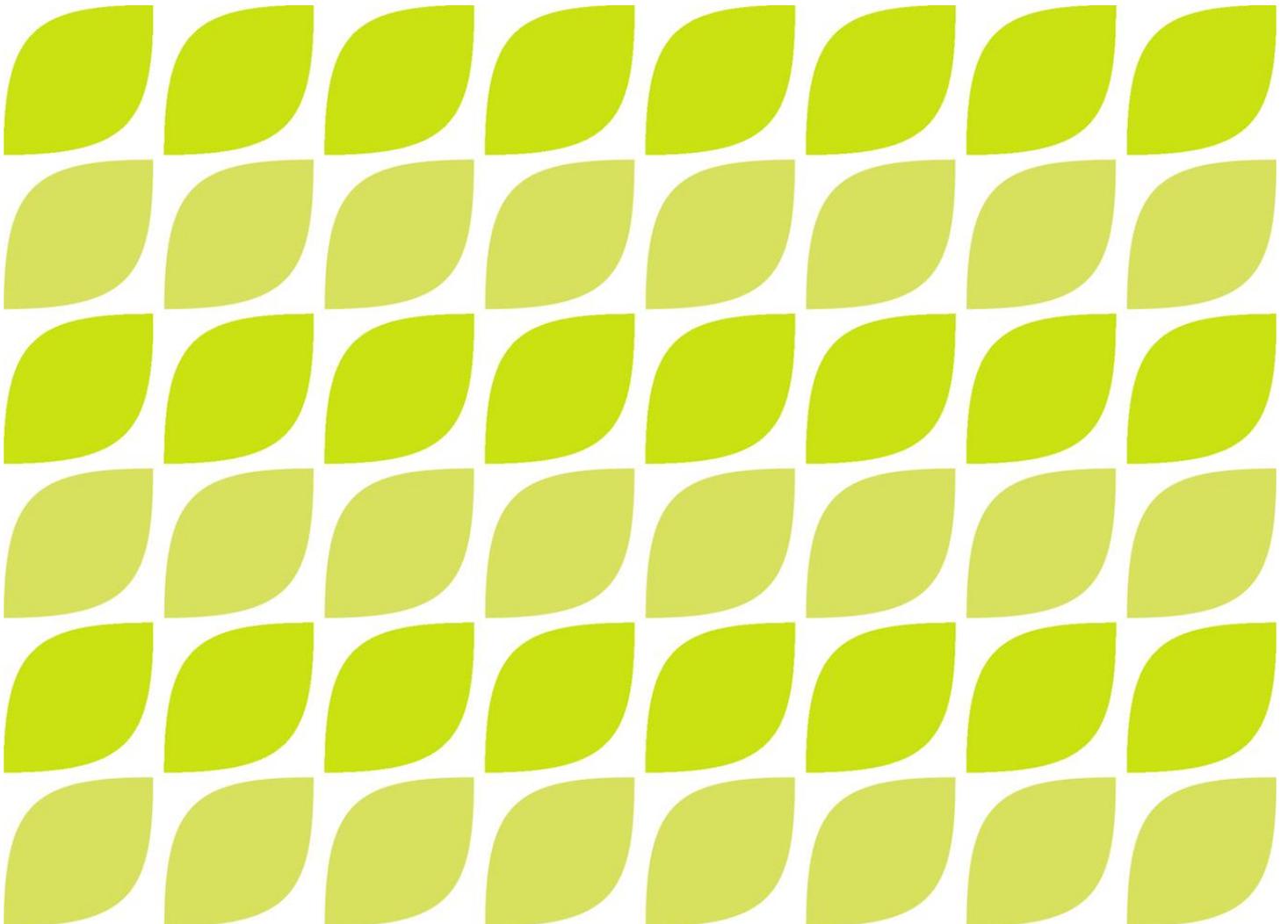




**Growth through
Knowledge**

Counting the Cost

The Impact of a National Living Wage
July 30th 2015





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1 INTRODUCTION

This paper provides an update on research conducted in 2014 into the cost of delivering funded childcare places in private voluntary and independent (PVI) non-domestic childcare settings in England.

Commissioned by the Pre-school Learning Alliance and delivered by Ceeda, the 'Counting the Cost' study:

- Tracked the service inputs of good and outstanding early years provision in England across children in a representative mix of settings
- Translated these inputs into a unit cost per hour per child for funded 2, 3 and 4 year olds
- Compared this evidence based data with current funding levels.

The study tracked costs for the delivery of 186,712 hours of early years education and childcare for 5,635 funded and non-funded children in 100 early years settings over the two week period June 23rd to 4th July 2014. For full details of project methodology please refer to the original research report.¹

Major policy developments and a government review of the cost of providing childcare in England have been announced since the publication of the study report in autumn 2014. This paper draws on original study data to provide further insight on delivery costs within this changing context.

2 IMPACT OF A NATIONAL LIVING WAGE

Following recent budget announcements the original dataset has been modelled to evaluate the impact of introducing a 'National Living Wage' for employees aged 25 plus years of £7.20 per hour in April 2016 rising to £9.00 per hour by April 2020.

It is likely that national living wage increases will stimulate wage inflation across the wider workforce in order to maintain salary differentials and retain younger staff. Scenarios have therefore been modelled with and without cross-sector pay rises in line with recent wage inflation reported for the service sector². Scenarios include:

¹ Ceeda (2014) Counting the Cost: An analysis of delivery costs for funded early years education and childcare.

² ONS (2015) UK Labour Market, July 2015. Table 17 Average Weekly Earnings - regular pay.



- 1) Estimated 2015-2016 delivery costs adjusted for October 2015 Minimum Wage rises (see table 2)
- 2) Estimated 2016-2017 delivery costs adjusted for National Living Wage of £7.20 for staff aged 25 plus (see table 3)
- 3) Estimated 2016-2017 delivery costs adjusted for *minimum 3% pay increase³ for all employees* or higher where statutory minimums require (see table 4).
- 4) Estimated 2020-2021 delivery costs adjusted for National Living Wage of £9.00 for staff aged 25 plus (see table 5)
- 5) Estimated 2020-2021 delivery costs adjusted for *minimum 3% pay increase for all employees* or higher where statutory minimums require (see table 6).

Please see the notes to tables below and the technical annex.

NOTES to tables

1. All figures are EXCLUSIVE of any profit margin.
2. All figures are EXCLUSIVE of unpaid overtime.
3. 'Graduate led' is defined as a setting employing a qualified Early Years Professional or Early Years Teacher.
4. Funding data: tables use the latest *published information* for providers participating in the study. Department for Education (2015) Early Years Benchmarking Tool: Delegated budgets allocated to PVI providers per pupil per hour 2014/2015. [Available here](#)
5. Base for cost data:
 - England funded 2 year olds all settings: 383 children in 73 non-domestic childcare settings
 - England funded 3 and 4 year olds all settings: 3,488 children in 100 non-domestic childcare settings
 - England funded 2 year olds in graduate led settings: 168 children in 34 non-domestic childcare settings
 - England funded 3 and 4 year olds in graduate led settings: 1,666 children in 45 non-domestic childcare settings
 - England funded 2 year olds in non-graduate led settings: 215 children in 39 non-domestic childcare settings
 - England funded 3 and 4 year olds in non-graduate led settings: 1,822 children in 55 non-domestic childcare settings

³ The 3% increase is applied to 2014 hourly pay rates reported in the 'Counting the Cost' study and is not compounded. Minimum wage or national living wage rates apply where higher.

**Table 1: Hourly pay in June 2014**

Workforce	% of workforce
Workforce aged 25 years plus	
Hourly rate less than £7.20	49%
Hourly rate less than £9.00	81%
Total workforce	
Hourly rate less than £7.20	57%
Hourly rate less than £9.00	83%

Hourly pay rate before deductions and excluding employment on-costs
 Base: 1,388 staff working in 100 non-domestic settings

Table 2: Estimated 2015-2016 delivery costs adjusted for October 2015 Minimum Wage in graduate and non-graduate led settings

Funded places	Average hourly delivery cost	Average delegated funding per hour 2014/15	Funding gap	Gap as % of average funding rate
All settings				
2 year olds	£6.00	£5.02	£-0.98	-20%
3 and 4 year olds	£4.55	£3.93	£-0.62	-16%
Graduate Led				
2 year olds	£6.24	£5.05	£-1.19	-24%
3 and 4 year olds	£4.62	£3.90	£-0.72	-18%
Non-graduate Led				
2 year olds	£5.81	£5.01	£-0.80	-16%
3 and 4 year olds	£4.49	£3.95	£-0.54	-14%

Inclusive of:
 Minimum wage increases October 2015
 2015/16 employer class 1 NI earnings thresholds
 2015/16 automatic enrolment earning thresholds
 Automatic enrolment employer contribution 1%
 No adjustment for inflation of non-labour costs
Exclusive of profit margin and unpaid overtime
 See also notes to tables p2 and annex p9



Table 3: Estimated 2016-2017 delivery costs in graduate and non-graduate led settings adjusted for National Living Wage of £7.20 for staff aged 25 plus only

Funded places	Average hourly delivery cost	Average delegated funding per hour 2014/2015	Funding gap	Gap as % of average funding rate
All settings				
2 year olds	£6.10	£5.02	-£1.08	-22%
3 and 4 year olds	£4.61	£3.93	-£0.68	-17%
Graduate Led				
2 year olds	£6.34	£5.05	-£1.29	-26%
3 and 4 year olds	£4.68	£3.90	-£0.78	-20%
Non-graduate Led				
2 year olds	£5.91	£5.01	-£0.90	-18%
3 and 4 year olds	£4.54	£3.95	-£0.59	-15%

Inclusive of:
 Minimum wage increases October 2015
 2016/17 estimated employer class 1 NI earnings thresholds
 2015/16 automatic enrolment earning thresholds
 Automatic enrolment employer contribution 1%
 National living wage of £7.20 for employees aged 25 plus from April 2016
 No adjustment for inflation of non-labour costs
Exclusive of profit margin and unpaid overtime
 See also notes to tables p2 and annex p9

Table 4: Estimated 2016-2017 delivery costs in graduate and non-graduate led settings with *minimum 3% pay increase for all employees⁴* or statutory minimum where higher

Funded places	Average hourly delivery cost	Average delegated funding per hour 2014/2015	Funding gap	Gap as % of average funding rate
All settings				
2 year olds	£6.19	£5.02	-£1.17	-23%
3 and 4 year olds	£4.68	£3.93	-£0.75	-19%
Graduate Led				
2 year olds	£6.43	£5.05	-£1.38	-27%
3 and 4 year olds	£4.75	£3.90	-£0.85	-22%
Non-graduate Led				
2 year olds	£6.00	£5.01	-£0.99	-20%
3 and 4 year olds	£4.62	£3.95	-£0.67	-17%

Inclusive of:
 Minimum wage increases October 2015
 2016/17 estimated employer Class 1 NI earnings thresholds
 2015/16 automatic enrolment earning thresholds
 Automatic enrolment employer contribution 1%
 National living wage of £7.20 for employees aged 25 plus from April 2016
 Minimum 3% pay increase for all employees or higher where statutory minimums require
 No adjustment for inflation of non-labour costs
Exclusive of profit margin and unpaid overtime
 See also notes to tables p2 and annex p9

⁴The 3% increase is applied to 2014 hourly pay rates reported in the 'Counting the Cost' study and is not compounded. Minimum wage or national living wage rates apply where higher.



Table 5: Estimated 2020-2021 delivery costs in graduate and non-graduate led settings adjusted for National Living Wage of £9.00 for staff aged 25 plus only

Funded places	Average hourly delivery cost	Average delegated funding per hour 2014/2015	Funding gap	Gap as % of average funding rate
All settings				
2 year olds	£6.84	£5.02	-£1.82	-36%
3 and 4 year olds	£5.09	£3.93	-£1.16	-30%
Graduate Led				
2 year olds	£7.15	£5.05	-£2.10	-42%
3 and 4 year olds	£5.20	£3.90	-£1.30	-33%
Non-graduate Led				
2 year olds	£6.59	£5.01	-£1.58	-32%
3 and 4 year olds	£5.00	£3.95	-£1.05	-27%

Inclusive of:
 Minimum wage increases October 2015
 2020/21 estimated employer Class 1 NI earnings thresholds
 2015/16 automatic enrolment earning thresholds
 Automatic enrolment employer contribution 3%
 National living wage of £9.00 for employees aged 25 plus from April 2016
 2% adjustment for inflation of non-labour costs
Exclusive of profit margin and unpaid overtime
 See also notes to tables p2 and annex p9

Table 6: Estimated 2020-2021 delivery costs in graduate and non-graduate led settings with *minimum 3% pay increase for all employees⁵* or statutory minimum where higher

Funded places	Average hourly delivery cost	Average delegated funding per hour 2014/2015	Funding gap	Gap as % of average funding rate
All settings				
2 year olds	£6.89	£5.02	-£1.87	-37%
3 and 4 year olds	£5.14	£3.93	-£1.21	-31%
Graduate Led				
2 year olds	£7.19	£5.05	-£2.14	-42%
3 and 4 year olds	£5.24	£3.90	-£1.34	-34%
Non-graduate Led				
2 year olds	£6.65	£5.01	-£1.64	-33%
3 and 4 year olds	£5.05	£3.95	-£1.10	-28%

Inclusive of:
 Minimum wage increases October 2015
 2020/21 estimated employer Class 1 NI earnings thresholds
 2015/16 automatic enrolment earning thresholds
 Automatic enrolment employer contribution 3%
 National living wage of £9.00 for employees aged 25 plus from April 2016
 Minimum 3% pay increase for all employees or higher where statutory minimums require
 2% adjustment for inflation of non-labour costs
Exclusive of profit margin and unpaid overtime
 See also notes to tables p2 and annex p9

⁵ The 3% increase is applied to 2014 hourly pay rates reported in the 'Counting the Cost' study and is not compounded. Minimum wage or national living wage rates apply where higher.



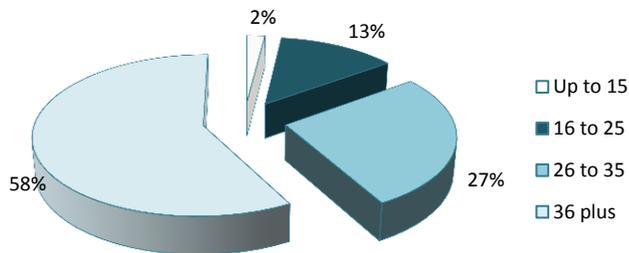
3 BACKGROUND ON GRADUATE LEADERSHIP

Over two fifths of settings (45%) employed a qualified Early Years Teacher or Early Years Professional.

The statistics in this paper reflect the deployment of EYP/EYTs in settings during the period studied; different patterns of deployment would impact on the hourly rates reported.

The contracted hours of EYP/EYTs are shown in figure 1 below.

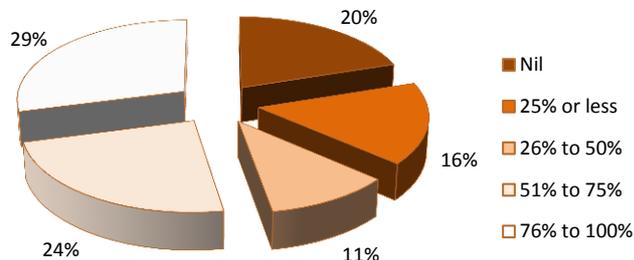
Figure 1: Contracted working hours of EYP/EYTs



Base: 55 EYP/EYTs in 45 settings

On average EYP/EYTs spent 49% of their time in ratios in direct contact with children across the two week study period; this varied significantly as shown in figure 2.

Figure 2: EYP/EYT % of contracted working hours in ratio



Base: 55 EYP/EYTs in 45 settings



TECHNICAL ANNEX

The original base data for estimates of free-entitlement delivery costs was collected in June 2014. It is necessary to adjust this data to reflect changes in taxation, pensions, minimum wage levels and prevailing economic conditions.

CPI inflation

On the basis of conclusions drawn in the recent Bank of England Inflation Report for May 2015 no adjustment has been made for CPI in 2016 delivery cost scenarios. Scenarios for 2020 make a cautious assumption of an increase in non-labour costs of 2.00%.

“Inflation is likely to remain close to zero in the very near term and could briefly turn negative. In the absence of further external shocks, the path of inflation further out will reflect domestic conditions.....the MPC’s best collective judgement is that inflation is as likely to be above as below the 2% target by early 2017, with the likelihood of inflation being above the target rising a little further into 2018.” (Bank of England Inflation report May 2015, PP: 41-42).

Average Weekly Earnings

Between March to May 2014 and March to May 2015 in nominal terms (that is, not adjusted for consumer price inflation) regular pay (excluding bonuses) for employees in the service sector in Great Britain increased by 3.0%.ONS (2015) UK Labour Market, July 2015. Table 17 Average Weekly Earnings - regular pay.

Tables 4 and 6 assume a minimum pay increase of 3% on the base 2014 data after minimum wage and national living wage uplifts are taken into account; that is, no employee receives a pay increase of less than 3% but may receive a higher uplift where dictated by statutory minimum wage levels. No further increases are factored for general wage inflation.

Minimum Wage Increases

From 1 October 2015:

- the adult rate will increase by 20 pence to £6.70 per hour
- the rate for 18 to 20 year olds will increase by 17 pence to £5.30 per hour
- the rate for 16 to 17 year olds will increase by 8 pence to £3.87 per hour
- the apprentice rate will increase by 57 pence to £3.30 per hour

All data tables are adjusted for October 2015 minimum wage increases.

National Living Wage

Cost scenarios are presented for the introduction of a National Living Wage for employees aged 25 plus of £7.20 from April 2016 and £9.00 from April 2020.

Auto-Enrolment

Tables assume auto enrolment is live across all providers.

The minimum employer contribution rate applicable after reaching the staging date is 1%, rising to 2% in October 2017 and to 3% from October 2018. Base data and scenarios presented for 2016 include employer contributions of 1%. Scenarios for 2020 assume employer contribution of 3%.

No adjustment has been made for future changes in the lower and upper level of gross earnings on which these contributions are calculated (currently £5,824 and £42,385).

Employer contributions are calculated for all employees with qualifying earnings.



Class 1 National Insurance Thresholds

All scenarios include employer Class 1 National Insurance contributions based on projected weekly thresholds (Secondary Threshold ST) for 2016/2017 and 2020/2021. Projections have been based on the average increase in thresholds per annum in the period April 2012 to April 2016: 2.71%. A contribution rate of 13.8% is assumed.

Disclaimer

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