



# New early years entitlement

From the September 2013, local authorities will have a statutory duty to provide 570 hours of free childcare to the 20 per cent most disadvantaged two year olds. London has a greater proportion of eligible two year olds than any other region. This briefing explores the findings of a recent London Councils' research project examining the challenges in London to deliver the new duty.

## Overview

From 1 September 2013, a new statutory will come into force requiring all local authorities in England to secure free early education for the 20 per cent most disadvantaged two year-olds. This will be extended to 40 per cent in 2014. Eligible two year-olds will be entitled to 570 hours of free early education. It is part of the government's 'Fairness Premium' to drive up social mobility and give the poorest children a better start in life.

Although 20 and then 40 per cent of two year-olds will be eligible for the offer nationally, this is not evenly spread across the country. Due to higher levels of poverty, rising birth rates and inward migration, London has a greater proportion of eligible two year-olds than any other region.

According to Department for Education (DfE), across England, some 130,000 children will qualify for the two year-old offer by September 2013, with an estimated 26,761 (20.5 per cent) living in London. By September 2014, a total of 296,300 children will qualify for the two year-old offer, of whom 55,100 (18.6 per cent) will be from London.

London Councils' research, published in December 2012, explored the challenges facing London local authorities to deliver the new duty and identify how these could be addressed.

## Analysis

Local authorities have, since 2009, offered free childcare for a targeted group of two year-olds under a scheme set up by the previous government. In London, many boroughs offered this provision to children through the Common Assessment Framework route. Typically, each borough provided 100 to 250 free places for two year-olds. However, in order to deliver the new statutory duty, a significant expansion of part-time places offered by childcare providers is required in the capital.

To provide sufficient places for the number of eligible two year-olds in London, an additional 24,100 part-time places will be needed by September 2013 and 31,700 for September 2014. Part of this expansion can be met through the 528 sure start centres in London and other public sector childcare providers. However, much of the new provision will be delivered by the private, voluntary and independent (PVI) sector. Table 1 provides a breakdown of the main provider types in London and total places offered for all ages.

Provider type	No. of providers	Total places incl. FT and PT
Childminders	9,700	44,000
PVI nurseries	2,500	100,900
LA nurseries	80	5,600
Primary schools with nurseries	1,300	121,000
Sessional creches & pre-schools	1200	38,400

***Table 1 - Provider numbers and places in London***

Many boroughs are working with the PVI sector to increase their capacity to offer part-time places for two-year olds. However, a number of key challenges have been identified across London that may impact on the success of such activity:

### **Provider costs**

The level of funding available for providers is emerging as a major factor limiting expansion in many local authorities. The government has allocated a total of £86 million, a 16 per cent share of the £525 million national pot, for revenue funding to enable London boroughs to deliver the entitlement in 2013/14.

On the basis that all revenue funding is allocated to the providers, boroughs will be able to offer an hourly rate of between £5.28ph and £6.08ph to deliver the two year-old offer. However, in at least 19 local authorities, many good and outstanding Ofsted rated providers intend to opt out of delivering free places. Funding offered is less than they charge per hour for fee paying parents and will not cover provider costs to deliver the offer.

Evidence from borough trials have shown that many eligible children are likely to require specialist care and one to one support due to their additional needs. The staff involved in their care are likely to also need to attend additional meetings in relation to children's welfare or special educational needs. Therefore, additional staff input will need to be factored into costs.

Day nurseries and childminders rely on parents purchasing extra hours to cover their costs of delivering the free early education offer. The free early education offer for three and four year olds works financially for providers because working parents buy extra hours of childcare, which then cross-subsidises the free provision. Because the two year-old offer is targeted at disadvantaged families, many of whom are likely to be workless, it is unlikely that they will purchase additional hours, increasing the hourly rate needed for providers to make the offer workable. Analysis has shown that at least £8ph in London is needed to cover the costs associated with delivering the offer. This equates to a total of an additional £30million to stimulate the childcare market.

### **Local authority costs**

While the offer is to be delivered primarily by the PVI sector, boroughs are incurring significant direct as well as indirect costs associated with implementing the offer. For instance, many boroughs are undertaking quality improvement work with providers to support them to meet the good and outstanding Ofsted grade needed to deliver the offer. In addition, complex place management, inclusion support and outreach work to families are required to make the two year-old offer work, as highlighted by trial boroughs in London. With all boroughs undertaking these activities, our research shows that London local government will spend a minimum of £18 million to ensure the new duty can be met.

However, as part of the two year-old funding, government has not made a specific allocation to cover local authority costs. Consequently, many councils had to divert funding from other programmes to develop the necessary infrastructure to ensure the duty can be sufficiently delivered.

London Councils calls on government to take into account the additional costs of boroughs and childcare providers to deliver the entitlement. Our research has suggested that a further £48 million of revenue funding is needed to support the successful delivery of the entitlement in London.

## **Offering parents greater flexibility**

The entitlement sets out that an eligible child should receive 570 hours free education in any year. However, for the September 2013 cohort, providing free early education will not alone deliver long term sustained improvement. Evidence from borough trials has shown that providing support to the whole family, as part of the offer, has the potential to narrow the gap between the poorest children and their peers in the long term.

London local authorities and providers believe that some of the most deprived children would benefit from a dual offer of both early education and a package of support for them and their families. This could be a mixture of 10 hours per week of early education combined with additional home learning and parenting support, enabling them to tap into existing provision, thereby putting less financial pressure on childcare providers. Trials have shown such an approach has engaged parents more fully in the entitlement.

Taking on board the cross sector support for the option of an alternative model, London Councils calls on government to allow local authorities the flexibility to work with parents to determine the best use of free childcare based on the needs of the child and family.

## **Capital funding**

In London both nurseries and childminders are limited by the size of their current premises to deliver the offer. With 44 per cent of London's childcare providers operating at full capacity, significant capital investment is needed to assist providers to adapt and extend premises.

While larger nursery chains are able to secure bank loans; childminders, small daycare providers and many voluntary sector nurseries have limited scope for bank borrowing and tend to rely on local authority grants. For these childcare providers, it is the only way of fund any expansion in a sustainable manner.

London boroughs calculated that a minimum of £62 million of capital funding is needed by 2015 to help providers expand and adapt premises to meet the new offer. This would allow a significant proportion of providers to increase their capacity whom otherwise may not have been able to do so.

## **Providers' business sustainability**

The model of delivery for the two year-old offer can also result in additional costs to providers. The offer is generally delivered over 38 weeks of the year (term time), as determined by local authorities, while nurseries and childminders tend to work over 50 or 52 weeks, leaving up to 14 weeks unfunded dead-time. Additionally, a child that takes up a part-time place as part of the entitlement, for example, five three hour sessions per week, can prevent childcare providers from filling the rest of the day unless another child can attend during the remainder of the day. For childcare providers, these unfilled hours represent a loss of earnings that can impact on their business sustainability and willingness to deliver the entitlement.

To overcome this barrier, local authorities and providers should consider developing new local commissioning models of securing places for the two year-old offer, to enable providers to provide blocks of three places. Grouping two year-old together in threes amounts to a full time place as providers generally provide care over 45 hours per week.

## **Revenue funding after 2015**

Some of the costs of delivering the two year-old offer will level off after 2015, after local authority infrastructure is put in place. Future revenue funding allocated to the two year-old offer and distributed to local authorities through the Dedicated Schools Grant must enable them to deliver high quality early education. While funding for the two year-old offer does include an area cost adjustment, this does not take into account rent and rates of childcare providers. Given provider costs are up to 40 per cent higher in London compared to other regions in England, a fairer allocation of future funding is needed to ensure local authorities are able to work with providers to deliver the offer.

London Councils' is calling on government to implement two specific changes to the formula used to allocate funding:

- establish a new Education Area Cost Adjustment weighting for the Dedicated School Grant that takes into account rent and rates, which are a significant for London's childcare providers
- mobility weightings should be included in the next cycle of funding made through the Dedicated School Grant, as this is currently an unfactored cost for providers.

## Commentary

The purpose of the two year-old entitlement is clear: to offer more help at an earlier age to the most disadvantaged children and to help tackle the gaps in attainment that open up in the critical early years of life. This is a goal that is shared by London local government with all boroughs putting in place strategies to deliver the entitlement.

However, with at least 24,100 places needing to be created, local authorities are facing a considerable challenge to ensure supply of places meets demand by September 2013. With a £48 million shortfall in revenue funding, many local authorities are faced with the difficult decision to divert funds from other vital programmes to ensure providers engage with the offer. This is not sustainable in the long run and must be addressed to ensure all eligible children benefit from this offer.

London Councils will be taking forward the recommendations in the report to make the case to central government that greater resources and flexibility is needed for London. A letter has been sent by London Councils to Liz Truss, Parliamentary Under Secretary of State for education and childcare, to ask for a meeting to discuss the findings of the report in further detail.

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[London Councils / Daycare Trust report on childcare](#)

### This member briefing has been circulated to:

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