



BRIEFING PAPER

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Children: Introduction of 30 hours of free childcare in September 2017 (England)

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Summary

This House of Commons Library briefing paper is about the 30 hours of free childcare for 3 and 4 year olds in England. The eligibility criteria, planning for its introduction in September 2017, funding, and the ability and willingness of the childcare market to deliver the policy are considered.

The *Childcare Act 2016* will provide for an additional 15 hours of free childcare for certain working parents of eligible 3 and 4 year olds, on top of the existing universal provision of 15 hours of free childcare.

This new “extended entitlement” is due to be introduced from September 2017 across England, with some parents in pilot and “early innovator” areas benefitting earlier.

In the 2015 Spending Review, the Government announced an extra £300 million to increase the national average funding rate for free childcare for 3 and 4 year olds to £4.88 (although the actual rate paid to providers will be determined by local authorities). In addition, £100 million of capital funding has been allocated to create 18,000 additional places.

However, there are some concerns that childcare providers might struggle to provide the additional hours, with a survey published in April 2017 suggesting that only 44% of childcare providers surveyed would offer the extended entitlement (compared to 95% who currently offer the existing 15-hours offer).

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

1. Eligibility criteria

1.1 The existing universal free childcare provision

At present, all three and four years are entitled to 15 hours of free childcare for 38 weeks of the year (equivalent to 570 hours a year).

This entitlement is “universal”, and applies irrespective of the income of the parents or any other conditions. It is not mandatory to take up the entitlement, although the

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Government has noted that take-up of the universal 15 hours of free childcare is “consistently more than 95%”.¹

In addition, under the Coalition Government similar provision was introduced for two year olds if certain conditions were met, including that their parents or carers were eligible for specified means tested-benefits, or if the child was, or had been, looked after by a local authority.²

1.2 Who will be eligible for the extended entitlement

On top of the universal 15 hours of free childcare, the extended entitlement will provide a further 15 hours to eligible children of qualifying parents.

Children

Three and four year olds will qualify, except those four-year olds who are attending a school reception class.³

Parents

The Department for Education’s (DfE) *Early education and childcare – Statutory guidance for local authorities*,⁴ which is due to come into force on 1 September 2017, states that:

A child is entitled to free early years provision if the child has attained the age of three, is under compulsory school age and the child’s parent(s) meets the eligibility criteria set out below.

1. the parent of the child (and their partner where applicable) should be seeking the free childcare to enable them to work;
2. the parent of the child (and their partner where applicable) should also be in qualifying paid work. The definition of qualifying paid work is set out at regulation 5. Each parent or the single parent in a lone parent household will need to expect to earn the equivalent of 16 hours at the national living wage or their national minimum wage rate over the forthcoming quarter;
3. where one or both parents are in receipt of benefits in connection with sickness or parenting, they are treated as though they are in paid work;
4. where one parent (in a couple household) is in receipt or could be entitled to be in receipt of specific benefits related to caring, incapacity for work or limited capability for work that they are treated as though they are in paid work;
5. where a parent is in a ‘start-up period’ (i.e. they are newly self-employed) they do not need to demonstrate that they meet the income criteria for 12 months in order to qualify for the extended entitlement.
6. if either or both parents’ income exceeds £100,000 they will not be eligible for the extended entitlement.⁵

A parent is defined in section 1(9) of the *Childcare Act 2016* as being anyone with parental responsibility for the child (as defined in the *Children Act 1989* as amended),⁶ or who has care of the child.

¹ [HL Deb 16 June 2015 c1082](#)

² For more details, see GOV.UK, [Help paying for childcare – 2. Free childcare and education for 2 to 4-year-olds](#), webpage [accessed on 12 July 2017]

³ Department for Education, [Childcare Bill: Policy statement](#), December 2015, p17

⁴ The statutory guidance is underpinned by the *Childcare (Early Years Provision Free of Charge) (Extended Entitlement) Regulations 2016* (SI 2016/1257).

⁵ Department for Education, [Early education and childcare – Statutory guidance for local authorities](#), March 2017, p38

⁶ For more information, see the Library briefing paper, [Parental Responsibility](#).

Means-test for eligibility

This section provides further information about the means-test for eligibility.

Minimum income

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

The DfE's *Childcare Bill: Policy Statement* explained that:

Parents do not necessarily need to actually work 16 hours a week, but rather their earnings must reflect at least 16 hours of work at NMW or NLW ... This includes those parents on zero contract hours who meet the criteria.⁷

The DfE has stated that “parents will need to declare that they expect to earn the equivalent of 16 hours national minimum or living wage on average each week over the next quarter”, while “self-employed parents will be able to assess their expected income either over the next declaration period, or for the current tax year”.⁸

Originally, the Government had based eligibility at eight hours at the National Minimum Wage (which is lower than the National Living Wage),⁹ but in his Autumn Statement made in November 2015, the then Chancellor of the Exchequer, George Osborne, announced the change in the eligibility criteria.¹⁰

Maximum income

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

Again, this was announced by Mr Osborne in his 2015 Autumn Statement; previously, the policy had not included an upper limit.¹¹ The then Education Secretary, Nicky Morgan, explained that the upper limit had been introduced given the Government's “belief that it is right for those with the broadest shoulders to bear the greatest burden”.¹²

2. Planning for the introduction

2.1 Timetable for introduction

The Government has stated that the additional 15 hours of free childcare will be available nationwide across England from September 2017.¹³ The launch of the scheme in 2017 was confirmed in the Conservative Party's manifesto for the 2017 General Election.¹⁴

⁷ Department for Education, [Childcare Bill: policy statement](#), December 2015, p8

⁸ Department for Education, [Childcare free entitlement: delivery model – Government consultation](#), 3 April 2016, p16

⁹ See the GOV.UK webpage [National Minimum Wage and National Living Wage rates](#) for the current rates

¹⁰ HM Treasury, [Spending Review and Autumn Statement 2015](#), November 2015, Cm 9162, p44, para 1.160

¹¹ As above

¹² [HC Deb 25 November 2015 c1421](#)

¹³ GOV.UK, [Thousands of parents benefit from 30 hours' free childcare early](#), press release, 2 February 2016

¹⁴ Conservative Party, [Forward, Together – Our Plan for a Stronger Britain and a Prosperous Future](#), May 2017, p72

2.2 Pilot and early innovators

From September 2016, the additional 15 hours has been available to some eligible parents in a number of pilot (“early implementer” or “early delivery area”) and “early innovator” local authority areas, following an open competition for interested local authorities.¹⁵

On 2 February 2016, the Government announced the eight local authorities that would be pilot areas: Wigan, Staffordshire, Swindon, Portsmouth, Northumberland, York, Newham and Hertfordshire.¹⁶

On 27 January 2017, it was reported that the Government would launch pilots in a further four local authority areas – Dorset, Leicestershire, North Yorkshire and Tower Hamlets – in April 2017. The DfE explained that their addition was to “provide a broader mix of geographic areas and levels of deprivation to the trial”,¹⁷ with the Minister adding that “these areas will test specific elements of 30 hours delivery, including the impact of rurality and high parental eligibility”.¹⁸

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

The DfE explained that:

These early implementer areas will:

1. test provider capacity to deliver the entitlement in a way that suits working parents’ employment patterns and helps more parents to return to work or work more hours;
2. test market innovation around sufficiency and flexibility of provision, and partnership working; and
3. provide the government and local authorities with early intelligence on how it can refine the system in preparation for full implementation from 2017.²¹

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

- North West: Stockport, Bolton, Trafford, Cheshire West and Chester, Bury
- Midlands: Nottinghamshire, Nottingham City, Walsall;
- South West: Cornwall;
- South East: Hampshire, West Sussex, Medway, East Sussex, Brighton and Hove;
- London and East of England: Kingston and Richmond, Barking and Dagenham, Islington, Ealing, Hillingdon;
- North East and Yorkshire and the Humber: Gateshead, Bradford, Sheffield, East Riding, Wakefield, North Yorkshire.

¹⁵ Department for Education, [A year until first working parents receive doubled free childcare](#), press release, 26 August 2015

¹⁶ As above

¹⁷ [“Four more councils to join free childcare pilot”](#), *Children and Young People Now*, 27 January 2017

¹⁸ [PO66477 8 March 2017](#)

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

²⁰ [HL Deb 2 February 2016 c1741](#)

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

The DfE explained that “early innovators in each local cluster will work together to focus on special educational needs and disability, flexibility, availability of places, and making work pay”.²²

2.3 Funding for the pilots

The Government said in February 2016 that £30 million had been allocated to the eight pilots, with £4m allocated to the “early innovator” areas.²³

Funding for the pilots in York attracted considerable attention, not least because, according to *Nursery World*, it is the “largest pilot and seen as key, as it is the only local authority area that will include all eligible children in all types of childcare, including nurseries, childminders, pre-schools and schools”.²⁴

It was reported that City of York Council would pay local nurseries an hourly rate of £3.95 in respect of the extra 15 hours in the pilot, but continue to pay the existing rate of £3.38 per hour for the first, universal, 15 hours of free childcare.²⁵ In response, of 30 providers who attended a meeting it was reported that “not one was prepared to commit to be involved in this pilot on the current formula and rate”.²⁶

Subsequently, following meetings between the DfE and the local authority, it was announced in May 2016 that “childcare providers in York will now receive a flat rate of £4 an hour across the 30 hours for all three- and four-year-olds that are eligible for the pilot”, although “three- and four-year-olds who are only eligible for 15 hours will continue to receive £3.38 an hour”.²⁷ In addition, it was reported that:

The DfE has also confirmed that the other early implementer areas will also receive an ‘uplift’ in funding rates for the trial, which starts in September.

Officials have also now stated that local authorities in the early implementer areas will be expected to offer one flat rate for children taking up a 30-hour place.²⁸

It was reported in June 2016 by *Nursery World* that “most of the other early implementer areas will also receive an uplift in rates”, although “three of the eight early implementer areas are yet to confirm funding rates”.²⁹

Three of the additional four pilots areas announced in January 2017 were provided with the “the lowest possible level funding rate” of £4.30 per hour, while the hourly rate for the fourth – Tower Hamlets – was “one of the very highest rates” at £8.51.³⁰

2.4 Progress of the pilots and evaluation

In a written answer in March 2017, the then Parliamentary Under Secretary of State for Women, Equalities and Early Years, Caroline Dinenage, told the House:

We have made good progress on delivering 30 hours free childcare. Eight local authorities began delivering the extended entitlement in September 2016 and around 4600 places have been allocated. In York, where all eligible parents are able to take up the offer, 100% of providers that previously offered the free entitlements are now delivering 30 hours free childcare.

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

²³ [HL Deb 2 February 2016 c1756](#)

²⁴ [“30-hour childcare pilot in crisis”](#), *Nursery World*, 4 May 2016

²⁵ [“Nurseries' warning over 30-hour childcare pilot”](#), *Nursery World*, 27 April 2016

²⁶ [“30-hour childcare pilot in crisis”](#), *Nursery World*, 4 May 2016

²⁷ [“York nurseries win rise to 30-hour childcare pilot funding”](#), *Nursery World*, 27 May 2016

²⁸ As above

²⁹ [“Pilot areas win extra funding for 30 hours”](#), *Nursery World*, 13 June 2016

³⁰ [“Four more councils to join free childcare pilot”](#), *Children and Young People Now*, 27 January 2017

An independent evaluation of Early Implementation is assessing the impact of the 30 hours entitlement. This will include insights on the impact of delivering 30 hours on providers. There will be a national event in the spring to share learning, and the evaluation report will be published in July. Learning will continue to be captured throughout the year and shared regularly to ensure that it informs all areas of delivery planning.

[...]

Our delivery contractor Childcare Works is working closely with these local authorities and the Early Implementers, continually sharing best practice examples with other local authorities at their Progress Share meetings and dissemination events to help them prepare for national rollout in September.³¹

3. Funding for the extended entitlement

3.1 The funding of the existing 15 hours of universal provision and “cross subsidisation”

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

The level of funding paid by local authorities to provide early years placements for 3 and 4 year olds had been consistently criticised by most children’s nursery providers for being insufficient to cover costs of provision. LaingBuisson’s 2012 survey found that 60% of nurseries reported this funding to be loss-making. Other surveys in June 2012 by the Pre-School Learning Alliance and the National Day Nurseries Association [NDNA] reported similarly high proportions claiming the 3 and 4 year old funding was insufficient, at 62% and 76% respectively. A more recent survey by the NDNA in December 2013 (NDNA Insight Report 2013/14) reported the proportion at 78%, confirming little change.³²

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

There is evidence that the funding shortfall in the rates offered to PVI [private, voluntary and independent] providers for delivery of the free early education entitlement is met in some settings by cross-subsidisation from some fee-paying parents. This means that parents are subsidising themselves, or other parents, in order to benefit from the Government’s flagship early education policy.³³

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

Opportunities for cross-subsidisation and fundraising are likely to be higher in more affluent areas, as poorer parents are less able to pay. This may be one reason why fewer private and voluntary providers operate in deprived areas. Our analysis shows that when they do, they tend to offer more places, which is another way of keeping costs per child lower.³⁴

³¹ [PQ66477 8 March 2017](#)

³² LaingBuisson, *Children’s Nurseries – UK Market Report*, 13th edition, October 2014, p92

³³ Lords Select Committee on Affordable Childcare, [Affordable Childcare](#), 2014–15 HL 117, 24 February 2015, p11, paras 18–19

³⁴ National Audit Office, [Entitlement to free early education and childcare](#), 2015-16 HC 853, 2 March 2016, p29, para 2.15

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

However, concerns have been voiced that if 30 hours of free childcare are provided, the scope for cross-subsidisation will become more limited because, continuing the example above, providers would only be able to charge a different (higher) rate in respect of the 10 hours of childcare paid for by the parent.

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

Underfunding the 30 hours offer would lead to a smaller, less flexible market as providers (both for-profit and not-for-profit) either exit, reduce the breadth of services that they offer, take on fewer children, or refuse to offer the free hours (see for example NAHT 2015 and Gaunt 2015). This would reduce parental choice and potentially push up costs for paid hours or other services outside of the free offer, such as childcare for most under-3s, wraparound care and holiday care, while also pushing down quality. Families in poorer areas may be particularly adversely affected. Already faced with fewer local providers, some parents would experience reduced access to childcare, and less flexible provision, which would in turn impact upon their access to work, particularly to jobs that involve non-standard hours.³⁵

3.2 Announcement of the funding rate increase

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

To address these concerns, in the 2015 Spending Review the then Chancellor announced that to fund an increase in rates paid to childcare providers for the free entitlement “we will increase the funding for the sector by £300 million”,³⁶ meaning that the total estimated cost of the extended entitlement policy would be “more than £1 billion a year ... by 2019-20”.³⁷

The then Education Secretary confirmed that the average national funding rates would increase to £4.88 (from £4.56) for the free childcare funding for 3 and 4 year olds (including the early years pupil premium);³⁸ ³⁹ the increased rate would apply to both the universal 15 hours provision and the 15 hours of extended entitlement.⁴⁰ The increased rates were announced following the funding review undertaken by the DfE.⁴¹

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

In December 2016, the Government published the funding rates for each local authority in 2017–18, which is available at the [GOV.UK website](#).

Alongside the funding rates, the DfE noted that for 2017–18 the “government has committed that every LA [local authority] will receive a minimum funding rate of at least

³⁵ IPPR, [Extending The Early Years Entitlement – Costings, Concerns And Alternatives](#), September 2015, p9

³⁶ [HC Deb 25 November 2015 c1369](#)

³⁷ [HC Deb 25 November 2015 c1416](#)

³⁸ In addition, the Government announced that the rate would increase to £5.39 (from £5.09) for the 15 hours of free childcare for eligible 2 year olds.

³⁹ [HC Deb 25 November 2015 c1417](#)

⁴⁰ [HC Deb 25 November 2015 c1452](#)

⁴¹ Department for Education, [Review of childcare costs](#), 25 November 2015

£4.30 per hour. This will be paid for by additional investment of approximately £30m, which raises the final national average hourly rate to £4.94".⁴²

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

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

The Department for Education funds local authorities through the Dedicated Schools Grant for delivering the early years entitlement. In consultation with their Schools Forum, local authorities are then responsible for deciding how best to distribute this funding across their locality and they set their own local rates of funding for early years providers ... Local authorities are then responsible for funding early years providers to secure the Government-funded hours [currently of 15 hours for all 3 and 4 years and for some 2 year olds].⁴³

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

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

In its March 2016 report, the NAO found that the “average hourly rates in a selection of local authorities showed large variations between them and their statistical neighbours”, and that “across the country, the average funding rate per hour for 3- and 4-year-olds in 2015-16 ranged from £2.28 in Harrow to £7.15 in Westminster”.⁴⁴

3.3 Reaction to the increased funding rate

Evidence submitted to the Public Bill Committee (December 2015)

Following the announcement of the increase in the national average funding rate, the then Education Secretary told the House that the DfE was “confident, based on the evidence we have gathered, that that increase will provide high-quality childcare for children in ... the country”.⁴⁵

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

⁴² Department for Education, [Early years national funding formula: technical note](#), December 2016, p6, para 13

⁴³ [PO 1422 12 June 2015](#)

⁴⁴ National Audit Office, [Entitlement to free early education and childcare](#), 2015-16 HC 853, 2 March 2016, p26, para 2.10

⁴⁵ [HC Deb 25 November 2015 c1417](#)

- the (now former) charity 4Children said the additional funding was “welcome”, and that it would be “vital to ensure that funding for places enables providers to cover the costs of delivery” for the policy to be sustainable;⁴⁶
- Polly Anna’s Nursery in York – “The current proposal to up lift by the meagre amounts as announced ... will fail to attract many providers of the current 15 hours to offer these additional hours”;⁴⁷
- Family and Childcare Trust – while also welcoming the additional funding, the Trust cautioned that it was “unlikely to be sufficient to address the strategic challenge the 30 hour offer present of moving from an inflexible part-time model to a flexible full-time model, nor prevent at least some providers continuing to opt out of either the free two-year-old offer or the three- and four-year-old offer”;⁴⁸
- Professional Association for Childcare and Early Years (PACEY) – “[the] uplift [in funding rates] is welcome and likely to make it more financially viable for a larger number of providers to deliver the entitlement”;⁴⁹
- The Pre-school Learning Alliance questioned the DfE’s methodology, claiming its analysis was “based on outdated data and unrealistic childcare business models”,⁵⁰ and said “we do not believe that the published funding review is a strong enough basis on which to base funding and rate decisions ahead of the roll-out of the 30-hours offer”.⁵¹

4. Will the sector deliver the extended entitlement?

It will be for early years providers to determine whether they wish to offer the extended entitlement – a key determinant is likely to be the local authority hourly funding rate, especially because opportunities for cross-subsidisation (see section 3.1) will be reduced under the extended entitlement.

A number of childcare organisations have surveyed their members in order to anticipate the likely availability of places for parents. In addition, the NAO has considered the issue, as did the Public Accounts Committee when it considered the NAO report.

4.1 Recent surveys of childcare providers’ in regard to delivering the extended entitlement

National Day Nurseries Association (February 2016)

In terms of the current universal 15 hours of free provision, a survey undertaken by the National Day Nurseries Association (NDNA) found that:

Nurseries are just about managing to offer three and four-year-olds their 15 hours’ funded places because they “cross-subsidise” to plug the shortfall.

In practice, this means parents pay a higher rate for additional hours beyond the free 15 hours.

The average nursery has to absorb £34,000 a year due to this funding shortfall with 89% of nurseries making a loss on these places ... The survey reveals the funding gap

⁴⁶ Public Bill Committee (Childcare Bill), *Written Evidence*, PBC (Bill 084) 2015–2016, p1

⁴⁷ As above, p2

⁴⁸ As above, p11, para 19

⁴⁹ As above, p40, para 5

⁵⁰ As above, p17, para 1.1

⁵¹ As above, p19, para 2.2.6

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is now the highest ever at £1.68 per hour on average per three and four year-old place.⁵²

The NDNA argued that “doubling this entitlement to 30 funded hours for working parents of three and four-year-olds is going to increase this shortfall further but leave nurseries with no means of making up that loss”.⁵³

The survey found that “only 45% of nurseries say they are likely or very likely to get involved in the scheme with a quarter unlikely or very unlikely at this stage to increase funded places. A third are unsure”. It reported that “barriers to joining include inadequate funding and lack of space. Many don’t believe they could sustain the funded hours at current rates of funding”. The NDNA concluded that “at this point, success [of the policy] is far from guaranteed”.⁵⁴

The Chief Executive of the NDNA, Purnima Tanuku, said:

“The nursery sector and the Government want the same thing. We all want to make 30 free hours childcare workable and sustainable.

“To achieve this, the sums have to add up. Urgent steps must now be taken to bring about the funding reform promised by the Government, so an economically viable hourly rate for high-quality childcare reaches the front line.

“NDNA today urges the Government to use the 30 free hour pilots this year to test out innovative funding solutions so that next year, all families can take up their much wanted and needed places”.⁵⁵

The survey results were published in February 2016, based on the 485 responses received from nurseries across England. The survey was conducted online in December 2015 and January 2016 i.e. shortly after the Government’s announcement of the increase in the national average funding rate.⁵⁶

Family and Childcare Trust (February 2016)

The Trust’s survey found that “only 45 per cent of councils in England had enough childcare for parents who work full-time”, and in particular noted that “childminder numbers and places in pre-schools and sessional creches have declined since the 2006 [Childcare Act]”.⁵⁷

The Trust argued that:

Shortages of childminders may also compromise the Government’s plans to offer parents additional hours of free early education in 2017 ... While many parents will want to take their extra free hours in the same setting, it is uncertain whether all providers will be able to accommodate additional parental demands. At present 58 per cent of three and four year olds receive their free early education in public sector provision, most usually in nursery and reception classes attached to primary schools. Limited physical space for expansion, a lack of capital funding and the ‘baby-boom’ – leading to competing demands for 5-11 place growth – may act to prevent schools from expanding their nurseries. Without premises expansion, it is likely that many schools will be unable to offer more than 15 hours of free early education per week, and probably would not want to do so, as this would mean halving the number of children to whom they offer high quality early education places. For example, a school

⁵² National Day Nurseries Association, [Annual Nursery Survey 2016 - England](#), February 2016, pp 3 and 4

⁵³ As above, p4

⁵⁴ As above, pp3 and 11

⁵⁵ National Day Nurseries Association, [NDNA Annual Nursey Survey 2016 – England](#), press release, 17 February 2016

⁵⁶ National Day Nurseries Association, [Annual Nursery Survey 2016 - England](#), February 2016, p15

⁵⁷ Family and Childcare Trust, [2016 Childcare Survey](#), February 2016, pp4 and 7

would face a decision to offer 15 hours free early education to 100 three year olds, or 30 hours to 50 three year olds.⁵⁸

The Trust sent a survey to all local authority Family Information Services in England and Wales, and Children’s Information Services in Scotland in November 2015. A total of 197 responses were received from 206 local authorities.⁵⁹

Pre-school Learning Alliance (April 2016)

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

1. 49% of providers think there’s a risk that they could close as a result of the 30-hour free childcare extension (with a further 1% already planning on closing)
2. 48% think that the 30-hour offer will cause them to reduce the number of places they offer to other age groups
3. 50% don’t feel confident that they have the capacity to meet the demand for places under the 30-hour offer
4. 58% expect the 30-hour offer to have a negative financial impact on their business
5. 19% aren’t planning to offer the 30-hour offer, while a further 51% aren’t sure – in comparison, 98% of respondents currently offer the 15 hour free entitlement.⁶⁰

The chief executive of the Pre-school Learning Alliance, Neil Leitch, said:

“These figures are a stark warning of what could happen if the government insists on rolling out an underfunded, under-resourced free entitlement offer. While we welcome plans to increase average early years funding rates as an important first step, independent research has shown that, with continued cost pressures including the introduction of the ‘national living wage’, this will still leave a significant funding gap for early years providers. Given that the move to 30 hours means that most providers will no longer be able to cross-subsidise in order to plug this gap, it’s no surprise that so many are fearing for their future”.

[...]

“This policy has been sold as a solution for working parents, but unless the sector is adequately supported to deliver it, it’s only going to create more problems.

“We want the 30-hour offer to be a success, for the sake of both parents and providers, but the only way that this will happen is if the government and the sector work together. As such, we look forward to working in partnership with the DfE on addressing these serious concerns and working towards our shared aim of a quality, affordable and, crucially, sustainable early years sector”.⁶¹

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

Pre-School Learning Alliance (April 2017)

A survey by the Alliance of 1,332 childcare providers conducted in March 2017 found that “just 44% said that they plan to offer the 30-hours, compared to 95% who currently offer the existing 15-hours offer”. The Alliance reported that:

Six out of 10 providers asked said that the funding rate for the 30-hours does not cover their delivery cost and a quarter of providers said they were likely to close as a result of the offer.

⁵⁸ As above, pp41–42

⁵⁹ As above, p13

⁶⁰ Pre-school Learning Alliance, [Childcare providers fear closure over 30-hour offer, survey reveals](#), press release, 20 April 2016

⁶¹ As above

Those that said they were expecting the 30-hours offer to have a negative effect on their business were planning a number of steps to limit the damage. Just over half of those asked said that they would increase their fees for additional, non-funded hours and just under half said they would charge extra for goods and services that they have previously offered for free. Four in 10 said that they were planning to restrict the times and days when the funded hours could be used.⁶²

4.2 National Audit Office report (March 2016)

In March 2016, the NAO published its report, *Entitlement to free early education and childcare*.

The report found that “stakeholders [parents] are broadly positive about increasing the entitlement to 30 hours, but providers have concerns about the levels of funding they will receive”.⁶³ The report’s findings about the likely demand for the extended entitlement can be found in section 6 below.

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

The new average funding rate will require providers to operate more efficiently in future as well as meaning that some will continue to rely on cross-subsidisation and volunteering. Potential economies of scale may create an incentive for some providers to expand, but others – particular those that cannot expand – may fear reductions in the opportunity to charge parents for additional hours. The Department will need to pay particular attention to the impact of new funding rates on take-up in deprived areas. Our analysis showed that deprived areas have more maintained settings, (Figure 14) which typically have less opportunity to cross-subsidise and higher costs. The Department has the opportunity to test the affordability of the new entitlement in the pilots it will run from September 2016.⁶⁴

Figure 14 is reproduced overleaf.

The NAO also commented that there is “a risk that the new entitlement will have a negative impact on the further success of the [free] entitlement for disadvantaged 2-year-olds ... Expanding the number of hours which many 3- and 4-year-olds are entitled to may encourage providers to do more work with them and less with 2-year-olds”.⁶⁵

⁶² Pre-school Learning Alliance, [Less than half of providers plan to offer 30-hours, survey suggests](#), news story, 3 April 2017

⁶³ National Audit Office, *Entitlement to free early education and childcare*, 2015-16 HC 853, 2 March 2016, p10, para 19

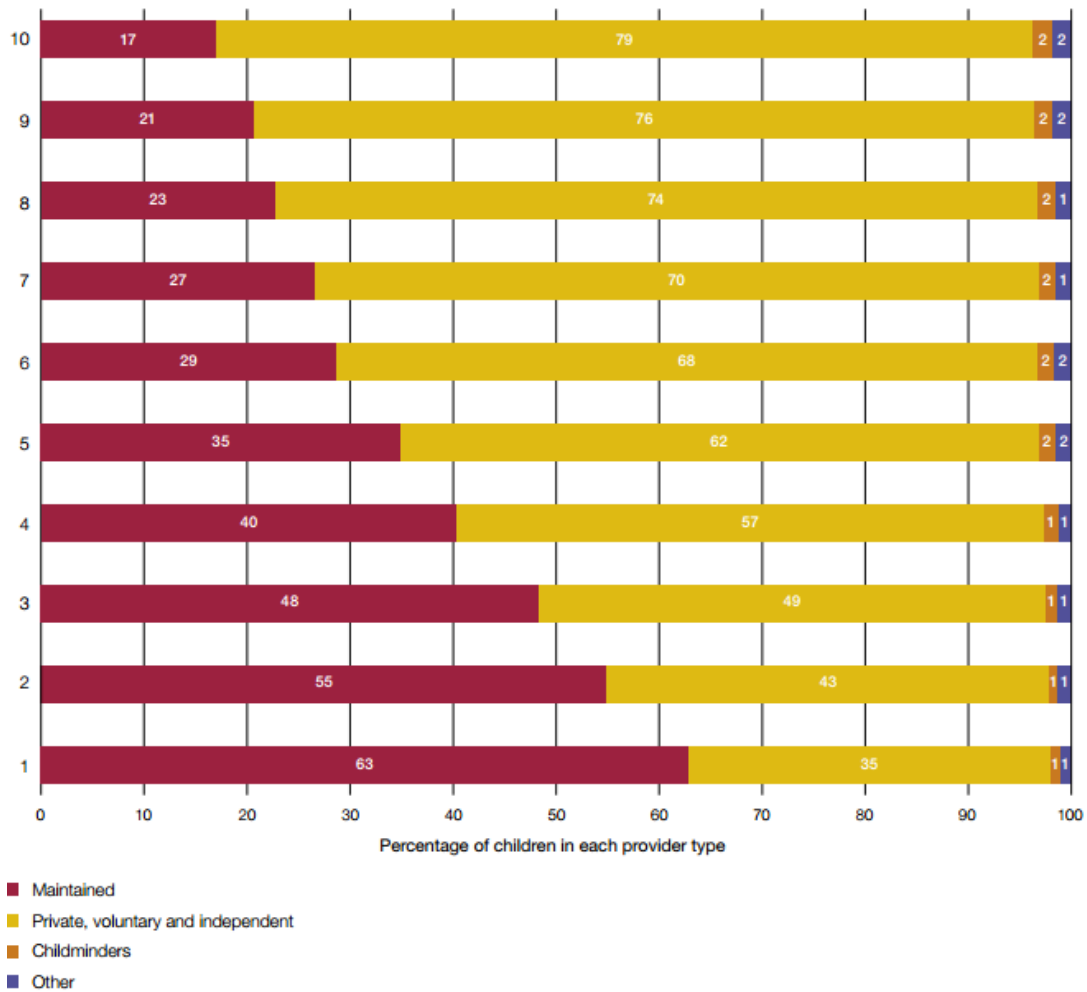
⁶⁴ As above, p38, paras 3.10 and 3.11

⁶⁵ As above, p37, para 3.9

Percentage of 3-year-olds in provider types by areas of disadvantage

Disadvantaged children are more likely to be in maintained settings than in private, voluntary and independent settings

Deprivation decile of children's addresses (1 is most deprived)



4.3 Public Accounts Committee report (June 2016)

The Commons Public Accounts Committee (PAC) considered the NAO’s report and took evidence relating to it, including from the Permanent Secretary at the DfE.

The subsequent report of the Committee, published in June 2016, covered a number of topics, including the proposed roll-out of the 30 hours of free childcare.

The Committee cautioned that “there may not be enough providers willing to provide the additional 15 hours of free childcare being introduced in 2017”, and the report noted that the reduced opportunities for cross-subsidisation under the 30 hours policy would “limit their [childcare providers’] ability to offer the new entitlement to children and would disproportionately affect disadvantaged children as these settings are more likely to operate in disadvantaged areas”.⁶⁶

The Committee recommended that:

Given the real risk that there will not be enough places, the Department should use the pilots to test providers’ capacity to meet the expected demand for the new entitlement for more free hours and assess how feasible it is for providers to operate with the new funding rates. The Department should set out to the Committee how it

⁶⁶ Public Accounts Committee, [Entitlement to free early years education and childcare](#), 2015-16 HC224, 15 June 2016, p5, para 1

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plans to evaluate the pilots and implement any changes required before the full rollout in September 2017.⁶⁷

The Committee observed that while the Department “has the opportunity to test providers’ capacity in its pilots commencing in September this year”, it would have “very little time to evaluate the results before it rolls out the new entitlement in September 2017”.⁶⁸

The PAC also considered the role of local authorities in the childcare market in their area (see Box 1 below).

The Committee noted that it had “asked the Department what assurance it has that local authorities are effective at managing their markets”, and was told by the DfE that it “relied on data such as take-up rates, Ofsted ratings, the number of providers and average funding rates to monitor local childcare markets”, but the Department admitted that “it does not know how well local authorities understand demand for and the supply of free childcare”.

Box 1: the childcare market and local authority duties

There are a number of duties on local authorities, under the *Childcare Act 2006* as amended in regard to the childcare market, including:

1. Section 6, which places a duty on English local authorities to secure sufficient childcare for working parents.
2. Section 7 (as substituted by section 1 of the Education Act 2011), which places a duty on English local authorities to secure early years provision free of charge. Regulations made under section 7 set out the type and amount of free provision and the children who benefit from the free provision.
3. Section 7A (as inserted by the Children and Families Act 2014). Regulations made under section 7A make provision about how local authorities should discharge their duty under section 7.
4. Section 9A (as inserted by the Children and Families Act 2014). Regulations made under section 9A limit the requirements local authorities can impose when they make arrangements to deliver early education places for two-, three- and four-year-olds.
5. Section 12 which places a duty on English local authorities to provide information, advice and assistance to parents and prospective parents.
6. Section 13, which places a duty on English local authorities to provide information, advice and training to childcare providers.⁶⁹

The Committee also said that:

The Department told us that when it identified an issue on take-up or quality, it tended to use informal interventions to address them, such as conversations with the relevant authority. The Department noted that “we have never used our formal intervention powers in local government on an early years issue as we have in children’s services...” and has thus not intervened formally in a local authority childcare market. Currently there is no sign that providers are withdrawing from the childcare market in significant numbers. But the Department admitted that it does not have a strategy in place should this position change to intervene in local authorities with insufficient free childcare places.⁷⁰

⁶⁷ As above, p5, para 1

⁶⁸ As above, p5, para 1

⁶⁹ Department for Education, [Early education and childcare – Statutory guidance for local authorities](#), September 2014, p3

⁷⁰ Public Accounts Committee, [Entitlement to free early years education and childcare](#), 2015-16 HC224, 15 June 2016, p11, para 16

5. Capital funding for additional places

In addition to the increase in the funding rate (see section 3 above), in the 2015 Spending Review the Government announced that £50 million of the DfE's capital allocation would support the creation of early years places, and explained that:

We believe there is some existing capacity in the system to help deliver the new entitlement, and we are continuing to talk to local authorities to increase our understanding and evidence of where there is capacity in the system. We are also considering whether the capacity is in the right location to meet demand and whether it's available at the times working parents will need it.⁷¹

Following an application round for the early years capital funding in 2016/17 which closed in August 2016,⁷² in January 2017 the DfE announced that "almost 200 nurseries and pre-schools" would receive a share of the £50 million funding "to invest in new buildings, convert old ones and upgrade facilities" and which would "create almost 9,000 free places for eligible 3- and 4-year-olds".⁷³

In April 2017, the DfE announced a further £50 million capital grant which it said would "deliver more than 9,000 additional childcare places". It was reported that "settings who were not awarded grants in the original oversubscribed round were reconsidered for a second round of funding, and the Department for Education has today confirmed the successful projects".⁷⁴

6. Will the extended entitlement lead parents to work more hours?

At the time of the passage of the legislation for the extended entitlement, the Government stated that it expected in many cases that the extra 15 hours of free childcare under the extended entitlement would replace childcare that was currently privately-paid for.

As the then Parliamentary Under-Secretary of State for Childcare and Education told *Nursery World* in October 2015, "a huge number of people who buy more than 15 hours already will continue to buy more than 15 hours. What will change is that where before they paid for these hours themselves, the Government will now be paying for the additional hours".⁷⁵

In terms of the DfE's estimates of the likely demand for the extended entitlement, in the NAO's March 2016 report it was reported that:

The Department estimates that 390,000 children's parents will meet the criteria as currently defined, though this does not include any parents who are attracted back to work, or who work more hours, as a result of the policy. This is 42% of all children who are eligible for the existing entitlement and the Department estimates that a total of 45,000 new 15-hour places are likely to be needed to accommodate them. It does not know where these places will be required. Its estimate is partly based on survey data from 2012/13 which it used to generate assumptions about how many of the

⁷¹ Department for Education, [Childcare Bill: Policy statement](#), December 2015, p18

⁷² Department for Education, [Early Years Capital Funding Application Round](#), 1 July 2016

⁷³ Department for Education, [Families to benefit from £50 million boost to childcare schemes](#), news story, 10 January 2017

⁷⁴ ["Government invests additional £50m in capital grants for providers"](#), *Pre-school Learning Alliance*, 12 April 2017

⁷⁵ ["Exclusive interview with Childcare Minister Sam Gyimah: France, funding and the 30 hours"](#), *Nursery World*, 19 October 2015

new free hours parents will use on average. Further work will be needed, therefore, including during the pilots, to test these assumptions and establish which local authorities will face the greatest pressure for places.⁷⁶

The NAO noted that “in autumn 2015, the Department ran a consultation with parents” and that “of over 2,000 parents completing it ... 90% of respondents saying they would use the 15 additional hours if they met criteria”. Further, “a large number of respondents to the consultation (81%) also said having more free childcare would enable them to return to work or increase their hours”.⁷⁷

In January 2017, the Pre-school Learning Alliance said that the Government had “underestimated the level of demand for the 30-hour funded childcare offer”, based on a survey of 1,708 parents. The research found that “88% of working households in England, equating to 478,000 children, currently meet the requirements for funded places. This is 23% higher than the government’s estimate of 390,000 children”.

In addition, the Alliance “warned that the government has not allowed for parents who will increase their number of working hours in order to become eligible for the scheme in its eligibility estimates. The research suggests this could add another 22,000 required places, meaning that 500,000 places could be required, 110,000 (28%) higher than the government estimate”.⁷⁸

Research commissioned by the DfE asked parents who would be eligible whether they would increase their working hours. The subsequent report, *Parents’ views and demand for 30 hours free childcare*, which was published later in January 2017, was based on telephone interviews with 851 parents during the spring of 2016.

The report found that in terms of take-up:

Of those currently using the free hours 83% said they would likely or would definitely take up the additional 15 hours of free childcare if they were available to them now. Responses were similarly high for those that had been eligible in the past - 85% who said they would likely or would definitely have taken up these additional hours. Of those who intend to use the existing free hours in the future when their child became potentially eligible, 82% would likely or would definitely take up additional hours.⁷⁹

In regard to the impact of the extended entitlement on helping parents to work more, the report noted that:

Forty-seven per cent of respondents in work (64% of those interviewed) said they would change the number of hours they work in the week if they could use the additional 15 free hours. Of this group, 54% would increase the number of hours they worked in a week and 26% would work longer hours over fewer days. Of those not in work (35% of those interviewed), 60% said they would likely or would definitely look for work to become eligible for the additional 15 hours of free childcare (21% definitely would, 27% very likely, 12% fairly likely).⁸⁰

7. Policy background

In its 2015 General Election manifesto, the Conservative Party said that “because working families with children under school age face particularly high childcare costs, in the next

⁷⁶ National Audit Office, *Entitlement to free early education and childcare*, 2015-16 HC 853, 2 March 2016, p37, para 3.7

⁷⁷ As above, p10, para 19 and p36, para 3.6

⁷⁸ Pre-school Learning Alliance, *Government has underestimated demand for 30 hours scheme, says Alliance*, news, 23 January 2017

⁷⁹ Department for Education, *Parents’ views and demand for 30 hours free childcare*, January 2017, p4

⁸⁰ As above, pp4-5

Parliament we will give families where all parents are working an entitlement to 30 hours of free childcare for their three and four year-olds".⁸¹

The first Queen's Speech of the Conservative Government duly included the following: "Measures will be brought forward to help working people by greatly increasing the provision of free childcare".⁸²

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

A lot of the detail regarding which children and which parents are entitled are not stated on the face of the Act (the primary legislation) – a fact that attracted debate during the Bill's parliamentary passage⁸³ – rather, it will be specified in secondary legislation (in this case, regulations).

Further information on the policy for the extended entitlement can be found in the [Library briefing paper on the Bill](#).

⁸¹ Conservative Party, *The Conservative Party Manifesto 2015*, April 2015, p27

⁸² [HL Deb 27 May 2015 c5](#)

⁸³ See section 4 of the Library briefing paper [Childcare Bill 2015-16: Analysis for Commons Report Stage \(Bill 107\)](#).

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