

Appendix 8.1. Costing extensions of the free entitlement to ECEC

Our costings of various extensions of the free entitlement to ECEC required us to make assumptions about:

- the average hourly cost of provision for each age group in 2015–16, which requires us to make assumptions about both the current average hourly cost of provision for each age group and the annual growth rate in the real cost of provision;
- the take-up rate among children in each age group;
- the number of children of each age in 2015–16.

Cost of provision in 2015–16

Table 8A.1 shows our assumptions with respect to what the cost of providing an hour of childcare to a child aged 1, 2, 3 and 4 will be in 2015–16 (expressed in 2013–14 prices).

Table 8A.1. Assumed hourly cost of providing a free childcare place for a child aged 1, 2, 3 and 4 in 2015–16 (in 2013–14 prices)

	Assumed hourly cost of provision
1-year-olds	£5.57/£6.57 ^a
2-year-olds	£5.57
3-year-olds	£4.52
4-year-olds	£4.52

^a For 1-year-olds, the first number refers to the low-cost scenario and the second number refers to the high-cost scenario.

We relied on several sources, which we describe below, to find the most reliable estimates of the hourly cost of provision for different age groups in 2013–14. In order to estimate the real cost of provision in 2015–16, we assumed an annual rate of growth in the real cost of provision of 3.5% for children aged 2 and under and 4.62% for children aged 3 and over. These annual growth rates correspond to the average annual growth rate in the real cost of provision between 2008–09 and 2013–14, as reported by the Daycare Trust’s 2008 and 2013 Survey of Childcare Costs.

For 3- and 4-year olds, we assumed a cost of provision equal to the average hourly rate of funding provided by local authorities to providers, according to a National Audit Office report in 2012.¹ More precisely, these average hourly rates are calculated from total funding to local authorities (including base rates and supplements) for local authorities implementing the funding formulae in April 2010, divided by the total funded hours reported.

For 2-year-olds, we assumed a cost of provision equal to the Department for Education (DfE)’s assumed cost of provision in its Impact Assessment of extending the free

¹ National Audit Office, *Delivering the Free Entitlement to Education for Three- and Four-Year-Olds*, Report by the Comptroller and Auditor General, HC 1789, Session 2010–2012, 2012, <https://www.nao.org.uk/report/delivering-the-free-entitlement-to-education-for-three-and-four-year-olds/>.

entitlement to the 20% most deprived 2-year-olds.² This assumption is based on an average of the hourly rates paid in the 2-year-old pilot, of £4.85 outside London and £6.00 in London. Assuming an 80:20 split between outside London and London gives a weighted national rate of £5.08 per hour, and a unit cost of £2,896 for 570 hours per year (equivalent to 15 hours per week for 38 weeks). The DfE notes that it has carried out an internal delivery review of local authorities' implementation of the 2-year-old free early education policy, which has found that these funding levels were sufficient to meet the base costs of provision for 2-year-olds. It is important to note that these cost assumptions only reflect the cost of provision and therefore do not include any administrative costs linked to the implementation of the policy. In the Impact Assessment, DfE estimated that annual recurring administrative costs would amount to £18.5 million across 152 local authorities.

There is no government estimate for the cost of providing a free place to 1-year-olds. For this reason, we estimated the cost of extending the free entitlement to this age group under two assumptions. Our low-cost scenario assumes that the cost of provision is the same for 1- and 2-year-olds. Our high-cost scenario assumes that the cost of provision is £1 per hour higher for 1-year-olds than it is for 2-year-olds.

Take-up rates

We assumed that the take-up rate of 4-year-olds and 3-year-olds would remain equal to the current take-up rates, which are 98% and 94%. For 2-year-olds, we followed the Department for Education's central assumption of a 70% take-up rate in its Impact Assessment of extending the free entitlement to the 20% most deprived 2-year-olds. For 1-year-olds, we assumed that the take-up rate would be lower than for older children and equal to 60%.

When calculating the number of 4-year-old children who would benefit from the extension of the free entitlement, we assumed that the 63% of 4-year-olds who currently attend infant classes in primary schools for 25 hrs/wk, 38 wks/yr, would not switch to childcare as a result of the policy change. Therefore, we assumed that only the 34% of 4-year-olds who currently use their free entitlement at another type of childcare provider would be affected by an extension of the free entitlement to 20 or 25 hrs/wk, 38 wks/yr. When considering the cost of extending the free entitlement to 25 hrs/wk, 48 wks/yr, we assumed that the policy would affect both the 34% of 4-year-olds who currently take 15 hrs/wk, 38 wks/yr and the 63% of 4-year-olds who currently attend infant classes in primary schools for 25 hrs/wk, 38 wks/yr.

Finally, when the extension of the free entitlement would only extend to children of working parents, we have assumed that this would apply for 50% of 1-year-olds, 53% of 2-year-olds, 56% of 3-year-olds and 58% of 4-year-olds. These correspond to the fraction of children of ages 1, 2, 3 and 4, respectively, whose parents are in the labour force, as reported in the Labour Force Survey, April–June 2012.

² Department for Education, 'Impact assessment of two year olds' entitlement to early education: options for extended eligibility in the first phase of the entitlement', 2012, http://www.legislation.gov.uk/ukia/2012/392/pdfs/ukia_20120392_en.pdf.

Projected population in 2015–16

In order to estimate the number of children aged 1, 2, 3 and 4 in 2015–16, we used the Office for National Statistics (ONS) projections, which are reported in Table 8A.2.

Table 8A.2. Projected population of age 1, 2, 3 and 4 in England in 2015–16

	Projected population in 2015–16
1-year-olds	723,260
2-year-olds	683,303
3-year-olds	699,862
4-year-olds	687,760

Source: ONS projected population estimates for England.