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Early Years Funding (England)

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Contents

Summary

This Briefing provides a short overview of early years funding in England since the introduction of the new national early years funding formula from 2017-18. More detailed background information on the introduction of the formula is available in Library Briefing 8050, New early years funding formula from 2017-18, including maintained nursery schools (England).

How the Government funds early years provision

The majority of Government funding for early years providers in England is delivered via the three childcare entitlements:

- 15 hours universal entitlement for all three and four-year-olds.
- 15 hours for disadvantaged two-year-olds.
- Extended 30 hours entitlement for three and four-years-olds of eligible working parents.

Funding for the entitlements is included in the Early Years Block of each local authority's Dedicated Schools Grant (DSG). Additional Government funding for disadvantaged children (Early Years Pupil Premium) and children with additional needs (Disability Access Fund) is also included in the Early Years Block, along with additional funding for maintained nursery schools.

In 2021-22, the early years block is worth around £3.73 billion.

Early Years National Funding Formula

Government funding for the 15 hours universal entitlement and the 30 hours extended entitlement is determined using the early years national funding formula (EYNFF), which was introduced alongside the 30 hours extended entitlement in 2017. The formula determines the hourly per-child funding rate that each local authority is paid in respect of the two entitlements. In 2021-22, around £3.2 billion was allocated in respect of the two entitlements.

Local authorities are responsible for determining the actual hourly rate paid to early years providers in their area using a locally determined funding formula (they may also retain some of their funding for central administration costs). However, there are several requirements on how local authorities are able to allocate funding to providers (for example, applying a universal base rate for all their childcare providers in their three and four-year-olds funding formula).

EYNFF funding rates since 2017-18

When the EYNFF was introduced, the Government provided additional funding to increase the average hourly funding rate from £4.56 in 2016-17 to £4.94 in 2017-18. No major changes were made to the hourly funding rates in 2018-19 and 2019-20. For 2020-21, the Government said it would use additional funding announced at the Spending Round 2019 to increase the hourly funding rate for the 3 and 4 year old entitlement by 8p "in the vast majority of areas".

At the 2020 Spending Review, the Government announced that it would provide "£44 million for early years education in 2021-22 to increase the hourly rate paid to childcare providers for the government's free hours offer." In December 2020, the Government announced that the additional funding would be used to increase the funding rate for 3 and 4 year olds by 6p "in the vast majority of areas."

Funding for maintained nursery schools

Like other early years settings, maintained nursery schools (MNS) receive funding from central government (via their local authority) for the three childcare entitlements. However, in recognition of the higher costs faced by MNS compared to other early years providers (e.g. due to the requirement to employ a headteacher and qualified teachers), since the introduction of the EYNFF in 2017-18 the Government has provided additional supplementary funding to MNS. This supplementary funding was initially intended to last for two years only but has been subsequently extended and is currently committed up to the end of 2021-22 financial year. Around £60 million of supplementary funding will be provided in 2021-22.

Further information on other funding provided outside of the EYNFF is provided in section 4 of this briefing.

Financial support during Covid-19 pandemic

The Government has announced a range of measures aimed at supporting the early years sector financially during the coronavirus outbreak, including, but not limited to, continuing to pay funding to local authorities for the early education entitlements during any periods of closures, and basing early years funding for local authorities for autumn term 2020 on pre-coronavirus levels of attendance. However, since the spring term 2021, funding has been based on current attendance, but with provision for some top-up funding where attendance increases.

The Government has also announced around £3.1 billion of funding to support education recover from the impact of the Covid-19 pandemic in England. This has included funding for an early language programme for nursery aged children and training for early years practitioners. The Sutton Trust has called for the early years to "form a central plank" of the education recovery.

Funding levels and providers' financial sustainability

Representatives of childcare providers were contending prior to the coronavirus outbreak that early years funding was not sufficient to cover the increasing costs of provision, including, for example, increases in the national living wage. The coronavirus outbreak has impacted financially on the early years sector, including because of enforced closures during the first national lockdown and lower levels of attendance since then, and due to the costs of infection prevention and control measures. This has added to concerns about the financial sustainability of providers.

An October 2020 Department for Education report on the finances of early years providers in 2019 (i.e. before the coronavirus outbreak), found that the mean income-to-cost-ratio (total weekly income divided by total weekly cost) for all providers was 1.42 in 2019 (1.37 for all providers excluding childminders). It also found, however, that the median income-to-cost ratio (the middle observation when providers are ranked from lowest to highest) was 0.99, indicating that half of providers were around or below the breakeven point where total costs equal total income.

In its 2020 annual report on education spending in England, the Institute for Fiscal Studies stated that real terms spending per hour on the 3 and 4 year old entitlements has been falling since 2017-18 and in 2019-20 stood at the same level as in 2016-17. It added that "most local authorities are due to see another small drop in real-terms hourly funding rates in 2020–21, though the impact of this on providers will be dwarfed by the financial consequences of COVID-19."

1 Introduction

The majority of Government funding for early years providers in England is delivered via three childcare entitlements:

- **15 hours universal entitlement for three and four-year-olds**: all three and four year olds are entitled to 570 hours of Government-funded childcare a year, often taken as 15 hours a week for 38 weeks of the year (and often referred to as "15 hours of free childcare"). The entitlement is universal and applies irrespective of parent income.[1]
- **15 hours entitlement for disadvantaged two-year-olds:** introduced under the Coalition Government, some two-year-olds are eligible for the "15 hours of free childcare" if certain conditions are met – e.g. if their parents are in receipt of specified benefits, if they are a looked after child, or if they have an Education, Health and Care Plan.[2]
- **Extended 30 hours entitlement:** introduced in September 2017, some three and four-year-olds qualify for a further 570 hours of funded childcare on top of the "15 hours of free childcare". This, together with the universal entitlement, is commonly taken as 30 hours over 38 weeks (and often referred to as "30 hours of free childcare"). Only three and four-year-olds from working households and certain other households specified in regulations qualify for the extended entitlement.[3]

Funding for the thee childcare entitlements is included in the Early Years Block of each local authority's Dedicated Schools Grant (DSG). Additional Government funding for disadvantaged children (Early Years Pupil Premium) and children with additional needs (Disability Access Fund) is also included in the Early Years Block, along with supplementary funding for maintained nursery schools.[4] In 2021-22, the Early Years Block is worth around £3.73 billion.[5]

Although the DSG itself is ring-fenced (and there are limits on the amount of money that can be moved out of the Schools Block), local authorities can

1 15 hours free childcare for 3 and 4-year olds, Gov.uk. All webpages last accessed 25 November 2020 unless stated.
2 Free education and childcare for 2-year-olds, Gov.uk.
3 30 hours free childcare, Gov.uk, .
4 Get extra funding for your early years provider, Gov.uk.
5 Education and Skills Funding Agency (ESFA), Dedicated schools grant (DSG) 2021 to 2022, 16 March 2021.

determine how much to allocate to early years as a whole, and the funding rate paid to individual providers.

Local authority early years block allocations for 2017-18, 2018-19; 2019-20, 2020-21, and 2021-22 are available on Gov.uk.

The Government also provides funding indirectly to the early years sector via the support it provides to parents with childcare costs – for example, via Tax Free Childcare and through the benefits system. Further information on this support is available in a separate briefing: 8054 Childcare: support with costs (England), 9 March 2020.

2 The Early Years National Funding Formula

2.1 Introduction

Government funding for the 15 hours universal entitlement and the 30 hours extended entitlement is determined using the Early Years National Funding Formula (EYNFF). This was introduced at the same time as the 30 hours extended entitlement in 2017. A separate formula is used to determine funding for the 15 hours entitlement for disadvantaged two-year-olds (see section 4.1 below).

The EYNFF determines the hourly per-child funding rate that each local authority is paid in respect of the two entitlements (the funding rates for both entitlements are the same). This is then multiplied by the number of part-time equivalent children taking up the entitlements (based on the early years census) to arrive at the local authority's allocation.[6] This is then included in the Early Years Block of the authority's DSG.

In 2021-22, around £2.3 billion was allocated in respect of the 15 hours universal entitlement for three and four-year-olds, and around £850 million was allocated in respect of the extended 30 hours entitlement.[7]

The actual funding rate paid to early years providers in an area is determined by the local authority, within a statutory framework (see section 2.3 below).

Detailed guidance on the EYNFF for 2021-22 is available at: Early years funding: 2021-2022. Information for 2020-21 is available at: Early years funding: 2020-2021. Guidance for 2017-18, 2018-19 and 2019-20 is available at EYNFF: funding rates and guidance.

6 The funding allocations for local authorities are based on actual take up of the entitlement hours and as a result, initial allocations are subsequently updated using more recent census data. PQ30811 provides more detail on how this happens in a typical year.

7 Education and Skills Funding Agency (ESFA), Dedicated schools grant (DSG) 2021 to 2022, 16 March 2021.

2.2 Funding from Department for Education to local authorities

The EYNFF is composed of three parts:

> Local authority hourly per-child funding rate = (base rate + additional needs) x area cost adjustment.

The **base rate** is "funding for each child that will not vary across local authorities". A large majority (89.5%) of total funding under the formula is allocated through the base rate.[8]

The **additional needs factor** aims to reflect "the extra costs of supporting children with additional needs to achieve good early learning and development outcomes". It is based on:

- The proportion of children receiving free school meals in a local area at Key Stages 1 and 2 (8% of total formula funding is allocated using this metric).
- The proportion of children in receipt of Disability Living Allowance in a local area (1% of total funding is allocated using this metric).
- The proportion of children in a local area with English as an additional language (EAL) at Key Stage 1 and 2 (1.5% of total funding formula is allocated using this metric).[9]

The **area cost adjustment** reflects "the different costs of providing childcare in different areas of the country". It is based primarily on staff costs (based on the general labour market measure), but adjusted for relative nursery premises costs (based on rateable values).[10]

Further adjustments may then be made as a result of:

- **A loss cap protection**: this was applied when the EYNFF was introduced to ensure that no local authority would lose more than 10% from their 2016-17 baseline funding level.[11]
- **A minimum funding floor**: in each year since the introduction of the EYNFF, the Department for Education (DfE) has guaranteed that each local authority will receive a minimum level of per hourly funding. This

[8] Department for Education (DfE), Early years funding – Changes to funding for three- and four-year olds: Government consultation response, December 2016, pp7&12.

[9] Department for Education (DfE), Early years funding – Changes to funding for three- and four-year olds: Government consultation response, December 2016, pp12-14.

[10] As above, pp14-15.

[11] As above, p7.

was originally set at £4.30 an hour but was increased to £4.38 an hour in 2020-21 and to £4.44 an hour in 2021-22.[12]

2.3 Funding of childcare providers by local authorities

As mentioned above, local authorities decide what the actual hourly rate paid to early years providers in their area is using a locally determined funding formula (they may also retain some of their funding for central administration costs).

There are, however, a number of requirements concerning how local authorities may allocate funding to providers. Detailed information on the requirements for 2021-22 are set out in DfE guidance: Early years entitlements: local authority funding of providers: Operational guide 2021 to 2022. Guidance for 2021-22 is available at: Early years entitlements: local authority funding of providers: Operational guide 2020-21. The guidance for 2017-18, 2018-19 and 2019-20 is available at: EYNFF: funding rates and guidance.

Minimum pass-through

Local authorities are required to pass through a minimum proportion of their EYNFF funding to providers, in order to ensure "that the vast majority of government funding reaches providers so that they can deliver the government's free entitlements." The pass-through funding level was set at 93% in 2017-18 and has been 95% since 2018-19.[13] This means, therefore, that centrally retained funding (for central services or services in-kind) combined with any funding movement out of the Early Years Block has been constrained to a maximum of 5% since 2018-19.

In "exceptional circumstances" the DfE will consider requests from local authorities to disapply the pass-through requirement. However, it states that it does not expect many local authorities will need to do this.

Only funding allocated under the EYNFF is subject to the pass-through rule. It does not apply to other Early Years Block funding streams (i.e. funding for the two-year-old entitlement, Early Years Pupil Premium funding, the Disability Access Fund, and DfE supplementary funding for maintained nursery schools (sections 3 and 4 provide more information on these funding streams).[14]

[12] ESFA, Early years funding: technical note for 2021 to 2022, 22 April 2021.

[13] DfE, Early years funding: Changes to funding for three- and four-year olds: Government consultation response, December 2016, p5.

[14] DfE, Early years entitlements: local authority funding of providers: Operational guide 2021 to 2022, December 2020, pp9-10.

Setting a local funding formula

Previously, some local authorities paid different hourly rates to different childcare providers, based on the setting. Since 2019-20, all local authorities have been required to pay a universal base rate for all their childcare providers in their three and four-year-olds funding formula. While this applies to maintained nursery schools (MNS) as to other providers, local authorities may use "lump sums" to distribute additional funding to MNS.[15]

Local authorities may apply supplements in addition to the base rate. However, the total value of any supplements must not be more than 10% of the total planned formula funding for providers.[16]

Local authorities must have a deprivation supplement and are permitted to use other funding supplements provided they fall within the below categories:

- **Sparsity/rurality**: "to support providers serving rural areas less likely to benefit from economies of scale."
- **Flexibility**: "to support providers in offering flexible provision for parents" (e.g. wraparound care, out-of-hours provision etc).
- **Quality**: "to support workforce qualifications, or system leadership".
- **English as an additional language (EAL)**: "to recognise differences in attainment [...] between children whose first language is English, and those who have EAL".

For all supplements, local authorities "have the freedom to choose the appropriate metric for allocating funding, but should be transparent about the metric chosen."[18]

Box 1: Transition to the EYNFF

To limit the overall funding reductions that individual local authorities could face as a result of the introduction of the EYNFF, a funding floor was put in place to ensure that no local authority faced a reduction in its hourly funding rate of greater than 10% against its 2016-17 baseline.

In addition to this overall protection, the DfE also proposed to "protect local authorities on an annual basis as they transition to their new funding rates" under the formula. Local authorities' annual reductions in their hourly rates were limited at 5% in both 2017-18 and 2018-19.[17]

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[15] As above, p17

[16] As above, p16

[17] DfE, An early years national funding formula and changes to the way the three- and four-year-old entitlements to childcare are funded – Government consultation, August 2016, p52, para 213 and p53, para 216, and DfE, Early years funding – Changes to funding for three- and four-year olds: Government consultation response, December 2016, p5.

[18] DfE, Early years entitlements: local authority funding of providers: Operational guide 2021 to 2022, December 2020, pp16-17.

2.4 Funding rates since 2017-18

2017-18

At the 2015 Spending Review, the Government announced that from 2017-18 it would "invest £300 million to increase the average hourly rate childcare providers receive".[19] The then Education Secretary stated that this would result in an increase in the national average hourly funding rate from £4.56 to £4.88.[20] This followed a review of childcare costs undertaken by the DfE between June and August 2015 and published in November 2015.[21]

Average funding rate for and 3 and 4 year olds:

2017-18: £4.76

2018-19: £4.75

2019-20: £4.75

2020-21: £4.83

2021-22: £4.88

Subsequently, in its response to the consultation on the EYNFF, published in December 2016, the DfE stated that it would guarantee that every local authority would receive a minimum funding rate of at least £4.30 an hour from 2017-18. It added that this would be paid for by an additional investment on top of the £300 million announced at the Spending Review. This, the consultation response stated, meant that the national average hourly funding rate would increase to £4.94 for 2017-18, from £4.56 in 2016-17. This figure included the Early Years Pupil Premium, the Disability Access Fund, supplementary funding for maintained nursery schools, and quality and expertise funding.[22] The average rate excluding these additions was £4.76 in 2017-18.[23] It should be noted that these figures refer to a *national average* hourly funding rate, and do not the rate received by each childcare provider.

2018-19 and 2019-20

No major changes were made to hourly funding rates paid to local authorities in 2018-19 and 2019-20. The only reason for any changes in a local authority's rate compared to 2017-18 was the operation of the transitional protections (and a corresponding cap on gains in 2018-19).[24] The national average funding rate, excluding supplementary funding for MNS, the disability access fund and the early years pupil premium was £4.75 in both 2018-19 and 2019-20.[25]

Further information on the calculation of the funding rates in 2017-18, 2018-19 and 2019-20 is available at: Early years national funding formula: funding rates and guidance.

[19] HM Treasury, Spending Review and Autumn Statement 2015, Cm9162, November 2015, p44. The then Education Secretary stated that this meant that the cost of the extended entitlement policy would be "more than £1 billion a year" by 2019-20, HC Deb 25 November 2015, c1416.

[20] HC Deb 25 November 2015, c1416. The Government additionally announced that the rate would increase to £5.39 (from £5.09) for the 15 hours of free childcare for eligible 2 year olds.

[21] DfE, Review of childcare costs, 25 November 2015.

[22] DfE, Early years funding – Changes to funding for three- and four-year olds: Government consultation response, December 2016, pp5-6.

[23] PQ 1144, 13 May 2021.

[24] DfE, EYNFF: technical note for 2018 to 2019, November 2017, p4.

[25] PQ 1144, 13 May 2021.

2020-21

At Spending Round 2019, the Government announced that it would "increase early years spending by £66 million to increase the hourly rate paid to childcare providers through the government's free hours offers."[26]

In a written statement in October 2019, the Government said that, as a result of the additional funding announced at the Spending Round, the hourly funding rate for the 3 and 4 year old entitlement would be increased by 8p "in the vast majority of areas", with the minimum funding floor also increased by 8p to £4.38. Thirteen local authorities which had had their 2019-20 hourly funding rate protected by the loss cap would, the statement explained, receive the same funding rate in 2020-21.[27]

The national average funding rate, excluding supplementary funding for MNS, the disability access fund and the early years pupil premium was £4.83 in 2020-21.[28]

Further information on the calculation of the funding rates in 2020-21 is available at: Early years funding: 2020-2021.

2021-22

At the 2020 Spending Review, the Government announced that it would provide "£44 million for early years education in 2021-22 to increase the hourly rate paid to childcare providers for the government's free hours offer." It added that this was on top of the £66 million announced at Spending Round 2019.[29]

In December 2020, the Government said that, as a result of the increased funding, the hourly funding rate for the 3 and 4 year old entitlement would be increased by 6p "in the vast majority of areas", with the minimum funding floor also increased by 6p to £4.44. The local authorities which had had their funding rates protected by the loss cap had their funding rates maintained in 2021-22 (two of these authorities had their rates increased as they came off the loss cap).[30]

The national average funding rate, excluding supplementary funding for MNS, the disability access fund and the early years pupil premium was £4.88 in 2022-21.[31]

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[26] HM Treasury, Spending Round 2019, CP170, September 2019, para 2.10.

[27] HCWS56, 31 October 2019. One of the thirteen local authorities, Bradford, had its funding rate increased by 6p – see, Early years national funding formula: funding rates and step-by-step calculation for 2020-21.

[28] PQ 1144, 13 May 2021.

[29] HM Treasury, Spending Review 2020, CP330, November 2020, para 6.19.

[30] PQ 130188, 15 December 2020. For further details, see Early years national funding formula: funding rates and step-by-step calculation for 2021-22.

[31] PQ 1144, 13 May 2021.

3 Maintained Nursery Schools

3.1 Background

Maintained nursery schools (MNS) are local authority run schools for 2, 3 and 4-year-olds. Like other early years settings, MNS receive funding from central government (via their local authority) for the three childcare entitlements.

However, as explained by the charity Early Education in a June 2018 briefing paper, MNS can face higher costs than other early years settings:

> [MNS] Are required to employ a headteacher, qualified teachers, a SENCO [Special Educational Needs Coordinator] and staff with level 3 qualifications, while PVIs [Private, Voluntary and Independent providers] need employ only one staff member with a level 3 qualification, and half of their remaining staff at level 2. More highly qualified staff means higher costs.[32]

In the 2016 consultation on the EYNFF, the DfE acknowledged that MNS faced "costs over and above other providers because of their structure", which would not be accounted for in the EYNFF. In recognition of this, the consultation proposed providing supplementary funding of £55 million a year for at least two years in order to "provide much needed stability to the nursery school sector while they explore how to become more sustainable in the longer term, including exploiting scope for efficiencies."[33]

The extra funding would, the consultation stated, be available to local authorities to provide, at their discretion, a higher hourly funding rate for maintained nurseries:

> For at least two years, local authorities will continue to have the autonomy, should they wish to, to fund maintained nursery schools at a different rate to maintain their stability. This means that the indicative average hourly rates for providers we have published are unlikely to be relevant to most maintained nursery schools. Instead, a reasonable planning assumption might be for continuation of similar funding levels.[34]

Following some criticism of the proposals, in its response to the consultation, published in December 2016, the DfE committed to provide the £55 million of

[32] Early Education, Briefing on funding for Maintained Nursery Schools, June 2018, p1.
[33] DfE, An early years national funding formula: Government consultation, August 2016, pp37 & 58.
[34] As above, p58

additional annual funding to "at least" the end of the then Parliament (2019-20).[35] This commitment was subsequently reaffirmed following the 2017 general election.[36]

Information on how local authority allocations of the supplementary funding were calculated in 2017-18, 2018-19 and 2019-20 is available in the technical notes for the relevant year, available at: Early years national funding formula: funding rates and guidance.

3.2 Funding for 2020-21

In a written statement in October 2019, the Government confirmed that supplementary funding for MNS would "continue, at its current rate, for the whole of the 2020-21 financial year." The statement added that, "the government remains committed to funding for MNS in the longer term; and that any reform to the way they are funded in future will be accompanied with funding protections."[37]

On 24 August 2020, the Government confirmed that "supplementary funding worth up to £23 million for Maintained Nursery Schools will be continued through the summer term of 2021 (i.e. for the whole of the 2020-21 academic year) to enable local authorities to provide them with reassurance while the Department confirms a long-term solution." The announcement added that:

> Maintained Nursery Schools often care for higher numbers of disadvantaged pupils most at risk of falling behind, and – as a result of being required to have a headteacher, a governing body and qualified staff - tend to have higher running costs. Confirmation of funding for the summer term will provide clarity for the full academic year ahead of longer-term arrangements being set out in the Government's Comprehensive Spending Review.[38]

3.3 Funding for 2021-22

It was announced that, in light of the coronavirus outbreak, the Government would conduct a one-year Spending Review only in 2020 rather than a multi-year review.[39]

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35 DfE, Early years funding: Government consultation response, December 2016, pp3 & 8.
36 PQ1778, 3 July 2017.
37 HCWS56, 31 October 2019. See also, DfE press release, Funding boost to support childcare and early education, 31 October 2019.
38 DfE, Early years support package to help close Covid language gap, 24 August 2020.
39 HM Treasury, Spending Review to conclude late November, 21 October 2020.

In a letter to the Chief Secretary to the Treasury on 11 November 2020, the All Party Parliamentary Group for Nursery Schools, Nursery and Reception Classes expressed concern about the "stop-gap" nature of funding for MNS and stated that the one-year timeframe of the Spending Review "must not cause further delays" to putting funding for MNS "on a long-term basis". MNS are, the letter stated, the "only part of the education system whose funding has to be negotiated on a term-by-term and year-by-year basis". It added:

> We urge the Chancellor to ensure that education ministers are able to replace the temporary arrangements for supplementary funding with a new strand of the Early Years National Funding Formula for maintained nursery schools for 2020-21. This must end the historical anomalies of the supplementary funding and provide a fair and viable national system for funding the distinct role and costs of maintained nursery schools.[40]

In response to a parliamentary question on 26 November 2020, the Minister, Vick Ford, stated that the DfE had "secured a continuation of around £60 million of supplementary funding for MNS in the 2021-22 financial year, as part of [the 2020 Spending Review]." She added that: "The department continues to consider what is required to ensure a clear, long-term picture of funding for all MNS…We will say more about this soon."[41]

Indicative local authority allocations of the supplementary funding can be found in: Early years national funding formula: funding rates and step-by-step calculation for 2021-22.

[40] APPG for Nursery Schools, Nursery and Reception Classes, Letter to Rt Hon Stephen Barclay, Chief Secretary to the Treasury, 11 November 2020.

[41] PQ119183, 26 November 2020.

4 Funding outside the EYNFF

This section provides brief information on a number of sources of funding for early years providers outside of the EYNFF. Further information on this funding is available at: DfE, Sources of income for early years providers.

4.1 Funding for disadvantaged two-year-olds

As mentioned in section one, since 2013 some two years olds are eligible for "15 hours" of free childcare if certain conditions are met – e.g. if their parents are in receipt of certain benefits, if they are a looked after child, or if they have an Education, Health and Care Plan. Funding for this is included in the Early Years Block of the DSG, but is determined using a separate formula from the EYNFF for the three and four-year-old entitlements. In 2021-22, around £441 million was allocated to local authorities.[42]

In its 2016 consultation on the EYNFF, the DfE stated that funding for disadvantaged two-year-olds was "already allocated on a fair and formulaic basis" and did not propose any changes. It did, however, state that it would use additional funding announced at the 2015 Spending Review (see section 2.4) to increase the average hourly funding rate from £5.09 to £5.39 from the 2017-18 financial year.[43] No changes were made to local authority hourly funding rates in 2018-19 or 2019-20.

2020-21

At the Spending Round 2019, the Government announced that it would "increase early years spending by £66 million to increase the hourly rate paid to childcare providers through the government's free hours offers."[44]

In a written statement in October 2019, the Government confirmed that some of the additional funding would be used to increase the average hourly funding rate for all local authorities for the two-year-old entitlement by 8p from 2020-21.[45] This increased the national average funding rate to £5.48.[46]

[42] ESFA, Dedicated schools grant (DSG) 2021 to 2022, 16 March 2021.
[43] DfE, An early years national funding formula: Government consultation, August 2016, p32.
[44] HM Treasury, Spending Round 2019, CP170, September 2019, para 2.10.
[45] HCWS56, 31 October 2019.
[46] PQ 1144, 13 May 2021.

2021-22

At the 2020 Spending Review, the Government announced that it would provide "£44 million for early years education in 2021-22 to increase the hourly rate paid to childcare providers for the government's free hours offer." It added that this was on top of the £66 million announced at Spending Round 2019.[47]

In December 2020, the Government said that, as a result of the increased funding, the hourly funding rate for the two year old entitlement would be increased by 8p for all local authorities.[48] This took the national average funding rate to £5.56.[49]

4.2 Disability Access Fund

The Disability Access Fund was introduced in 2017-18 following the DfE's consultation on the EYNFF. Any early years setting which provides places for 3 or 4 year-olds in receipt of Disability Living Allowance is eligible to receive disability access funding of £615 per child per year. This rate has remained unchanged since 2017-18. Local authorities receive disability access funding as part of the Early Years Block of the DSG and are responsible for passing the money to providers for each eligible child. In 2021-22, around £14.6 million of disability access funding was allocated to local authorities.[50]

Additional funding for providing ongoing support for disabled young children is also available from the high needs block of the DSG, including for children with Education, Health and Care (EHC) plans.

Box 2: Special Educational Needs (SEN) Inclusion Funds

Following proposals set out in its 2016 consultation on the EYNFF, since April 2017 the Government has required local authorities to establish SEN inclusion funds for three and four-year olds who are taking up any number of free entitlement hours (local authorities can adopt a similar approach for two-year olds, but this is not a requirement).

Local authorities are responsible for deciding the amount of money (pooled from either or both of their early years and high needs DSG funding) that they set aside for their SEN inclusion fund, and how the fund will be allocated to providers. Eligibility for funding is similarly determined by local authorities, in

[47] HM Treasury, Spending Review 2020, CP330, November 2020, para 6.19.
[48] PQ 130188, 15 December 2020. For further details, see Early years national funding formula: funding rates and step-by-step calculation for 2021-22.
[49] PQ 1144, 13 May 2021.
[50] ESFA, Dedicated schools grant (DSG) 2021 to 2022, 16 March 2021.

consultation with their local early years providers, parents and SEN specialists.

In its response to the 2016 consultation, the DfE stated that "the fund would be best focused on children with lower level or emerging SEN, since those with more complex SEN (broadly those children in receipt of an Education, Health and Care (EHC) plan) can receive additional funding via the high needs DSG block".[51]

4.3 Early Years Pupil Premium

The Early Years Pupil Premium (EYPP), introduced in April 2015, is additional funding for 3 and 4-year-olds who are receiving any number of hours of state-funded early education and:

- meet the benefit-related criteria for free school meals; or
- are currently looked after by a local authority in England or Wales; or
- have left care in England and Wales through adoption, a special guardianship order, a child arrangements order, or a residence order.[52]

In 2021-22, around £30 million of EYPP funding was allocated to local authorities as part of the Early Years Block of the DSG for distribution to early years providers.[53] The national rate for the EYPP is 53p per hour per eligible child up to a maximum of 570 hours.[54] Local authorities are required to fund all eligible early years providers in their area at this rate. The national rate has remained unchanged since the EYPP was introduced.[55]

4.4 Coronavirus: financial support

The Government has announced a range of measures aimed at supporting the early years sector during the coronavirus outbreak, including to help aid the post-pandemic education recovery (further information on the financial impact of the pandemic on the sector is provided in section 5.2). This has included:

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[51] DfE, An early years national funding formula: Government consultation, August 2016, p50-1; DfE, Early years funding: Government consultation response, December 2016, pp30-1.

[52] ESFA, Early years entitlements: local authority funding of providers: Operational guide 2020-21, December 2019, pp22-6.

[53] ESFA, Dedicated schools grant (DSG) 2021 to 2022, 16 March 2021.

[54] ESFA, Early years national funding formula: technical note for 2021 to 2022, 22 April 2021.

[55] DfE, Early Years Pupil Premium and funding for two-year-olds, June 2014, p5.

- On 17 March 2020, the Government announced that it would continue to pay funding to local authorities for the early education entitlements for two, three and four year olds during any periods of nursery, pre-school or childminder closures, or when children cannot attend due to coronavirus. The DfE set out an expectation that local authorities should continue to pass on the funding they receive to providers.[56]
- On 18 March 2020, the Government announced that non-local authority providers of childcare would pay no business rates in the 2020-21 financial year. At the March 2021 Budget, the Government stated that the 100% business rates relief would continue from 1 April 2021 to 30 June 2021, followed by 66% business rates relief from 1 July until 31 March 2022.[57]

A range of measures aimed at supporting businesses generally have also been announced, which childcare providers may be able to access depending on their circumstances. This has included, for example, the Coronavirus Job Retention Scheme, the Job Support Scheme, a small business grant, and an income support scheme for the self-employed.

Further information concerning the impact of the coronavirus outbreak on the early years sector is available in Library Briefing 8872, Coronavirus: Childcare FAQs.

Funding based on pre-pandemic attendance levels

On 20 July 2020, the Government announced that for the autumn term 2020, it would continue to fund local authorities for childcare based on attendance levels prior to the coronavirus outbreak (using census data from January 2020), even if fewer children were attending. It additionally stated that local authorities should continue to fund providers which are open "at broadly the levels they would have expected…had there been no coronavirus (COVID-19) pandemic."[58]

The normal funding process has been used from the start of the 2021 spring term, with funding based on the January 2021 census. However, providers were asked to complete the census based on the number of children registered for places, even where parents were currently keeping their children at home. In addition, the Government has stated that it will fund any

56 DfE, Free childcare offers to continue during coronavirus closures, 17 March 2020.

57 HM Treasury, Budget 2021, HC 1226, March 2021, para 2.47. From 1 July 2021, the relief will be capped at £105,000 per business (MHCLG, Business rates: nursery (childcare) discount 2021 to 2022 – local authority guidance, 4 March 2021).

58 DfE, Actions for early years and childcare providers during the coronavirus (COVID-19) outbreak, 26 November 2020.

additional places over those recorded in the January census, up to 85% of a local authority's January 2020 attendance levels.[59]

The Institute for Fiscal Studies argued that the decision to cap top-up funding at 85% of 2020 levels seemed "particularly ill-advised" and means that local authorities may be left to find funding for places that traditionally would have been funded by the UK Government.[60]

Catch-up funding

To date, the Government has announced around £3.1 billion of funding to support education recover from the impact of the Covid-19 pandemic in England. This has included the following funding for the early years:

- In February 2021, the DfE announced £700 million of funding to help children catch-up on lost learning due to the pandemic. This included £10 million for an early language programme "to help nursery-age children affected by the pandemic."[61]
- On 2 June 2021, the DfE announced an additional £1.4 billion to help support education recovery after the pandemic. This included £153 million to fund training for early years staff, including new programmes focusing on speech and development.[62]

£1 billion of 'catch-up funding' was also announced in June 2020, but this did not include any funding specifically for the early years.[63]

Sutton Trust report

On 20 May 2021, the Sutton Trust published a report, Fairness First: Social Mobility, Covid and Education Recovery. The report argued that "much focus over the past year has been on what has happened in schools, but we cannot afford to forget the youngest and oldest children."[64] It added:

> The pandemic has reminded us how crucial the early years sector is for the functioning of many of our daily lives and our children's futures. But it also laid bare the fragility of a sector which comprises many small and poorly funded private and voluntary providers, particularly those in less well-off areas.11 Pre-school age children

[59] DfE, Use of free early education entitlements funding during coronavirus (COVID-19), 18 March 2021; IFS, Today's early years census likely to reduce government spending on childcare significantly, 21 January 2021.

[60] IFS, Today's early years census likely to reduce government spending on childcare significantly, 21 January 2021.

[61] DfE, New education recovery package for children and young people, 25 February 2021. £1 billion of 'catch-up funding' was also announced in June 2020, but this did not include any funding for the early years.

[62] DfE, Huge expansion of tutoring in next step of education recovery, 2 June 2021; Schools Week, DfE's £1.4bn education recovery plan: what you need to know, 2 June 2021.

[63] DfE, Billion pound Covid catch-up plan to tackle impact of lost teaching time, 19 June 2020.

[64] Sutton Trust, Fairness First: Social Mobility, Covid and Education Recovery, May 2021, p2.

> have faced the same challenges as those of other children: lack of access to learning, fewer opportunities to play with their friends, as well as interact with other adults. Our polling shows this has led to huge concerns among parents about the healthy development of their children, as well as widespread worries from schools about the readiness of the next generation of pupils starting reception.
>
> With a focus in schools on providing extra supports and extra time to boost both academic learning as well as wider skills and wellbeing, pre-school age children should not be forgotten. This age group also need more time in a high quality educational setting, more time playing with other children, and more time interacting with those outside their immediate family.[65]

The report stated that early years should “form a central plank of recovery” and recommended that:

- Eligibility for funded early education for three and four year olds should be increased, with a focus on those from less well-off homes. A phased introduction to a universal offer of 30 hours applied in Scotland, should be considered.
- An increase in the Early Years Pupil Premium to the levels of primary schools should form part of a new funding settlement that ensures small early years settings and those in less affluent areas can survive and deliver high quality provision.[66]

Education Policy Institute report

On 14 May 2021, the Education Policy Institute published a report, Education recovery and resilience in England. The report set out the financial impact of the Covid-19 pandemic on early years providers and noted the role of high quality early education in raising attainment and narrowing the attainment gap.

The report recommended that:

- The Early Years Pupil Premium should be increased to the same level as the rate for primary aged pupils. The EPI estimated that this would cost £400 million over three years.
- A pilot study should fund early education and childcare at a higher rate the current funding rate in around 200 settings in disadvantaged areas. The report stated that there is currently little evidence of the impact of high quality provision that is funded at a higher rate than currently.[67]

[65] Sutton Trust, Fairness First: Social Mobility, Covid and Education Recovery, May 2021, p3.
[66] As above, p3.
[67] Education Policy Institute, Education recovery and resilience in England: Phase one report, May 2021, pp36-8.

5 Commentary on funding levels

5.1 Pre-coronavirus outbreak

Representatives of childcare providers were contending prior to the coronavirus outbreak that early years funding was not sufficient to cover the increasing costs of provision.

For example, in response to the Government announcement in December 2019 that the national living wage would increase by 6.2% from April 2020, from £8.21 to £8.72, the Day Nurseries Association stated that "without tackling the chronic underfunding of early years, this increase will threaten more childcare providers with closure".[68] Similarly, in response to the Spending Review 2020, the Early Years Alliance stated:

> While the government might argue that any increase in early years funding is better than nothing, the fact is that for many nurseries, pre-schools and childminders across the country, the impact of these new funding rates will be negligible.
>
> These providers are facing huge increases in business costs every year: rises in the national living and minimum wages, mortgages and rents, business rates, utilities costs – the list goes on and on. And yet, many have seen little to no increase in funding over recent years, and so an increase of just a few pennies is going to do little to help those already struggling to remain sustainable in the long term.
>
> Worst still is the news that those areas that have seen funding fall over recent years will now see their rates frozen rather than increase. For providers in these areas already fighting for survival, this could well be the final straw.
>
> Childcare providers play an absolutely vital role in caring for and educating children at the most important stage of their development – and yet so many are paid a pittance by government for doing so. It is insulting, it is demeaning and it cannot continue. It's crucial, therefore, that whoever forms the next government addresses the historic underfunding in the sector and ensures that the early years providers is properly funded, both now and in the future.[69]

[68] HM Treasury, Government announces pay rise for 2.8 million people, , 31 December 2019; Day Nurseries Association ,Unfunded Minimum and Living Wage increases threaten nurseries, .

[69] Early Years Alliance, Government reveals local authority funding rates for 2020/21, , 31 October 2019.

In its Childcare Survey 2020, published in February 2020, Coram reported that fifty per cent of local authorities that responded viewed the introduction of the 30 hour extended entitlement "as having a negative impact on the financial sustainability of childcare providers compared to eight per cent viewing this as having a positive impact". Around 87 per cent of local authorities in England participated in the survey.[70]

5.2 Impact of coronavirus outbreak

The coronavirus outbreak has impacted financially on childcare providers, including because of the enforced closures during the national lockdown and lower levels of attendance since then, and due to the increased costs associated with infection prevention and control measures.[71] DfE statistics estimated that in the second week of May 2021, attendance at early years settings was approximately 79% of the usual level. At the start of January 2021, the attendance was estimated to be around 52% of the usual level.[72]

In a September 2020 report, the Institute for Fiscal Studies (IFS) estimated that "a quarter of private nurseries might have been operating at a significant deficit" during the first national lockdown, compared to 11% before the pandemic.[73]

With regards to the impact of lower attendance, the IFS estimated that "for every 5 percentage point drop in fee income between 5% and 25% compared with pre-crisis levels, an additional 3–4 percentage points of providers are likely to face a significant deficit". The extent to which government support for the sector will be needed depends, the IFS has said, on how the market adjusts to changing levels of demand:

> Before the pandemic, the childcare market featured significant turnover and there was some spare capacity at around 70% of providers, suggesting that the market is mature and could potentially adjust to rises and falls in demand (at least at the national level). But the current fall in demand is unprecedented and the blow to providers' finances could force some to close or shed places. So policymakers will need to monitor whether (and where) capacity comes back when demand starts to return. There are also

70 Coram, Childcare Survey 2020, February 2020, pp27, 34.

71 Statistics published by the DfE provide a summary of attendance in early years settings from Thursday 16 April. They are updated on a weekly basis. Further information is available in section 2.2 of Library Briefing 8872, Coronavirus: Childcare FAQs.

72 DfE, Attendance in education and early years settings during the coronavirus (COVID-19) outbreak, last accessed 4 June 2021.

73 Institute for Fiscal Studies (IFS), Challenges for the childcare market: the implications of COVID-19 for childcare providers in England, 4 September 2020, pp8-9

> risks around losing capacity for particular age groups or at particular provider types.[74]

A survey report published by the early years charity Early Education in October 2020 additionally suggested that the proportion of MNS expecting to balance their budget at the end of 2020-21 had fallen from 51% to 28% as a result of the pandemic.[75]

In March 2021, the Early Years Alliance reported the results of a survey carried out with Ceeda, which showed that 65% of nurseries and pre-schools and 42% of childminders reported having fewer children take up funded places in January 2021 than in January 2020. The Alliance estimated that this, together with the Government's decision to base funding on January 2021 attendance levels (see section 4.4 above) meant that in the spring term 2021:

- Group-based providers with lower headcounts would lose an estimated average of £13,390 funding.
- childminders with lower headcounts would lose an estimated average of £2,485 funding.
- The sector would face total losses of £247 million over this period.[76]

5.3 Financial sustainability of providers

Concerns have been raised that the financial pressures on early years providers, including the additional pressure caused by the Covid-19 pandemic, could threaten the financial sustainability of some providers.

In an October 2020 report, Education Policy responses across the UK to the pandemic, the Education Policy Institute provided a summary of surveys and studies up to that point on the extent of pressures or closures of early years settings. Noting that there were indications that many providers were struggling to cover costs even before the pandemic, the report stated: "we know that settings were vulnerable to this crisis in a number of ways, and that without the right kinds of government support, many providers would be forced to close."[77]

In a DfE-commissioned survey conducted in November and December 2020, a nationally representative sample of group-based early years providers and

74 Institute for Fiscal Studies (IFS), Challenges for the childcare market: the implications of COVID-19 for childcare providers in England, 4 September 2020, pp11-12. See also, section 2.3 of, IFS, 2020 annual report on education spending in England, November 2020.

75 Early Education, NAHT, NEU and UNISON Maintained nursery schools and COVID-19: vital community services on a cliff-edge, October 2020.

76 Early Years Alliance, Providers face £247m funding cut for spring term, according to new analysis, 2 March 2021.

77 Education Policy Institute, Education Policy responses across the UK to the pandemic, October 2020, pp22-3.

childminders were asked, “for how long they were reasonably confident that it would be financially sustainable to continue to run their childcare provision”, based on what they knew about the current situation and upcoming developments. 47% of open group-based providers and 56% of open childminders stated that they were “reasonably confident that is would be financially sustainable to continue to run their childcare provision for another year or longer.”[78]

In a November 2020 briefing on the early years sector, Ofsted said that, of 208 providers surveyed, around 65 per cent were “not worried” that their business would have to close. The report also noted that the number of providers registered with Ofsted had increased slightly from 31 March to 31 August 2020, from 75,068 to 75,336.[79] However, more recent statistics show that the number of registered providers had fallen to 71,805 by the end of April 2021 (i.e. 3,531 fewer than at the end of August 2020 and 3,263 fewer than at the end of March 2020).[80] The statistics do not indicate the reason why a provider closed.

Coram Childcare Survey 2021

In March 2021, Coram published its Childcare Survey 2021. This was based on survey responses gathered in November and December 2020 (i.e. before the third national lockdown and before the changes to the funding of the childcare entitlements in January 2021).

Coram reported that childcare usage had dropped in the vast majority of local authority areas. Many areas also reported a drop in the supply of childcare, with a third seeing an increase in permanent closures compared to the previous year. The report stated that the majority of local authorities were not yet seeing increased childcare shortages, but that there was “some cause for concern around possible increasing gaps for children with SEND and school age children.” Childcare providers had, the report added, “made a wide range of changes in order to increase their sustainability, including staff redundancies (in 61 per cent of areas), increasing the number of children each member of staff looks after (in 30 per cent of areas) and raising prices for parents (in 39 per cent of areas).”[81]

The report stated that Government support, including the Coronavirus Job Retention Scheme and continuing early entitlement funding, had “allowed many providers to stay afloat.” It added that: “It remains to be seen what happens if and when this support ends, and there remains a risk that many providers could close, creating shortages in the childcare available for families.”[82]

[78] DfE, Survey of Childcare and Early Years Providers and Coronavirus (COVID19) – Wave 3, March 2021, p11-12.

[79] Ofsted, Covid-19 series: Briefing on early years, October 2020, p9.

[80] Ofsted, Joiners and leavers in the childcare sector, last updated 18 May 2021.

[81] Coram, Childcare Survey 2021, February 2020, p25.

[82] As above, p4.

5.4 DfE's 2019 provider finances report

In October 2020, the DfE published an analysis of early years providers' finances using data from the annual survey of childcare and early years providers for 2019. The report noted that the data used was collected prior to the coronavirus outbreak and so will not reflect the situation of providers during the ongoing situation.

The report's findings included:

- The mean total weekly cost paid by providers each week (excluding mortgage and rent for childminders) was £2,141 in 2019 (and £4,499 for all providers excusing childminders). There was no statistically significant difference in the mean weekly cost between 2018 and 2019. The total weekly costs in 2019 was higher for MNS (£12,909) and private providers (£5,584) than all other provider types.
- The mean total weekly income for all providers was £2,872 in 2019 (and £6,387 for all providers excluding childminders) and was higher than in 2018. The mean total weekly income in 2019 was highest for MNS (£11,921) and private providers (£9,375).
- On average, providers received 59% of their income from parent paid fees in 2019, with 29% from free entitlement funding and 12% from other sources. However, there were substantial differences in the income breakdown between provider types. While private providers received similar proportions of income from parent-paid fees (47%) and free entitlement funding (41%), most income came from free entitlement funding for voluntary providers (63%), nursery classes in schools (74%) and MNS (69%). Childminders received 75% of their income from parent fees.
- The mean income-to-cost-ratio (total weekly income divided by total weekly cost) for all providers was 1.42 in 2019 (1.37 for all providers excluding childminders). The mean ratio was highest for private providers (1.58) and lowest for MNS (0.96). The median income-to-cost ratio (the middle observation when providers are ranked from lowest to highest) was 0.99, indicating that half of providers were around or below the breakeven point where total costs equal total income.[83]

[83] DfE, Providers' finances: Evidence from the Survey of Childcare and Early Years Providers 2019, October 2020, pp10-12.

5.5 IFS 2020 annual report on education spending

In its 2020 annual report on education spending in England, the IFS suggested that "the main challenge facing the early years is simply remaining open as parental demand remains well below pre-pandemic levels." "The widespread closure of settings would", the report added, "represent a significant economic and social cost, particularly if closures are concentrated in certain areas of the country."

The report's findings included (bold added):

- Government spending on funded early education and childcare places for 3- and 4-year-olds stood at £3.3 billion in 2019–20 (in today's prices). This is equivalent to £3,800 per child accessing a place, down almost £100 from its high point the previous year due to a real-terms fall in rate of spending per hour.

- Real-terms spending per hour has been falling since 2017–18; in 2019–20 it stood at the same level as in 2016–17, meaning that the boost to hourly spending alongside the introduction of the extended entitlement in 2017 has been eroded. Spending per hour for the 2-year-old entitlement has dropped even more sharply, falling 9% in real terms between 2018–19 and 2019–20. Most local authorities are due to see another small drop in real-terms hourly funding rates in 2020–21, though the impact of this on providers will be dwarfed by the financial consequences of COVID-19.

- […]

- During lockdown, providers delivering mostly or entirely free entitlement hours were financially well protected by the government's commitment to continue to fund those hours based on pre-pandemic take-up. But most providers offer a mix of publicly and privately funded hours, so are exposed to financial risk from the steep drop in childcare demand.

- The end or reconfiguration of some of the programmes that support privately funded providers and the reassessment of free entitlement funding in January 2021 mean that providers are much more financially exposed, either to a second lockdown or simply to a rather slow and incomplete return of demand for childcare.[84]

[84] IFS, 2020 annual report on education spending in England, 3 November 2020.

The report also provided an analysis of spending on the free entitlements over the longer term and summarised the debate regarding the costs pressures faced by providers (see section 2.2 of the report).

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