



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **Department for Education**

# Supporting disadvantaged families through free early education and childcare entitlements in England

## Key facts

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**£3.5bn**      **1.45m**      **53,810**

the Department for Education's funding for its early years entitlements in 2019-20

children taking up the entitlements at January 2019

providers receiving entitlement funding at January 2019

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<b>68%</b>	proportion of eligible 2-year-olds who took up the disadvantage entitlement in 2019
<b>39% to 97%</b>	variation between local authorities in the proportion of eligible 2-year-olds who took up the disadvantage entitlement in 2019
<b>93%</b>	proportion of 3- and 4-year-olds who took up the universal entitlement in 2019
<b>17 percentage points</b>	gap between the proportion of children achieving a good level of development in the 10% most and least deprived areas in 2019
<b>10%</b>	proportion of providers graded as requires improvement or inadequate by Ofsted in the 20% most deprived areas at January 2019, compared with 4% in the least deprived areas
<b>63%</b>	proportion of local authorities with enough places in their area for the disadvantage entitlement, according to Coram Family and Childcare's 2019 childcare survey
<b>-1.4%</b>	estimated real-terms change in the average hourly rate local authorities paid to providers for the disadvantage entitlement between 2016-17 and 2019-20

# Summary

**1** Evidence has shown that high-quality early education and childcare can support children's development and improve their outcomes. The Department for Education (the Department) funds three entitlements to free early education and childcare in England:

- the disadvantage entitlement: 15 hours per week for disadvantaged 2-year-olds;
- the universal entitlement: 15 hours per week for all 3- and 4-year-olds; and
- the extended entitlement: an additional 15 hours per week for 3- and 4-year-olds with eligible working parents.

At January 2019, nearly 150,000 2-year-olds and 1.3 million 3- and 4-year-olds were taking up the entitlements.

**2** The disadvantage entitlement is the only one of the three schemes to support disadvantaged families specifically, but the entitlements generally are part of the Department's ambition to improve social mobility. The Department intends that the disadvantage and universal entitlements will support children's development and prepare them for school. It also aims to close the achievement gap between disadvantaged children and their peers. Through the extended entitlement, the Department aims to help parents manage childcare costs and support them into work, and thereby help lift families out of poverty.

**3** The Department oversees the early years system and is ultimately accountable for securing value for money from the entitlements. In 2019-20, it distributed entitlement funding of £3.5 billion to local authorities. Local authorities allocate funding to early years providers and play a central role in implementing the entitlements. Among other things, they must ensure there are enough childcare places in their area and provide information and advice to parents and providers. Central government also provides other funding for childcare, for example through Universal Credit and the tax-free childcare scheme.

**4** Parents choose which provider, such as a nursery or a childminder, and how many hours of childcare to use. At January 2019, 53,810 childcare providers in the public, private and voluntary sectors were receiving entitlement funding. All providers offering the entitlements must be registered with Ofsted, which inspects the quality of early years provision.

## Focus of our report

5 This report builds on our 2016 report which examined how well the Department, working with others, had implemented its early years policies.<sup>1</sup> It focuses on whether the Department is supporting disadvantaged families effectively through the provision of entitlements to free early education and childcare. Children from disadvantaged backgrounds potentially have most to gain from the entitlements, which may help to redress the impact of wider inequalities and close the development gap between them and their peers.

6 In assessing value for money, we examined: whether disadvantaged families are accessing the entitlements; whether the supply of free early education and childcare is sufficient and high-quality in deprived areas; and whether families and children, particularly those who are disadvantaged, are benefiting from the entitlements. Where possible our assessment focused on disadvantaged families specifically and we compared their position with more advantaged families to assess variations in support; however, this disaggregation was not feasible for all the issues we covered.

7 This report covers: the background to the entitlements (Part One); take-up and impact of the entitlements (Part Two); and the provision of entitlement-funded early education and childcare (Part Three). We set out our audit approach in Appendix One and our evidence base in Appendix Two.

## Key findings

### Take-up and impact of the entitlements

8 **The Department has not met its aspiration for between 73% and 77% of eligible 2-year-olds to take up the disadvantage entitlement.** Take-up of the disadvantage entitlement increased from 68% in 2016 to 72% in 2018, but fell back to 68% in 2019. Take-up varies widely across the country, ranging from 39% to 97% in different local authorities in 2019. Our analysis also suggests there are considerable differences within local authority areas – the largest variation was in Essex where take-up was 69% overall but ranged from 58% to 99% between districts. The Department is investigating why take-up of the disadvantage entitlement has dropped. For 3- and 4-year-olds, take-up of the universal entitlement has remained high, between 93% and 95% of the population since 2015, and take-up of the extended entitlement has increased since it was introduced in 2017 (paragraphs 2.2 to 2.5).

1 Comptroller and Auditor General, *Entitlement to free early education and childcare*, Session 2015-16, HC 853, National Audit Office, March 2016.

**9 Families in deprived areas are less likely than other families to take up the entitlements.** Analysis indicates that in general the more deprived an area is, the lower the take-up of the entitlements. For the disadvantage entitlement, take-up in the 20% most deprived areas was 68% in 2019; take-up increased as deprivation decreased, reaching 74% in the 20% least deprived areas. The gap between disadvantaged families and others was less pronounced for the universal entitlement. We could not analyse take-up of the extended entitlement by deprivation since the Department does not have robust estimates of the eligible population at local level (paragraph 2.6).

**10 Factors that limit take-up of the entitlements, such as awareness and cost, particularly affect disadvantaged families.** Parents' awareness of the entitlements is high overall, but lower in deprived areas. For example, the Department's 2019 parents survey found that 72% of respondents in the 20% most deprived areas were aware of the extended entitlement, compared with 91% in the 20% least deprived areas. Government funding is not intended to cover the costs of meals, other consumables, extra hours or additional activities, and providers can charge for these. A survey by the Department in 2018 found that 74% of providers made additional charges. In addition, some providers operate in ways that mean parents effectively have to pay charges to take up the entitlement. For example, parents may have to pay for extra hours that are not covered by the entitlement in order to obtain a place. In 2019, a CEEDA survey found this was the case for between 12% and 18% of private providers.<sup>2</sup> The need to pay charges will generally have a larger impact on disadvantaged families (paragraphs 2.7 to 2.17).

**11 The Department has focused its efforts on improving take-up among disadvantaged families, but does not know what works locally.** In 2019, to encourage take-up, the Department tested with nine local authorities alternative ways of contacting families who might qualify for the disadvantage entitlement. It is also promoting the extended entitlement to lower-income families who are just outside the eligibility criteria to encourage them to increase their working hours to qualify. Initial data indicate the Department's actions have had some impact, and full evaluations of their effectiveness are expected in 2020. The actions local authorities are taking to increase take-up include visiting parents at home to tell them about the entitlements and put them in contact with providers. These measures can be resource-intensive and there is no robust evidence on the effectiveness of local action (paragraphs 2.18 to 2.23).

2 CEEDA is an independent research agency specialising in analysis of the early years sector.

**12 The impact of the entitlements on children’s development is difficult to demonstrate.** The Department is funding a longitudinal study to assess the impact of the disadvantage and universal entitlements. It expects final results from the study in 2021. Interim findings suggest some formal early education and childcare may have a positive effect on a child’s development, particularly if started by at least age 2 for disadvantaged children. However, the evidence is mixed on what might lead to better lasting outcomes. The Department uses the Early Years Foundation Stage profile assessment to monitor how well children are developing generally. There are limitations to this assessment, but results indicate children’s development is improving. The gap in development between children in the 10% most and least deprived areas remained substantial but narrowed slightly, from 19 percentage points in 2016 to 17 percentage points in 2019 (paragraphs 2.27 to 2.32).

#### Provision of entitlement-funded early education and childcare

**13 The proportion of providers that Ofsted has graded as good or outstanding has increased but is lower in deprived areas.** At January 2019, Ofsted had graded 94% of entitlement-funded providers as ‘good’ or ‘outstanding’, up from 85% at January 2015. Quality is generally lower in the 20% most deprived areas. They have fewer outstanding providers – 18% at January 2019 compared with 27% in the least deprived areas; they also have more providers graded as ‘requires improvement’ or ‘inadequate’ (10% compared with 4%). At January 2019, 5,400 children taking up the disadvantage entitlement and 103,600 children taking up the universal entitlement were with providers that Ofsted had graded as requires improvement or inadequate. Local authorities should stop funding providers graded as inadequate as soon as is practicable (paragraphs 3.2 to 3.4).

**14 Few parents report not being able to find childcare places but there are concerns about shortfalls and a lack of flexibility in provision.** In the Department’s 2019 parents survey, 3% of families who had not used any childcare in the past year reported that this was because they could not find a place as local providers were full. However, there is local variation in provision. Some local authorities have reported gaps in certain localities and falling numbers of disadvantage entitlement places, and there are fewer providers in deprived areas. In 2019, Coram Family and Childcare found that 63% of local authorities reported there were enough places for the disadvantage entitlement, 74% for the universal entitlement and 62% for the extended entitlement. The number of providers for the disadvantage entitlement has also plateaued since 2017, while the number offering the universal and extended entitlements has increased. Even if places are available, provision may not meet parents’ needs, for example for atypical hours or evening and weekend childcare. The Department’s 2019 survey found that 22% of parents said they had problems finding childcare that was flexible enough for their needs (paragraphs 3.6 to 3.14).

**15 There is conflicting evidence on whether the Department's funding rates are sufficient to cover providers' costs.** The Department's average hourly funding rates to local authorities changed little in real terms between 2016-17 and 2020-21. The average hourly base rates local authorities paid to providers for the disadvantage entitlement fell between 2016-17 and 2019-20 (by an estimated 1.4% in real terms). In contrast, the average rates for the universal and extended entitlements rose by an estimated 7.9% in real terms, as the Department has obliged local authorities to pass on an increased proportion of funding since April 2017. Providers have faced cost pressures in recent years, including increases to the national minimum and living wages and pension contributions, but the Department's funding rates are based on cost data from 2015 or earlier. The Department and childcare provider sector have conflicting evidence on the extent to which the funding rates cover providers' costs. Some of the disparity in average hourly costs may be due to differences in how the research was undertaken. The Department's research was clear in fully setting out the assumptions underpinning the analysis, including details of costs that were excluded. Along with other limitations, these exclusions mean that the Department's studies potentially under-stated the average hourly cost (paragraphs 3.18 to 3.24).

**16 Most local authorities choose not to make full use of the limited flexibility they have to incentivise providers to meet local needs, such as to expand provision for deprived families.** Local authorities have a statutory duty to ensure there are enough childcare places in their area. The Department limits how local authorities can use entitlement funding to some extent – for example, they must pay all providers the same basic rate. Local authorities have some financial flexibility to influence providers, as they can use up to 10% of entitlement funding as 'supplements' to support providers to meet local needs. However, few local authorities make full use of this flexibility – they allocated 4.3% of their funding to supplements on average in 2019-20, ranging widely from less than 0.1% to the full 10%. All local authorities must have a supplement specifically to support provision for deprived families; on average, they used 3.0% of funding for this purpose (paragraphs 1.6, 3.29 and 3.30, and Figure 13).

**17 The Department has improved its understanding of how well local authorities are delivering the entitlements.** In June 2016, the Committee of Public Accounts reported that the Department lacked any mechanism for identifying whether local authorities were managing childcare provision in their area effectively or to intervene if needed. The Department subsequently contracted Childcare Works, between October 2016 and January 2020, to monitor the work of local authorities and provide support where required. Childcare Works, for example, made assessments each term of each local authority across a number of areas including sufficiency of places. The small sample of local authorities we visited were positive about the support Childcare Works provided. At the time of our work, the Department was re-procuring this service, with the new contractor expected to begin in spring 2020 (paragraphs 3.31 to 3.33).

**18 The Department has not fully analysed the available data to identify local variation in take-up and provision, or routinely investigate the reasons for variation.** The Department has data available for areas below the level of local authorities, but does not use these data to understand the full extent of local variation. We have analysed these data for this report. This analysis indicates there is considerable variation in take-up of the entitlements and quality of provision, with the position generally worse for families living in deprived areas. The Department investigated take-up in 2018 and considers that variation reflects parents' choices and local context and practice. However, it does not routinely investigate the reasons for local variation (paragraphs 2.5 to 2.7, 3.4 and 3.34).

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

**19** Nearly all families in England with young children are getting some benefit from the Department's entitlements to free early education and childcare. Since we last reported on this topic in 2016, take-up of the universal entitlement has remained high, the extended entitlement has become established, and the overall quality of provision has improved.

**20** The Department has had less success in making sure disadvantaged families specifically are effectively supported through the provision of the entitlements, with lower take-up and poorer-quality provision in deprived areas. This creates a risk that the gap between the development of disadvantaged children and their peers will grow rather than narrow, with a detrimental impact on the Department's ambitions to improve social mobility. The Department therefore needs to do more to secure value for money and ensure disadvantaged families benefit at least as much as others from the entitlements.

### **Recommendations**

- a The Department should make better use of available data to investigate routinely the geographic variations in take-up of the entitlements and availability and quality of provision.** It should use this analysis, alongside its existing qualitative intelligence, to explore the reasons for variations and to challenge local authorities to secure improvements in localities with especially low levels of take-up, supply or quality.
- b The Department should work with local authorities to develop a better understanding of the approaches that work best in increasing take-up of the entitlements by disadvantaged families.** This work should include collaborating with local authorities to evaluate the impact of both national and local actions to improve take-up, promoting those measures that are most effective, and assessing whether the actions needed to increase take-up are affordable and sustainable.



- c The Department should assess the extent to which additional charges are acting as a barrier to families taking up the entitlements.** This assessment should cover what parents are being asked to pay for and help the Department better understand whether additional charges are adversely affecting access to entitlement places. The Department should request local authorities take action where it finds that charges are not in line with the guidance.
- d The Department should strengthen its evidence base on provider costs in order to build confidence that its funding rates can sustain supply and quality at acceptable levels.** It should use this evidence to inform future Spending Reviews. In communicating its funding rates, the Department should make clear its assumptions including the extent to which future cost rises have been considered and whether it expects providers to become more efficient.
- e The Department should identify how it can best incentivise the provision of sufficient high-quality entitlement places in deprived areas.** This should include reviewing the effectiveness of the existing supplement arrangements and establishing why local authorities are making only limited use of them. The Department should also explore how to encourage providers to offer flexible provision to meet the needs of parents who, for example, work atypical hours.