



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **Department for Education**

# Entitlement to free early education and childcare

## Key facts

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**£2.7bn**

allocated for free childcare  
in 2015-16

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**1.5m**

children receiving funded  
childcare, January 2015

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**105,000**

providers of childcare  
in England, 2015

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**290,000**

increase in the number of children receiving funded childcare since 2010

**85%**

the proportion of settings rated 'good' or 'outstanding' by Ofsted

**£3,000**

the average difference between what local authorities fund per 3- and 4-year-old over a year, from £4,000 in the authority that funds at the highest rate to £1,000 in the authority that funds at the lowest

**390,000**

the number of children the Department for Education estimates will be eligible for the new entitlement to an extra 15 hours per week

**£5,000**

the amount the Department for Education estimates 30 hours of childcare per child per year is potentially worth to parents

**80%**

of places already occupied in full day-care settings in 2013

**70%**

the proportion of parents not aware of their local authority's Family Information Service

# Summary

**1** In September 2010, the Department for Education (the Department) introduced an entitlement to 15 hours of free childcare per week for all 3- and 4-year-olds in England. In 2013, it extended this to include 2-year-olds from disadvantaged families. Free childcare can be taken in playgroups and pre-schools, nursery schools, nursery classes in primary schools, in children's centres or with childminders.

**2** The Department oversees the delivery of early childcare, much of which contains an educational and developmental purpose. It gives funding to local authorities and sets the overall policy for free childcare which includes the Early Years Foundation Stage (a framework which sets standards for the learning, development and care of children from birth to age five). By providing free childcare, the Department aims to support children's development, ensure children are ready for school and help parents manage childcare costs and working patterns. It also aims to close the gap between the later educational achievement of disadvantaged children and their peers. Research shows that early education can help improve a child's development and educational attainment, and has the biggest impact on the development of disadvantaged children.

**3** In 2015-16, the Department gave £2.7 billion to local authorities, with 1.5 million children taking up a free childcare place. Local authorities are responsible for ensuring sufficient places for the funded hours and allocating money to providers. They are legally required to provide information to help parents find an appropriate place for their child, and should also give support and training to providers to ensure childcare in their area is high quality.

**4** There are approximately 105,000 childcare providers in England. Facilities run by local authorities are called maintained settings; others are called private, voluntary or independent (PVI). Parents choose which provider and how many hours to use. Providers can choose whether to offer free childcare, but must register with Ofsted (the independent inspector of schools and children's services). Ofsted inspects childcare settings to ensure they deliver good-quality education and care.

**5** In 2015, the Department outlined plans to increase some families' entitlement to free childcare. It will double the number of hours' free childcare that working families with 3- and 4-year-olds are entitled to, from 15 to 30 hours per week. It estimates this will be worth up to £5,000 per child per year. The Department is planning to pilot the new entitlement from September 2016, and to implement it fully from September 2017.

## **Our report**

**6** In this report we evaluate how well the Department, working with others, has implemented its early years policies to date, including:

- whether it is meeting its objectives for take-up and the quality of childcare;
- how effectively local authorities are managing the childcare market;
- the relationship between available funding and providers' costs; and
- the challenges the Department will face in extending the entitlement to 30 hours.

We have not audited specific actions by individual local authorities or childcare providers. We set out our audit approach in Appendix One and our evidence base in Appendix Two.

## **Key findings**

### Current entitlements to free childcare

**7 The Department has successfully implemented the entitlement to free childcare for 3- and 4-year-olds, with almost universal take-up of hours offered to parents.** Since the entitlement was set at current levels in 2010, the number of children in early-years settings using some or all of it has increased from 1.19 million to 1.48 million. In 2015, 94% of 3-year-olds and 99% of 4-year-olds used at least some of their 15 hours, with 86% of 3-year-olds and 96% of 4-year-olds accessing at least 13 hours per week. There is some variation between areas, with only 90% of parents taking up the offer in more deprived areas, and the Department does not know whether this is caused by lack of provision or lower demand (paragraphs 1.10 to 1.12).

**8 Take-up of free childcare for 2-year-olds is substantially lower and access for some groups remains difficult.** Parents of disadvantaged 2-year-olds, of whom there are some 270,000, are less likely to use the free entitlement with only 58% doing so, against a Departmental aspiration for 73% to 77% take-up. The Department has monitored local authorities' progress with implementation, identifying areas where take-up is particularly low. It has commissioned research to identify barriers that prevent parents using free childcare, finding that awareness was an issue in Bangladeshi, Somali and Polish communities. It has launched an innovative communications strategy to address these issues, and some local authorities have also used various advertising strategies. They told us they expect numbers to increase further, but also that there can be good reasons why parents choose not to use free childcare; for example, some parents believe 2-year-olds are too young to go to nursery (paragraphs 1.12 to 1.14).

**9 Based on Ofsted ratings, the quality of early years settings has been improving but deprived areas still have lower-quality provision.** In 2015, 85% of settings were rated 'outstanding' or 'good' compared with 80% in 2013. Nonetheless, some 210,000 children are in settings rated less than 'good'. Deprived areas tend to have a lower percentage of settings rated 'good' or 'outstanding'. Some 18% of settings in the most deprived areas of the country were rated less than 'good' compared with 8% in the least deprived (paragraph 1.16).

**10 The Department's measure of children's outcomes at age five has shown steady improvement but is of little use in determining the quality of different early years settings and will cease to be nationally comparable in 2017.** The Early Years Foundation Stage (EYFS) profile assessment measures children's development across a number of areas and is assessed in the final term of reception year. In 2015, 66% of children reached a good level of development compared to 52% in 2013. The Department does not routinely link data with the early years settings children have attended, which could help to assess the types of provider that have most impact on children's development. The Department is making the EYFS profile assessment non-compulsory from September 2016. It is introducing new baseline assessments in the same year, but these will not be comparable with the EYFS profile data and the Department does not intend to publish the assessments as a national dataset (paragraphs 1.22 to 1.24).

**11 The Department does not routinely measure the impact of free childcare on later educational outcomes.** In 1997, the Department commissioned research to assess the impact of childcare on later educational outcomes. The research followed a sample of children and found that attending pre-school had a positive influence on educational attainment at age 16. Despite the great expansion in state-funded childcare since the late 1990s, such analysis has not been repeated, but the Department recently commissioned research to assess the impact of free childcare on disadvantaged 2-year-olds' later outcomes; this will report in 2020 (paragraph 1.25).

## Funding

**12 Nationally, the average flat rate of early years funding per child has been frozen since 2013-14, meaning many providers have faced cuts in real terms.** In 2015-16, the Department has allocated £2.7 billion for early years childcare, of which some £2.2 billion is being spent on 3- and 4-year olds. The total amount of funding for 3- and 4-year-olds has increased since 2013, but funding per child has remained the same in cash terms, meaning a 4.5% cut in real terms. The current national average rates are £5.09 per hour for 2-year-olds and £4.51 for 3- and 4-year-olds, excluding Early Years Pupil Premium (paragraphs 2.2 to 2.5).

**13 Early years funding is calculated using the schools funding formula, which is based on historic funding levels, meaning children in similar circumstances attract different levels of funding.** Money for early years provision is allocated to local authorities as part of wider school funding. The government is aware of inequalities between local authorities based on historic funding practices and has committed to introducing a new early years formula from April 2017. At local authority level, schools forums advise on how much to pay each provider per child. The average rate local authorities funded providers in 2015-16 ranged from £2.28 to £7.15 for 3- and 4-year-olds, a difference of £3,000 per child per year. On average they currently choose to give £50 more per 3- or 4-year-old per year to school nursery classes than PVI settings. The interaction of these factors creates large unexplained variations in funding per child per hour (paragraphs 2.6 to 2.10).

**14 Local authorities retain different amounts of early years funding centrally but the Department does not know whether they spend this money efficiently.** The proportion of early years funds local authorities keep for central administration and support costs is significant. In 2015-16, 105 local authorities (out of 152) planned to spend up to 10% of the early years component of their Dedicated Schools Grant (DSG) on central services; 34 planned to spend between 10% and 20%; and the remainder planned to spend over 20%, up to a maximum of 34%. The Department has not assessed how much it costs to administer the funding or provide central services, or how the amount local authorities retain has changed over time (paragraph 2.12).

**15 In many places, the affordability of the current free entitlement depends on goodwill and additional payments by parents.** The Department has recently undertaken a costing review and found most providers relying to some extent on cross-subsidisation between ages (as childcare is more costly for younger children). Providers report that they also rely on funds received for extra hours parents purchase. Additionally, they told us they rely on the goodwill of volunteers and on lower-paid workers who have a sense of vocation about providing childcare (paragraphs 2.14 and 2.15).

**16 The Department has announced a new average funding rate which is designed to encourage greater efficiency.** The Department carried out an exercise to estimate the costs of childcare to inform the future funding rate for the free entitlement. This exercise produced a range of costs based on different assumptions and took account of different rates paid for 2-, 3- and 4-year-olds.

- Possible national hourly rates produced by the exercise varied between £4.54 and £10.83 (the higher costs in the range were associated with maintained and independent settings which together provide 4.5% of current places) for 2-year-olds and between £3.14 and £6.12 for 3- and 4-year-olds. Lower rates in both ranges are based on the Department's own assumption that large numbers of providers can become more efficient.
- Following the Spending Review 2015, the Department announced that funding rates for 2017-18 will be £5.39 for 2-year olds and £4.88 for 3- and 4-year olds, including Early Years Pupil Premium.

Nationally, local authorities kept 10% of early years funding centrally in 2014-15. Were local authorities to keep the same percentage in future, this would mean new average funding rates to providers of £4.85 for 2-year-olds and £4.39 for 3- and 4-year-olds. The rates are designed to encourage efficiency but the Department does not know how efficient providers currently are following the freeze in funding in recent years (paragraphs 2.16 to 2.19).

## Managing the market

### **17 Local authorities have generally focused on improving the quality of existing early years providers rather than trying to encourage new providers into the market:**

- **Local authorities typically have good oversight of the quality of childcare in their areas.** They are legally required to fund childcare places in settings that Ofsted rates 'good' or 'outstanding' and should intervene if settings are less than 'good'. Local authorities we visited all monitored and intervened in settings with low ratings (paragraph 2.23).
- **The composition of the early years market has not changed since 2011.** The total number of providers in the market has decreased only slightly, with the overall proportions of providers of different types staying the same, suggesting the market has been quite stable (paragraph 2.24).
- **Local authorities have limited powers to offer incentives for providers to enter the market or increase provision.** Local authorities are restricted in how they can use revenue funding and have limited capital funding to lower barriers to entry for new providers, for instance lack of premises. However, some have successfully used capital funding to offer incentives for providers to take disadvantaged 2-year-olds (paragraph 2.25).
- **Gaps exist in the information local authorities need to manage the market.** Local authorities must assess annually whether they have enough childcare places, but they no longer have to publish the resulting reports. Reports that have been published show gaps in some authorities' understanding of demand. For example, some authorities have made no attempt to analyse the kinds of issues parents raise when they contact local Family Information Services, a key potential source of intelligence. Local authorities are also adversely affected by the lack of information about the relative impact of different types of early years provider (paragraph 2.22).

**18 Many parents experience initial confusion about the childcare market and how to access their free entitlement; better information would help many of them.** Survey evidence has shown how parents are often unaware of formal information sources, relying instead on word of mouth. For instance, 70% of parents surveyed by the Department in 2012/2013 were unaware of their local authorities' Family Information Service (a large majority of those who used such services found them helpful). Overall, almost 4 out of 10 parents said they felt there was too little information about childcare in their local area, a proportion that had not changed since 2004 (paragraphs 2.21 and 2.22).

### Delivering the new entitlement

**19 Stakeholders are broadly positive about increasing the entitlement to 30 hours, but providers have concerns about the levels of funding they will receive.** Parents welcome the offer of extra hours and demand is likely to be high. In autumn 2015, the Department ran a consultation with parents and some 90% of respondents said they would use an expanded entitlement if they were eligible. Providers have also been positive but are concerned about whether the change will be affordable with the new national average rates of £4.88 for 3- and 4-year-olds and £5.39 for 2-year-olds. While some providers may expand, creating greater economies of scale, others may face reduced opportunities to cross-subsidise as parents will be paying for fewer hours (paragraphs 3.6, 3.10 and 3.11).

**20 The new entitlement for 3- and 4-year-olds could put further implementation of the entitlement for disadvantaged 2-year-olds at risk.** In 30 local authorities, fewer than 50% of eligible 2-year-olds were accessing the free entitlement in January 2015, while the Department was still some way off its aspiration for 73% to 77% take-up nationally. Many providers have finite capacity and, in future, may choose to offer more hours to their existing 3- and 4-year-old children rather than take disadvantaged 2-year-olds, who require more staff per child. This would jeopardise the Department's objectives to improve outcomes for disadvantaged children and narrow the development gap at age five (paragraph 3.9).

**21 Local authorities are likely to find it challenging to provide the necessary number of places in some areas if demand is as high as anticipated.**

The Department estimates that up to 390,000 families will benefit from extending the entitlement (42% of those eligible for the existing entitlement). However, the Department's last survey of providers – carried out before it extended free childcare to 2-year-olds in 2013 – found that childminders were already, on average, 75% occupied, full day-care settings were 80% occupied and nursery schools 82% occupied. In November 2014, fewer local authorities than a year before reported having sufficient places for parents working full time or for parents with disabled children. The Department will provide an additional £50 million capital funding to help local authorities increase the number of places (paragraphs 3.7 and 3.8).



**22 The success of the new entitlement will be difficult to measure.** The new entitlement will give higher priority to enabling parents to work than to improving children's development, as evidence has shown that providing full-time early years education does not have additional impact on children's outcomes beyond what part-time early years education achieves. The new entitlement is likely to replace private funding for many parents who already pay for more than 15 hours' childcare. Beyond subsidising these parents' costs, the Department will need to set out what – if anything – it wants to achieve. The Department has not yet stated, for instance, to what extent it expects parents to work more hours as a result of the policy. Given the size of the investment, it will need to find measurable ways to track impact (paragraphs 3.3 to 3.5).

### **Conclusion on value for money**

**23** The Department has made significant progress in providing free entitlement to early years childcare, by:

- increasing take-up from parents of 3- and 4-year-olds;
- extending the entitlement to some disadvantaged 2-year-olds; and
- presiding over a system where the independent inspector sees quality rising.

Many parents and children are clearly benefiting from these entitlements.

**24** However, the Department has not yet achieved full value for money because it does not understand enough about the outcomes delivered and how these vary between types of provider and at different levels of funding. As it expands free childcare from 2016, these gaps in its knowledge will become greater risks. Providers may decide not to offer the new entitlement unless the rate of funding is right, and many local authorities are untested in actively managing supply and demand. Without great care disadvantaged 2-year-olds could be the ones to lose out if providers choose to offer more hours to 3- and 4-year-olds within existing capacity constraints. To prove the value for money of its new entitlement the Department needs to address these issues and set out clearly what it expects to achieve from the extra hours and how it will measure progress towards these goals.

## **Recommendations**

- a** To make sure that the Department achieves its objectives to close the attainment gap between disadvantaged children and their peers, it should set out publicly how it will intervene in local authorities with unexplained lower levels of take-up for the 2-year-old entitlement. It should also intervene in local authorities that have had lower-quality provision long term, particularly in areas of disadvantage.
- b** The Department has committed to reviewing the funding formula for early years. As it does so, it should make sure that it understands the demand for free childcare around the country and the true cost of providing it. It should use this information to set a long-term funding formula that distributes early years funding fairly.
- c** In implementing the new entitlement to free childcare, the Department should make full use of its pilots from September 2016 to:
  - Test assumptions about parental demand and estimate the number of new places needed.
  - Clarify what it wants to achieve from expanding the entitlement and develop measures to evaluate effectiveness, in particular, any expected future link to increased parental employment.
  - Evaluate the impact of the new entitlement on take-up of free childcare for disadvantaged 2-year-olds.
  - Understand how the most effective local authorities manage and develop their early years market and share this good practice.
  - Test ways of tracking the progress of individual children from childcare through to primary education.