



National Audit Office

**REPORT BY THE
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Department for Education

Delivering the free entitlement to
education for three- and four-year-olds

Summary

1 All three- and four-year-olds are entitled to 15 hours per week of free education, for 38 weeks per year ('the entitlement'). Children are eligible to receive the entitlement for two years before reaching compulsory school age, the term after they turn five. In January 2011, 831,800 children were receiving the entitlement. A further 390,000 four-year-olds were in reception classes in primary schools, which children become eligible for in the September after their fourth birthday.

2 Parents choose a local provider and the entitlement should be free at the point of delivery. Parents can pay for additional hours, and some use less than the full entitlement. Local providers can include state schools ('maintained'), and private, voluntary and independent ('non-maintained') providers. In 2010-11, around 28,630 providers were delivering the entitlement. At an estimated cost of £1.6 billion in 2010-11, the free entitlement is the Department for Education's (the Department's) main financial intervention in children's early education. Forecast spending for 2011-12 has increased to £1.9 billion, reflecting the increase in the entitlement to 15 hours per week.

3 The Department first introduced the entitlement for four-year-olds in 1998. Previously, some local authorities prioritised free early education while in other areas free provision was limited. In 2004, the Department extended the entitlement to all three-year-olds, and in September 2010 to its current level. It plans to extend the entitlement to disadvantaged two-year-olds from September 2013, and to cover 40 per cent of two-year-olds from 2014-15.

4 The Department has used research to inform its policy decisions. The research suggests that high-quality early learning can benefit children's development through a lasting influence on educational outcomes, with greatest impact for children from disadvantaged backgrounds. The Department's 2010 impact assessment for extending the entitlement also estimated likely monetised benefits such as additional income for parents able to participate in work and improved long-term earnings potential for individuals receiving the entitlement. Benefits from the entitlement are expected to help broader goals including reducing child poverty and improving social mobility.

5 The Department's current vision is 'for all three- and four-year-old children to have access to high-quality early years provision that helps them reach their full potential'. While the entitlement 'may help parents manage their childcare costs and working patterns... that is not its principal purpose'. Supporting children's development is therefore the main objective from funding the free entitlement. The Department recognises that many other factors also contribute to children's early development, including the influence of parents. Its shorter-term intention is for the entitlement 'to make sure children are well prepared for school'.

6 The Department is responsible for setting the policy direction for early years provision, including the statutory framework and overall funding, and for whether, overall, the system is delivering value for money. It sets aspects of the delivery framework and devolves delivery to local authorities and to the market of different providers. By law, local authorities must secure 'provision of childcare sufficient to meet the needs of parents in their area', and secure provision of the entitlement free of charge for each eligible child.

7 The Department funds local authorities through the Dedicated Schools Grant. Funding for early education is not ring-fenced so authorities determine the level of funding required to deliver the entitlement, including whether to direct other sources of funding towards early education. Local authorities also set the rates and process for paying providers, may carry out their own assessments of provider quality, and have additional statutory responsibilities for maintained providers. Ofsted oversees inspection of all providers offering the entitlement.

8 Since 1998, the early education market has expanded to meet rising demand. Between 2008 and 2011, the Department provided additional revenue and capital funding to local authorities to support extending the entitlement. From April 2011, each local authority introduced a local funding formula to determine rates paid to providers using funds from their Dedicated Schools Grant. The Department is consulting on changes to these formulae and to its statutory guidance for authorities delivering the entitlement, as well as on the overall funding system for local authorities. It has recently consulted on changes to the curriculum for early education.

9 A further 260,000 children per year will be covered by the extension of the entitlement to 40 per cent of two-year-olds. The Department has announced additional funding for local authorities to build up their provision, of £64 million in 2011-12 increasing each year to £760 million in 2014-15, the first full year of the new entitlement. The Department's ongoing commitment to the core entitlement will be funded from within local authorities' overall spending limits. Economic conditions may also affect the financial health of the wider childcare market.

10 This report examines whether the Department for Education is achieving value for money in delivering the free entitlement to education for three- and four-year-olds. The report does not cover reception classes. **Figure 1** sets out our criteria.

Figure 1

Assessing the free entitlement

Issue	Criteria
Whether the Department is achieving its objectives	<p>The entitlement is:</p> <ul style="list-style-type: none"> ● taken up by those eligible; ● delivered in high-quality settings; and ● delivering improved outcomes.
Whether funding arrangements support the Department's objectives	<p>The Department's allocation of funds to local authorities supports its objectives and whether the local funding formulae support:</p> <ul style="list-style-type: none"> ● transparent and efficient distribution of resources; ● flexibility and take-up of provision; ● quality of provision; ● children from deprived backgrounds; and ● management of the market.
Whether information is well used to improve value for money	<p>The Department and its partners have sufficient information to:</p> <ul style="list-style-type: none"> ● know whether long-term benefits will be delivered for children; ● understand the performance of its delivery model; and ● help enhance overall performance and value for money.

Source: National Audit Office

Key findings

Achieving objectives

11 A high national take-up rate for early education has been sustained as the Department has expanded the entitlement, but there are wide variations in take-up between local authorities. The Department has extended the entitlement twice since 2006, increasing the total number of funded hours by 59 per cent. The national take-up rate for three- and four-year-olds in early education has been 95 per cent since 2008 despite an 8 per cent increase in eligible children. This figure is boosted by the high participation of four-year-olds in reception classes, not part of the free entitlement. In 2011, take-up by three-year-olds is 93 per cent (92 per cent in 2008). However, the Department's data show take-up rates in local authorities vary widely. Take-up for children from the most disadvantaged families is also lower than overall take-up.

12 The quality of providers offering the entitlement has been sustained overall since 2008-09 but access to high-quality provision varies depending on where children live. In 2008-09, 78 per cent of Ofsted inspection judgements were good or outstanding, following the introduction of the Early Years Foundation Stage, and 79 per cent in 2010-11. However, the percentage of non-maintained providers receiving good or outstanding inspection judgements rose from 75 per cent (2008-09) to 81 per cent (2010-11), while the percentage of maintained providers receiving good or outstanding inspection judgements was 84 per cent in 2008-09 and 75 per cent in 2010-11 (this figure partly reflects a change in inspection regime since September 2010). For each local authority, the percentage of good or outstanding provision in March 2011 ranged from 64 per cent to 97 per cent. Areas of highest deprivation were less likely to have high-quality provision.

13 Children's development as measured at age five has improved, but results at age seven have not. Nationally, at age five, 59 per cent of children achieved a good level of development in 2010-11 (compared with 45 per cent in 2005-06). The gap in outcomes between the lowest achievers and their peers has also narrowed. The first children to have been eligible for two years of twelve-and-a-half hours free entitlement reached the end of Key Stage One (at age seven) in 2009. Although there have been changes in the scope and nature of the entitlement, and its relationship with Key Stage One results is not straightforward, the Department did intend that the entitlement would have lasting effects on child development throughout primary school and beyond. National Key Stage One results, however, have shown almost no improvement since 2007, so it is not yet clear that the entitlement is leading to longer-term educational benefits.

Funding arrangements supporting delivery

14 Local authorities direct different proportions of national funding to the entitlement, and funding arrangements provide limited incentives for providers to improve quality. Our analysis suggests local authorities allocate between 3.5 per cent and 9.8 per cent of their Dedicated Schools Grant (Department funding to educate three- to sixteen-year-olds) to the entitlement. We found some evidence that those authorities directing a higher percentage of their grant to the entitlement were also those with higher deprivation and those with higher median wages, but we found no link with take-up rates or quality. Research has identified better qualified staff as a key driver for improving quality in early years settings. However, pay rates for qualified staff are on average at least 28 per cent higher than those for unqualified staff, so local authorities which choose to recognise the higher provider costs of employing more qualified staff in their funding formulae are likely to face cost pressures. The Department does not monitor the impact of additional funding of £69 million paid in 2011-12 to local authorities to support them in increasing take-up.

15 Local authorities reported that local funding formulae were improving transparency and fairness but a minority estimated that the funding they offered was sufficient to cover the costs incurred by only a few or none of their providers. The Department intended to improve transparency through publishing the rates paid to different provider types in each local area and to enhance fairness by funding providers on a consistent basis. In our survey of local authorities, nine out of ten respondents reported that the formula was improving both transparency and fairness. Seventy-two per cent estimated that their formula funding was sufficient to cover costs for all or most providers, but around 10 per cent estimated that funding was sufficient to cover the costs of only a few or none of their providers. Funding rates remain higher for maintained providers at an average of £6.83 per hour for nursery schools and £3.97 per hour for nursery classes in primary schools, compared with £3.77 per hour for non-maintained providers.

16 Funding formulae are complex, vary across authorities and at least a third are based on a limited understanding of provider costs. Funding formulae across 152 local authorities inevitably differ but the emerging formulae are complex. Formulae include base rates, defining basic hourly funding per child, and supplements to reward specific behaviour. In 2010-11, the majority of local authorities set five or fewer base rates, but the number of base rates per local authority ranged from 1 to 15, and the percentage of funding distributed through base rates ranged from 37 per cent to 100 per cent. Average funding per hour in 2010-11 varied from £2.78 to £5.18 across local authorities. Our analysis suggests that only 20 per cent of the variations were driven by known factors such as variations in median wages. Although authorities undertook surveys of provider costs to inform their funding rates, for one third of authorities these did not deliver useful information.

Using information to drive value for money

17 The Department does not yet have robust measures to demonstrate whether longer-term benefits are being realised. The Department has anticipated considerable longer-term monetised benefits in its impact assessments, including improved lifetime earnings from better GCSE results, and increased income for working families. Developing appropriate measures of longer-term progress against these potential benefits is challenging, but the Department does not currently have robust means to check whether expected longer-term benefits are being realised.

18 Before 2010-11, the Department did not have sufficient data to estimate total spending on the free entitlement by all local authorities, or to identify variations across local authorities. Since April 2010, the Department has had more detailed data, enabling it to estimate total spending of £1.6 billion on the entitlement for 2010-11, and £1.9 billion for 2011-12. However, errors and gaps in the data remain. Furthermore, there is inconsistency in how local authorities have reported using base rates and supplements and the criteria for awarding supplements. This limits how far the Department can compare funding arrangements.

19 The Department has not assessed what drives value for money in practice across the delivery system as a whole and lacks robust analysis of the relationship between performance and funding levels. Locally, some authorities are trying to track the quality or type of settings in which children have received the entitlement and their resulting outcomes at age five. Such tracking is not widespread or consistent. Our analysis found local authorities with high funding rates were not necessarily those with high-quality provision. Eighty-nine per cent of local authorities compare their base rates with others, but authorities are much less likely to compare costs of different settings, levels of take-up, quality of providers, or levels of workforce qualification. There is limited transparency about local authorities' performance or of how well different authorities perform their multiple roles in local provider markets.

20 Parental choice is an important driver in the market for the entitlement but there are limitations in the information available to parents, and assessed quality of provision is only one factor in parental decision-making. Parents' choice of early education provider is often driven by factors such as convenience, well-being of their children and the cost of additional hours. Ofsted reports contain useful provider information for parents but Ofsted's inspection cycle for most early years providers is 47-months. In March 2011, one third of providers offering the entitlement had not had an inspection visit since September 2008. Seventy-eight per cent of authorities make their own assessments of provider quality but these are not routinely published or made available to parents.

Conclusion on value for money

21 In delivering the free entitlement to early education, the Department and its partners have made progress against many objectives, which are positive indicators of value for money. The entitlement has been extended and overall take-up levels sustained. Children's development as measured at age five has improved, although a longer-term impact on attainment is not yet visible. Also, the Department and its partners do not yet sufficiently understand the relationship between local performance and funding, including how far variations in rates paid to providers reflect legitimate local factors, to be confident that funding arrangements are efficient. The Department needs to address variations in take-up, in access to high-quality provision and the impact on attainment in later years if it is to achieve value for money and get the best possible return for children from its annual investment of some £1.9 billion.

Recommendations

22 As the Department enters a further phase in delivering the entitlement, its current consultation exercises provide an opportunity to improve value for money. Our recommendations focus on systemic information and funding issues highlighted in this report.

Given existing variations, the Department needs to understand any significant patterns in the relationships between funding and take-up, quality and availability of provision more clearly so that it can drive value for money in revised funding arrangements and guidance. The Department should:

- a** use existing information to confirm which factors in the delivery system drive successful performance against its objectives in practice, including where performance is improving against a lower baseline;
- b** analyse the overall performance of local authorities over time to identify where additional funding to the 90 per cent baseline for three-year-olds is not improving take-up, and consider changes to the funding system;
- c** identify key data to support local authorities in benchmarking their own performance with peer authorities, and work with its partners to develop consistent public information to help parents, providers and others in understanding local performance and holding local authorities to account;
- d** enhance the information available to help parents choose providers, including considering the frequency of inspection and whether other quality information is sufficiently transparent;
- e** review the information needed across the system to support local authorities in managing the local provider market (such as comparative data on funding rates), and analyse the anticipated impact of the revised funding formula on the wider childcare market; and
- f** simplify local funding formula arrangements and ensure revised formulae incentivise providers to meet Department objectives to improve quality and support take-up for disadvantaged children.

The Department will need to analyse further whether the longer-term benefits anticipated from the entitlement are being realised. The Department should:

- g** further develop its existing evidence base on the longer-term benefits of early education in line with available resources; and
- h** develop measures to judge the return on its ongoing investment in the entitlement, as envisaged in its impact assessments.