



The impact of recent government policies on early years provision

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Early Years
Development



Introduction

The early years sector has undergone a number of policy changes in recent years, primarily in the form of subsidies and tax relief initiatives to help parents with the cost of childcare (see Figure 1.1). In 2015, the government introduced the Early Years Pupil Premium which targeted additional funding of £300 to providers for each child from a disadvantaged background that meets the eligibility criteria.¹ Additionally, in 2016, Universal Credit expanded to support up to 85 per cent of childcare costs, up from 70 per cent, and is gradually replacing the childcare component of the working tax credit.² In April 2017, the government introduced a tax-free childcare scheme to replace childcare vouchers and then rolled out the 30 hours entitlement policy in September 2017. The entitlements are funded through £6bn in childcare spending per year until 2020, of which £1bn per year will be used to support delivery of the 30 hours entitlement.³

Figure 1.1. Policy changes affecting the early years sector since 1998

Date	Policy
September 1998	Introduced 12.5 hours free education for all 4-year olds for 33 weeks per year
April 2004	Entitlement extended to 3-year olds
April 2005	Entitlement increased to 38 weeks
September 2009	Introduced 10 hours per week for most disadvantaged 2-year olds for 33 weeks
September 2010	All offers extended to 15 hours per week for 38 weeks (spread over 3-5 days)
September 2012	Entitlement spread increased to 2-5 days
September 2013	Extended funded places to 20% of most disadvantaged 2-year olds
September 2014	Extended funded places to 40% of most disadvantaged 2-year olds
April 2015	Early Years Pupil Premium introduced
April 2016	Expanded childcare component of Universal Credit
April 2017	Tax-Free childcare introduced
September 2017	Introduced 30 hours entitlement for working parents
October 2018	Childcare Vouchers scheme ends

It is important to understand the impact of government policy on the early years sector due to its pivotal influence on child development and parental employment. Several studies have highlighted large socio-economic returns to investments in early years education. Economist James Heckman found that investing in early years yields the highest returns to society in comparison to interventions at other life stages; he claimed each dollar invested returns \$13 per year.⁴ Other studies have also found a positive relationship between spending on early years and economic and educational outcomes, particularly for disadvantaged pupils.⁵ The Education Policy Institute recently submitted evidence to the Education Select Committee life chances inquiry which summarised the key evidence in this area and highlighted the importance of the early years on a child's future cognitive, emotional and social development.⁶

This report examines the impact of recent policy changes on take-up of different childcare entitlement groups and on the total number of funded places. In particular, we are interested in whether changes to entitlements have resulted in some groups being prioritised over others.

Key findings

- We found a possible trade-off in provision between the take-up of the entitlement for disadvantaged two-year olds and take-up of the 30 hours entitlement for three- and four-year olds. There is wide variation across local authorities; in some authorities where take-up of the 30 hours entitlement has increased, there has been a decrease or slowing down of take-up of the two-year old entitlement. In others, there has been an increase or acceleration of take-up amongst disadvantaged 2-year olds. The differences in delivery costs for two-year-olds and three- and four-year olds could explain the decision of some local authorities to prioritise places.
- There was no clear relationship between the take-up of the 30 hours entitlement and the change in the supply of places. The data shows that, despite local authorities having similar levels of take-up, there were still wide variations in the change in the number of funded places. This indicates that the 30 hours policy does not clearly stimulate *new* capacity in the short term, but the full effect may yet to be seen.
- There was no evidence that changes to funding rates have had an impact on the take-up of the 15 hours or the 30 hours entitlements in the short run. It is possible that increases in funding may have been absorbed by existing funding pressures.ⁱ Additionally, it may be possible that other variables may have a stronger influence on early years take-up, such as parental work patterns, the relative cost of childcare and the perceived benefits of childcare.

Part 1. Early years policies

In September 2017, the government announced that working parents would be entitled to 30 hours of free childcare, building on the existing 15 hours free entitlement. The policy is intended to provide further subsidies for working parents and those seeking to (re)enter the labour market. Parents need to earn the equivalent of 16 hours on national minimum wage and have a salary below £100,000 to be eligible.⁷

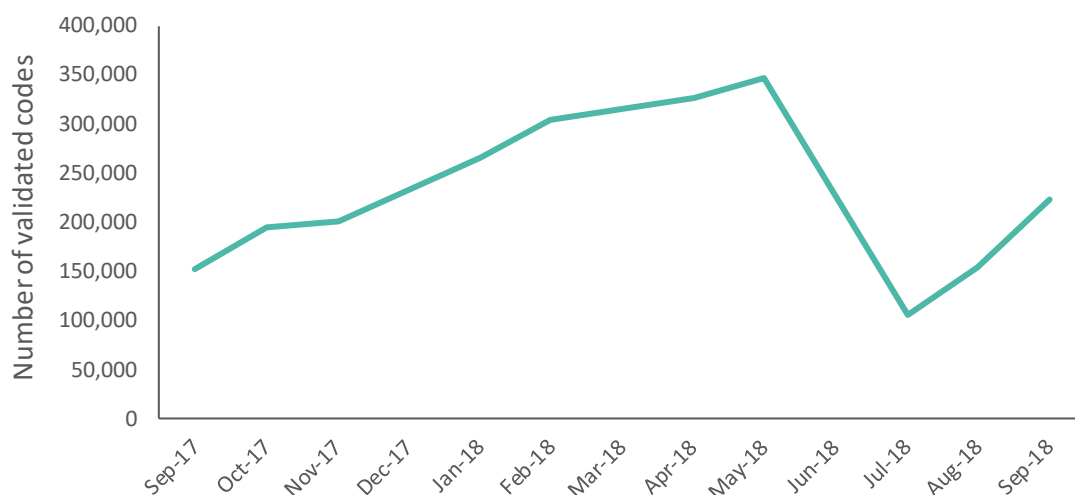
The entitlement is accessed by requesting a code from the government childcare service, which then needs to be validated through the eligibility checking system. Funding then comes into effect after the code has been validated and in the term following a child's third birthday.⁸ Parents are then required to reconfirm their eligibility code every three months for continuous access to the entitlement.

This analysis uses data from the Department for Education on the number of validated eligibility codes since September 2017 as a proxy for the take-up of the 30 hours entitlement. Throughout this report the term “take-up of 30 hours” is used instead of “validated codes”. During the academic year, the number of children on the 30 hours entitlement increased as more children turned three (see Figure 1.2).⁹ The dip from May 2018 corresponds to maintained nursery schools not being open

ⁱ The early years independent sector research programme from CEEDA found a £616m funding gap for private, voluntary and independent nurseries and pre-schools in 2018/19.

and some private, voluntary and independent (PVI) nurseries not offering a stretched entitlement over the summer term. Therefore, we use figures from May 2018 as these represent months of highest take-up for the 30 hours entitlement.

Figure 1.2. Number of 30 hours codes validated in England between September 2017 and September 2018



The implementation of the 30 hours policy coincided with the introduction of a new early years national funding formula (EYNFF), which aimed to be a fairer mechanism of funding local authorities and providers.¹⁰ The formula determines how much funding is allocated from central government to local authorities and then from local authorities to early years providers. The first channel comprises three components to calculate how much funding is allocated to local authorities. These are the universal base rate; funding for additional needs; and an area cost adjustment to reflect the regional cost variation.¹¹ We focus on local authority rates to explore what influence funding has had on the change in take-up for two-year olds, three- and four-year olds and children on the 30 hours entitlement.

A note on the data

We use data for Ofsted registered places instead of providers because the classification of providers has changed over time, making it increasingly inaccurate to compare data across years.ⁱⁱ

The Ofsted early years register data for places contains an overlap of settings registered on both the early years register (EYR) and the childcare register (CR), therefore providers that accommodate children above five years old may be included. Consequently, our data might be overestimating the total number of places.

In 2016, the government provided supplementary financial support to local authorities through a £100m early years capital fund.¹² The fund aimed to support the delivery of the 30 hours entitlement and gave priority to the local authorities that had the highest number or percentage of eligible children, the highest take-up rates and where providers were working close to full capacity.¹³ The fund may impact the number of places and take-up; however, it was not included in the analysis due

ⁱⁱ Prior to 2015, childminder agencies were registered as individual providers, despite holding a network of registered childminders. This means if the number of registered providers fell, it might reflect childminders joining an agency, rather than leaving the sector.

to the lack of public information on project awards and completion dates. As a result, we could not accurately analyse the impact of the early year's capital fund.

Part 2. Analysis

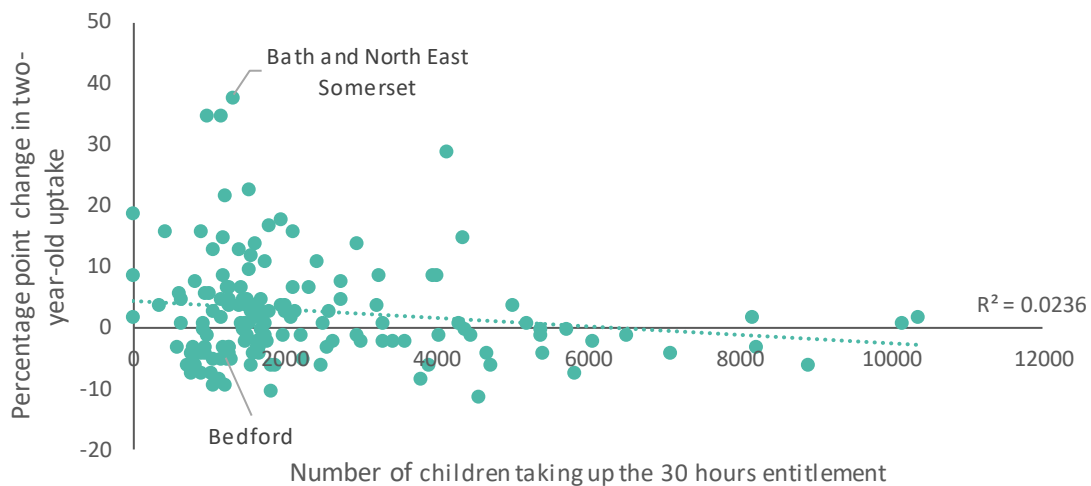
This section analyses the data for the 30 hours entitlement and the change in funding levels between 2016 and 2018. We begin by exploring the relationship between the 30 hours policy and the take-up of two-year olds, three- and four-year olds on the 15 hours entitlement and the total number of funded places. Next, we investigate the relationship between changes to funding levels and the two-old take-up, three- and four- year old take-up, and the children eligible for the 30 hours entitlement.

30 hours entitlement

To examine accurately the impact of the 30 hours entitlement policy on take-up, we took the proportion of children accessing funded early education rather than the absolute numbers to account for different population sizes across local authorities. For two-year old take-up, this is the proportion of those eligible rather than the total population. For three- and four-year olds, it is the proportion of the total age group population due to the universality of the scheme.

When analysing the relationship between the take-up for disadvantaged two-year olds and children on the 30 hours entitlement, we found a small correlation coefficient of -0.15 (Figure 2.1). This means take-up for disadvantaged two-year olds fell, or increased less, in local authorities with a higher number of children on the 30 hours entitlement.

Figure 2.1. Relationship between the number of children taking up the 30 hours entitlement and change in two-year old take-up in England between 2017 and 2018



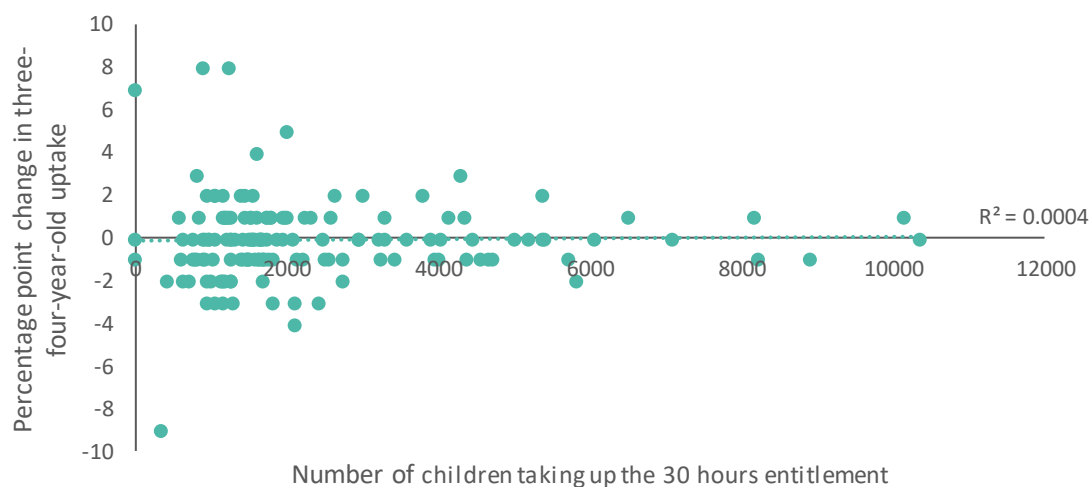
The data points to a possible trade-off between provision for disadvantaged two-year olds and provision for three- and four-year olds on the 30 hours entitlement as local authorities are seen to hold either more of one group or the other. The effect can be seen across some local authorities, but not all. For example, Bath and North East Somerset had 1,316 children on the 30 hours entitlement and saw a 38-percentage point increase in two-year old take-up. On the other hand, Bedford had 1,221 children on the 30 hours entitlement but saw a five-percentage point decrease in take-up of the two-year olds entitlement.

The trade-off may have been magnified by inadequate funding levels. In the face of financial constraints, some providers may not be able to provide for both two-year olds and three- and four-year olds on the 30 hours entitlement, and therefore have to prioritise provision for one group over the other. According to the private sector research agency CEEDA, two-year old delivery cost stood at £6.90 per hour in 2018 and was underfunded by -31 per cent. In comparison, three- and four-year old provision cost £5.08 per hour to deliver and had a funding deficit of -17 per cent.¹⁴

The cost differences may lead to three- and four-year olds on the 30 hours entitlement crowding out two-year old provision, but our findings show that this is not currently happening. However, this should be monitored, as recent research from the Department for Education on the 30 hours entitlement found a small decline in the average number of funded places for two-year olds after the introduction of the 30 hours entitlement, signalling that it is possible for the crowding out effect to become more prevalent in the future.¹⁵

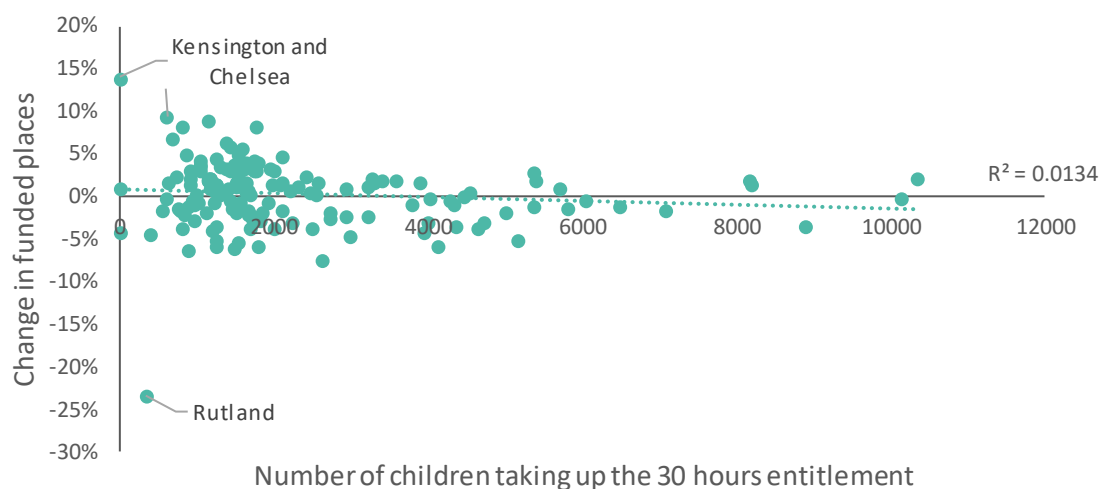
We also looked at the relationship between the number of children taking up the 30 hours entitlement and the take-up of three- and four-year olds on the 15 hours entitlement and found a weak relationship (Figure 2.2). This is expected as the cost of provision for either group is essentially the same. While there is a potential incentive to substitute provision based on the reduction of administrative workload coming from handling one 30 hours child, in comparison to two 15 hours children, we are yet to see this effect unfold.

Figure 2.2. Relationship between the number of children taking up the 30 hours entitlement and change in three- and four-year-old take-up in England between 2017 and 2018



Next, we examined the association between the number of children taking up the 30 hours entitlement and the change in the number of funded places (Figure 2.3). The data shows a very small correlation coefficient of -0.10, indicating a weak relationship.

Figure 2.3. Relationship between the number of children taking up the 30 hours entitlement and change in funded places in England between 2017 and 2018



The number of funded places was more likely to increase or decrease in local authorities with a lower number of children using the 30 hours entitlement. Approximately 65 per cent of all local authorities had fewer than 2,000 children using the 30 hours entitlement; within this group 61 per cent saw an increase in places, whilst 39 per cent saw a decrease in places. On the extreme ends, Kensington and Chelsea did not have any children using the 30 hours entitlement but saw a 14 per cent increase in places, while Rutland had 340 children on the 30 hours entitlement and saw a 23 per cent fall in funded places. This suggests that the 30 hours entitlement may have no short-term effect on the emergence of new places.

To summarise, the data suggests that since the introduction of the 30 hours entitlement, there may be a trade-off between provision for disadvantaged two-year olds and children on the 30 hours entitlement for some local authorities. Furthermore, we have observed that the 30 hours entitlement policy has not crowded out three- and four-year olds on the 15 hours entitlement and has no effect on the emergence of new places in the short run.

Funding

This section focuses on the early years funds channelled from central government to local authorities. We examined whether changes in funding rates have had an impact on the take-up of disadvantaged two-year olds, the universal 15 hours entitlement of three- and four-year olds and the take-up of the 30 hours entitlement.

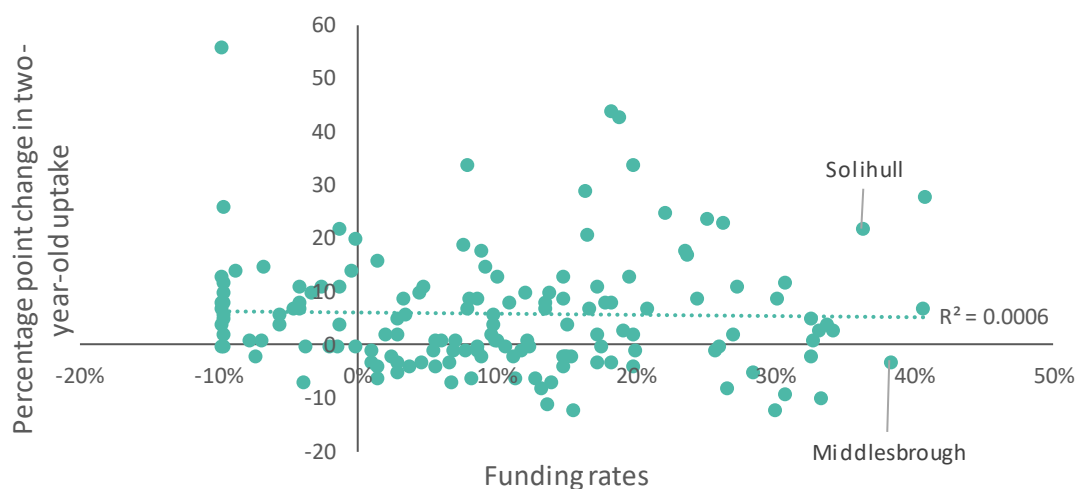
Since 2016, the government baseline funding rateⁱⁱⁱ to local authorities for the early years entitlement has increased by eight per cent on average in nominal terms across England, from £4.43 to £4.77 per hour per child.¹⁶ However, the increase was not the same across all regions. From 2016 to 2018, 75 per cent of local authorities saw an increase in funding and 25 per cent saw a reduction. The change in funding rates is mainly driven by the shift from the old Dedicated Schools Grant funding system to the new EYNFF. The previous system was predominantly based on historical funding patterns, leading to large variations in funding for local authorities with similar needs.¹⁷ Inevitably, funding rates will change as local authorities move towards being 'on formula'.

ⁱⁱⁱ Excludes EYPP, maintained nursery school supplementary funding and disability access fund.

Furthermore, the government introduced a funding floor to cap per hour funding reductions by 10 per cent for authorities that have seen a fall in funding.

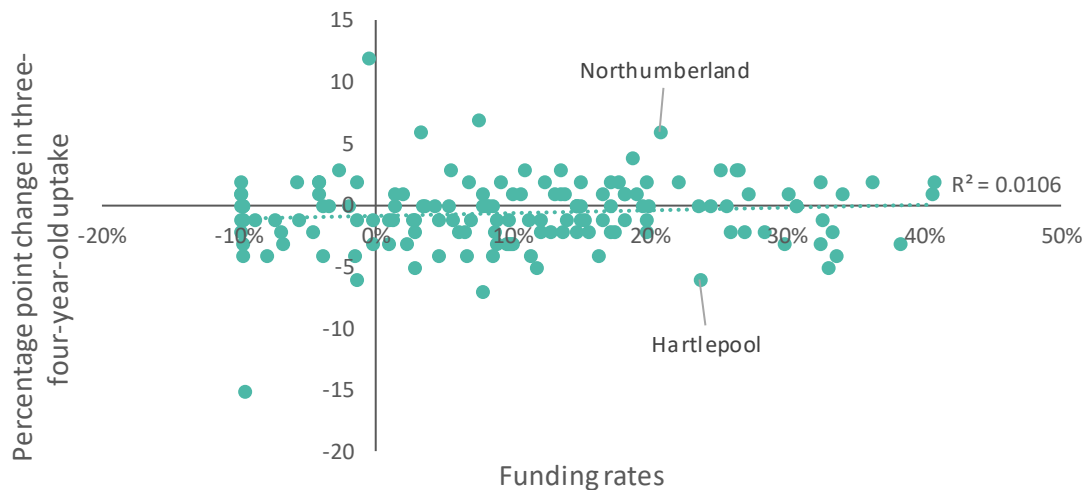
In theory, as funding has increased for most local authorities, we should see a positive correlation between funding and take-up. However, we found a weak relationship between changes in funding and changes in two-year old take-up, as shown in Figure 2.4. The small correlation can be explained by very different two-year old take-up levels in similarly funded areas. For example, Middlesbrough and Solihull saw funding increase by 38 per cent and 36 per cent respectively, but two-year old take-up in Middlesbrough decreased by two percentage points and increased by 22 percentage points in Solihull.

Figure 2.4. Relationship between change in funding and change in two-year old take-up in England between 2016 and 2018



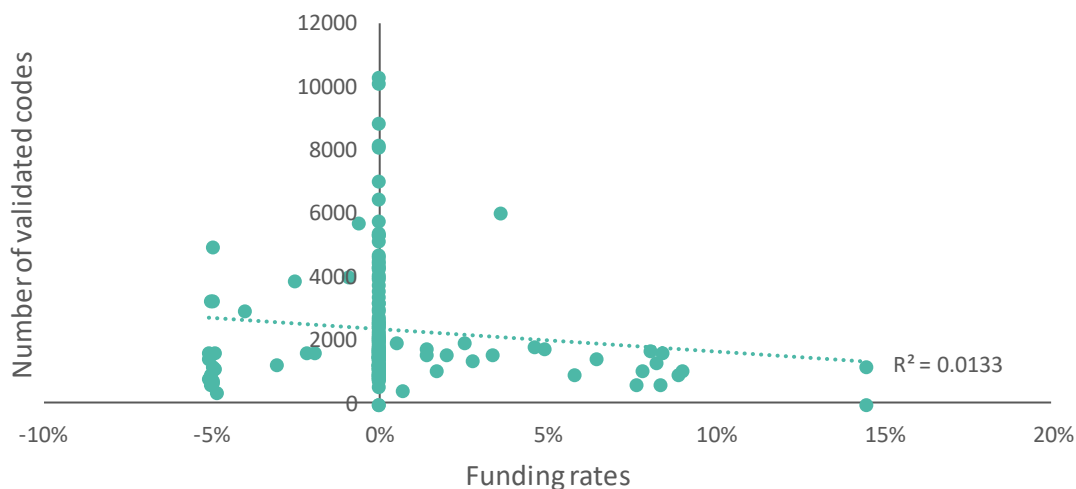
Similarly, Figure 2.5 shows that changes in funding rates had nearly no effect on the take-up of three- and four-year olds of the universal 15 hours entitlement. Local authorities across England saw large differences in take-up, despite having similar funding rates. For example, both Hartlepool and Northumberland saw funding increase by more than 20 per cent, however Hartlepool saw a six-percentage point decrease in take-up, whilst Northumberland saw a six-percentage point increase. There were many instances where higher funding led to either a rise or fall in take-up, signifying no evidence of funding changes influencing take-up of three- and four- year olds of the 15 hours entitlement.

Figure 2.5. Relationship between change in funding and change in 3- and 4-year-old take-up in England between 2016 and 2018



Next, we looked at the relationship between funding and the number of children on the 30 hours entitlement from 2017 to 2018. In this period, only 45 local authorities saw a change in funding as other local authorities had already reached the funding rate determined by the EYNFF. Figure 2.6 shows a weak relationship between the change in funding and the number of children on the 30 hours entitlement with a correlation coefficient of -0.12. Interestingly, the change in funding occurred in areas that held a lower number of children on the 30 hours entitlement, suggesting that higher funding was not being allocated to areas with a higher number of children on the 30 hours entitlement. However, this trend may also be a coincidence as the remaining local authorities to experience a change in funding may have been the areas with a lower number of children eligible for the 30 hours entitlement due to area demographics or the size of the authorities.

Figure 2.6. Relationship between change in funding and number of children on the 30 hours entitlement in England between 2017 and 2018



Overall the funding analysis shows changes in funding rates are not strongly related to the take-up of each entitlement offer. This may be partly explained by the current level of “underfunding” in the early years sector as cited in the CEEDA research. It is possible that increases in funding may not make a significant difference as these would likely be used to address the financial deficit currently present in the sector. The low correlations may also indicate that other variables might have a

stronger impact on early years take-up, such as parent working patterns, family income and the relative cost of and perceived benefits of childcare.¹⁸

It is important to note that although funding has been shown to have a minimal influence on take-up, we have observed the short-term policy effects and the full outcome of the policy is yet to be seen.

Conclusion

The government has reformed the early years sector through various policy changes, resulting in a number of intended and unintended consequences. This analysis points to a possible trade-off between provision for disadvantaged two-year olds and provision for three- and four- year olds on the 30 hours entitlement. Also, we do not find a clear relationship between the 30 hours entitlement take-up and changes in the supply of places, signifying that the 30 hours policy does not stimulate new capacity. Moreover, we found no evidence of changes in funding rates having an impact on take-up in the short run. In sum, recent policy changes to the early years sector may be unintentionally creating a disparity in deciding who is prioritised for early years provision.

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