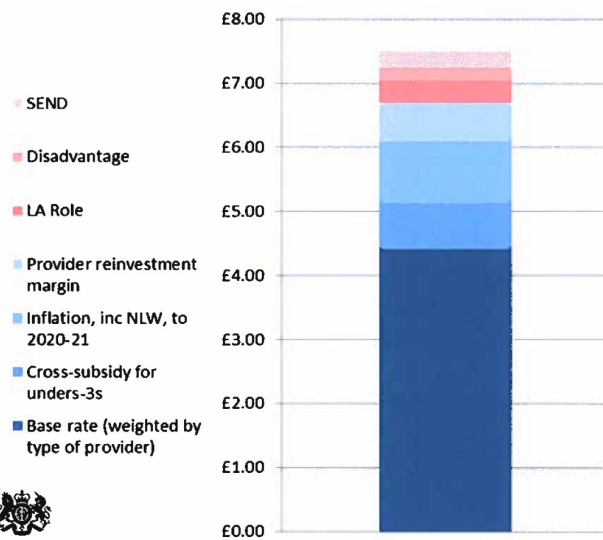


1<sup>st</sup> April 2021

# 'No reform' option is expensive

- There are a number of factors that could risk the sustainability of the entitlement – from NLW pressures to supporting children with SEND.
- Fully funding them all is not affordable – by 2020-21 it would mean a 3-4yo rate of £7.49 (see graphic below), and potentially cost for the uplift alone of over £2bn
- We will make reforms and expect providers to become more efficient in order to reduce this cost.

## 'No reform 3-4s' funding rate, 2020-21



SEND: estimate of additional cost required to fully support children with disabilities.

Disadvantage: estimate of additional cost to increase EYPP to £1,000 per child.

LA Role: Fully fund current local authority role in administering and supporting system.

Reinvestment: comparison to analogous markets suggests 10% reinvestment margin.

Inflation: cost pressures, esp. NLW, will drive a substantial increase in cost by 2020-21.

Cross-subsidy: funding to prevent substantial increase in price of places for under-3s.

Base rate (14-15): sufficient to cover core costs, per review, weighted by provider type.



## DfE Predicated Rate v Actual Allocation

**£7.49**

**£4.89**

# Early Years Spending Review Scenarios

Note to Ministers  
27<sup>th</sup> October 2015



OFFICIAL SENSITIVE - SPENDING REVIEW

1

## Reform & Efficiency

We have a radical reform agenda to improve provider efficiency over the medium Government and to parents. We are interested in making an explicit distinction pre-school entitlement and our childcare entitlement. We can present the uplift these reforms forward at pace.

We want to ensure:

- That state funding only meets necessary costs. So we will strip out funding (nappies) – and set an expectation that providers charge parents for these, / move, over time, to full use of statutory staff ratios.
- That our approach assumes efficiency assumptions over the Parliament – i.e. meet the commitment, but then build in efficiency assumptions for future (ratios), and don't substantially increase rate further.
- That the total funding pot is allocated much more efficiently, through a new E3 Formula – reducing funding in over-funded areas either to give a small year-on-average rate, or allow us to make further savings.
- That we reform the role of local authorities, setting the expectation that it recovery basis.
- That we lower the barriers to entry and expansion to the childcare market, sufficiency challenge. In the short term, articulating a distinct childcare entitlement rather than reduce costs.

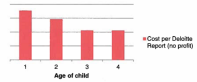


OFFICIAL SENSITIVE - SPENDING REVIEW

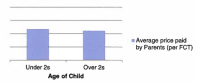
## Age Effects

- Provider costs vary substantially between age groups – primarily because of statutory ratios.
- Providers generally adopt a more-or-less flat pricing structure across the age phases.
- Currently this is possible because the free entitlement is only 15 hours. When Gov purchases the majority of "cheaper" three- and four-year-old places, it will become harder for providers to price in this way.
- Providers may, therefore, increase prices for younger children – potentially by as much as 30%.
- This could stop parents returning to work while their children are younger. There is some evidence that a 10% reduction in the cost of childcare might lead to a 1.4% increase in the employment rate for married mothers with pre-school children.
- Parents will, of course, have part of these costs paid by Tax-Free Childcare or Universal Credit – but this will impose costs elsewhere in Gvt.

Cost per Deloitte Report (no reinvestment)



Average price paid by Parents



OFFICIAL SENSITIVE - SPENDING REVIEW

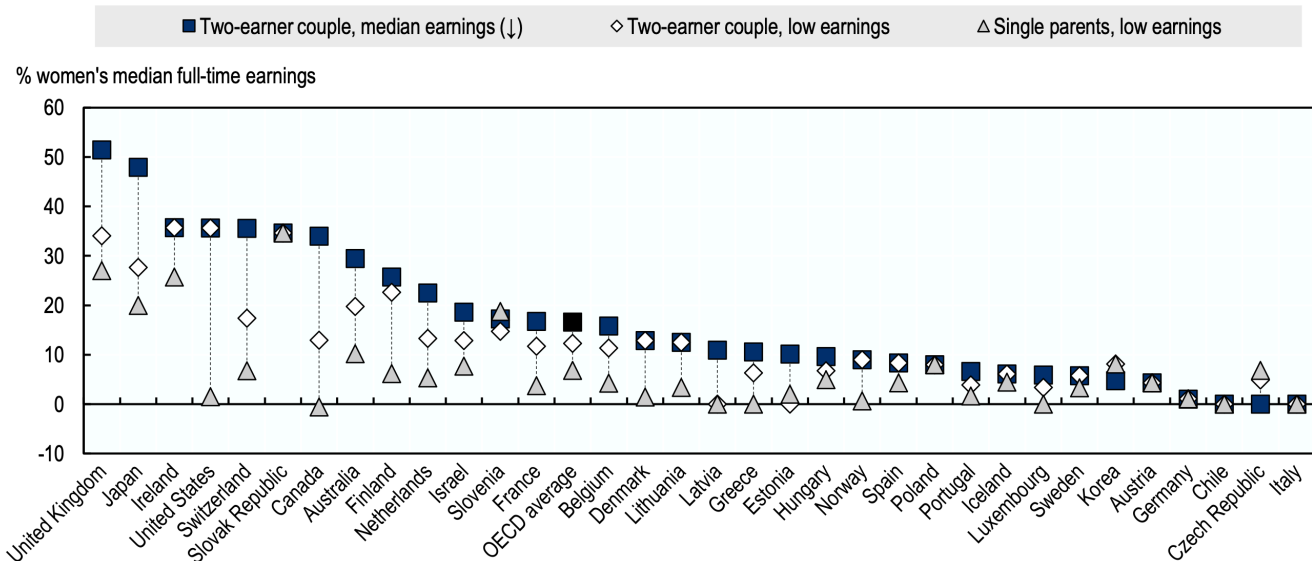
4

Extract P6 - *...and we will expect providers to move, over time, to full use of statutory staff ratios.*

Extract P4 - *Providers may, therefore, increase prices for younger children - potentially by as much as 30%.*

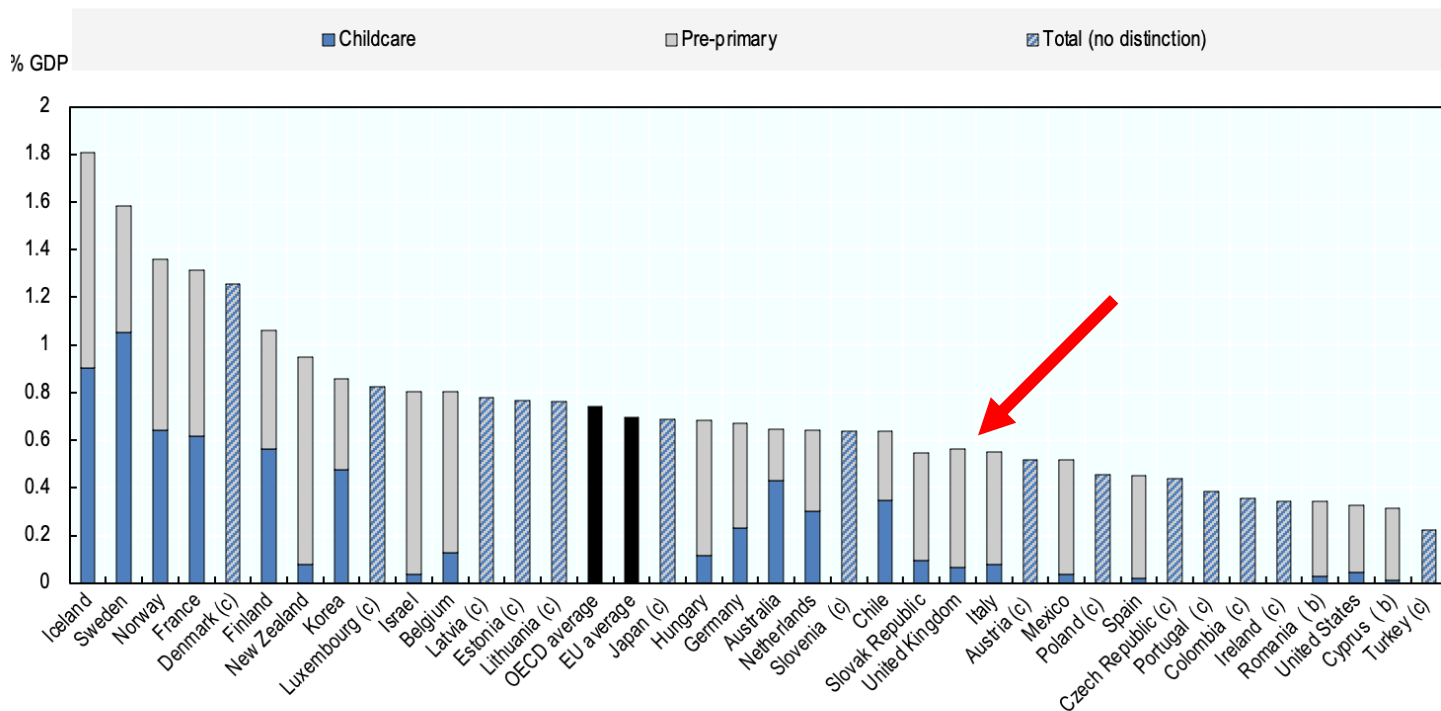
## Figure 1. Childcare is expensive in many countries despite government support

Typical net childcare costs for two children in full-time care, 2019, in % of women's median full-time earnings, by family type and in-work earnings





## Public expenditure on childcare and pre-primary education and total public expenditure on early childhood education and care



Organisation for Economic Co-operation and Development (OECD)

*And the future...*

*The best way to predict the future is to create it.*

*As it stands, we have no strategy, no vision for what early years should like like in five years time.*

