



## BRIEFING PAPER

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# Children: Introduction of 30 hours of free childcare (England)

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### Inside:

1. The increase to 30 hours of free childcare for some parents
2. Ability of sector to provide the extended entitlement

# Contents

<b>Summary</b>	<b>3</b>
<b>1. The increase to 30 hours of free childcare for some parents</b>	<b>4</b>
1.1 The existing universal free childcare provision	4
1.2 Changes introduced by the Conservative Government – 15 additional hours (“extended entitlement”)	4
1.3 Who will be eligible	5
Children	5
Parents	5
Means-test for eligibility	6
1.4 Timetable for introduction	7
Nationwide roll-out	7
Pilot and early innovators	7
1.5 DfE consultation and draft indicative regulations	8
<b>2. Ability of sector to provide the extended entitlement</b>	<b>10</b>
2.1 The funding of the existing 15 hours of universal provision	10
2.2 Will the extended entitlement lead parent to work more hours?	11
2.3 Extended entitlement and the issue of cross-subsidisation	11
2.4 Announcement of funding rate increase and capital funding	12
2.5 Reaction to the increased funding rate	14
Evidence submitted to the Public Bill Committee (December 2015)	14
2.6 Surveys of childcare providers’ ability to deliver the extended entitlement	14
National Day Nurseries Association (February 2016)	14
Family and Childcare Trust (February 2016)	15
Pre-school Learning Alliance (April 2016)	16
2.7 National Audit Office report (March 2016)	17

## Summary

The *Childcare Act 2016* will provide for an additional 15 hours of free childcare for certain working parents of eligible 3 and 4 year olds, on top of the existing universal provision of 15 hours of free childcare. Much of the detail of the policy will be set out in regulations, although the Government has stated its intentions of who will be eligible.

This new “extended entitlement” of 30 hours of free childcare is due to be introduced from September 2017 across England, with some parents due to benefit from September 2016 in pilot and “early innovator” areas.

In the Spending Review, the Government announced an extra £300 million to increase the national average funding rate for free childcare for 3 and 4 year olds to £4.88 (although the actual rate paid to providers will be determined by local authorities), as well as allocating £50 million from the DfE’s capital budget to support the creation of early years places.

However, there are some concerns that childcare providers might struggle to provide the additional hours, with recent surveys of childcare providers finding around a fifth to a quarter of respondents are not planning to offer the extended entitlement, and a further third to a half unsure if they would.

Funding for childcare places is a devolved matter; this paper applies to England only.

# 1. The increase to 30 hours of free childcare for some parents

## 1.1 The existing universal free childcare provision

At present, all three and four years are entitled to 15 hours of free childcare for 38 weeks of the year.

This entitlement is “universal”, and applies irrespective of the income of the parents or any other conditions. 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%”.<sup>1</sup>

In addition, 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.<sup>2</sup> For details on the eligibility criteria, see the GOV.UK webpage, [Help paying for childcare – 5. Free childcare and education for 2 to 4-year-olds](#).

It should be noted that the additional 15 hours of free childcare considered in this note only applies to eligible 3 and 4 year olds.

## 1.2 Changes introduced by the Conservative Government – 15 additional hours (“extended entitlement”)

In its 2015 General Election manifesto, the Conservative Party said that “because working families with children under school age face particularly high childcare costs, in the next Parliament we will give families where all parents are working an entitlement to 30 hours of free childcare for their three and four year-olds”.<sup>3</sup>

The first Queen’s Speech of the Conservative Government duly included the following: “Measures will be brought forward to help working people by greatly increasing the provision of free childcare”.<sup>4</sup>

To bring these changes into effect, the Government introduced the *Childcare Bill* as one of the first bills of the new Parliament, which passed its parliamentary stages to become the *Childcare Act 2016*.

A lot of the detail regarding which children and which parents are entitled are not stated on the face of the Act (the primary legislation) – a fact that attracted debate during the Bill’s parliamentary passage<sup>5</sup> –

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<sup>1</sup> [HL Deb 16 June 2015 c1082](#)

<sup>2</sup> For more details, see GOV.UK, [Help paying for childcare – 5. Free childcare and education for 2 to 4-year-olds](#), webpage [taken on 20 November 2015]

<sup>3</sup> Conservative Party, [The Conservative Party Manifesto 2015](#), April 2015, p27

<sup>4</sup> [HL Deb 27 May 2015 c5](#)

<sup>5</sup> See section 4 of the Library briefing paper [Childcare Bill 2015-16: Analysis for Commons Report Stage \(Bill 107\)](#).

## 5 Children: Introduction of 30 hours of free childcare (England)

rather, it will be specified in secondary legislation (in this case, regulations).

The regulations have yet to be laid before Parliament (“indicative draft regulations” were published in April 2016, see section 1.5), although the Government set out its intentions during the Parliamentary debates, and in a [Policy Statement](#) document on the Bill which was published in December 2015 and continues to be cited by the Government after the Bill received Royal Assent.<sup>6</sup>

### 1.3 Who will be eligible

#### Children

In terms of which children will qualify, the Department for Education (DfE) has stated that it is its intention that three and four year olds will qualify, except those four-year olds who are attending a school reception class.<sup>7</sup>

#### Parents

The DfE’s [Childcare Bill: Policy Statement](#) listed those households which the Government intends will be eligible for the extended entitlement:

The additional 15 hours will be available to families where both parents are working (or the sole parent is working in a lone parent family) [subject to the means-test, see section below].

[...]

Families where one parent does not work (or neither parent works) will usually not be eligible for these additional hours. However, the government intends to make provision to support families where one parent is in receipt of benefits relating to caring responsibilities or a disability and the other parent is working. Full details will be set out in regulations, but the government intends that the additional entitlement should be available in the following circumstances:

- both parents are employed but one or both parents is temporarily away from the workplace on parental, maternity or paternity leave;
- both parents are employed but one or both parents is temporarily away from the workplace on adoption leave;
- both parents are employed but one or both parents is temporarily away from the workplace on statutory sick pay;
- one parent is employed and one parent has substantial caring responsibilities based on specific benefits received for caring; or
- one parent is employed and one parent is disabled or incapacitated based on receipt of specific benefits.<sup>8</sup>

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<sup>6</sup> See Department for Education, [Childcare free entitlement: delivery model – Government consultation](#), 3 April 2016, p7

<sup>7</sup> Department for Education, [Childcare Bill: Policy statement](#), December 2015, p17

<sup>8</sup> As above, pp8–9

It was noted that “parents on an apprenticeship, who by definition will be working full time, will be able to benefit from the extended entitlement”.<sup>9</sup>

A parent is defined in section 1(9) as being anyone with parental responsibility for the child (as defined in the *Children Act 1989* as amended),<sup>10</sup> or who has care of the child.

## Means-test for eligibility

### Minimum income

The minimum income to qualify for the extended entitlement will be the equivalent of 16 hours working at either the National Living Wage per week for those aged 25 or over, or the National Minimum Wage for those aged 24 or under.

The DfE has stated that “parents will need to declare that they expect to earn the equivalent of 16 hours national minimum or living wage on average each week over the next quarter”, while “self-employed parents will be able to assess their expected income either over the next declaration period, or for the current tax year”.<sup>11</sup>

The DfE’s [Childcare Bill: Policy Statement](#) explained that:

Parents do not necessarily need to actually work 16 hours a week, but rather their earnings must reflect at least 16 hours of work at NMW or NLW ... This includes those parents on zero contract hours who meet the criteria.<sup>12</sup>

Originally, the Government had based eligibility at 8 hours at the National Minimum Wage (which is set to be lower than the National Living Wage),<sup>13</sup> but in his Autumn Statement made in November 2015, the Chancellor of the Exchequer, George Osborne, announced the change in the eligibility criteria.<sup>14</sup>

### Maximum income

In order to be eligible for the additional 15 hours of free childcare, the maximum income per parent is £100,000 per annum.

Again, this was announced by the Chancellor in his Autumn Statement; previously, there had been no upper limit.<sup>15</sup> The Education Secretary, Nicky Morgan, explained that the upper limit had been introduced given the Government’s “belief that it is right for those with the broadest shoulders to bear the greatest burden”.<sup>16</sup>

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<sup>9</sup> [HL Deb 14 October 2015 c275](#)

<sup>10</sup> For more information, see the Library briefing paper, [Parental Responsibility](#).

<sup>11</sup> Department for Education, [Childcare free entitlement: delivery model – Government consultation](#), 3 April 2016, p16

<sup>12</sup> Department for Education, [Childcare Bill: policy statement](#), December 2015, p8

<sup>13</sup> See the GOV.UK webpage [National Minimum Wage and National Living Wage rates](#) for the current rates

<sup>14</sup> HM Treasury, [Spending Review and Autumn Statement 2015](#), November 2015, Cm 9162, p44, para 1.160

<sup>15</sup> As above

<sup>16</sup> [HC Deb 25 November 2015 c1421](#)

## 1.4 Timetable for introduction

### Nationwide roll-out

The Government has stated that the additional 15 hours of free childcare will be available nationwide across England from September 2017.<sup>17</sup>

### Pilot and early innovators

From September 2016, the additional 15 hours will be available to some eligible parents in a number of pilot and “early innovator” local authority areas, following an [open competition](#) for interested local authorities.

On 2 February 2016, the Government announced the local authorities that would be pilot areas for the 30 hours of free childcare for qualifying parents of eligible 3 and 4 year olds: Wigan, Staffordshire, Swindon, Portsmouth, Northumberland, York, Newham and Hertfordshire.<sup>18</sup>

Not all eligible parents in the pilot areas will receive the extra 15 hours during the pilots; it has been reported that for the “it will be up to each local authority to decide how they will offer the places during the trial”.<sup>19</sup> The Parliamentary Under Secretary of State for Schools, Lord Nash, told Peers on 2 February 2016 that “around 5,000 children” residing in the pilot local authorities would benefit.<sup>20</sup>

The DfE explained that:

These early implementer areas will:

- 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;
- test market innovation around sufficiency and flexibility of provision, and partnership working; and
- provide the government and local authorities with early intelligence on how it can refine the system in preparation for full implementation from 2017.<sup>21</sup>

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

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<sup>17</sup> GOV.UK, [Thousands of parents benefit from 30 hours’ free childcare early](#), Press release, 2 February 2016

<sup>18</sup> As above

<sup>19</sup> [“DfE names 30-hour childcare pilot areas”](#), *Nursery World*, 2 February 2016

<sup>20</sup> [HL Deb 2 February 2016 c1741](#)

<sup>21</sup> Department for Education, [Childcare free entitlement: delivery model – Government consultation](#), 3 April 2016, p8

- 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”.<sup>22</sup>

£13 million has been allocated to the early roll-out pilots, with £4m allocated to the “early innovator” areas.<sup>23</sup>

## 1.5 DfE consultation and draft indicative regulations

On 3 April 2016, the DfE launched a [consultation](#) on the extended entitlement of 30 hours of free childcare. The consultation is due to run until 6 June 2016.

The consultation sought views on some of the more detailed aspects of the extended entitlement model (as well as the separate information provisions of the *Childcare Act 2016*), including:

- the operation of a “grace period” to allow parents to continue to be entitled to the extended entitlement if they become ineligible;
- flexible provision, including using the extended entitlement for early morning or late evening childcare, and minimum session lengths;
- ensuring that disabled children and those with additional needs are able to access the entitlement, specifically the role of local authorities in ensuring such children can access the free entitlement;
- the core responsibilities of local authorities in the 30 hour entitlement, including model agreements between local authorities and childcare providers, and prompt payment.

Additionally, the following, more general, questions were posed:

Q21 Is there anything in these proposals which would prevent local authorities from meeting their duty to secure funded early education for two-, three- and four-year-olds?

Q22 Are there any particular groups of children and/or parents for which the impact of these regulations will be significant?

Q23 Are there any particular types of providers for which the impact of these regulations will be significant?

Q24 Is there any practical advice related to the regulations and their effect or implementation that you would like to see in the statutory guidance?

<sup>22</sup> GOV.UK, [Thousands of parents benefit from 30 hours' free childcare early](#), Press release, 2 February 2016

<sup>23</sup> [HL Deb 2 February 2016 c1741](#)



## 9 Children: Introduction of 30 hours of free childcare (England)

Q25 Is the guidance clear on what local authorities must do to discharge their statutory duties?<sup>24</sup>

Alongside the consultation document, the DfE also published draft [Early education and childcare – Statutory guidance for local authorities](#), and also “[draft, indicative regulations](#) resulting from the Childcare Act 2016” in relation to the extended entitlement.<sup>25</sup>

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<sup>24</sup> Department for Education, [Childcare free entitlement: delivery model – Government consultation](#), 3 April 2016, p40

<sup>25</sup> [Draft regulations](#) relating to the provision of information to parents were also published.

## 2. Ability of sector to provide the extended entitlement

### 2.1 The funding of the existing 15 hours of universal provision

In its *Children's Nurseries – UK Market Report* published in October 2014, the consultancy LaingBuisson cited a number of recent studies on the funding gap – the difference between what childcare providers are paid by their local authority for the universal 15 hours provision of free childcare, and the cost to the provider of that provision:

The level of funding paid by local authorities to provide early years placements for 3 and 4 year olds had been consistently criticised by most children's nursery providers for being insufficient to cover costs of provision. LaingBuisson's 2012 survey found that 60% of nurseries reported this funding to be loss-making. Other surveys in June 2012 by the Pre-School Learning Alliance and the National Day Nurseries Association [NDNA] reported similarly high proportions claiming the 3 and 4 year old funding was insufficient, at 62% and 76% respectively. A more recent survey by the NDNA in December 2013 (NDNA Insight Report 2013/14) reported the proportion at 78%, confirming little change.<sup>26</sup>

Noting that “the intention of the free early education policy is that 15 hours of early education per week are accessed at no cost to the parents”, the Lords Select Committee on Affordable Childcare reported on the issue of cross-subsidisation in February 2015:

There is evidence that the funding shortfall in the rates offered to PVI [private, voluntary and independent] providers for delivery of the free early education entitlement is met in some settings by cross-subsidisation from some fee-paying parents. This means that parents are subsidising themselves, or other parents, in order to benefit from the Government's flagship early education policy.<sup>27</sup>

In its March 2016 report, the National Audit Office (NAO) noted that when nurseries are reliant on cross-subsidisation, this can mean they are attracted to more affluent areas where parents can afford higher hourly rates:

Opportunities for cross-subsidisation and fundraising are likely to be higher in more affluent areas, as poorer parents are less able to pay. This may be one reason why fewer private and voluntary providers operate in deprived areas. Our analysis shows that when they do, they tend to offer more places, which is another way of keeping costs per child lower.<sup>28</sup>

<sup>26</sup> LaingBuisson, *Children's Nurseries – UK Market Report*, 13<sup>th</sup> edition, October 2014, p92

<sup>27</sup> Lords Select Committee on Affordable Childcare, *Affordable Childcare*, 2014–15 HL 117, 24 February 2015, p11, paras 18–19

<sup>28</sup> National Audit Office, *Entitlement to free early education and childcare*, 2015-16 HC 853, 2 March 2016, p29, para 2.15

## 2.2 Will the extended entitlement lead parent to work more hours?

The Government expects that in many cases the extra 15 hours of free childcare under the extended entitlement will replace childcare that is currently privately-paid for.

As the Parliamentary Under Secretary of State for Childcare and Education, Sam Gyimah, told *Nursery World* in October 2015: “a huge number of people who buy more than 15 hours already will continue to buy more than 15 hours. What will change is that where before they paid for these hours themselves, the Government will now be paying for the additional hours”.<sup>29</sup>

In the NAO’s March 2016 report, [Entitlement to free early education and childcare](#), in terms of the DfE’s estimates of the likely demand for the extended entitlement, the NAO reported that:

The Department estimates that 390,000 children’s parents will meet the criteria as currently defined, though this does not include any parents who are attracted back to work, or who work more hours, as a result of the policy. This is 42% of all children who are eligible for the existing entitlement and the Department estimates that a total of 45,000 new 15-hour places are likely to be needed to accommodate them. It does not know where these places will be required. Its estimate is partly based on survey data from 2012/13 which it used to generate assumptions about how many of the new free hours parents will use on average. Further work will be needed, therefore, including during the pilots, to test these assumptions and establish which local authorities will face the greatest pressure for places.<sup>30</sup>

The NAO noted that “in autumn 2015, the Department ran a consultation with parents” and that “of over 2,000 parents completing it ... 90% of respondents saying they would use the 15 additional hours if they met criteria”. Further, “a large number of respondents to the consultation (81%) also said having more free childcare would enable them to return to work or increase their hours”.<sup>31</sup>

## 2.3 Extended entitlement and the issue of cross-subsidisation

Whereas at present, if a child has 40 hours a week of childcare at a provider, under the cross-subsidisation approach that provider can charge the parent a higher hourly rate for 25 hours compared to the rate it receives from the local authority for the 15 hours of free childcare.

However, concerns have been voiced that if 30 hours of free childcare are provided, the scope for cross-subsidisation will become more limited because, continuing the example above, providers would only be able to

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<sup>29</sup> [“Exclusive interview with Childcare Minister Sam Gyimah: France, funding and the 30 hours”](#), *Nursery World*, 19 October 2015

<sup>30</sup> As above, p37, para 3.7

<sup>31</sup> National Audit Office, [Entitlement to free early education and childcare](#), 2015-16 HC 853, 2 March 2016, p10, para 19 and p36, para 3.6

charge a different (higher) rate in respect of the 10 hours of childcare paid for by the parent. Further, if the local authority rate paid was lower than the cost to the provider, under the extended entitlement policy this would mean that the provider received that rate for 75% of the 40 hours.

A report by the Institute for Public Policy Research (IPPR) published in September 2015 explored the possible consequences of such a funding gap:

Underfunding the 30 hours offer would lead to a smaller, less flexible market as providers (both for-profit and not-for-profit) either exit, reduce the breadth of services that they offer, take on fewer children, or refuse to offer the free hours (see for example NAHT 2015 and Gaunt 2015). This would reduce parental choice and potentially push up costs for paid hours or other services outside of the free offer, such as childcare for most under-3s, wraparound care and holiday care, while also pushing down quality. Families in poorer areas may be particularly adversely affected. Already faced with fewer local providers, some parents would experience reduced access to childcare, and less flexible provision, which would in turn impact upon their access to work, particularly to jobs that involve non-standard hours.<sup>32</sup>

## 2.4 Announcement of funding rate increase and capital funding

The key issue, therefore, is whether the funding rate for providers offering the 30 hours will be sufficient.

To address these concerns, in the 2015 Spending Review the 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”,<sup>33</sup> meaning that the total estimated cost of the extended entitlement policy was “more than £1 billion a year ... by 2019-20”.<sup>34</sup>

The Education Secretary, Nicky Morgan, confirmed that the average national funding rates would increase to £4.88 (from £4.56) for the free childcare funding for 3 and 4 year olds (including the early years pupil premium);<sup>35 36</sup> the increased rate would apply to both the universal 15 hours provision and the 15 hours of extended entitlement.<sup>37</sup> The increased rates were announced following the [funding review](#) undertaken by the DfE.

It should be noted that the figure of £4.88 refers to the *national average* funding rate; as Box 1 explains, this does not mean that each childcare provider across England will receive £4.88 per hour. Rather, local authorities will determine their local average funding rate.

<sup>32</sup> IPPR, [Extending The Early Years Entitlement – Costings, Concerns And Alternatives](#), October 2015, p9

<sup>33</sup> [HC Deb 25 November 2015 c1369](#)

<sup>34</sup> [HC Deb 25 November 2015 c1416](#)

<sup>35</sup> In addition, the rate would increase to £5.39 (from £5.09) for the 15 hours of free childcare for eligible 2 year olds.

<sup>36</sup> [HC Deb 25 November 2015 c1417](#)

<sup>37</sup> [HC Deb 25 November 2015 c1452](#)

## 13 Children: Introduction of 30 hours of free childcare (England)

The exact funding rates payable to childcare providers will only become known nearer the launch date of September 2017 when the Government has allocated funding to local authorities and they have determined their local rates.

### **Box 1: From central government to local government – funding rates for childcare providers**

As the Parliamentary Under Secretary of State for Childcare and Education, Sam Gyimah, has explained:

The Department for Education funds local authorities through the Dedicated Schools Grant for delivering the early years entitlement. In consultation with their Schools Forum, local authorities are then responsible for deciding how best to distribute this funding across their locality and they set their own local rates of funding for early years providers ... Local authorities are then responsible for funding early years providers to secure the Government-funded hours [currently of 15 hours for all 3 and 4 years and for some 2 year olds].<sup>38</sup>

In summary, the process of funding the free childcare is as follows:

- the Government sets the England-wide early years budget for free childcare, utilising the national average funding rate;
- the budget is allocated to individual local authorities, using a local hourly funding rate for each local authority, and an estimate of the number of eligible children;
- that calculation makes up the funding for the free childcare for the local authority, which is then included in its Dedicated Schools Grant (DSG);
- although the DSG is ring-fenced, it is up to local authorities how much to allocate to early years, schools etc.;
- local authorities, in consultation with their Schools Forum, then determine the actual local funding rate paid to childcare providers – this rate can vary depending on the type of provider (nursery, childminder, school).

In its March 2016 report, the NAO found that the “average hourly rates in a selection of local authorities showed large variations between them and their statistical neighbours”, and that “across the country, the average funding rate per hour for 3- and 4-year-olds in 2015-16 ranged from £2.28 in Harrow to £7.15 in Westminster”.<sup>39</sup>

In addition to the increase in the funding rate, in the Spending Review the Government announced £50 million of the DfE’s capital allocation to support the creation of early years places, and explained that:

We believe there is some existing capacity in the system to help deliver the new entitlement, and we are continuing to talk to local authorities to increase our understanding and evidence of where there is capacity in the system. We are also considering whether the capacity is in the right location to meet demand and whether it’s available at the times working parents will need it.<sup>40</sup>

<sup>38</sup> [PO 1422 12 June 2015](#)

<sup>39</sup> National Audit Office, *Entitlement to free early education and childcare*, 2015-16 HC 853, 2 March 2016, p26, para 2.10

<sup>40</sup> Department for Education, *Childcare Bill: Policy statement*, December 2015, p18

## 2.5 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 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”.<sup>41</sup>

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

- 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;<sup>42</sup>
- 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”;<sup>43</sup>
- 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 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”;<sup>44</sup>
- 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”.<sup>45</sup>
- The Pre-school Learning Alliance questioned the DfE’s methodology, claiming its analysis was “based on outdated data and unrealistic childcare business models”,<sup>46</sup> 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”.<sup>47</sup>

## 2.6 Surveys of childcare providers’ ability to deliver the extended entitlement

### 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:

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<sup>41</sup> [HC Deb 25 November 2015 c1417](#)

<sup>42</sup> Public Bill Committee (Childcare Bill), [Written Evidence](#), PBC (Bill 084) 2015–2016, p1

<sup>43</sup> As above, p2

<sup>44</sup> As above, p11, para 19

<sup>45</sup> As above, p40, para 5

<sup>46</sup> As above, p17, para 1.1

<sup>47</sup> As above, p19, para 2.2.6

## 15 Children: Introduction of 30 hours of free childcare (England)

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.<sup>48</sup>

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".<sup>49</sup>

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".<sup>50</sup>

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".<sup>51</sup>

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.<sup>52</sup>

### 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

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<sup>48</sup> National Day Nurseries Association, [Annual Nursery Survey 2016 - England](#), February 2016, pp 3 and 4

<sup>49</sup> As above, p4

<sup>50</sup> As above, pp3 and 11

<sup>51</sup> National Day Nurseries Association, [NDNA Annual Nursey Survey 2016 – England](#), press release, 17 February 2016

<sup>52</sup> National Day Nurseries Association, [Annual Nursery Survey 2016 - England](#), February 2016, p15

noted that “childminder numbers and places in pre-schools and sessional creches have declined since the 2006 [Childcare Act]”.<sup>53</sup>

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.<sup>54</sup>

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.<sup>55</sup>

### Pre-school Learning Alliance (April 2016)

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

- 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)
- 48% think that the 30-hour offer will cause them to reduce the number of places they offer to other age groups
- 50% don’t feel confident that they have the capacity to meet the demand for places under the 30-hour offer
- 58% expect the 30-hour offer to have a negative financial impact on their business
- 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.<sup>56</sup>

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

<sup>53</sup> Family and Childcare Trust, [2016 Childcare Survey](#), February 2016, pp4 and 7

<sup>54</sup> As above, pp41–42

<sup>55</sup> As above, p13

<sup>56</sup> Pre-school Learning Alliance, [Childcare providers fear closure over 30-hour offer, survey reveals](#), press release, 20 April 2016



## 17 Children: Introduction of 30 hours of free childcare (England)

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".

[...]

"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".<sup>57</sup>

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

### 2.7 National Audit Office report (March 2016)

In March 2016, the NAO published a report entitled [\*Entitlement to free early education and childcare\*](#). As well as reviewing the existing 15 hours of free provision (see section 2.1 above), it looked ahead to the introduction of the additional 15 hours of extended entitlement.

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".<sup>58</sup> The report's findings about the likely demand for the extended entitlement can be found in section 2.2 above.

In terms of funding, the NAO said that "offering the right rate of funding is essential to ensure that providers feel confident to deliver the new entitlement", and said:

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.<sup>59</sup>

Figure 14 is reproduced overleaf.

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<sup>57</sup> As above

<sup>58</sup> National Audit Office, [\*Entitlement to free early education and childcare\*](#), 2015-16 HC 853, 2 March 2016, p10, para 19

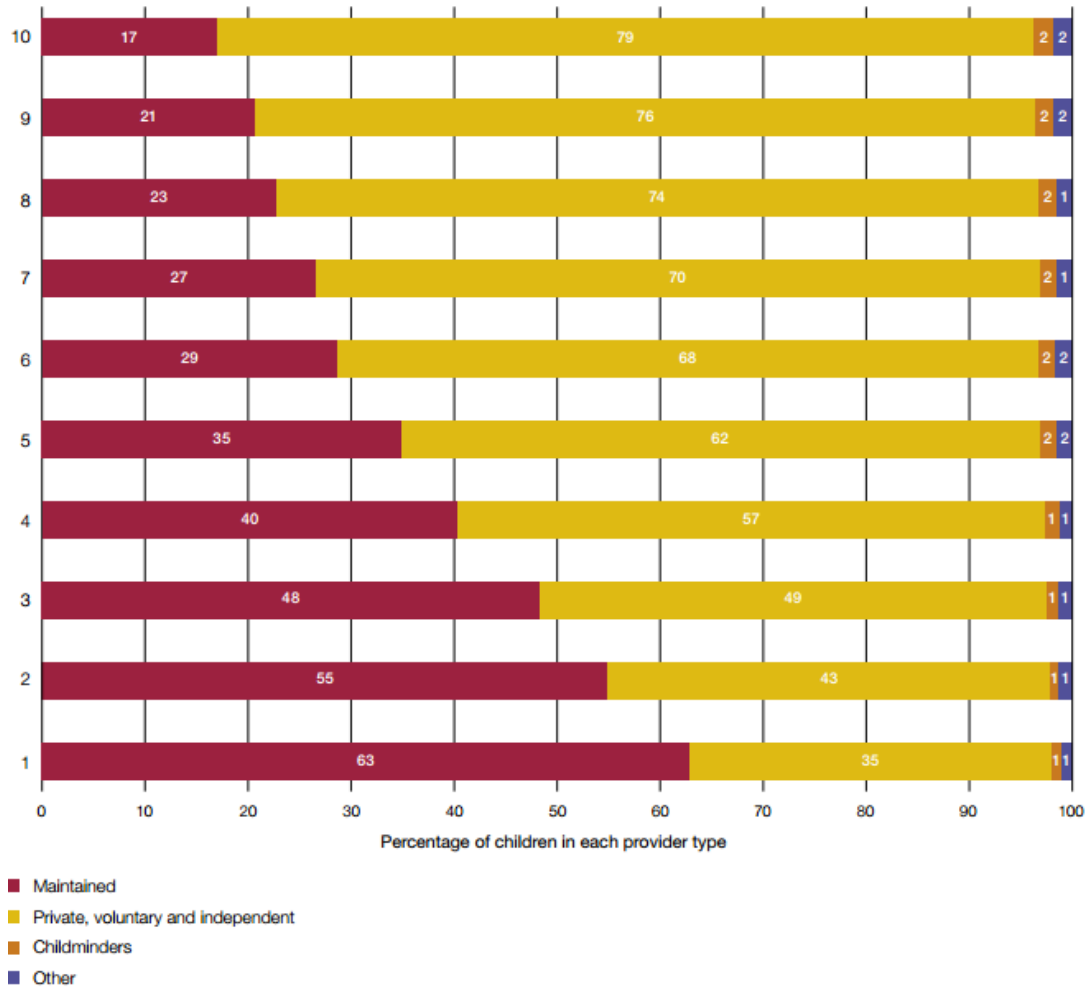
<sup>59</sup> As above, p38, paras 3.10 and 3.11

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”.<sup>60</sup>

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)



<sup>60</sup> As above, p37, para 3.9

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