Kindred²

ArkStart

Targeting Impact: A contribution to the Early Years debate

A discussion document

July 2023

In November 2022, a coalition of Early Years organisations identified a series of practical and affordable options for efficient and effective Early Years spending in England[1].

In March 2023, the Government announced additional funding to deliver an extension to the early entitlements of childcare in England. The budget announcement was widely welcomed by the Early Years sector as a reflection of the much needed investment in children's earliest years, but concerns were raised that the funding policy and model may exacerbate the current market failure and that higher income families will benefit at the expense of those on lower incomes.

Given the critical importance of the Early Years to children's development and later life chances, we believe these important years of nursery education and care should be treated by Government, families and society as part of the mainstream education system, in the same way as primary and secondary education phases.

The March budget announcement was a significant step forward in recognising the importance of Early Years. The additional £4bn promised by the Government demonstrates that radical change is possible, even within the challenging economic environment.

The question now is whether society would get best value from more of the same, or whether there are alternative ways to target these funds that will be transformative for children, families and society. Building on the options set out in the previous paper[2], we have developed a further alternative to the current funding model that prioritises high quality provision for children from the least affluent families. In a challenging economic climate, this alternative is pragmatic and could be reasonably implemented near-term within the existing spend envelope.

1. (Kindred², 2022)
2. (Kindred², 2022)

Summary

The Early Years (from birth to 5) is the most crucial period of a child's development, informing long-term outcomes and providing the foundations for children's learning and development, relationships and good health.

How children are nurtured during these years is vital for their own life chances, as well as for the nation's productivity and financial growth. Without access to quality Early Years provision, children from socio-economically disadvantaged backgrounds start school over 4.5 months behind their more advantaged peers[3], a learning gap that typically gets worse over time - massively and disproportionately impacting the life pathways of disadvantaged children. 40% of the attainment gap at 16 is already evident by the time children start school[4].

In spite of the critical importance of the Early Years for children, school is only a statutory requirement fully subsidised by the Government when children turn 5 in the UK. Early Childhood Education and Care (ECEC, often referred to as childcare) also has significant implications on the UK workforce as families struggle to find suitable childcare.

More recently, it has become a highly politicised topic because of the astronomical cost to parents (the UK is now the third most expensive country for 'childcare' in the world, according to OECD data[5]).

The policy announced in March has been designed to help parents with childcare so they can return to work more easily[6] rather than focusing on the critical nature of the early years as a phase in a child's education and development. The focus has therefore been on cost and the facilitation of parental return to work, rather than the quality of early education. Research suggests that almost half the children in England entering Reception are not achieving the developmental milestones appropriate to their age[7]. Government funding should be directed towards ensuring more children are achieving their developmental milestones, providing for those most in need of support with the aim of closing the disadvantage gap, and secondarily to support families with the cost of childcare.

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3. (Education Policy Institute, 2020)
4. (Education Policy Institute, 2016)
5. (OECD, 2022)
6. (Gov.uk, 2023)
7. (Kindred^2, 2023)

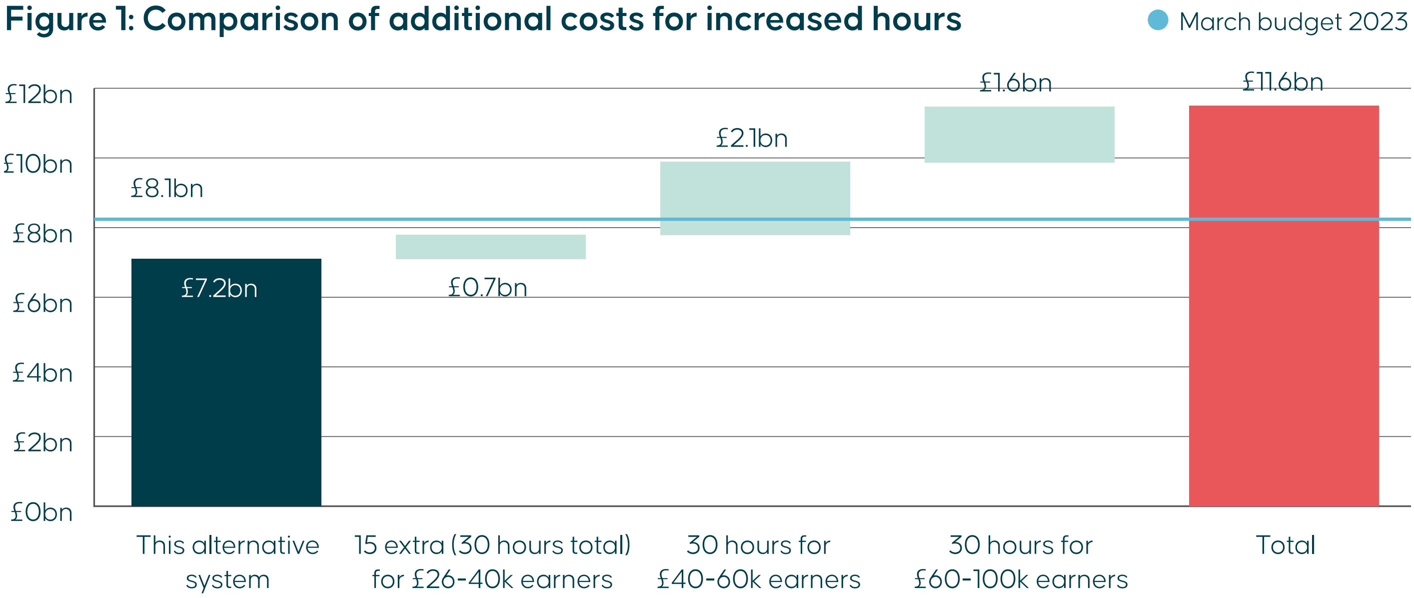
Using £7.2bn[8] – £1bn less than the currently promised funding by Conservatives in March (~£8bn - £4bn current[9] + £4.1bn by 2027/28), we identify an alternative funding model that:

- Ensures the families who most need access to high quality Early Childhood Education and Care (ECEC) can access it. All those in the bottom 40% of household earnings would receive 30 hours for 38 weeks per year from the age of 1
- Ensures that providers, particularly those running not-for-profit and social enterprise models, are supported and incentivised to operate in more deprived areas, to ensure there is sustainable high quality provision to meet this demand (working in collaboration with local authorities, as outlined in 'Delivering a childcare guarantee'[10])

This model would result in:

- More disadvantaged children being able to access hours
- Some families in the upper quartile being required to pay for their hours (~37% of population)
- A higher quality offering of education and care for children from the most disadvantaged backgrounds where this matters most

Figure 1: Comparison of additional costs for increased hours

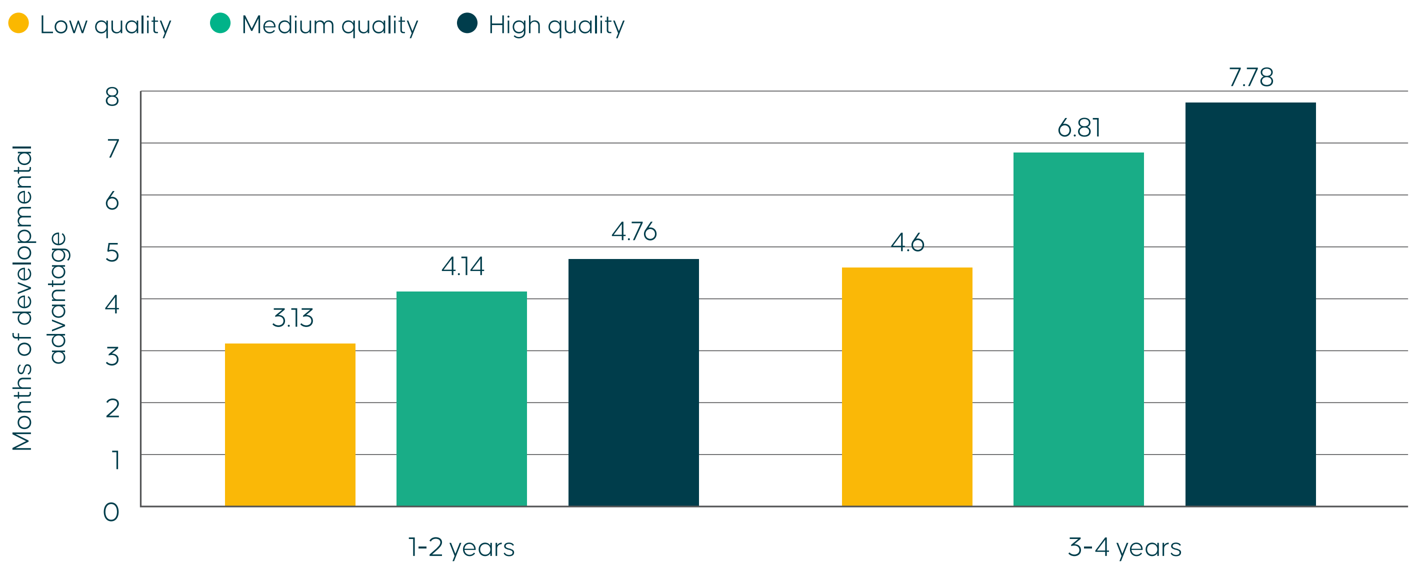


8. Based on DfE breakeven costings for 2020 (and therefore does not include inflationary increases beyond 2020 so likely underestimates future costs)
9. *Excluding additional spend by other government departments on Tax Free Childcare and childcare support via the benefit system*
10. IPPR (2022)

What works for children – based on the evidence

The evidence is clear that, particularly for children from more disadvantaged backgrounds, a high quality early education from age 2 impacts child outcomes.

Figure 2: Development advantage (in months) for duration and quality of pre-school on literacy at school entry (home as comparison)



- The Effective Pre-School, Primary and Secondary Education Project (EPPSE) found that when children entered school around the age of 5, the benefits of having attended any pre-school were apparent. Those who attended pre-school, compared to those who did not, had better attainment in language, pre-reading and early number concepts after controlling for the influence of background characteristics. With higher scores for independence, concentration, co-operation, conformity and peer sociability, the pre-school group appeared to be better socially adjusted.[11]

- A London School of Economics and Political Science (LSE) study showed that children tended to be more stimulated at nursery due to the interaction with new children and adults[12], which helped their development. Recent research by The Sutton Trust shows that for children from disadvantaged families (those in the lowest 40% of the income distribution), there are benefits for cognitive development associated with early childhood education and care usage between the ages of 3 and 5 years.[13]

11. (Department for Education, 2015)
12. (The Independent, 2016)
13. (The Sutton Trust, 2023)

We also know that material deprivation affects child outcomes and yet the cost of childcare means that 76% of mothers who pay for childcare say it doesn't make financial sense to work[14]. Over half of parents who use childcare have had to reduce their hours at work due to cost or availability of childcare[15]. Supporting families who want or need to work with the cost of childcare makes economic and social sense.

We have decided to focus on the period from age 1 to 5 since current statutory policies enable mothers to return to their role at the same status and salary within a year of giving birth (though we recognise that statutory maternity pay only lasts nine months; this anomaly could reasonably be the subject of a further, separate policy discussion). There is limited research about the impact of childcare on young babies, but the international consensus is that opting to return to work does not impact child outcomes over time.

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14. (Pregnant then Screwed, 2023)
15. (Pregnant then Screwed, 2023)

What is currently happening?

The existing policies prioritise childcare for higher earners over education for those who need it most: 70% of those eligible for the additional hours are in the top 50% of earners[16], therefore Government funding is being directed towards families who need it less.

As a society, there is evidence of a social injustice that affects millions of children

- Nuffield Foundation - More than one in three (36%) children in families with a child under five in the UK are living in poverty, amounting to 2.2 million children. For children in families with three or more children, this figure rises to more than half (52%)[17].
- University College London (UCL) – New research reveals that half of pupils who fail to secure a pass in English language and maths GCSEs at age 16 were identified as being behind at age five[18].

Figure 3: Current entitlement

	2 – 3 years	3 – 4 years
For families earning less than £15,400 / year (or with children in care or on an education, health and care (EHC) plan)	15 hours, 38 weeks / year	15 hours, 38 weeks / year
For families with individuals earning under £100k and at least £139 per week (equal to 16 hours at the National Minimum or living wage) each.	0	30 hours, 38 weeks / year

The entitlements have historically only covered roughly two thirds of the costs to providers to operate the hours (based on Freedom of Information findings)[19], which is what causes providers to charge expensive hourly rates for any of the fee-paying parents so they can cover the underfunding.

Figure 4: New policy – announced in April 2023 to be implemented by September 2025

	9 months – 2 years	2 – 3 years	3 – 4 years
For families earning less than £15,400 / year (or with children in care or on an EHC plan)	0	15 hours, 38 weeks / year	15 hours, 38 weeks / year
For families with individuals earning under £100k and at least £139 per week (equal to 16 hours at the National Minimum or living wage) each.	30 hours, 38 weeks / year	30 hours, 38 weeks / year	30 hours, 38 weeks / year

It appears as if the new funding comes closer to the actual costs of delivery, although the full details have yet to be made public.

16. (Sutton Trust, 2021)
17. (Nuffield Foundation, 2021)
18. (UCL, 2022)
19. (Early Years Alliance, 2021)

An alternative system

Key principles within this alternative system

- Focus government funding on the families who need it most – and means test based on household rather than individual income
- Incentivise the creation of more high quality provision
- Incentivise providers to operate in lower income areas (where a disproportionate number of nurseries are closing)
- Recognise the additional cost of operating in lower income areas with differentiated funding
- Ensure receipt of any improved funding settlement was conditional on quality
- Exclude the top 40% earning households from Government supported-hours, which could come with a political cost
- Provide hourly rates to providers that cover full operating costs of the entitlements

An Alternative System for Targeting Spend

This alternative system would introduce two key changes:

1. **Change the hourly entitlements to prioritise lower income families**
2. **Introduce a differentiated funding formula that incentivises providers to serve more disadvantaged families**

1 Change the hourly entitlements to prioritise lower income families

Offer families hours based on total household income

This is a change in comparison to current policy, which requires both parents to be working. Under a total household income model, single parents or those pursuing further education would be more readily supported.

Families in the lowest 40% of income distribution: 30 hours for 38 weeks from 1 year old

This would ensure that the lowest income families would be provided with the most additional support to return to work, and is when evidence shows that quality nursery education is most beneficial for children.

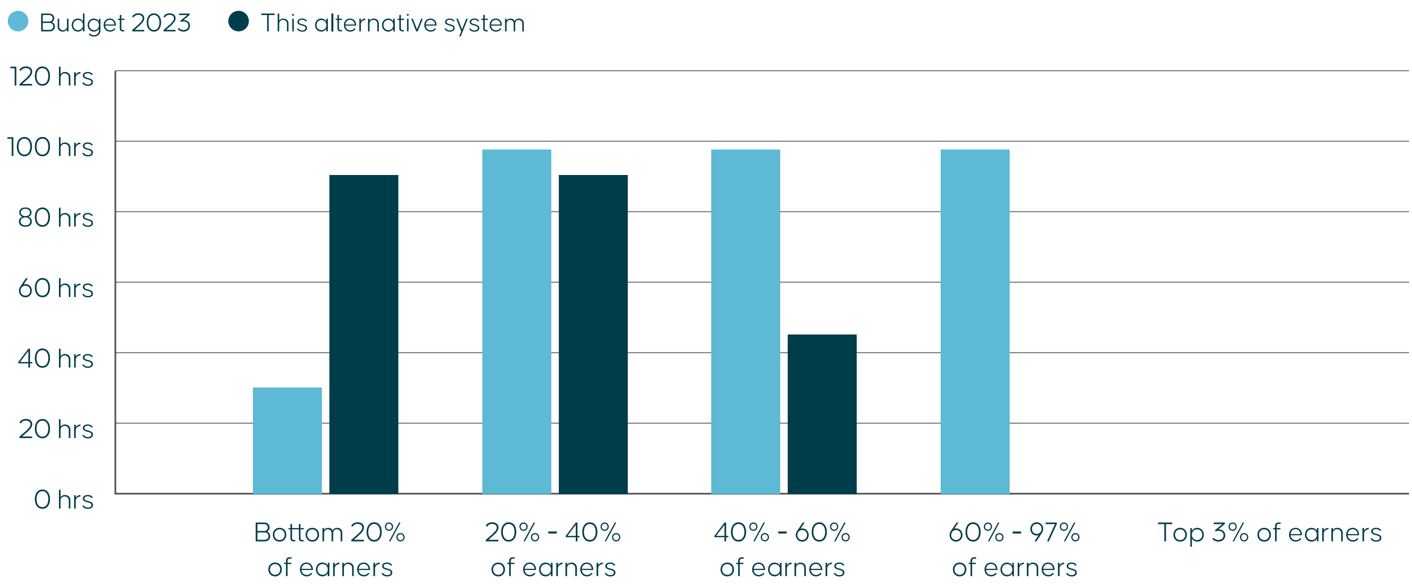
Between 40% and 60% of income distribution: 15 hours for 38 weeks from 1 year old

In line with the evidence, children benefit from a nursery education from age 2 and these parents would have some benefit from the additional support with childcare costs.

Above 60% of income distribution: No subsidised hours

To remain within current funding envelope, families in top 40% of income distribution would not receive any support. Our view is that education and care should be available to these families too and would be possible with additional funding of up to £4.5bn.

Figure 5: Comparison of cumulative hours (over 38 weeks) before age 5



2 Introduce a differentiated funding formula that incentivises providers to serve more disadvantaged families

To incentivise high quality provision in more disadvantaged communities, there needs to be recognition of the additional cost of working in and for nurseries in disadvantaged areas. In the school system, this is done through the additional investment of the pupil premium funding (currently set at £1,455 per child)[20].

It is more expensive to run provision in disadvantaged areas for three main reasons:

- Providers are less likely to attract the fee-paying children of wealthier families which they rely on to cross-subsidise the funded hours
- There are increased costs associated with offering provision to those with more complex needs e.g. children with undiagnosed SEND, lower levels of development etc.
- It is harder to attract and retain high quality staff given the additional demands and reduced ability to pay competitive salaries given sustainability of nurseries

Currently for the 2023-24 year, funding rates for 3 & 4-year olds will range from £4.87 to £8.73 / hour across local authorities (with £5.31 as the average)[21].

In this system, beyond the variances by local authority (LA), there would then be the following adjustments made to the LA hourly rate **for each child** attending nursery as outlined in the table below. This would thereby incentivise providers to accept more children on 'funded only' places (i.e. when parents can only afford to use the Government entitlements and not pay any additional fees).

Figure 6:

Stated policy aims	Bottom 20% of earners	20% - 40% of earners	40% - 60% of earners	60% - 97% of earners	Top 3% of earners	Total cost
Costs for hours in change 1	£2.9bn	£2.5bn	£0.7bn			**£6.1bn**
Differential multiplier	1.2x	1.2x	1.0x	0	0	
Costs for hours in change 1 and differential multiplier in change 2	£3.5bn	£3.0bn	£0.7bn			**£7.2bn**

The cost to introduce these two key changes would be **£7.2bn**, based on DfE breakeven costings for 2020 (and therefore does not include inflationary increases beyond 2020 so likely underestimates future costs).

The graph below illustrates the additional spend options to provide higher earners with more hours.

- For an additional £0.7bn, families with household income of up to £40k could be offered 15 hours
- For an additional £2.8bn cumulative, all families with household income of up to £60k could be offered 30 hours
- For an additional £4.5bn cumulative, all families with household income of up to £100k could be offered 30 hours.

20. (House of Commons, 2023)
21. (Gov.uk, 2023)

Figure 7: Comparison of additional costs for increased hours

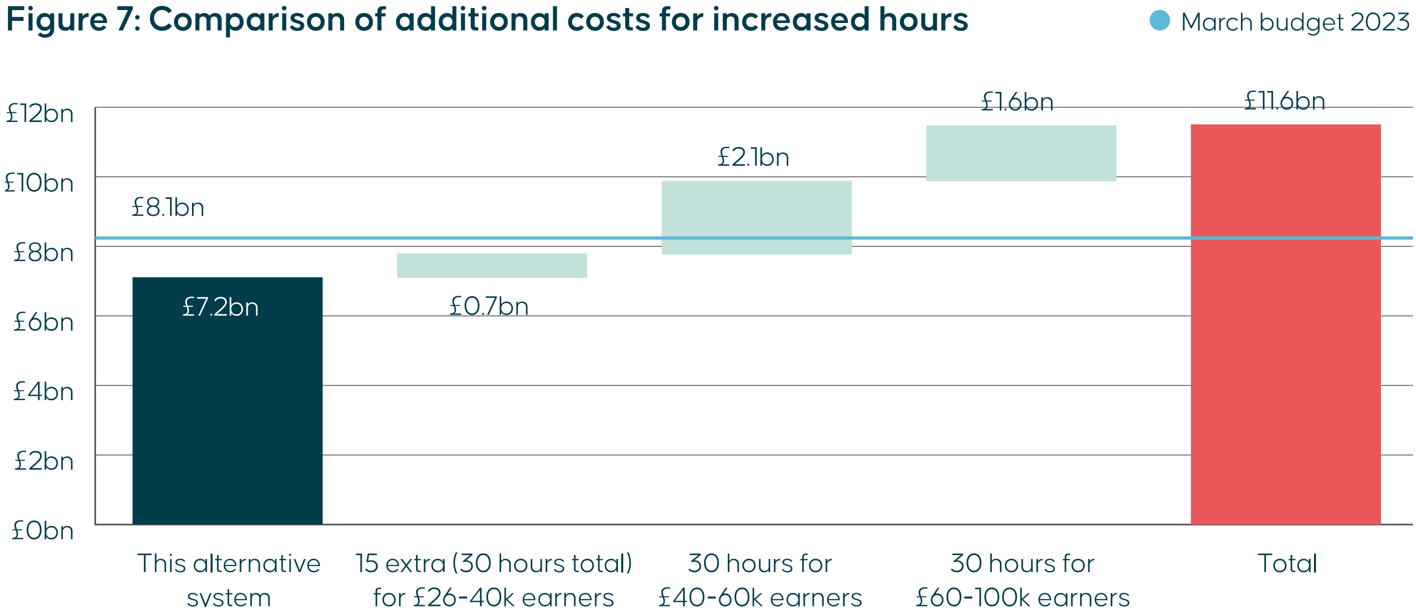
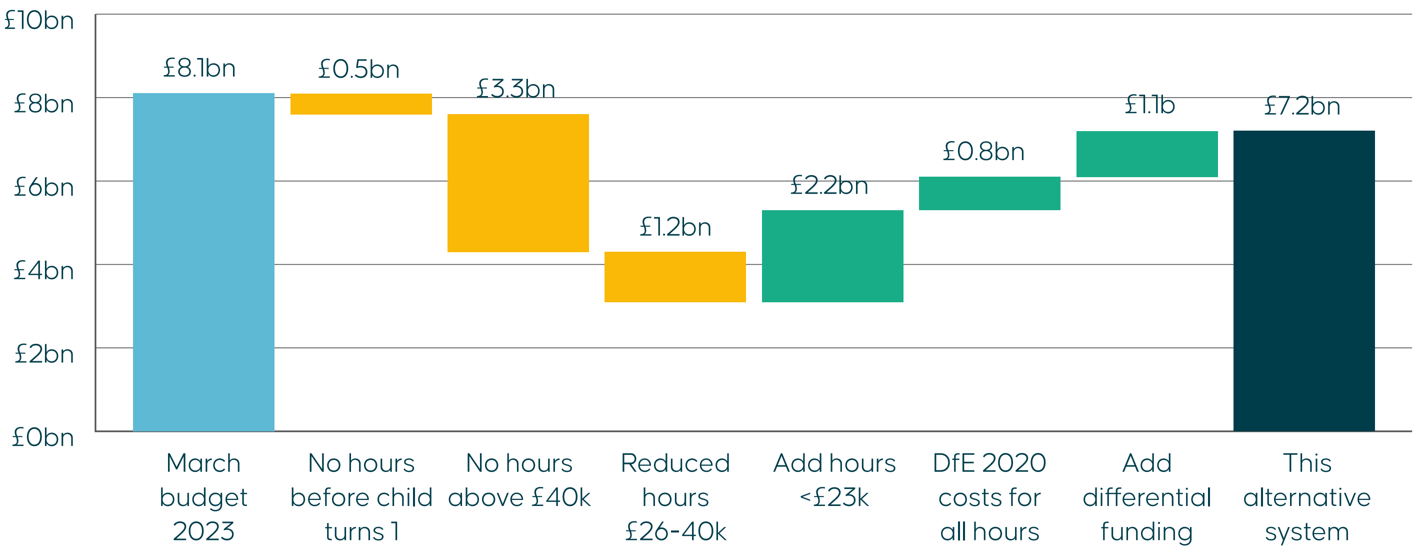


Figure 8: Comparison of changes between March 2023 Budget and this alternative system

This chart illustrates how we will move from March budget 2023 to the alternative system.



Support to make this system work

In addition to changing the allocated hours and funding entitlements, to really support children with the best quality ECEC requires a sector that is focused on quality, and where accountabilities are clear and regulations are enforced.

This would likely entail a more active role of local authorities in the Early Years market, which could include commissioning and / or maintaining basic health & safety and safeguarding requirements and / or higher levels of conditionality associated with receiving government funding – for example, around parent access, staff pay and quality of provision.

Examples of this include proposals laid out by the IPPR in December 2022 'Delivering a Childcare Guarantee'[22]. It would also likely require support from central and local government to support high quality providers to identify low cost buildings in areas of demand from which to offer nursery places.

22. (IPPR, 2022)

Appendix

Proposed income bandings are based on latest ONS data[23]:

The graph below illustrates that currently, at least 20% of population (and somewhere up to 30%) of the population are not entitled to any entitlements; whereas only some small percentage of population (~5%) in top decile exceed maximum.

Figure 9: Comparison of additional costs for increased hours

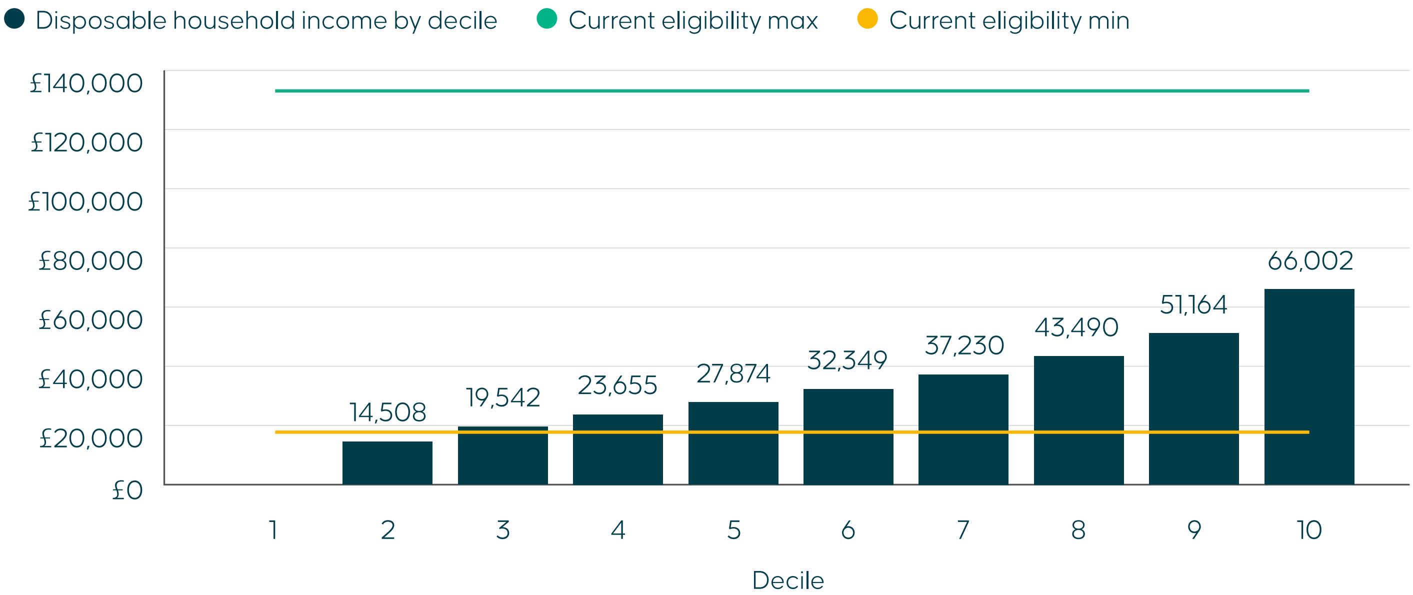


Figure 10:

Stated policy aims	Bottom 20% of earners	Bottom 40% of earners	Bottom 60% of earners	Bottom 97% of earners	Top 3% of earners
Disposable (net) household income	£14,508	£23,655	£32,349	£117,850	£117,850+
Gross household income	£15,270	£26,571	£40,888	£177,100	£177,100+

23. (Office for National Statistics, 2023)

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