Underfunding pushing up costs for parents, suggests new research [1]

A new DfE report on providers' finances shows that the hourly fee charged by settings for three- and four-year-old places is on average 58p higher than what they receive in funding.

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EXCERPTS

According to the report, which is based upon evidence from the latest Survey of Childcare and Early Years Providers, carried out in Spring 2018, it is private providers that charge the most, with fees 'substantially' higher than the funding rate at an average of £1.10 more.

The report is by Frontier Economics and NatCen on behalf of the Department for Education (DfE).

The mean hourly rate charged by private providers for three- and four-year-olds is £5.48.

Voluntary providers' fees are around 48p higher than the funding they receive, 37p higher for childminders and 49p higher for nursery classes.

However, the fees charged by maintained nursery schools is very close to the funding rate.

Two-year-olds

The report finds in comparison that there is almost no difference in the hourly fee charged by all settings for two-year-olds and the funding rate for those eligible for the 15 hours.

On average, the mean funding rate is 6p higher than the mean hourly fee.

The biggest difference in fees and funding is with private providers, who charge 28p more than what they receive in funding.

On average, private providers fees are £5.63 per hour for two-year-olds. Childminders charge £4.78.

Additional charges

Just under three-quarters (74 percent) of settings had additional charges for parents.

The most common types of charges were for unarranged late pick-ups, followed by one-off activities and meals. Less common were charges for regular activities, snacks and consumables.

Private settings were slightly more likely to say they had additional charges than other providers. Childminders were the least likely.

Income

The report finds that the majority of settings' income comes from parent fees at 64 percent, 27 percent from free entitlement funding and 11 percent from other sources.

A breakdown per type of setting shows for private providers, the average proportions received are evenly split between free entitlement funding and parent paid fees.

According to the report, medium and large size providers with no children under two, or with SEND, had higher income-to-cost ratios.

It also found that 54 percent of private providers were breaking even or making a loss, rising to 74 percent for voluntary settings.

Staff pay

Across all settings, the average hourly pay is £10.19.

The report shows that staff working in private settings receive considerably lower however, with an average pay of £9.33 per hour, while childminders earn an average of £7.46.

This compares to an average hourly rate of £16.96 for staff in nursery classes and £15.66 for maintained nursery school employees.

It finds that almost a quarter of workers aged 25 and over were paid at or below the statutory minimum. This was mainly due to 70 percent of childminders paying themselves or drawing money from the business implicitly at or below the National Living Wage.

The authors of the report conclude that it would beneficial to carry out further investigation to understand providers' investment models and how nursery classes 'appear to be relatively efficient in their use of staff'.

They also say that a 'substantial proportion of the variation in the financial characteristics is unexplained and it is not clear whether this is driven by differences in efficiency of delivery and/or by differences in the nature of care provided.'

Sector response

The Early Years Alliance said the research backed up providers' warnings of underfunding pushing up fees and additional charges for parents and leaving them with no choice but to limit places to children with the fewest additional needs.

Chief executive Neil Leitch said, 'This is an unsustainable approach to early education and it's nothing short of appalling that ministers are asking parents to prop up their flagship childcare policy. It's inevitable is that this is only going to get worse. Countless providers have already told me that April's increase to employer pension contributions and the minimum wage will mean they have to close – and yet ministers continue to insist everything is fine.

'Ignoring independent studies would be one thing but we're now in the absurd position where the Government is hiding from its own reports. This is not fair on parents or providers and it simply can't continue – it's time ministers faced up to their responsibilities and ensure funding covers the true cost of providing quality childcare.'

The National Day Nurseries Association (NDNA) and PACEY both questioned the figures.

NDNA's chief executive Purnima Tanuku said, 'The findings from the provider survey just underline why we need the Government to get to grips with the real picture of childcare costs.

'We have seen several attempts in recent years from the SEED survey in 2015, to Frontier Economics and now this. All give very different answers to the question of how much the delivery of childcare and early education costs. Take maintained nursery schools as an example, just four weeks ago Frontier Economics suggested the hourly cost was £5.28 but today's report puts it almost two pounds higher at £7.23.

'The figures showing the percentage of settings making a loss and breaking even, echo our annual survey when 57 percent of the sector said they would be making a loss or breaking even. That means providers not being able to invest in their nurseries or staff and owners not able to take a wage from their business or being forced to close.

'Across every type of provider the feedback was that the hourly funded rate for three-and-four-year-olds was below the hourly fees parents would otherwise pay. Time and again we have warned that underfunding this policy puts providers at risk or pushes costs into other areas.

'It's clear that the Government must undertake the more detailed analysis this report calls for and link the funding rates it pays to providers to subsequent cost increases like minimum wage increases and business rates rises.'

Liz Bayram, chief executive of PACEY, said, 'We need credible, reliable evidence on the cost of childcare to ensure the next Comprehensive Spending Review delivers the funding all early years providers need to ensure their future sustainability. Childcare businesses are all run differently with regional variations to their costs and the market rate for their fees. Confused and mixed messages based on statistical averages helps no one.'

Government response

A Department for Education spokesperson said, 'We want every child to have the best start in life, which is why we are spending around £3.5 billion on our early education entitlements this year alone. More than 700,000 of the most disadvantaged two-year-olds have benefited from 15 hours free childcare since 2013, and more than 340,000 three and four-year-olds benefitted from our 30 hours offer in its first year, meaning parents are spending less on childcare or are able to work more flexibly.

'We recognise the need to keep our evidence base on costs up to date and we continue to monitor the provider market closely through regular research.'
Related link: Providers' finances: Evidence from the Survey of Childcare and Early Years Providers 2018 [3]
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