About Early Years: counting the cost in 2018

How much does it cost to deliver one hour of early education and childcare in 2018?

Detailed research with PVI childcare settings on the About Early Years research panel has provided timely analysis of delivery costs, reflecting statutory wage rises in 2018, amongst other inflationary factors. The key headlines are shared here, with more analysis on its way in our forthcoming annual sector report.

Results are based on research encompassing 571,700 hours of care, delivered by 5,100 staff, for 28,700 children in 291 day nurseries and pre-schools.

Two year olds

The average estimated cost to deliver one hour of quality early education and childcare for 2 year olds in England is now £6.90, a third higher (32%) than the average funding rate paid to PVI childcare providers.

Average funding rates for 2 year old provision in England have risen by just £0.03 since 2013/2014.

With childcare providers facing increased financial pressures, there is a risk that places for disadvantaged 2 year olds will be reduced, in favour of full-time 3 and 4 year olds with lower delivery costs.

Three and four year olds

One hour of education and care for 3 and 4 year olds now costs an estimated £5.08 to deliver, 17% higher than the average 2017/2018 funding rate of £4.34.

Funding rates for this age group have risen by £0.42 since 2013/2014, an additional investment which has failed to bridge funding gaps.

Rising costs and expansion of funded provision through the 30-hour offer will result in an estimated funding shortfall of £370 million for PVI providers in 2018 - assuming parents follow past trends in their choice of childcare provider.\(^2\)

The wider impact of funding gaps

Whilst often the focus of analysis, provision for 2 to 4 year olds is just part of the childcare picture. The PVI sector delivers provision for children from 3 months upwards and providers set their fees at levels which make services viable for all age-ranges. This wider context is important when setting funding rates.

Minimum staff-child ratios in non-domestic settings are 1 adult to 3 children for under 2’s, 1 to 4 for 2 year olds and 1 to 8 for 3 to 4’s.\(^3\) Variations in delivery cost are therefore primarily driven by labour costs.

### Childcare and early education delivery costs in England: spring 2018

<table>
<thead>
<tr>
<th></th>
<th>Average cost per hour</th>
<th>Average funding rate England</th>
<th>Variance £</th>
<th>Variance %</th>
<th>Estimated funding shortfall 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 to 4 year olds</td>
<td>£5.08</td>
<td>£4.34</td>
<td>-£0.74</td>
<td>-17%</td>
<td>£370 million rising to £336 million to meet “blended” costs of under 5 delivery</td>
</tr>
<tr>
<td>2 year olds</td>
<td>£6.90</td>
<td>£5.23</td>
<td>-£1.67</td>
<td>-32%</td>
<td></td>
</tr>
<tr>
<td>Under 2’s</td>
<td>£7.44</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Blended cost</td>
<td>£5.85</td>
<td>Blended cost is the average across all age groups based on the occupancy mix in a given week</td>
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</tbody>
</table>

1. PVI = Private, Voluntary and Independent sector.
2. Source: 291 day nurseries and pre-schools on Cedia About Early Years research panel. Includes an uplift of 5% to allow for a modest surplus, consistent with DfE methodology for setting national funding rates.
3. Source: DfE Early years funding benchmarking tool November 2017. Average hourly rate passed to PVI providers in England 2017/18, including supplements and excluding Early Years Pupil Premium. Early Years Pupil Premium, Disability Access Fund and SEN Inclusion Funds are factored in the funding received by providers when calculating total funding shortfall.

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1. The About Early Years panel is a representative sample of private, voluntary and independent (PVI) day nurseries, pre-schools and childminders. The sample source is the Ofsted Early Years register (EYR) and the main channels of recruitment are direct telephone and email campaigns. Delivery costs have been assessed for 291 day nurseries and pre-schools on the panel, using depth surveys with telephone support and follow-up. Survey data has been weighted to the profile of settings on the EYR at August 2017. The confidence interval for research findings is +/- 5.7 at the 95% confidence level.
2. Non-domestic PVI childcare settings deliver 84% of funded places for 2 year olds and 38% of places for 3 and 4 year olds as measured by the DfE census: Education provision: children under 5 years of age. January 2017.
3. Or 1 to 13 where a person with Qualified Teacher Status, Early Years Professional Status, Early Years Teacher Status or other suitable level 6 qualification is working directly with children.
The average price difference found in the study between private fees for 2 year olds and children aged 3 to 4 years was just 3%; the difference between average delivery costs between these ages was 36%.

When fees and costs are compared for under 2s and 3 to 4 year olds, the average cost of caring for under 2s is 46% higher, whilst the average private fee differential is just 7%.

When the mix of age and attendance in each childcare setting is factored in, the ‘blended’ cost to deliver an hour of care for under 5’s averages £5.85 across England.

Funding levels which are lower than ‘blended costs’ create inflationary price pressures for all age groups - as evidenced in previous panel research in autumn 2017 and a range of other sources, summarised recently in the House of Commons Treasury Committee Inquiry².

A blended funding rate equivalent to the April 2018 costs identified here would require an estimated £536 million additional funding to be passed down to PVI providers per annum, helping to manage fee inflation.

Protecting the quality of early years provision, tackling recruitment difficulties and reversing the recent decline in qualification levels will, however, come at a higher price.

More to come
Further analysis on delivery costs is on its way later this month in the About Early Years annual sector report - along with a full round-up of all findings from the 2017/18 research programme.

Visit our website for all the latest releases and key sector statistics.

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². About Early Years autumn 2017 bulletin: a focus on 30 hours.


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