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Public funding of early years education in England:

An historical perspective

by

Anne West and Philip Noden

September 2016

**Education Research Group
Department of Social Policy
London School of Economics and Political Science**

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Preface

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Table of Contents

EXECUTIVE SUMMARY	5
1 INTRODUCTION	9
2 HISTORICAL CONTEXT	11
3 THE BEGINNINGS OF A NATIONAL POLICY: NURSERY VOUCHERS	14
4 ENTITLEMENT TO FREE EARLY EDUCATION	15
5 CONCLUSION	20
ANNEX	22
REFERENCES	23

Executive Summary

This report provides an historical perspective on the public funding of early years education in England. This phase of education has had a high political profile in England since the late 1990s, when state intervention began in earnest with free part-time early education becoming an entitlement for four-year-old children. The entitlement could be taken in maintained nursery schools and classes in primary schools; in private and voluntary (non-profit) providers and in independent schools (PVI sector).

Historical context

The development of publicly-funded early years education and care in England over the past 100 years has been patchy with little overall planning. Historically, there has been a clear divide between nursery education and childcare. Following the 1918 Education Act local authorities could apply for grants to assist with funding nursery education if they wished to make such provision available. During World War II nursery education expanded as a result of the widespread employment of women.

Following the 1944 Education Act, local education authorities were to have ‘regard to’ the need to secure provision for children who had not attained the age of five years, by the provision of nursery schools or nursery classes in other schools.

There was much local variation in terms of provision. Thus, in 1965 the areas with the highest proportion of places were, in the main, industrial towns in the North of England with a high proportion of women in the labour market. The highest proportion of independent provision was found in the South of England where a large proportion of the population was middle class.

In 1972, the White Paper, Education, a Framework for Expansion, set out proposals for universal nursery education. Little progress was made because of the financial crisis in 1976. Subsequently, the 1980 Education Act clarified earlier legislation stating that a local education authority has the power – but no duty – to establish, maintain or assist nursery schools or schools with nursery classes.

As regards childcare, following World War II day nurseries (under the auspices of local authority social services departments) were to meet the needs of mothers who had to work and prioritised those in special need. Policy was not oriented towards providing childcare for working parents.

Nursery vouchers 1996

In 1996 a voucher scheme for four-year-olds was introduced in four local authorities in England. Parents of eligible children were able to exchange a voucher for a place offered by a provider in a maintained nursery school or a nursery class or reception class in a primary school, or in the PVI sector. The majority of this money came from a reduction in the funds allocated to local government through the government’s Revenue Support Grant. The value of the voucher was set at a flat rate of £1,100. The voucher took no account of the variation

in the cost of provision across the country or variations in local need (in contrast to the funding of education provided in maintained schools).

There was geographical variation in the proportion of four-year-olds in nursery schools and classes across England at this time. In 1995, only 4 per cent of children under five were in nursery schools, with high proportions in authorities in the North of England and parts of London. Nearly a quarter of children under five were in nursery classes, reaching around 50 per cent in some authorities in the North of England, parts of the Midlands and parts of London. Very low proportions of children were in nursery classes in certain areas, especially in the South of England.

Entitlement to free early education from 1997

The Labour Government (1997-2010) replaced the nursery voucher scheme with an entitlement to a free part-time nursery education place for all four-year-olds. A free place comprised a minimum of five two-and-a-half hour sessions a week (12.5 hours) for 33 weeks of the year. The offer increased progressively over time: it was extended to all three-year-olds; to 38 weeks; and under the Coalition government (2010-15) to 15 hours a week. From 2013 local authorities had a legal obligation to secure provision for the 20 per cent least advantaged two-year-olds and from 2014, the 40 per cent least advantaged.

Funding from central to local government from 1997

The funding mechanisms from *central to local government* changed during the Labour administrations (1997-2010). Initially there were different approaches for school-based and PVI providers. Free early education in maintained primary and nursery schools was funded by the government's Revenue Support Grant (specifically the Education Standard Spending Assessment (SSA), based on population, cost and additional educational needs) and local council tax. Local education authorities determined how the government funds, which were un-hypothecated, should be distributed, in accordance with various regulatory specifications.

As regards PVI provision, from autumn 1997, local authorities received funding from central government for four-year-olds attending PVI providers. The amount for the autumn 1997 and spring 1998 terms was set at £366 per term per four-year-old; this corresponded to the value of a termly voucher under the nursery education voucher scheme.

For 1998-99, funding for PVI providers which had previously been via nursery vouchers was distributed to local authorities via the Nursery Education Grant; this was paid to local authorities and allocated to providers on the basis of a termly headcount of the number of eligible four-year-olds educated at each eligible setting on a particular day. The grant rate for 1999-2000 was £1,130 per eligible child for five, two-and-a-half hour sessions over 33 weeks per year.

The Nursery Education Grant was paid to the local authority for three- and four-year-olds in PVI provision until 2000-01 and for three-year-olds until 2003-04. From 2003-04, it ceased to exist but was included in the Education Formula Spending Share (which replaced the Education SSA).

In 2006-07, funding for eligible under-fives, including the delivery of the free entitlement in both maintained and non-maintained sector providers was consolidated within a new, earmarked Dedicated Schools Grant.

From 2013-14, the new entitlement for disadvantaged two-year-olds was also funded via the Dedicated Schools Grant. In the same year, the grant was split into three notional blocks – schools, early years and for high needs. An Early Years Pupil Premium was also introduced in 2015 for three- and four-year-olds.

Funding by local authorities to providers from 1997

The allocation of funds by *local authorities to providers* has varied over time in line with statutory regulations and government guidance. For providers in the maintained sector (nursery schools and primary schools) funds were distributed by the local authority's funding formula drawn up in line with school finance regulations. The distribution of funds for PVI providers has varied markedly since 1998. When the Nursery Education Grant was in place, local authorities operated as 'paymasters' on behalf of the government. However, once this grant ended, each local authority was responsible for determining the rate at which PVI providers would be funded. Following the introduction of the Dedicated Schools Grant attempts were made to bring together the different funding mechanisms. Government sought to steer local authorities towards funding providers at the same rate.

However, the legislative framework for funding early years education varied. Maintained schools were funded via the local authority's school funding formula and local authorities could use pupil numbers or place funding for children under five at maintained schools. They were required to treat under-five pupils in maintained schools in the same way as over-five pupils: they attracted additional funding according to their special educational needs or additional educational need status. PVI providers were generally funded on the actual provision taken up, broken down into sessions.

In 2007, a government survey found that most local authorities had continued the funding practices they developed when funding was delivered through the Nursery Education Grant by uprating each year the amount per pupil delivered through that route. Many authorities had a single rate of funding for the whole PVI sector and did not differentiate between providers operating in different circumstances.

In the same year, it was announced that all authorities would be required to introduce a new funding formula to cover early years provision in both maintained and PVI settings, and this would incorporate a standardised transparent method for setting the basic unit of funding per pupil. The policy was implemented across England from 2011. Since then each local authority has been required to allocate funds to eligible providers – both maintained schools and private, voluntary and independent providers – on the basis of a locally developed Early Years Single Funding Formula.

Accounting for current variation in funding

There are various reasons why the funding of early years education differs across England. Many are a result of decisions made by central and local government in the past. The past decisions made by local councils and the priority given to this phase of education are important to bear in mind. In particular, more nursery education provision was developed by northern local authorities and certain urban conurbations than by others. Authorities in the South of England were less likely to develop nursery education; instead more private and voluntary provision developed.

Part of the explanation for the varied development of provision is that the 1944 Education Act did not make the provision of nursery education a duty so enabling local authorities to make their own decisions as to whether to provide nursery schools or nursery classes in primary schools. Moreover, until 2006, local authorities could choose how much to spend on education: they could spend more or less than central government deemed appropriate. Funding nominally allocated for three- and four-year-old children could also be spent on other phases of education. Furthermore, different local authorities received different allocations according to the population size, level of need and cost. The result was that some local authorities received and spent more on education for children under statutory school age than others.

With the introduction of the nursery education voucher in 1996 and the subsequent entitlement to a pre-school place for four-year-olds in 1998, funding was made available by the government – via local authorities – to providers in the PVI sector. Unlike funds for school-based education, the funding was at the same flat rate across the country. The initial amount also fell short of the average amount per place in a nursery class.

Whilst government exhorted local authorities to fund providers in the public and PVI sectors on a similar basis, notably when the Nursery Education Grant was abolished, local authorities tended to continue to fund PVI providers as they had done previously. This led to a desire by government to ‘create a level playing field’, which it did via the introduction of the Early Years Single Funding Formula.

1 Introduction

Early years education has had a high political and policy profile in England¹ since the late 1990s, when state intervention began in earnest with free part-time early years education becoming an entitlement for four-year-old children. Whilst in many European countries state intervention in pre-school provision is long standing and firmly established, state intervention in England was late. The high policy profile given to early years education and care arises from its potential to improve children's educational outcomes and facilitate maternal employment so reducing child poverty (Heckman, 2006; Lewis, 2009). One of the government's main aims from funding the free entitlement was to support children's development (Comptroller and Auditor General, 2012; Lewis and West, 2016).

The area is one of complexity, with pre-school education being inter-related with day care, as both provide care and learning experiences for children below compulsory school age.² According to the Childcare Act 2006 'childcare' means any form of care for a child including (a) education and (b) any other supervised activity. Pre-school providers for children under statutory school age are varied and comprise bodies in the public, private and voluntary (non-profit) sectors. They have different characteristics. In nursery schools, nursery classes and infant classes (part of primary schools), provision is restricted to term-time only. Although a full school day is offered in primary schools and some nursery schools, this is not generally the case with nursery classes. Nor is this the case with pre-school groups, where a morning or afternoon session is the norm. Full day care all the year round is offered in day nurseries so catering for the needs of working parents (particularly mothers); these are run by private and voluntary bodies and local authority social services departments (for children identified as being in need).

While such providers may historically have been viewed as providers of childcare, they are also able to provide government-funded free early education. In addition, childminders working in domestic or non-domestic premises can offer free early education. Providers in different sectors (public, private and voluntary) may also be part of children's centres (see Speight et al., 2010). Since 2015, almost all providers³ are inspected by Ofsted under a common inspection framework, the exception being some independent schools (Ofsted, 2015). Regulations regarding staffing differ as regards both qualifications and ratios, with qualified teachers being the norm in nursery schools and classes, in contrast to the private and voluntary sectors.

Recent research has explored early education and care in an international context where provision, funding and regulation differ; and at the national level where a focus has been on access, affordability and especially quality (e.g., Gambaro et al., 2014; Penn, 2011; Stewart and Gambaro, 2014; see also Hillman and Williams, 2015). A crucial strand of research has been on the relationship between different types of early years education and care and later outcomes. Blanden et al. (2016) found a limited impact of free early education for three-year-olds on educational outcomes at age five although this was not sustained to ages 7 and 11. In contrast, Sylva et al., (2014) found an enduring impact on educational attainment until the age of 16 with one of the most consistent findings being the

importance of the quality of early education. High quality providers were more likely to be maintained nursery schools, nursery classes and fully integrated centres rather than private, voluntary and independent (PVI) providers (Sylva et al., 1999). However, costs are higher for nursery schools than for nursery classes and private, voluntary and independent providers (Comptroller and Auditor General, 2012; Brind et al., 2012). Another strand of informative research has focused on policy evaluation and implementation (e.g., Gibb et al, 2011; Maisey et al., 2013). There is however a paucity of research explicitly focusing on the funding of free early education. At a national level this began with the announcement in 1995 of a nursery education voucher scheme which was introduced in 1996/97; this was abolished in 1998 and replaced with an entitlement to free part-time education (12.5 hours a week for 33 weeks a year) for all four-year-olds; this could be taken up in maintained nursery schools and nursery classes, or in the PVI sector. The entitlement was extended to three-year-olds in 2004, to 38 weeks a year in 2006, and increased to 15 hours a week in 2010 (House of Commons (HC) Children, Schools and Families (CSF) Committee, 2010). From 2013, the entitlement was extended to disadvantaged two-year-olds. Figure 1 provides a timeline of the main changes (see also Paull, 2014).

Figure 1 Policy development regarding public funding of early years education

Year	National policy development
1996	Nursery voucher (Phase 1 Pilot, 4 local authorities)
1997	Nursery voucher (Phase 2 England) April Abolished September
1998	Entitlement to free part-time education for 4-year-olds 12.5 hours a week, 33 weeks a year
2004	Entitlement extended to 3-year-olds
2006	Entitlement increased to 38 weeks
2009	Offer of 10-15 hours to most disadvantaged 2-year-olds
2010	Entitlement increased to 15 hours a week spread over 3-5 days
2012	Same entitlement spread over 2-5 days
2013	Entitlement extended to 20% most disadvantaged 2-year-olds (eligibility criteria specified)
2014	Entitlement extended to 40% most disadvantaged 2-year-olds
2015	Early years pupil premium introduced for 3- and 4- year-olds

Alongside these policy changes, participation of three- and four-year-olds in early years provision has increased (see Annex) and expenditure on under-fives has increased sharply in real terms since 1997⁴ and substantially (by almost 40%) between 2010–11 and 2014–15); this is the result of the entitlement to free early education for three- and four-year-olds increasing from 12.5 to 15 hours in September 2010 and the extension to disadvantaged two-year-olds from September 2013 (Sibieta, 2015).

This report seeks to address how government policy on the funding of free early education developed over time. It provides a ‘thick description’ (cf. Ryle, 1949) of the policies in place, provision and funding mechanisms employed. We draw on government policy documents, parliamentary debates, select committee reports, academic and other research, and other

relevant documentary material. The focus is on the period from 1996 onwards, but it is important to understand the policies in place prior to this point. The next section therefore provides a brief historical context. We then examine the nursery voucher scheme before focusing on the introduction of the entitlement to free early education in 1998 and the changes that have followed. The final section concludes and examines reasons for the variation regarding funding arrangements.

2 Historical context

Policy

Historically in England, there has been a clear divide between nursery education and childcare which each have different origins. The 1918 Education Act allowed local authorities to claim a 50 per cent grant from the government for nursery education if they wished to make such provision available. However, few local authorities took up this option, and by 1929 when a Labour government came into power there were only a small number of nursery schools in existence. Whilst a circular to local authorities asked them to expand nursery provision, economic factors prevented this. By the mid-1930s a decline in the birth rate gave rise to places in infant schools and local authorities were able to establish nursery classes. Nursery schools, however, were primarily concerned with the physical welfare of children as the prevailing view, as expounded in the Hadow Report of 1933 was that the best place for children under five was the home unless the physical environment was too unsuitable. During World War II there was the first major expansion of nursery education, necessary because of the widespread employment of women (Blackstone, 1974). The 1944 Education Act extended the notion of nursery education from public funds. Local education authorities were to have 'regard to' the need to secure provision for children who had not attained the age of five years, by the provision of nursery schools (catering for two- to five-year-olds) or the provision of nursery classes in other schools. They did not have a duty to secure such provision.

Due to the increasing birth rate in the 1950s, the expansion of nursery education was restricted and no authority was allowed to have more children in their schools under five years of age than there had been in 1956-57. As a result of these restrictions only around 10 per cent of three- and four-year-olds attended state nursery schools or classes in 1971. In some areas there was no provision at all and in a few areas about a third of three- and four-year-olds were receiving nursery education (Blackstone, 1974).

In 1972, the White Paper, Education, a Framework for Expansion (Department of Education and Science, 1972), set out proposals for universal nursery education. The main elements of this were to make places, free of charge, available for 90 per cent of four-year-olds and 50 per cent of three-year-olds. There was also the possibility for local authorities to develop playgroups and turn them into nursery classes. Margaret Thatcher, the then Secretary of State for Education and Science stated that 'within 10 years nursery education should become available without charge to children of three or four whose parents wished them to have it'; the main purpose was 'to enable children to learn and not to provide a day-care service' with the expectation being that authorities should give priority to the

needs of children who were from homes which were culturally or economically deprived, as they stood to gain the most from nursery education.⁵

It has been argued that one reason for this change in policy was tied in with public opinion. Indeed, the lack of nursery school places in the early 1960s led to a group of mothers setting up and running playgroups under the banner of the Pre-school Playgroups Association.⁶ By 1974, playgroups were catering for 13 per cent of three- and four-year-olds (Blackstone, 1974).⁷ A second reason was a growing concern about the failure of children from poor working class homes to achieve in the education system. A third factor was the slack in the system as a result of the declining birth rate in the 1960s and resulting space in schools and the greater availability of teachers. Little progress was made however as a result of the oil crisis and the International Monetary Fund bail-out in 1976 (Lewis, 2013a). Indeed, the 1980 Education Act clarified earlier legislation stating that a local education authority is not under any duty to make such provision but has the power to establish, maintain or assist nursery schools or schools with nursery classes.

Turning to early years care (childcare), following World War II access to day nurseries (under the auspices of local authority social services departments) was set 'mainly by the special needs of the mother, with a careful line drawn between mothers who were "constrained" ("had") to work and those who chose to work. For children between two and five, the circular seemed to assume that some nursery education would be available' (Lewis, 2013b: 253). A further circular issued in 1968 reiterated that priority for places in day nurseries was to be given to those in special need – be they mothers or children (Lewis, 2013b).

Policy was not oriented towards providing childcare for working parents. As late as 1980, the Secretary of State for Social Services, Sir George Young stated: 'In general, I do not accept that it is the State's job to provide day care to enable the parents of young children to go out to work'.⁸ Nonetheless, given the increasing participation of mothers of young children in the labour market, the government did acknowledge the need for an integrated approach to the provision for children under five years of age (Randall, 1996) and in 1980 an Interdepartmental Consultative Group on the under-fives was set up (Lewis, 2013a).

Provision

Given that the 1944 Education Act did not require local authorities to provide nursery education, there was much local variation in terms of provision. Blackstone (1970) reports on the distribution of maintained provision in January 1965 for two- to four-year-olds; the local government areas with the highest proportion of places were the boroughs of Leicester, Stoke, Wakefield, Burnley, Dewsbury, Oxford, Bolton, Rotherham and Manchester – industrial towns in the Midlands and North, except Oxford, with a high proportion of women in the labour market. Areas with the lowest proportion of places included the Isle of Wight, Leicestershire and Hampshire. The highest proportion of independent provision was found in southern England where a large proportion of the population was middle class.

As regards the provision of childcare services – local authority day nurseries, registered day nurseries, childminders and playgroups – Pinch (1987) found that there was an overall increase in provision between 1977 and 1983 but with considerable variation between different parts of the country. In particular, in some major urban areas controlled by Labour, there was an expansion, whilst in much of the rest of the country there was a decline in the state sector of preschool services with a growing dependency on the private and voluntary sectors. Subsequent analyses by Hoggart and Shrives (1991) found that between 1977 and 1988, there were political party effects: provision in Conservative areas was affected by local wealth differences, whilst in Labour areas it was more responsive to female employment.

Funding and expenditure

Funding arrangements for both early educational and social services provision for pre-school children has varied over time (Department for Communities and Local Government (DCLG), 2014). In 1945, nearly 80 per cent of central government funding for local services was in the form of specific grants; the remaining 20 per cent was an un-hypothecated grant with approximately equal amounts from local government grants and local rates. In 1966 the Rate Support Grant⁹ was introduced. Expenditure on the education for under-fives (in nursery schools, nursery classes and other classes in primary schools) increased over time in cash terms from £108 million in 1975-76 to £561 million in 1989-90¹⁰ (see also Belfield and Sibieta, 2016). Expenditure on day nurseries and local authority playgroups was via local authority social services departments and government grants to the voluntary sector. Expenditure increased every year in cash terms between 1975-76 and 1987-88 from £26.4 million to £117.7 million, with the vast majority of funds being spent on local authority day nurseries. However, these figures do not include any grants made by health authorities or local authorities for which no information was available centrally.¹¹

In 1990 the Revenue Support Grant replaced the Rate Support Grant (DCLG, 2014) and Standard Spending Assessments (SSAs)¹² were introduced; domestic rates were also abolished and community charge (poll tax) introduced (this was replaced by council tax in 1993). Funding for early years education was via the Under Fives element of the Education SSA. It was calculated on the basis of the population of under-fives in an authority with adjustments for additional educational needs¹³ and area cost adjustment (Department of the Environment, 1990). It is important to stress that this was not based on provision for under-fives, as observed in a debate in the House of Commons:

In Lancashire, in 1992-93, 21,172 under-fives were provided for in terms of nursery education. Its SSA allowance for that is £22.9 million. In Hampshire, 13,207 under-fives are provided for, and the SSA is £22.7 million, almost the same amount as for Lancashire. In Kent, about half as many – 11,100 – under-fives are provided for. The SSA for Kent is £22.1 million – very little less than Lancashire's. In Essex, 12,900 under-fives are provided for, and the SSA is £21.63 million. If we take Lancashire's SSA per pupil as £100, we see that Hampshire has £159, Kent £184, and Essex £155. Incidentally, West Sussex would have £230 on the same basis.¹⁴

3 The beginnings of a national policy: nursery vouchers

Policy and funding

The desirability of providing state-funded nursery education was examined by the Department of Education and Science in 1984-5 and by 1989 the government aimed to provide a nursery place for all parents who wanted it (National Archives, 2014). In October 1994, the then Prime Minister, John Major, made a commitment to extend 'pre-school education' to all four-year-olds whose parents wished to take up the offer. In July 1995, a voucher scheme for four-year-olds was announced and introduced following the 1996 Nursery Education and Grant Maintained Schools Act. The scheme was introduced in two phases. Phase 1 was introduced in April 1996 in four local authorities in England. It was extended to all LEAs (Phase 2) in April 1997, just prior to the May 1997 general election (see Gillie and Allen, 1996). It has been claimed that the nursery voucher scheme was 'probably this country's first attempt at a universal early years education system'.¹⁵ However, it did not guarantee a place to every child.

In Phase 1, parents of eligible children were invited to apply for vouchers (from the private sector agency Capita). Parents were then able to exchange a voucher for a place offered by a validated provider in the maintained sector – a nursery school or a nursery class or reception class in a primary school – or in the private, voluntary or independent (PVI) sector. Those parents exchanging their vouchers in the private and voluntary sectors were able to 'top up' the voucher from their own resources if higher fees were charged or a full-time place was required, while in the maintained sector this 'topping up' function was undertaken by the local authority (Sparkes and West, 1998).

It was envisaged that approximately £730 million a year would be spent on the nursery voucher scheme in England when it was fully implemented. The majority of this money was to come from local authorities by means of a reduction in the funds allocated to local government via the Revenue Support Grant. This was expected to amount to around £565 million a year, which was equivalent to about half of English local authority expenditure on under-fives education at that time. Each local authority's share of the reduction was calculated in proportion to the numbers of 4-year-olds in the authority's provision.¹⁶ A sum of £1,100 was deducted from the authority for each 4-year old, based on an average number of 4-year-olds in local-authority provision each term of the 1994/95 academic year. Finance from this source was used to fund the scheme together with new money, amounting to £165 million a year reflecting the estimated 150,000 4-year-olds who were not in any state provision and £20 million for administration and inspection (Sparkes and West, 1998).

The value of the voucher was set at £1,100 on basis of work carried out by the former Audit Commission, which indicated that this was above the value of a playgroup place, in the upper quartile of the cost of a nursery class place, and in the lower quartile of the cost of a full-time reception class. The amount was 'somewhere between the cost of a nursery class place and the cost of a reception class place and also was not too far away from the costs of places in the private sector' (HC Education and Employment Committee, 1997, para. 28). However, it is rather puzzling to note that in 1993-94, according to administrative data, a

part-time place in a nursery class was estimated to be an average of £1,330¹⁷ – considerably higher than the value of the nursery voucher.

A flat-rate voucher was controversial as no account was taken of the variation in the cost of provision across the country and variations in local need in contrast to the funding of nursery education provided in schools (see section 2);¹⁸ interestingly, DfEE officials were reported to be looking into the possibility of introducing regional variation in the value of the voucher based on the evidence from Phase 1 (HC Education and Employment Committee, 1997).

Provision

In January 1994, just prior to the introduction of the nursery voucher scheme, 77 per cent of four-year-olds were estimated to have attended a maintained sector school full-time or part-time, before reaching compulsory school age. Of this 77 per cent, 26 per cent were in nursery schools or classes and 51 per cent were in primary school reception classes. Of the remainder it was estimated that around 19 per cent of four-year-olds were in some form of private or voluntary provision leaving approximately 4 per cent of four-year-olds with no preschool place at all (Gillie and Allen, 1996).

There was very substantial geographical variation in the proportion of four-year-olds in nursery schools and classes across England. In January 1995, only 4 per cent of children under five were in nursery schools: the highest proportions were in Durham (17%), Salford (16%), Hammersmith and Fulham (15%), Rochdale (14%), Tower Hamlets (13%), Wolverhampton (12%), Sunderland (12%). In several authorities there were no children in nursery schools (e.g., Bexley, Bromley, Enfield, Doncaster, Somerset, Wiltshire, Gloucestershire). More children under five were in nursery classes – 23 per cent across the country. High proportions were in Cleveland (59%), Sandwell (53%), North Tyneside (51%), Nottinghamshire (48%), Hillingdon (47%) and Tower Hamlets (46%). Very low proportions were in Gloucestershire (less than 0.05%), Bromley (2%), Hampshire (4%) and Wiltshire (4%).¹⁹

4 Entitlement to free early education

Policy

The Labour Government, which was elected into office in May 1997 was committed to ending the nursery voucher scheme and did so in September 1997. The policy was replaced with an entitlement to pre-school education: all four-year-olds became entitled to a free part-time nursery education place for the three terms before they reached compulsory school age (the term after they reach five years of age). A free place consisted of a minimum of five two-and-a-half hour sessions a week (12.5 hours) for 33 weeks of the year. It is important to stress that whilst parents did not pay for the free place, if the child attended a provider that normally charges fees, 'the fees charged should be reduced accordingly so that the basic entitlement is free at the point of delivery' (DfES, 2004, p. 16). However, parents were 'expected to pay for any care received which exceeds the free entitlement' (DfES, 2004, p. 14).

From April 2004, the entitlement was extended to all three-year-olds. And from April 2006, the minimum free entitlement for three- and four-year-olds of 12.5 hours a week was extended from 33 to 38 weeks. From September 2009, all local authorities were required to extend the offer of free early education to 15 per cent of their most disadvantaged two-year-olds (DCSF, 2009a). The offer for the 25 per cent most disadvantaged three- and four-year-olds also increased from 12.5 to 15 hours; this was to be delivered over a minimum of three days (Clarke et al., 2009).

Under the Coalition government (2010-15), there was continuity as regards funding policy. From September 2010, the entitlement for all three- and four-year-olds was extended to 15 hours. In 2011, the government confirmed that it would invest a further £380 million a year by 2014-15 to extend its new offer of 15 hours of free education and care a week for disadvantaged two-year-olds, to cover an extra 130,000 children (HM Treasury, 2011). From 2013 local authorities had a legal obligation to secure provision for the 20 per cent least advantaged two-year-olds and from 2014, the 40 per cent least advantaged.

Funding from central to local government

The funding mechanisms changed between 1997 and 2010. Initially there were different approaches for school-based education and PVIs. Free early education in maintained primary and nursery schools continued to be funded via the central government's Revenue Support Grant (specifically the Under Fives Block of the Education Standard Spending Assessment (SSA)). Local education authorities determined how the SSA, which was un-hypothecated, should be distributed in accordance with various regulatory specifications. The formula used to distribute funding for under-fives in school-based education changed from 1998-99. Prior to 1998-99, funding had been distributed on the basis of the population of under-fives living within an authority. However, from 1998-99, 65 per cent of funding for under-fives was distributed on the basis of four-year-old pupil numbers educated in an authority, with the remainder distributed on the basis of the population of under-fives living within an authority. This meant that local authorities with more nursery education provision benefited to a greater extent than those with less (or none). An allowance for sparsity was also introduced into the under-fives formula that year.²⁰

As regards PVI provision, from autumn 1997, local authorities received funding for four-year-olds attending PVI providers. The amount for the autumn 1997 and spring 1998 terms was set at £366 per term per four-year-old; this corresponded to the value of a termly voucher under the nursery education voucher scheme.²¹ For 1998-99, funding for PVI providers which had previously been funded by nursery vouchers was distributed to local authorities via the Nursery Education Grant; this was paid to local authorities and allocated to providers on the basis of a termly headcount of the number of eligible four-year-olds educated at each eligible setting on a particular day.²² Every child was eligible for this grant for three terms before he or she reached compulsory school age, irrespective of the age at which he or she was admitted to school. The grant rate for 1999-2000 was £1,130 per eligible child for five, two-and-a-half hour sessions over 33 weeks per year. The Nursery Education Grant was paid to the local authority for three- and four-year-olds in PVI provision until 2000-01. In 2001-02 a flat rate factor was introduced into the Education SSA for four-year-olds; the Nursery Education Grant for this age group therefore ceased.

From 2003–04, SSAs were replaced by Formula Spending Shares. The Nursery Education Grant for three-year-olds was at this point transferred into the Education Formula Spending Share (EFSS); there were no longer flat rate allocations as there had previously been with the Nursery Education Grant. Ministers agreed that in order to help smooth the transfer of the Nursery Education Grant into the EFSS, the funding per pupil in 2003-04 for all authorities should allow them to continue to fund settings for children under five at the same level in real terms as in 2002-03. This was to ensure that authorities with low levels of deprivation did not lose out in nursery education funding, and that all local authorities were adequately resourced to achieve universal provision for three-year-olds. In short, from 2003-04 the specific Nursery Education Grant ceased to exist in its entirety but formed part of the overall Schools Block with all funding for free early education being allocated to local authorities via the Education Formula Spending Share (DfES, 2004); it thus competed with other areas within the Schools Block with regard to funding allocations (London Borough of Hounslow, nd).

From 2006–07, funding for schools was transferred to local authorities via a new ring-fenced Dedicated Schools Grant (DSG) instead of via the EFSS.²³ According to the DfES this provided ‘greater certainty about education funding, including the free entitlement by removing it from the local government finance system and paying it direct to local authorities as a grant’ (DfES, 2006a, p. 22). The DSG was based on a ‘guaranteed unit of funding multiplied by the pupil numbers in the January counts for each authority’. The initial level for pupils in each local authority was based on what each local authority planned to spend in 2005-06. In short, from 1 April 2006, funding for eligible under-fives, including the delivery of the free entitlement in both maintained and non-maintained sector providers was consolidated within the new DSG.

The DSG continued under the Coalition Government. In 2012-13, the national schools budget was protected at ‘cash flat’ per pupil, meaning that every local authority received the same per pupil amount of school grant as in 2011-12. However, school budgets are set by local authorities using local formulae – meaning that in some local areas some schools can receive increases and some decreases; to protect them, the government retained a Minimum Funding Guarantee (first introduced in 2004-05) to ensure that no school²⁴ received a reduction of budget of more than 1.5 per cent per pupil in 2012-13 budgets compared with 2011-12 (this protection did not apply to PVI providers).

From 2013-14, the DSG was split into three notional blocks – 80 per cent for schools, 6 per cent for early years and 13 per cent for high needs. These totals were derived from adjusted notional blocks for 2012-13. An additional £0.6bn was added to DSG to pay for free early education for disadvantaged two-year-olds. Local authorities, in consultation with their schools forum could divide their total DSG across the different DSG blocks (early years, schools, high needs) as they saw fit (Jarrett, 2013). This meant that they could spend money from the schools or high needs blocks on early years, or from the early years block on schools or high needs as they saw fit. An Early Years Pupil Premium was also introduced in 2015 for three- and four-year-olds.²⁵

Funding by local authorities to providers

The allocation of funds by local authorities to providers has varied over time in line with statutory regulations and government guidance. For providers in the maintained sector (nursery schools and primary schools) funds were distributed by the local authority's funding formula drawn up in line with school finance regulations.

The distribution of funds for PVI providers has varied markedly since 1998. When the Nursery Education Grant was in operation, all providers included as part of a local authority's Early Years Development and Childcare Plan, were entitled to submit claims for payments via their local authority (West, 2006). The grant rate for 1999-2000 was £1,130 per eligible four-year-old for five, two-and-a-half hour sessions over 33 weeks per year. Local authorities at this stage operated as 'paymasters on behalf of the Secretary of State' (Bertram and Pascal, 1999, p. 79).

With the advent of Education Formula Funding Share the local authority distributed funds for free places based on the number of eligible children (three- and four-year-olds) attending the particular setting (DfES, 2004). Each local authority was responsible for determining the rate at which PVI providers would be funded, taking into account social need and in the light of local circumstances. Guidance issued in 2004, stated that local authorities—in consultation with their schools forums—were responsible for deciding how best to apply their total school and early years funding across all age groups and between different types of provider, based on an assessment of local circumstances (DfES, 2004).

Even though the central government to local government funding mechanism changed in 2004-05 research found that approximate amount redistributed to parents taking up free nursery education places in the private or voluntary sector stood at around £420 per term, or £1,260 per year (Brewer et al., 2005; see also West, 2006). For the following year the amount for a sample of London authorities was between £1,248 and £1,308 per year (London Borough of Hounslow, nd).

From 2006, when the DSG was introduced, all three- and four-year-olds in each local authority area were funded by government at the same rate, regardless of the setting they attended, and attempts were made to bring together the different funding mechanisms. As noted in the Code of Practice on the Provision of Free Nursery Education Places (DfES, 2006a, italics ours):

With effect from 1 April 2006...the minimum free entitlement for three- and four-year-olds of 12.5 hours a week will be extended from 33 to 38 weeks. The aim is to create a level playing field for maintained and non-maintained providers by ensuring that parents receive the same basic offer regardless of the setting their child attends. *It will address the long-standing anomaly whereby children attending maintained settings typically received a funded place equating to 38 weeks a year, while those attending settings in the private voluntary and independent sector (PVI) received only 33 weeks* (p. 16).

Local authorities receive sufficient funding to enable them to provide free early education for three- and four-year-olds through the Dedicated Schools Grant. This ensures that children are funded at the same basic rate (with top ups for deprivation and other local factors) regardless of whether their parents choose to take up their free entitlement in the maintained or non-maintained sector. Local funding arrangements should be transparent and equitable. *As far as practicable, local authorities should ensure that all providers delivering the free entitlement are funded on a consistent basis...*Local authorities, after consultation with local partners, are responsible for determining the rate at which providers will be funded, taking into account local circumstances (p. 42).

The Code sought to steer local authorities towards funding providers at the same rate:

It is a matter for individual local authorities to determine the rate at which they will fund PVI providers to deliver the free entitlement. However, *given that all under-fives in an authority area are funded from the centre at the same rate, local authorities should, in the Secretary of State's view, adopt a similar principle at local level.* At the very least they should be able to demonstrate to providers and parents that local provision is funded equitably, taking due account of local needs and circumstances' (DfES, 2006, p. 23)

In funding early education in maintained settings via the school funding formula, local authorities were able to use pupil numbers or place funding for children under five at maintained nursery or primary schools; where a local authority had three points of admission (autumn, spring and summer) they could also adjust the January pupil numbers to reflect the additional pupils admitted for the summer term (DfES, 2007). The DfES carried out a survey of 46 local authorities and found that 24 funded maintained settings on the basis of numbers of children at the time of the January pupil count; 12 funded on the basis of places; and 6 used a combination of places and pupil numbers. PVIs were usually funded on the actual provision taken up, broken down into sessions.

Local authorities at this time were required to treat under-five pupils in maintained schools in the same way as over-five pupils so far as the rest of the local authority school funding formula was concerned: they attracted additional funding according to their special educational needs or additional educational need status; and they were taken into account for other factors based on pupil numbers – for example school 'lump sums'. There was however, no requirement for a governing body to spend all the funding allocated on the basis of pupils in a specific year group or phase on those pupils (DfES, 2007).

Funding for non-maintained settings fell into each authority's central expenditure. The DfES (2007) found that most local authorities had continued the funding practices they developed when funding was delivered through the Nursery Education Grant by uprating each year the amount per pupil delivered through that route. Many authorities had a single rate of funding for the whole PVI sector and did not differentiate between providers operating in different circumstances (e.g., those serving areas of high social deprivation).²⁶

In 2007, Jim Knight the Schools Minister announced that ‘from 2010-11, all authorities will be required to introduce a new funding formula to cover early years provision in both maintained and PVI settings, and this will incorporate a standardised transparent method for setting the basic unit of funding per pupil’.²⁷ The following year guidance regarding the new Early Years Single Funding Formula (EYSFF) was published (Department for Children, Schools and Families (DCSF), 2008). In short, the EYSFF was to be a standardised method for setting the level of funding for early years education at different settings (HC CSF Committee, 2010) (see Noden and West, 2016). The policy was implemented across England from 2011. Since then each local authority has been required to allocate funds for to eligible providers – both maintained schools and private, voluntary and independent providers – on the basis of a locally developed EYSFF (DCSF, 2010). From 2013-14, allocations made through EYSFF were also excluded from the Minimum Funding Guarantee (Jarrett, 2013).²⁸

5 Conclusion

There are various reasons why the funding of early years education differs across England, but many of these are historically based and a result of decisions made by central and local government in the past. In this final section, we first consider the development of provision and then review how the historical funding arrangements and local decision making have contributed to the variation in expenditure.

It is important to stress that the development of publicly-funded early years education and care over the past 100 years has been patchy with little overall planning; some provision has been part of the education system (e.g., nursery schools, nursery classes) and some under the overall remit of social services (e.g., local authority day nurseries, play groups, childminders).

Nursery education (in nursery schools and classes) in England is characterised by geographical variation with high levels of provision in some areas and very little in others. The past decisions made by local councils and the priority given to this phase of education are fundamental to understanding the current context. In short, more nursery education provision was developed by northern local authorities and certain urban conurbations than by other local authorities. Shire authorities in the South of England were less likely to develop nursery education; instead more private and voluntary provision developed.

One of the key reasons for this difference can be related to high levels of female employment in those areas where provision is greatest. Interestingly, whilst responsibility for children’s care has typically been seen as being a private matter for parents to fund and to make choices nursery education provision – which is also a form of childcare – in some parts of the country was not seen as a private matter. Part of the explanation for the varied development of provision is that the 1944 Education Act did not make the provision of nursery education a duty so enabling local authorities to make their own decisions as to whether to provide nursery schools or classes in primary schools.

This in turn is related to local government funding arrangements. Until 2006, local authorities could choose how much to spend on education: although the majority of funding emanated from central government (see West, 2009), it was not earmarked for different services. Thus, local authorities could spend more or less than central government deemed appropriate (West et al., 2000). Likewise within the government allocation for education, funding nominally allocated for three- and four-year-old children could be spent on the education of other children. Decisions were related to political control, to the priority accorded to education and to early education in particular. In short, choices made at the local authority level to prioritise – or not – nursery education are crucially important to understanding the current context. It is also important to stress that different local authorities received different allocations for different service areas according to, for example, the population, level of need and cost. The result was that some local authorities received and spent more on education than others. The provision of childcare – as opposed to education – was also a local government responsibility and again there were differences across the country as regards provision of public day nurseries. Significantly local authorities also provided grant aid to a range of voluntary organisations to provide childcare.

Whilst there was a stated political will to expand nursery education in the 1970s, funding constraints prevented this. The crucial point of change came with the introduction of the nursery education voucher in 1996 and the subsequent entitlement to a pre-school place for four-year-olds in 1998. Funding was made available by the government to providers in the PVI sector (via local authorities) to meet the stated policy objectives. However, unlike funds for school-based education, the funding was at the same flat rate across the country. Moreover, the initial amount, determined by the Audit Commission, fell short of the average amount per place in a nursery class. Thus, by definition, for some local authorities, the funds available via the nursery voucher and the subsequent entitlement to free early education would have been similar to that spent on nursery classes, for some it would be less and for some it would be more.

Whilst government exhorted local authorities to fund providers in the public and PVI sectors on a similar basis, notably when the Nursery Education Grant was abolished, local authorities tended to continue to fund PVI providers as they had done previously. This led to a desire by government to ‘create a level playing field’. This it did via the introduction of the Early Years Single Funding Formula.

Annex

Table A1 Percentage of 3-year-olds benefiting from funded early years education places by type of provider

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Priv & vol	31	46	51	54	55	55	52	53	52	53	54	55	56	57	57
Ind	2	3	3	3	3	3	3	3	3	2	2	2	2	2	2
NSch/Class	37	37	38	38	38	37	37	36	36	36	36	35	34	33	33
% of Pop*	71	87	93	96	96	96	92	92	92	92	93	93	93	93	93

Table A2 Percentage of 4-year-olds benefiting from funded early education places by type of provider

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Priv & vol	15	14	15	15	17	17	17	17	17	16	17	17	17	17	17	18	18	18
Ind	5	3	3	4	4	4	4	4	4	3	3	3	3	3	2	2	2	2
NSch/Cl	23	22	n/a	20	19	18	18	18	18	17	17	16	16	16	15	15	15	14
Infant Cl	57	57		60	61	62	62	61	61	61	61	62	61	61	62	61	61	61
% of Pop*	100	98	98	98	101	101	101	100	100	98	98	98	96	97	98	98	97	97

Source: DfES (2002, 2006b) DfE (2010, 2016)

Notes: Percentages do not always add up to total (due to other providers and rounding).

Data prior to 2008 not comparable for PVI providers (local authorities recorded the number of children benefiting from some free early education as part of the provider-level EYC data collection. This meant that any children attending more than one private, voluntary or independent provider were counted more than once, at each provider they attended.)

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Endnotes

¹ The focus in this report is on England (see West (2015) for an overview of policy and provision in the rest of the UK).

² This is the term after the child's fifth birthday. Since 2014, admission authorities must provide for the admission of all children in the September following their fourth birthday (DfE, 2014).

³ Early years provision in school-based education is given a separate Ofsted grade.

⁴ For data see DCSF (2009b); HM Treasury (2014, 2015). Stewart and Obolenskaya (2015) report a reduction in expenditure between 2010-11 and 2012-13, but government data were subsequently revised.

⁵ HC Speech 19 February Feb 1973.

<http://www.margaretthatcher.org/document/102256>

⁶ Playgroups were typically open for two or three sessions a week, each lasting up to three hours (Finch, 1984).

⁷ Blackstone (1970) found a high correlation between high social class and high provision by parents' groups, particularly in the counties.

⁸ HC Deb 03 June 1980 vol 985 cc1238-9.

<http://hansard.millbanksystems.com/commons/1980/jun/03/day-nurseries>

⁹ Central government grant distribution favoured London over time – 13.3 per cent of needs/resources element went to London in 1975-76; in 1982-83 it was 16.9 per cent (Howson, 1982; see also Department of the Environment, 1975).

¹⁰ HC Written answer 5 March 1990 vol 168 cc 397-8W.

http://hansard.millbanksystems.com/written_answers/1990/mar/05/nursery-education

¹¹ HC Written Answer, 5th March 1990 vol 168 cc429-30W.

http://hansard.millbanksystems.com/written_answers/1990/mar/05/under-fives-provision#column_429w

¹² The Standard Spending Assessment (SSA) was a mechanism for distributing resources between local education authorities. The SSA figures represented the level of spending which the Government considered appropriate for authorities to spend on education in order to provide a standard level of service, and were not cash amounts. Authorities were free to budget and spend at, above, or below this level. The SSA took account of the population, social structure and other characteristics of each authority (DfEE and Ofsted, 2001).

¹³ This comprised the proportion of children aged under 18 in private households that contain a lone-parent family; the proportion of dependent children of claimants receiving supplementary benefit or income support; the proportion of children aged under 18 in private households, who were born outside the UK, Ireland, the US or Old Commonwealth, or whose head of the household was born outside these areas.

¹⁴ HC Deb. 2 March 1993, col 387.

<http://www.publications.parliament.uk/pa/cm199293/cmhansrd/1993-02-03/Debate-6.html>

¹⁵ HC deb 25 June 1997 col 788.

<http://www.publications.parliament.uk/pa/cm199798/cmhansrd/vo970625/debtext/70625-08.htm>

¹⁶ The additional amount available for Phase 1 in 1996/97 was £21 million.

HC Deb. 4 Dec 1995 col 120.

<http://www.publications.parliament.uk/pa/cm199596/cmhansrd/vo951204/text/51204w30.htm#51204w30.html>

¹⁷ HC Deb. 17 Oct 1995 col 237.

<http://www.publications.parliament.uk/pa/cm199495/cmhansrd/1995-10-17/Writtens-5.html>

¹⁸ See also West (2009).

¹⁹ HC Written Answer 19 December 1995 col 1025-27.

<http://www.publications.parliament.uk/pa/cm199596/cmhansrd/vo951219/text/51219w07.htm>

²⁰ HC Deb. 14 Feb 2006 col 1936W.

<http://www.publications.parliament.uk/pa/cm200506/cmhansrd/vo060214/text/60214w37.htm>

²¹ HC Deb. 16 June 1997 vol 296, cc50-1W

²² Named in the local authority's Early Years Development and Childcare Plan.

²³ HC Deb. 14 Feb 2006 col 1936W.

<http://www.publications.parliament.uk/pa/cm200506/cmhansrd/vo060214/text/60214w37.htm>

²⁴ This did not apply to nursery schools.

²⁵ Providers are obliged to account for their use of this funding.

²⁶ West et al (2010) reported that the amount delegated for a child in a nursery school was an average of £3,801; for a nursery class £1,798; and for a provider in the private, voluntary or independent setting £1,832. Nursery schools are known to be costly, although they also provide high quality provision (Sylva et al., 1999). The Select Committee on Affordable Childcare (2015) noted that there were many local authorities pay less to PVI settings than they do to maintained settings.

²⁷ HC Ministerial Statement, 25 June 2007 Minister for Schools (Jim Knight) Schools, Early Years and 14-16 Funding (2008-2011).

<http://www.publications.parliament.uk/pa/cm200607/cmhansrd/cm070625/wmstext/70625m0001.htm>

²⁸ In 2014-15 the per pupil units of funding in schools and the early years blocks remained the same; in effect, the DSG per pupil remained at the same cash level per pupil in each local authority as it had been in 2010-11 (Jarrett, 2013).