Here for young people
Here for communities
Here for you

# Early Years Expansion: The challenge to deliver

December 2023

# Everyone should have a fair chance to discover who they are and what they can become.

## About YMCA

YMCA believes in fairness and opportunity. There are essential building blocks for a full and rewarding life: a safe home; acceptance; guidance; friendship; physical and mental health; academic support; employment skills; and access to real opportunities. Many young people have never known these things; other people have lost one or more as they grew up, but we all need them. All of us. At YMCA, we provide these critical foundations for a fresh, strong start for young people and a better quality of life in the community.

YMCA is the largest charity provider of Early Years Education across England. We work with 7,528 children each year across 89 childcare settings and help them take their first step, speak their first word and ultimately have a transformative effect on their path into adulthood. We particularly work in low income communities where families face multiple vulnerabilities and often need the greatest support.

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# Introduction

In March 2023, the Chancellor Jeremy Hunt announced in his Spring Budget groundbreaking reforms to the childcare sector in England. The 30 funded hours of childcare that working parents of 3 and 4-year-olds receive will be expanded to those with children aged nine months and above over the following 18 months, with full implementation in September 2025. This is intended to help allow parents to work, particularly women, and benefit the wider economy as a result.

The ambition of this plan must be recognised: for many parents, the cost of childcare has been a substantial portion of household expenditure, and even an influence in when to start a family or have another child.

YMCA believes that early years provision offers the best place for children's development, with access to quality education practitioners in group settings giving them the best start in life.

As impressive as the expansion scheme is, it is important to reflect that this requires implementation in a tight timeframe within a sector that has been simply surviving for some time. By the nature of welcoming in thousands of children through nursery doors for the first time, the industry is required to enter a stage of growth mode. Whether it will be able to deliver on the government's grand plans within the coming two years, and continue to do so into the future, will depend not only on the funding it receives as these plans are implemented, but guaranteed into the future.

Most important of all will be the workforce required to deliver these new places. Compared to 3 and 4-year olds, children aged two and under require far higher ratios of qualified staff members. For many providers across the country, maintaining staffing levels has been an increasing challenge in recent years – sometimes even leading to settings closing. This challenge could soon become even tougher.

# Summary


- The Government's plans to expand access to funded hours for early years childcare for those aged 9 months and above is a game-changing, generous and much-needed intervention to allow greater access to all children, negating the rising costs parents have faced in recent years.

- The sector has been creaking under the strain of under-funded hourly rates for some time. Rises in inflation and the National Living Wage (NLW) surpass the annual increase the Department for Education has granted in hourly rates to local authorities.

- This under-funding has meant staff have left the sector due to un-competitive wages, and settings have closed because of under-staffing or lack of financial viability. It is from this base that the sector must now deliver more than ever before.

- YMCA settings are appreciative of the new hourly rates for those aged 2-and-under, but worry that due to the recruitment and retention crisis in the sector that despite the demand from families, they will not have the ability to deliver the childcare required.

- YMCA estimates that there will need to be between an additional 13.2% increase in staffing against 2023 levels to deliver the increased access to childcare in 2025. This is before take-up levels are anticipated to be higher in the following years of the rollout.

- The average hourly rate of £11.55 for under 2s represents the cost that providers will face to deliver childcare, given the requirements of one member of staff to every three children of this age.

- The annual increase in the average hourly rate providers will receive for 2-year-olds at £8.48 is a 34% increase compared to the amount given previously for disadvantaged 2-year-olds who receive funded childcare.

- This increase is far higher than the annual increase in funding for 3 and 4-year-olds, who already receive 30 funded hours of childcare if their parents are working. The average hourly rate of £5.98 for 2024-25 is only 4.7% higher than in 2023-24. This is not enough to cover the rising costs of childcare delivery.

- The Government will become the largest buyer of childcare hours in the market, and thus the business models of many providers will be impacted. This may lead to increases in capping funded places, or considerable rises in

additional fees for families (such as additional hours, early drop-offs and late pick-ups, meals and excursions).

- The Early Years Pupil Premium has increased by 3% to £0.68 per hour per eligible child. An important additional form of income for children in need of extra support to reach development goals before entering school. Although this is now accessible for 2-and-unders, the level providers receive does little to provide the support these children need.

- The ambition of the government's expansion plan is to a tight timeline, in ways that hamper providers' ability to deliver. The turnaround on the Childcare capital expansion grant, how much money local authorities will take from the average hourly funding rate for administrative purposes, and changes in the requirement of a Maths GCSE in Level 3 Early Years Educator qualifications not reflected in course literature are all hinderances.

# Early Years National Funding Formula

Since its introduction in April 2017, the Early Years National Funding Formula (EYNFF) has set the hourly funding rates that each local authority is paid to deliver the universal and additional entitlements for three and four-year-olds. There is a separate formula that sets the hourly funding rates for two-year-olds (and under 2s as of September 2024).[1] The formulas were updated for the 2023 to 2024 financial year using more recent data points on need in the local authority, following a consultation with the sector in summer 2022.

## How is the formula worked out?

The EYNFF is made up of a base rate and additional needs funding with a local area cost adjustment. The base rate is the level of funding for all areas, regardless of location or need, this represents 89.5% of total funding. The additional needs element considers children eligible for free school meals, children with disabilities and children with English as an additional language. The cost adjustment reflects the local area costs across the country, and uses measures that represent staffing and premises costs.[2]

3 and 4-year-old allocations are calculated using part-time equivalent (PTE) pupil numbers, measured as one child taking up 15 hours per week over 38 weeks, as per the school census taken in January 2023.

For the 2023 to 2024 financial year, the starting point hourly rates for the ENYFFs' formula factors were updated mid-year to reflect National Living Wage increases announced in the government's Spending Review in March 2023.

Changes had also been made to the EYNFF, following a consultation with the sector. For the 3 and 4-year-old rate, increases in 2023-24 also accounted for the majority of the money that had previously been paid through the early years element of the teachers' pay grant and teachers' pension employer contribution funding (TPPG) in the case of the 3 and 4-year-old rate. Additional needs formula factors and area cost adjustment factors now use annually-updated data, and the latter also has an improved methodology for the proxy factor used for premises costs in the formula.[3] In 2023-24, money that had previously been paid through the early years element of the teachers' pay and pension grant (TPPG) was also rolled in to the hourly rate calculation.

The EYNFFs have a +1% year-to-year protection, as well as a +5.0% gains cap for the 3 and 4-year-old formula. The Government also sets a funding floor each year to

[1] Department for Education, Guidance – 2024 to 2025 early years national funding formulae: technical note, 29 November 2023

[2] House of Commons Library, Early years funding in England, 7 December 2023

[3] Department for Education, 2023 to 2024 Early years funding formulae: technical note, 19 June 2023

ensure that no local authority will receive less than this. For 2024 to 25, this is £5.47 per hour for 3 and 4-year-olds – a 60p increase from the previous year.

As part of the expansion of funding hours, the Department for Education introduced a new national funding formula for 2-year-olds and under 2s entitlements, made up of a universal base rate of funding for each child (89.5% of funding), an additional needs factor (10.5% of funding) and an area cost adjustment to reflect variations in costs across England.[4]

The pupil counts used for the 2-year-old entitlement are PTE counts from the January 2023 census, as well as assumptions based on estimates of eligibility and take-up rates split for each local authority. The under 2s entitlement uses solely eligible take-up estimates.[5]

## What do providers receive?

Local authorities are required to dispense at least 95% of the hourly rate to providers, with a small proportion held to help with administration of entitlements. Accordingly, they set their own provider hourly rates using their own local formulae. In 2022-23, local authorities planned to pass on 97.8% of the hourly funding rate received.[6]

Once the new EYNFF rates for 2-year-olds and under 2s are embedded, local authorities will be required to have a 97% pass-through requirement of funding.[7]

[4] Department for Education, Early years funding – extension of the entitlements: Government consultation response, 29 November 2023

[5] Department for Education, Guidance – 2024 to 2025 early years national funding formulae: technical note, 29 November 2023

[6] Department for Education, Easy Explainer: Early Years Funding Rates, 29 November 2023

[7] Department for Education, Early years funding – extension of the entitlements: Government consultation response, 29 November 2023

# The early years expansion project

The Government announced reforms to the English childcare sector in its Spring Budget of March 2023, increasing the 30 funded hours for children of working parents to all children aged 9 months and above by September 2025. This ambitious plan is intended to help allow parents to work, particularly women, and benefit the wider economy as a result.

The first stage of implementation will grant 15 hours of free childcare for working parents of 2-year-olds in April 2024, then expanding this offer to parents of children aged 9 months and above in the September. The following September, the 15 free hours will be increased to 30.

## New hourly rates

In its calculation of hourly rates, the Government was cognitive that by introducing almost-universal funded hours for children aged 9 months and above, that the Department for Education (DfE) would "substantially increase the proportion of the childcare market that it buys".[8] It also noted that staffing costs are the bulk of providers' total costs, and staffing ratio requirements for younger children are far higher than for 3 and 4-year-olds. Accordingly, DfE's principles for the funding rates were to:

a) Meet the cost to providers of providing entitlement funded hours.
b) Ensure funding rates are higher for younger children where costs are greater.
c) Are set high enough to allow local authorities to retain the funding needed locally to deliver the new entitlement.

The average national rates set for the 2024-25 financial year are:[9]

| Age | Average hourly funding rate | Annual increase |
|---|---|---|
| Under 2s | £11.55 | NA |
| 2-year-old | £8.48 | 34% |
| 3 and 4-year-olds | £5.98 | 4.7% |

The annual comparisons above are using the hourly rates provided in DfE's early years funding rates spreadsheets from June 2023,[10] in which the hourly rates were increased following National Living Wage increases announced in the Spring Budget.

[8] Department for Education, Spring Budget 2023 Childcare Expansion: Policy costing information note, July 2023

[9] Department for Education, Early years funding rates and step-by-step calculations 2024 to 2025, 29 November 2023

[10] Department for Education, Early years funding rates and step-by-step calculations 2023 to 2024, 19 June 2023

# Additional funding for a stretched system

These rate increases must be considered against the historical context of funding in the sector: it is from the financial footing providers have been on for the past several years that this expansion project is to be built.

Compared against two key benchmarks, inflation and the National Living Wage (NLW), for the last several years the funding rate has not kept pace – making affordability of operations for providers with larger amounts of children accessing funded hours particularly squeezed. For YMCAs, this has led to the operation of some settings becoming unviable, forcing them to close or use other methods of raising income to stay afloat.

## Fallout of funding shortfalls

A shortfall in funding can mean providers are more likely to reduce places for children only using free hours, restrict how these can be accessed, or not offer these at all. This is particularly prominent for year-round access to funded hours, where 95% of school-based providers, 34% of private group-based providers and 80% of voluntary providers restrict use of funded hours for 3 and 4-year-olds outside of term-time. Some providers restrict entitlements to certain sessions, with 41% of school-based, 33% of private group-based, 28% of voluntary and 10% of childminders doing so for 3 and 4-year-olds. [11]

Although the reason for restricting funded was not asked in the Department for Education's childcare provider survey in 2023, in 2022 the most common reason given for this was no local demand for entitlement places, funding rates not being sufficient was the next most-cited.[12]

Where other providers have placed caps, as a voluntary provider, YMCAs welcome children on funded places as deserving equal access to childcare. YMCAs have often taken in large cohorts of 2-year-olds on 15 funded hours for low-income parents, on top of 3 and 4-year old children of working parents accessing 30 hours a week. For some time, YMCAs have been squeezed by funding rates that barely cover costs. In 2020/21, our providers on average lost £1.07 per child per hour against the rates provided by local authorities.

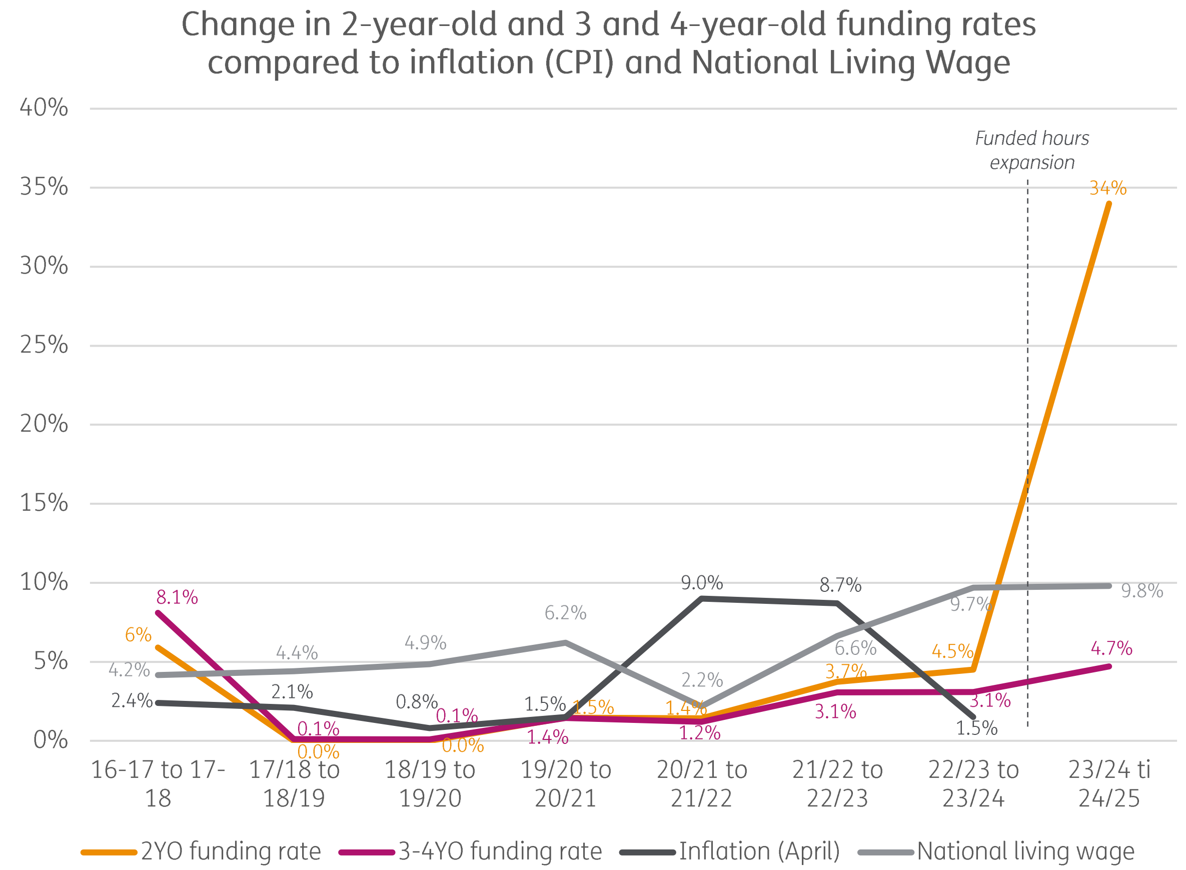
This was prior to inflation and operational cost spikes in the wake of the covid pandemic and cost of living crisis.

[11] Department for Education, Childcare and early years provider survey, 14 December 2023

[12] Department for Education, Childcare and early years provider survey, 15 December 2022

## Inflation

Inflation in the UK hit a 41-year high in October 2022 and although falling, the 6.7% consumer price index (CPI) rate recorded in September 2023 hovers far from the Bank of England's target of 2%.[13] This reflects substantial rises in energy prices and food costs, which alongside commercial rent has led to growing day-to-day running expenses of early years provision.




High inflation has pushed Government to increase the National Living Wage (NLW) at a similar scale, to help employees weather rising costs. Even with adjustments to the EYNFFs over the last several years to accommodate increases to the NLW, in percentage terms funding rates have not been keeping pace.

## Wages

Staffing costs make the bulk of providers' expenditure. In 2023, staffing costs made up almost four-fifths (79%) of all outgoings for volunteer group-based providers.[14]

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[13] Office for National Statistics, Consumer price inflation, UK: October 2023, 15 November 2023

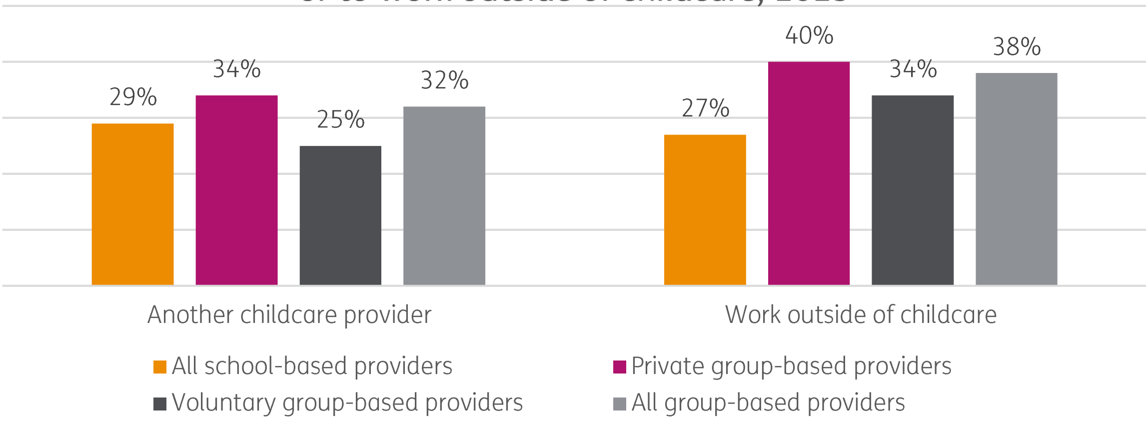
[14] ibid, Department for Education, 14 December 2023

Salaries received by early years staff will vary dependent on level of qualification. Apprenticeships are a common route into the industry, with 51% of all group-based providers employing these in 2023 (61% amongst private and 30% in voluntary). Eight out of ten of staff (79%) at group-based providers are qualified to at least Level 3 (78% private and 82% voluntary), and one-in-ten are employed to Level 6 (11% at both).[15]

As of 2023, 15% of early years staff nationwide at voluntary group-based providers, and 10% at private group-based providers were earning below the government's National Living Wage (NLW).[16]

The impact of the cost of living on staff has played out at YMCAs, where rising operating costs and underfunding mean there is little scope for salary increases. Managers have told us of staff leaving for jobs in supermarkets where starting wages are above-NLW. This is reflected more broadly in the sector: 25% of staff leaving voluntary providers in 2023 left for another childcare provider, compared to 34% who left for work outside the sector. Rates are still high for staff from other sectors, with 40% of staff leaving private group-based providers leaving for work outside the sector.[17]

Destination of staff leaving to either other childcare providers or to work outside of childcare, 2023




In the Chancellor's autumn statement, the announced NLW increases were broadly the most generous since the rate's introduction. Furthermore, for the first time those aged 21 and 22 would be entitled to the full NLW rate of those aged 23-and-over. For those aged under 18 and apprentices, rates rose by a fifth.[18] The latter is particularly pertinent, given the industry's use of apprenticeships as a means of training and recruiting the workforce.

15 ibid

16 ibid

17 ibid

18 UK Government, Minimum wage rates for 2024, 21 November 2023

National Living Wage – 2023 and 2024

| | 23 and over | 21 to 22 | 18 to 20 | Under 18 | Apprentice |
|---|---|---|---|---|---|
| April 2023 | £10.42 | £10.18 | £7.49 | £5.28 | £5.28 |
| April 2024 | £11.44 | £11.44 | £8.60 | £6.40 | £6.40 |
| Year-on-year increase | 9.8% | 12.4% | 14.8% | 21.2% | 21.2% |

As part of the early years funding rates announced for 2024-25, it was stated that £67m was included to reflect the NLW increases incoming in April, on top of the £288m announced in the March 2023 spring budget.[19] However, particularly when compared against the increase in funding for the 3 and 4-year-olds funding rate, this once again is disconnected.

The increase in the National Living Wage will impact staff costs not only for those on the lowest wages, YMCAs expressed, but will require increases across all staffing levels. This is due to the fact that as those on minimum wages are given increased pay, staff at higher qualification levels will need to have their salaries increased to distinguish and compensate for experience.

Expenditure on wages is further compounded by qualified staffing shortages in the sector. To be able to provide childcare to the amount of children registered following inability to recruit, staff departures, or sickness, some YMCAs are reliant on agency staff to be able to maintain required ratios. These will often be far higher than directly-employed staff, but are necessary for providers to use to be able to operate. In 2023, 30% of group-based providers and 33% of school-based providers employed temporary paid childcare staff.[20] This is a substantial portion of the sector reliant on agency staff, and consequentially shouldering these costs.

## Real-terms value of previous funding rates

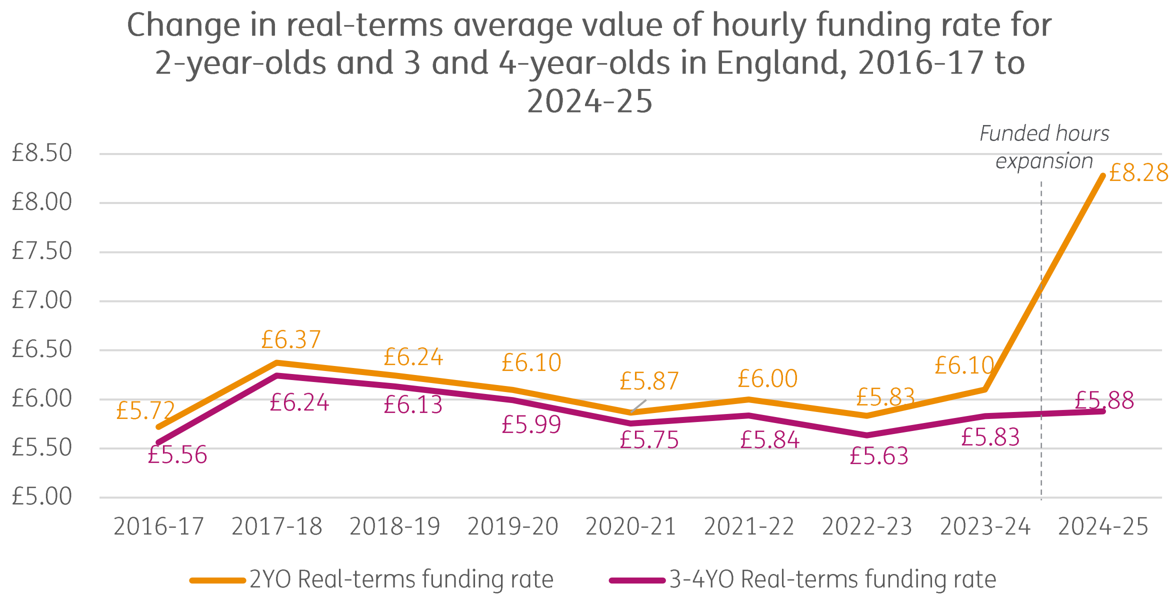
Adjusting for inflation, the real-term value of the hourly funding for two-year-olds had fallen by 9%, and 10% for 3 and 4-year-olds, prior to the most recent announcement of funding for 2024-25. These figures have been calculated using the government's GDP deflators to give a better picture of the value of prior years' funding rates in today's money.[21]

[19] UK Parliament, Early Years Update: Statement UIN HCWS78, 29 November 2023

[20] ibid Department for Education, 14 December 2023

[21] UK Government, GDP deflators at market prices, and money GDP, 23 November 2023

This relative fall in income puts into focus the reduced spending ability providers have had over the years for keeping the lights on, but also attracting and retaining staff.




For some providers, they have found themselves unable to stay financially viable. In 2023 there were approximately 56,300 childcare providers operating in England. This is an 15% decrease from 2018, when 66,600 were open. This is in part due to a 31% reduction in childminders over this timeframe, and a 13% increase in school-based providers. While there has been a 10% increase in the amount of private providers, the amount of voluntary group providers has fallen by 24% in five years.[22]

As a voluntary provider, YMCA is mission-first in the delivery of top-level childcare and education for all children in our communities. We take in children who were not accepted by other places, through either capping of funded places or for high level of special educational needs and disabilities (SEND). This drive to have open access for all, regardless of need and resource, has led to financially unviable settings.

Two-fifths (39%) of local authorities reported to the Local Government Association (LGA) that they had seen a notable increase in the number of private and voluntary settings closing in 2022 compared to recent years, with two-fifths of local authorities seeing more closures in autumn term 2022 than autumn term 2021. The LGA found that insufficient income to meet rising costs and workforce-related issues were rated by local authorities as the two key drivers of closures in 2022, with the impact of closures felt most severely by lower-income families and areas with deprivation.[23]

[22] ibid Department for Education, 14 December 2023

[23] Local Government Association, Isos Partnership, Nursery Closures: Research on the nature, impact and drivers of nursery closures in England, July 2023

# The new rates

## Under 2s

This is the first time that government-funded hours for children aged under 2 have been available, and so there is no benchmark against allocation for previous years. In its calculations for the policy cost, the Department for Education cited hourly parent-paid childcare fees for all provider types for 2021-22.[24]

The average fee charged in 2023 across all provider types at £6.05 is lowered by childminders, who charged on average £5.62 for this age group. Although the average fee for voluntary providers was £6.73, all other providers charged more than £7: nursery class childcare settings had a mean hourly fee of £7.35; maintained nursery schools £7.73; and private providers £7.08.

Under 2s have the highest requirement in terms of staffing ratios, with one member of staff qualified at Level 3 or above for every three children. There is no data available on how many children at each age are using early years care, and DfE only details the numbers of providers giving fee rates in 2022, but not in the most recent iteration of the Childcare and early years provider survey. But given the small base of schools-based and voluntary providers giving fee rates for under 2s to DfE's survey in 2022 compared to rates for other ages, it indicates that early years use amongst under 2s in these settings is currently low, compared to other age groups. More private providers and childminders, however, reported fees charged for this age. It may be the case that schools-based and voluntary providers will need to adjust settings the most to accommodate an influx of under 2s as of September 2024.

The Department for Education expects initial take-up amongst eligible children aged 9-12 months to be around 35% and one-year-olds around 60%, increasing over time as working parents are incentivised to use formal childcare.[25]

A large increase in children aged under 2 will come with the greatest potential staffing costs compared to other ages, due to the highest level of staffing ratio requirements. There must be a minimum of one member of staff qualified to Level 3 or higher for every three children.

A funding rate that surpasses the current average rates charged is essential for providers to be able to safely staff the amount of children who are expected to enter the sector, and YMCA providers greatly appreciate that this has been introduced.

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[24] ibid Department for Education, 14 December 2023

[25] Department for Education, Spring Budget 2023 Childcare Expansion: Policy costing information note, July 2023

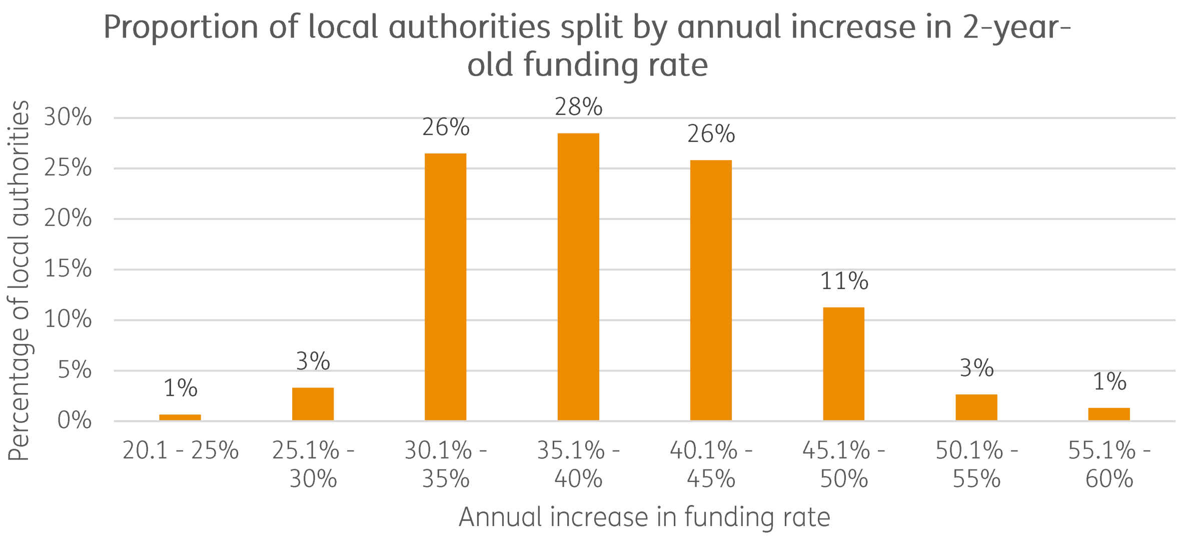
As the system is embedded and usage increases over the years, it is essential that funding of this rate does not flatline but adjusts to the growth in places.

## 2-year-old funding

With more children now set to qualify for funded hours than the initial 15 hours for children of families with low household incomes, it is apparent that funding rates for two-year-olds has been far below sustainable levels for providers for some time.

The average national funding rate has increased by 34% from £6.09 per child per hour to £8.47. This is a substantial increase, and indicates the need for Government to cover the rates charged by providers for them to maintain financial viability as it becomes the largest market-buyer of childcare.

This level of increase far surpasses those seen over the last several years. Almost all local authorities (96%) will receive an hourly funding rate increase of at least 30% year-on-year.




Similarly to under 2s, 2-year-olds require a higher ratio of Level 3-qualified staff to children than for 3 and 4-year-olds. This was previously one:four, however in summer 2022, the Government consulted on reducing the staffing ratios from one for every four two-year-olds to one per five, with the aim of reducing costs for families. This change in statutory ratios has since been introduced, however YMCA settings have found the move has done little to lessen the staffing costs for early years providers that could then be passed on to parents.

For YMCAs who have adopted the reduced ratio, it is done fluidly rather than across-the-board, and as a pressure-relief at pinch-points in delivery. It has proven helpful at times such as drop-off, pick-ups and lunchtimes, and in instances of staff absence. It may be the case, however, that as more two-year-olds join early years settings providers must drop preferred ratios as a necessity, as ability to staff all sessions to a one:four level may be impossible.

## Anticipated challenges in 2-and-under delivery

The hourly funding rates for under 2s and 2-year-olds are both welcomed by YMCAs, however industry-wide, the number of providers able to deliver these hours has depleted over the past four years. For YMCAs, settings managers have expressed concern that they will not have the staff to offer the places families will want to claim.

### Staffing shortages

Even at present, some YMCA settings have closed or capped baby rooms as they do not have the amount of staff to accept more children at safe ratios. They have waiting lists of children to join settings, but do not have the personnel to accommodate this high demand. Some have had to reduce operating hours, or even close settings entirely, because they are unable to staff sessions.

Recruitment and retention of qualified staff has been a significant issue in the early years sector. There has been a 2.2% decrease in staff working in private, voluntary and independent (PVI) early years settings between 2020 and 2023 – representing a loss of 5,700 staff. Although there has been a 0.6% increase in staff numbers in the last year, this is predominantly amongst staff without an early years qualification. This means they will not count towards staffing ratios. Since 2020, the amount of accredited graduate status staff and Level 3 staff in PVI settings have both fallen by 7%, representing more than 12,000 and 1,500 staff members respectively.[26]

### Future workforce

The loss of qualified staff from the sector is of great concern in terms of providers' ability to deliver an anticipated annually-increasing number of children. YMCA sent a Freedom of Information request to the Department of Education on amount of people currently taking Level 3, T Level and undergraduate courses in early years, and estimates for future years, but this was not responded to within the statutory time limit. Without greater levels of people qualifying as early years practitioners, the level of delivery will be a considerable challenge across the sector.

[26] UK Government, Education provision: children under 5 years of age, 15 August 2023

Using DfE's figures of eligibility and anticipated take-up of two-and-unders (and the relevant ratios of staff for each age group)[27] and comparing against current usage and staffing within the sector,[28] YMCA estimates that there will need to be an increase of 13.2% in qualified staff compared to 2023 numbers required to deliver the projected take-up of the expanded 30 funded hours in September 2025.[29]

This is a conservative estimate – in this calculation, a ratio of one member of staff to every five two year olds was used, as per the update in minimum staffing requirements earlier this year. However, many provisions still operate on one:four ratios, and have preference to operate this way.

This projected required increase relies on 2023 workforce levels remaining static. Given the number of qualified staff leaving the early years sector, it is likely the amount of staff needed to provide this care is above this. Furthermore, as hours are expanded and take-up is expected to grow in the following years, the amount of staffing will be required to increase also.

Currently, approximately 81% of all early years staff across all provision types (excluding childminder assistants) are qualified to Level 3 or above. Given the requirements for at least one member of staff working with 2-and-unders to have a Level 3 qualification, getting more practitioners qualified to this level is a matter of urgency. Level 3 apprenticeships take 18 months to complete; T Levels take two years – and the rollout of the qualification's delivery has not been fully implemented at sixth form colleges since its introduction in September 2020. Given that there are 20 months before the 30-hour entitlement is fully implemented (at the time of writing), there is little time left for enrolment on these courses for the sector to have trained staff, rather than an influx of those without qualifications.

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[27] Department for Education, Spring Budget 2023 Childcare Expansion: Policy costing information note, July 2023

[28] ibid Department for Education, 14 December 2023

[29] Method: Using the population sizes stated in DfE's Policy costing note, and predicted eligibility and take-up percentages of 9-12 months, 1-year and 2-year-olds, these totals were subtracted from the the overall number of Ofsted-registered places, as was number of 3 and 4-year-olds to estimate how many of these places would be additional. Using the proportions of DfE's projected take-up between the different ages, the number of qualified staff was calculated based on the ratio requirements for each age. This number of additional staff was compared against the 2022 level as per the Childcare and early year provider survey.

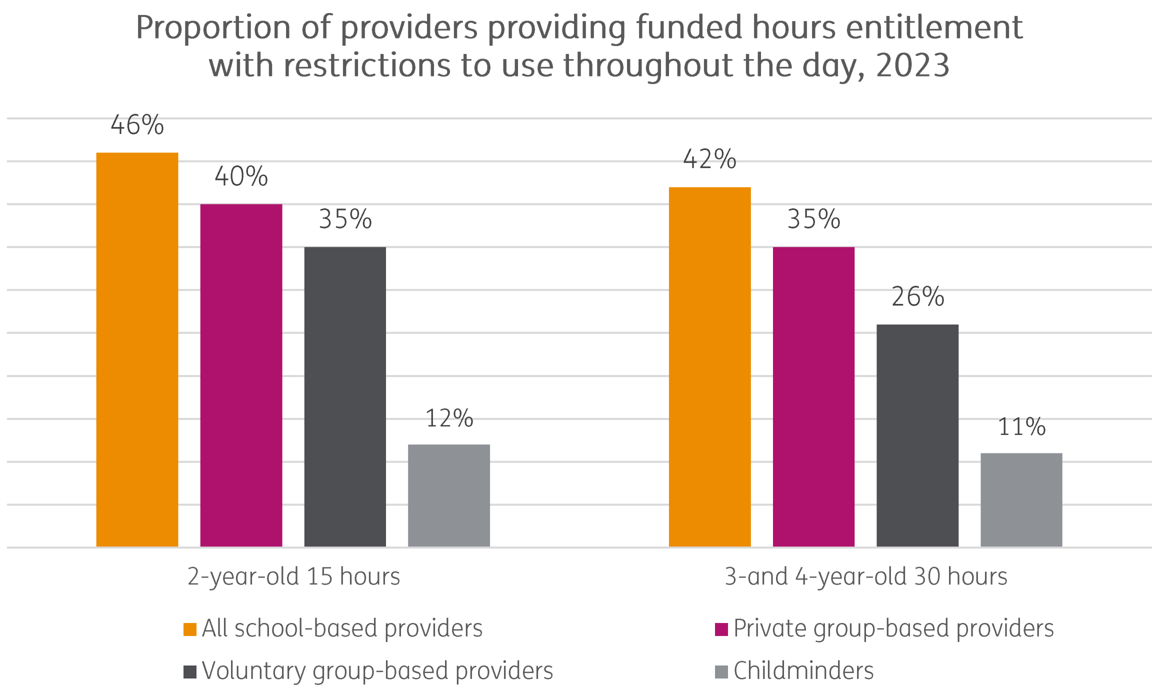
## Competitive wages

As a voluntary provider, YMCA settings have been unable to offer wages and benefits that large private provider groups can. Although these higher hourly rates than YMCAs currently charge could mean greater ability to increase wages, the fact that private providers will now be receiving the same income for delivering childcare means no competitive advantage or ability is gained when looking to attract and retain the best workforce.

## Caps on funded places

Instead, there are concerns that some providers will place caps on the amount of funded hours places they will offer. This is something that is already commonplace within the early years sector across both the current offering of 15 hours for two-year-olds from low-income households, as well as the wider 30 hours for 3 and 4-year-olds, as outlined below.[30]

For providers that already charge fees far above the 2023-24 funding rate, and even above what the hourly rate their local authority will provide in 2024-25, their income levels will be negatively impacted by the widening of funded places. These providers may be more likely to cap funded places to allow for greater capacity to have children on additional hours.




[30] Ibid, Department for Education, 14 December 2023

## Additional charges

As well as restricting funded places, providers seeking to retain levels of income may require families to purchase additional hours, at which they will set the rate. This could include high charges for meals, excursions, or as per often the needs of working parents, early drop-offs and late pick-ups. This may also include extra hours for year-round childcare, if annualisation of the 15/30 hours for 38 weeks of the year does not cover the amount of childcare families need.

## Year-round delivery

Further to this point, while an encouraging area of growth in the sector over the past several years has been amongst schools-based providers, only 6% of these providers are open during both term-time and school holidays (compared to 26% of voluntary group-based providers, and 77% of private group-based providers).[31] The broadening of funded hours to parents of two-and-unders working at least 16 hours per week, and incentivisation to use early years care for the first time, may mean seeking a provider who can offer year-round care. This may disproportionately put more pressure on providers who do so – despite the ability to staff these settings.

## Children with SEND

YMCAs have high numbers of children with special educational needs and disabilities (SEND), who often require greater one-on-one support and dedicated staff. There is funding available to providers if children receive Disability Living Allowance through the Disability Access Fund. However, YMCAs have expressed that for some 3 and 4-year-old children with the highest needs who access 30 funded hours in mainstream nursery settings, there are times when providers are unable to meet their needs, or the child may not cope with that many hours per week in a mainstream setting. This can mean providers may reduce the amount of hours they offer children with highest SEND requirements. As the 30 funded hours are expanded to younger children, and providers have more children in settings, it may be the case that hours are capped for these younger children with highest needs.

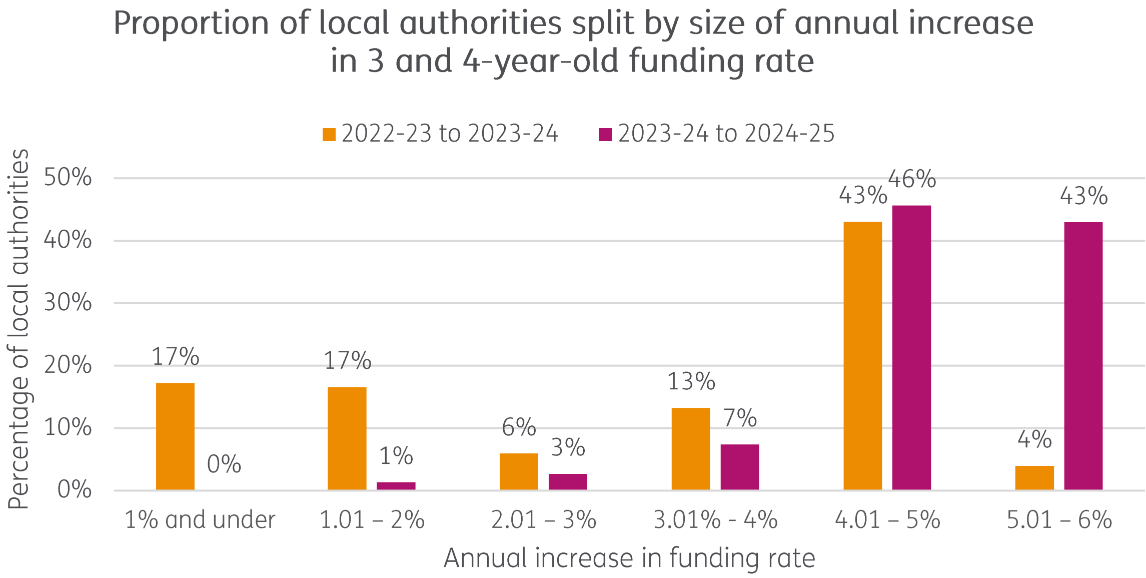
# 3 and 4-year-old funding rate

Unlike the other age ranges, parents of 3 and 4-year-olds' access to funded hours is unchanged in the government's expansion plans, and accordingly for the first year at least, is not anticipated to have a large increase in take-up.

[31] Ibid, Department for Education, 14 December 2023

The average hourly rate for 2024-25 will be £5.88, comprising of the universal hours average of £5.91 and the additional hours average of £5.83. representing an average increase of 4.7% year-on-year across all local authorities. This is the most notable rise since the introduction of the early years funding formula in 2017-18 – however, this is more to do with many years of almost-stagnant increases in the amount local authorities were granted.

Compared against increases between the previous year, more local authorities are receiving increases in hourly funding rate of at least 4% (87%, compared to 47% between 2022-23 and 2023-24).




This increase is welcomed, but does not go far enough to cover costs that providers will face over the coming year. This is particularly apparent when comparing the rate of increase against the average of 34% year-on-year for the two-year-old funding rate.

Although the staffing ratios for this age group are lower (one adult for every eight children, or 13 children if led by a teacher), the increase in funding is far below the incoming rises in the National Living Wage as outlined previously. This is despite the extra £67m incorporated to the early years funding rate to accommodate this.

Especially with the application of the 95% pass-through rate from local authorities, YMCAs have expressed that the amount of funding they will receive for the coming year for 3 and 4-year olds is barely enough to maintain basic functions, let alone deliver services they would want for the children in their care.

YMCAs tend to operate in areas of higher deprivation: in 2020/21, 45% of our early years provision was in the 30% most deprived areas in the country. It is often the case that parents only use the funded hours and do not buy extra hours of childcare. As the only form of income they receive for caring for children for this age, the hourly funded rate does not cover the cost of delivery. For some time, YMCAs have been squeezed by funding rates that barely cover costs. In 2020/21, our providers on average lost £1.07 per child per hour against the rates provided by local authorities. With a funding rate that has not kept pace with inflation and the National Living Wage in the time since, this loss is exacerbated.

The calculation of the increase in funding is not pegged to either of these measures, and instead a pre-determined base rate and regional variation based on the amount of children in the local authority receiving free-school meals, who have English as an additional language and those receiving Disability Living Allowance.

Although the increase in annual funding is much-needed growth upon the previous year's level, it is still loss-making for many YMCAs, and does not have the same level of pre-factored funding increases over the next several years mapped out in the way that has been done for younger age groups.

## Early Years Pupil Premium (EYPP)

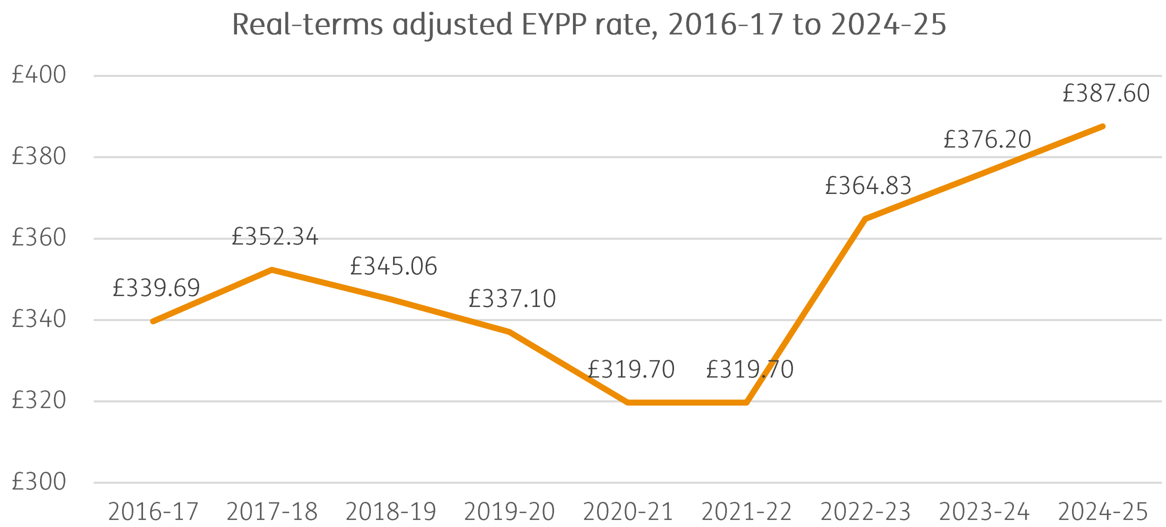
A further element of the funding providers can access is through the early years pupil premium (EYPP), a sum of money providers can receive to help with a child's education if their family receives income support, Universal Credit, has adopted the child, or there is a special guardianship or child arrangement order.

Previously, this was only available to 3 and 4-year-olds, but now the eligibility has been extended to those aged 2 and under also. This expansion is appropriate, given the fact that funded hours will likely attract more children from families on low incomes who could not previously afforded formal childcare.

The 2024-25 EYPP rate is the same across all age groups, with providers receiving £0.68 per hour for eligible children.  This equates to £387.60 per year. In 2020, 12% of 3 and 4-year-olds were in receipt of the EYPP. In 2022, this rose to 14%, representing 114,836 children.[32]

EYPP was held static at £0.53 an hour between 2016-17 and 2021-22, rising to £0.60 in 2022-23 and £0.66 in 2023-24. When adjusting these previous annual supplement rates to providers for inflation, the spending power providers had with the £0.53 rate fell.

[32] ibid, UK Government, 15 August 2023




It is encouraging to see that the period of frozen rates has ended, however YMCAs have expressed that the rates do little to finance the extra needs of children who are eligible for this funding. Often YMCAs prefer to utilise this funding for one-to-one support as this is more directly impactful than the purchasing of resources – not only because the amount of money would not purchase substantial physical items, but in terms of the development needs of these children. This is if the fund is accessed for a child from a disadvantaged background – which as a charitable provider, many YMCAs provide disproportionate numbers of children in these situations. Some parents do not want to go through the process of application as it is not clear what they are applying for, or there are concerns around sharing their data with the Department for Education. Providers are then less readily able to finance the dedicated care these children should receive.

It is often the case that decisions on how best to use EYPP funding will vary by setting, based on what the biggest issues in their area are and what would best benefit these children's development and ability to reach early years learning goals ahead of entering school. There is concern that Ofsted inspections will not view the use of this expenditure as appropriate: a YMCA setting explained how its use of the fund for screenings on communication and language for children with English as an additional language was seen as not in-line with the goal of the fund.

With such low extra capital to help nurture the development of disadvantaged children, the aim of what providers are expected to deliver with EYPP was seen as not realistic.

# Implementation at-pace: cracks in policy details

From the initial announcement of the expansion in funded hours in the Spring Budget of March 2023, a 13-month countdown was started for providers to welcome 2-year-olds through their doors, and one for 18 months before those aged 2 and under would be offered 15 funded hours.

Once again, it must be stated that the ambition in delivering this sizeable expansion represents the importance the early years sector provides to the productivity of the adult workforce, beyond its role of educating children in such a crucial stage of their development.

The funding rate, and income projections they will need for business planning, has been announced five months before the expansion goes live. YMCAs expressed three pain points in particular in Government policy as they now prepare their settings.

## Capital expansion grant

Alongside the announcement of the hourly funding rates for 2024-25, the Department for Education announced £80m in childcare capital expansion funding for local authorities in England.[33]

Childcare capital expansion grant – funding split by region

| Region | Funding amount | Percentage of overall fund |
|---|---|---|
| North East | £ 4,722,197.35 | 6% |
| North West | £ 14,690,780.31 | 18% |
| Yorkshire and the Humber | £ 10,116,104.10 | 13% |
| East Midlands | £ 9,355,159.85 | 12% |
| West Midlands | £ 9,590,900.52 | 12% |
| East Of England | £ 11,195,468.25 | 14% |
| London | £ 13,701,430.27 | 17% |
| *Inner London* | *£ 4,763,496.90* | *6%* |
| *Outer London* | *£ 8,937,933.37* | *11%* |
| South East | £ 16,442,528.36 | 21% |
| South West | £ 10,185,431.01 | 13% |

As part of this announcement, the Department provided guidance to local authorities on what they can spend funding on, and issues they should consider to achieve the best outcomes, as well as conditions of the grant payments. They will receive the funding in one instalment on 1 February 2024. DfE has advised that local authorities should be mindful of proportionate consultation with local parents,

[33] Department for Education, Childcare expansion capital grant funding, 30 November 2023

carers, young people and providers when developing their plans to ensure the funding goes towards projects that will meet the needs of children and families.[34]

YMCAs expressed that although this funding is welcomed, local authorities have not shared details on what funding will be available, to whom, and application processes. Given any capital expansion or refurbishment providers may have to do for their existing space, the turnaround to compete any physical work without disruption to provision is unlikely to be ready in time for families wanting to take up additional hours come April.

## Pass-through rate

The announcement of hourly rates for 2-and-unders was appreciated by YMCAs. What is yet to be announced is local authorities' provider hourly rates, in which the local authority rate is used as a starting point and at least 95% must be given to providers (the pass-through rate).

In order to set its pass-through rate, a local authority is required to consult with their providers and school forums to decide how the money will be spent.

Given the timeframe of the release of the funding amount and the consultation procedure, it may be the case that providers are not clear on the actual hourly rate they will receive from local providers until mid-January.

Although the differentials in what could be decided as rates may seem relatively small on hourly rates, when rounded out to an increased number of children per hour for 15 hours a week to be implemented in a matter of weeks, receiving less than 95% of the stated funding rate could have ramifications for a setting's budget planning. This is especially relevant in the case of 3 and 4-year-old rates, which already do not cover the increases in wages providers are mandated to implement from April 2024.

These timeframes are typical, in terms of announcement of funding rates in November for the following April, however given the shifts due in terms of amount of children coming in, knowing the precise income providers will receive as soon as possible is integral.

## Changes to Level 3 requirements

In terms of recruitment issues, for some time YMCAs have reported shortages in staff qualified as Level 3 early years practitioners. Anecdotally, this has been attributed to the requirement for English and Maths GCSEs at grade C or above for staff to work as Level 3 and be counted towards staff-to-children ratios.

[34] Department for Education, Childcare Expansion Capital Grant: Allocations Guidance, 30 November 2023

In October 2023, the Government announced in a consultation response to the Early Years Foundation Stage regulatory changes that it would remove the requirement for practitioners to have a Level 2 qualification (e.g., GCSE) in maths to count within the Level 3 staff:child ratios.[35]

This is a positive step in the sector's ability to create and retain a sustainable workforce, and is something YMCAs support.

Unfortunately, YMCAs have noticed that apprenticeship and training providers have not yet removed the Level 2 maths requirement from their prospectuses and literature.

At a time when settings are losing experienced staff, securing qualified staff into the workforce is integral for future-proofing. The removal of the maths requirement has come at a core time before providers require more staff to deliver expanded funded hours, however misinformation on qualification requirements risks putting prospective trainees off entering the sector.

[35] Department for Education, Early Years Foundation Stage (EYFS): Regulatory Changes – Government consultation response, 27 October 2023

# Recommendations

YMCA's vision is that every child and young person receives good-quality education which enables them to succeed throughout their life. The expansion of funded hours to incentivise more families to use childcare benefits is importantly not just to allow parents and family members delivering informal childcare to re-enter the workforce, but to provide children with the social and educational care to enhance their development.

- We welcome the higher hourly rate for two-year-olds and new rate for under 2s, which goes some way to address the real cost of delivering early years education to this age group. From this point, it is essential as take-up of these funded hours increases as parents return to work that these rates continue to rise at pace with inflation, average earnings, and the National Living Wage to ensure sustainable delivery of this service. This rate must be sustained into future years rather than stagnating after an initial capital injection.

- Although the 3 and 4-year-old funding rate has increased, it is not enough to cover the increased costs that providers will face in the coming year. We once again implore the pegging of this rate to measures such as inflation and earnings, as is done in welfare benefits.

- The Early Years Pupil Premium rate does not go far enough for providers to deliver the adequate additional support for children with additional needs and those from areas of high deprivation, so that they receive sufficient support to enter primary school with good attainment.

- Year-to-year protections for the EYNFF, EYPP and DAF will allow for providers to better plan their finances for coming years.

- The Government must increase funding to the further education sector so that providers have the staff and resources to equip young people with the training and skills they need to enter the early years workforce, and reform apprenticeships and the apprenticeship levy to reverse the decline in apprenticeship starts and finishes. Level 3 training providers must adjust their literature with urgency to remove the requirement for level 2 maths qualifications, as per the change in government regulation.

# Everyone should have a fair chance to discover who they are and what they can become.