National Audit Office

REPORT

Preparations to extend early years entitlements for working parents in England

Department for Education

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Key facts

13 months
time between the Chancellor of the Exchequer announcing the government would extend entitlements and the Department for Education's (DfE's) rollout

£15.2bn
DfE's February 2024 estimate of additional spending on the entitlements between 2024-25 and 2027-28

662,000
number of children DfE estimates will become eligible for entitlements in 2024-25, a 50% increase on eligibility from January 2023

49% cash-terms increase in early years funding for local authorities for 2024-25 (£5.9 billion) compared to the previous year (£4 billion)

Up to April 2024, when new entitlements started to become available:

82% proportion of 152 local authorities who, in March 2024, were confident in meeting the April 2024 milestone to provide sufficient local places to parents for the new entitlement (with 6% indicating they were not confident)

246,833 number of 2-year-olds for whom eligible parents had registered for an early years place by 17 April, against an expected 246,000

79% proportion of codes issued that providers had validated by 17 April, securing parents a place (195,355)

By September 2025, when the roll-out will be completed:

around 85,000 DfE's estimate, in March 2024, of additional places required, a 19% increase on places for 2-year-olds and under from June 2023

around 40,000 DfE's central scenario, in February 2024, for the additional full-time equivalent staff required by September 2025. This is a 12% increase on figures as at July 2023

Throughout this report, central government financial years are written as, for example, '2024-25' and run from 1 April to 31 March; school academic years are written as '2024/25' and run from 1 September to 31 August.

Summary

1 In March 2023, to increase parents' participation in the labour market, the Chancellor of the Exchequer announced a significant extension to government-funded entitlements for early years education and childcare in England. The Department for Education (DfE) already provides some funding for 3- and 4-year-olds, alongside disadvantaged 2-year-olds, spending £4 billion in 2023-24.

2 DfE is ultimately accountable for securing value for money from early years spending. It sets policy and distributes funding, using a formula, to local authorities to fund parents' entitlements. Local authorities then play a significant role distributing this funding to around 58,000 providers who include schools, voluntary and private providers, and childminders. Local authorities must ensure providers supply enough places and distribute information to them and parents. Parents can choose whether and where to send their children, should a provider have space, and for how many hours. Parents may receive government-funded hours if they meet specified criteria.

3 In March 2023, the government announced it would significantly extend its funded entitlements, in three stages, to children of working parents who meet salary thresholds:[1]

- On 1 April 2024, DfE extended entitlements to include 15-hours a week for 2-year-olds of eligible working parents;
- From September 2024, DfE will extend this 15-hour entitlement to children over 9-months-old; and
- From September 2025, children over 9-months-old will be entitled to access 30 hours per week.

4 In March 2024, DfE estimated that with these changes 662,000 more children could become eligible for entitlements in 2024-25. It expects to spend an estimated £4.8 billion further in 2027-28, more than double its current expenditure. The Office for Budget Responsibility estimated that by 2027-28, 60,000 mothers could have entered or re-joined the labour market, with significantly more increasing their working hours.

1 Parents earning between £8,670 and £100,000 a year will be able to claim entitlements for 38 weeks of the year.

5 DfE launched the Early Years and Childcare Reform Programme (the Programme) to extend entitlements alongside wraparound childcare for primary-aged school children. This report assesses DfE's progress and whether it is well-placed to manage value for money risks. It examines:

- the background to the early years market and government-funded entitlements (Part One);
- DfE's preparations and progress in extending entitlements (Part Two); and
- our view of the future risks DfE needs to manage to achieve value for money (Part Three).

We do not examine the government's wider work, which includes wraparound childcare, the Department for Work & Pensions' support through Universal Credit, and HM Revenue & Customs' support through its Tax-Free Childcare scheme. Appendix One describes our audit approach and evidence base.

Key findings

Planning and delivering the Programme

6 DfE and HM Treasury (HMT) worked quickly to consider ways to expand entitlements but set the timetable with significant uncertainties around feasibility, costs and benefits. In the four months before the Spring Budget 2023, DfE and HMT worked quickly to explore options to expand entitlements, given evidence that unaffordable childcare creates a barrier to parents' employment. However, due to HMT's usual restrictions on information-sharing when developing the budget, DfE could not consult the early years' sector. HMT and DfE set dates without understanding local authorities' and providers' capacity and capability to deliver an unprecedented level of growth in the workforce and new places. DfE estimated that, by September 2025, providers needed to create 85,000 places and recruit around 40,000 staff, although requirements would vary locally. DfE originally planned to implement early in some local authorities, to test feasibility and establish evaluation baselines, but cancelled this due to affordability constraints (paragraphs 2.2, 2.5, 2.7, 2.10 and 3.13).

7 **To reduce risks, DfE opted to introduce entitlements in phases, but the fixed timetable does not include flexibility to reflect recognised uncertainties.** Drawing on its 2017 experience of a smaller expansion of entitlements to working parents, and its understanding of sector risks, DfE recommended a phased rollout between April 2024 and September 2025. For April 2024, it focused on where it had more control, such as establishing systems, legislation and funding, and where the market needed to expand less given the number of 2-year-olds already using childcare. It delayed riskier and more uncertain milestones, which included increasing places and creating entitlements for new age groups. DfE told us it adopted the timetable given the policy imperative to realise labour market benefits quickly. However, the fixed dates mean it has no contingency in its timetable to respond to uncertainties. Its Programme Business Case set out an expectation to spend around £256 million on extending entitlements between 2023-24 and 2027-28. As at March 2024, DfE forecast to spend around £110 million in the first year (paragraphs 2.6, 2.10 and 2.11, and Figure 5).

8 **DfE is making good use of available data to respond to trends and understand progress though there are gaps in its understanding.** DfE and the Office for Standards in Education, Children's Services and Skills (Ofsted) routinely collect data on the supply, capacity, and use of provision. However, the data are not always current. For example, DfE's provider survey is annual, publishing five months after data is collected. DfE has supplemented its data and undertaken modelling to estimate the places needed but these forecasts include assumptions as they depend on fluctuating variables such as parental demand. DfE set up a central team to bring together information and help forecast local demand, availability of places, workforce needs and, since January 2024, monitor take-up. DfE has used this to inform local and national planning. For example, in early 2024, when data showed higher than expected parental demand, it increased its estimates of the places and staff required (paragraphs 2.17 and 2.18).

9 **DfE is on track to meet its April 2024 milestone, but later milestones will be more challenging.** By 17 April, the parents of 246,833 children had requested codes to claim their places against an expected 246,000. Of these, 195,355 codes were validated (79%). DfE expects this to rise further to stabilise at around 85% although the timescale for when this will happen is uncertain. The number of codes issued and validated will never match given, for example, some parents may choose not to take up entitlements. DfE estimated it needed 7,000 additional places compared to those available in June 2023, to satisfy demand in April 2024. DfE estimates significantly more will be needed by September 2025 leading to a total 85,000 places. It assesses the likelihood of delivering the places required in September 2024 and 2025 as amber/red "problematic" given the increase (paragraphs 2.11, 2.12 and 3.11).

Preparing the sector

10 **Local authorities vary in their readiness to introduce new entitlements, which can impact providers' ability to prepare.** Local authorities raised concerns with DfE about their ability to meet the timetable. Feedback collected by DfE in March 2024 found that 82% of local authorities responding were confident there would be enough places in their area to meet increased demand in April 2024 (with 6% indicating no confidence). This drops to 34% for September 2024, with 47% neither confident or unconfident, and 9% for September 2025 given the uncertainties and scale of the increase. Local authorities distribute DfE funding to providers using local rates. At the start of February, only 45 local authorities had published their final rates for 2024-25, which could limit providers' ability to plan for the April rollout. As at 20 March 2024, all 153 local authorities had published them. DfE is monitoring local authorities' preparedness, including through surveys, and providing support for those it considers at risk of having insufficient places. It has also provided local authorities data, to help planning, and allocated £112 million in support grants using formulae (paragraphs 2.16 and 3.4 to 3.6 and Figure 10).

11 **DfE worked with HMT to increase hourly funding rates given concerns over the sector's financial sustainability.** DfE recognised it needed to increase funding to improve providers' financial sustainability and incentivise growth. As we reported in March 2020, providers faced cost pressures.[2] DfE's analysis, prepared in advance of the Spring Budget 2023, showed that between 2019-20 and 2021-22 funding rates had been set below providers' estimated delivery costs. Inflationary pressures (including higher energy, food and wage costs) also led to an estimated funding gap of £230 million in 2023-24 and £315 million in 2024-25. For 2023-24, DfE provided additional funding of £206 million in September 2023. For 2024-25, HMT has approved rates for 3- and 4–year-olds that aim to restore a small level of estimated profits. It approved rates for 2–year-olds close to the estimated breakeven point. This led to a £412 million funding increase and DfE increased its hourly funding rates for local authorities by an average of 4.7% for 3- and 4-year-olds compared to 2023-24. Its new rate for 2-year-olds (£8.28) represents a significant increase from 2023-24 (£6.00) though is not directly comparable. This means that DfE's early years funding to local authorities will be £5.9 billion, a 49% cash-terms increase from 2023-24 (paragraphs 2.14 to 2.16 and 3.31 and Figure 4).

2 Comptroller and Auditor General, *Supporting disadvantaged families though free early education and childcare entitlements in England*, Session 2019–2021, HC 104, National Audit Office, March 2020.

12 **For the Programme to succeed, providers must increase places by 19% compared to 2023 but face significant challenges and uncertainties.** In March 2024, DfE estimated that providers must create 85,000 new places by September 2025, with 19% more places for 2-year-olds and under. To understand readiness and risks, DfE has used surveys of those currently offering places. To expand, new and prospective providers need confidence in sustainable funding and parental demand, but these are uncertain. Providers may also face practical constraints, such as finding staff and physical space for new places. In November 2023, representative bodies told us they have little confidence there will be enough places to meet demand (paragraphs 2.5, 3.8 to 3.10 and Figure 5).

13 **Providers may not have enough staff to support the places needed by 2025 and DfE does not yet know whether its actions will help.** In February 2024, DfE estimated that, by September 2025, the early years workforce would need to expand by around 40,000 full-time equivalent staff, 4,000 more than its earlier November 2023 estimate. This represents a 12% increase on staff numbers in just over 2 years, from July 2023, which is ambitious given the workforce only increased by 5% between 2018 and 2023. DfE has not estimated requirements regionally. DfE, representative bodies and the six local authorities we spoke to in November 2023 told us barriers to expansion included insufficient staff, low pay and limited progression. In February 2024, DfE launched a national recruitment campaign and is piloting, in 20 local authorities, a financial incentive for new joiners and those returning to the sector. It also increased funding rates and, from January 2024, changed regulatory requirements to help providers flex their staffing models. However, it is unclear whether its interventions will have the intended impact (paragraphs 3.12 to 3.15 and Figures 12 and 13).

14 **The government has sought to give providers longer-term certainty over funding, as its rates become increasingly important to providers' financial sustainability.** Funding rates will become increasingly important as the government becomes the main income source for most providers, and as the proportion of government-funded hours increase from around 50% to 80%. DfE identified a risk that funding rates will not keep up with providers' cost pressures. In the Spring Budget 2024, the Chancellor of the Exchequer announced the government's plans to provide longer-term certainty by uplifting funding in line with a combination of inflation, average earnings growth and the National Living Wage in 2025-26 and 2026-27. As government set funding rates close to the breakeven rate for 2-year-olds and to restore a small level of profit for 3- and 4-year-olds, it will be important for DfE to monitor the early years market's cost pressures and understand how the market responds (paragraphs 1.10 and 3.31 to 3.32).

Achieving outcomes and value for money

15 **The government's main objective is to support more parents into work, and DfE estimates around a third of its benefits are employment-related.** DfE's main objective, as set out in its business case, is supporting more parents into work. However, the new entitlements will fund provision for parents already paying. DfE has estimated that, across 2024-25, 57% of the children taking up the new entitlements will already be using childcare. When its Investment Committee approved the business case in September 2023, DfE estimated employment-related benefits of £7.8 billion (40% of total benefits). Its most recent analysis, in March 2024, estimated employment-related benefits of around £5.6 billion (35% of total benefits). DfE based revised benefits relating to mothers entering work or increasing their hours on feedback from its 2017 extension of entitlements. However, there remain significant uncertainties in how parents of younger children will respond to the new entitlements. DfE has estimated a benefit:cost ratio (BCR) of £1.26:£1. In order to include as up to date a picture as possible, we have included figures we have not audited, including this BCR data (paragraphs 3.17 and 3.19, and Figure 14).

16 **DfE has commissioned early evaluative work, but it will be difficult to measure how extended entitlements impact employment.** A process evaluation will assess local authority and provider delivery, with DfE requesting interim findings in August 2024 to support its later milestones. Impact and value-for-money evaluations will consider whether the changes led to childcare becoming more affordable and encouraged parents into work. DfE has set clear expectations for these evaluations to use appropriate data and asked its contractor to explore how best to assess labour market outcomes. This will be challenging given the lack of a counterfactual and complexities around attribution (paragraph 2.20 and Figure 9).

17 **DfE has an objective to reduce the attainment gap between children from more affluent families and their more disadvantaged peers, but extending entitlements may increase this gap.** DfE has two related priority outcomes to support the most disadvantaged and vulnerable children. For 2022/23, for children living in the most and least deprived areas there was an 18.5 percentage point gap between them reaching "a good level of development" at age five. DfE recognised the extension could widen the attainment gap and considered extending entitlements to younger disadvantaged children. However, government opted not to progress this, given affordability concerns. The Institute for Fiscal Studies reported that higher-income families will benefit more, with the lowest 30% of the income distribution seeing almost no direct benefit. DfE has not yet confirmed how it will monitor the ongoing impact on attainment but has committed to consider this in its evaluation (paragraphs 3.22 to 3.26).

18 The expansion could impact the quality of provision or places for vulnerable children. Local authorities and sector representatives we consulted expressed concern that the rapid growth in places may impact quality or displace those children who may be more challenging or costly to support. Specifically, the risk of a large influx of more inexperienced staff and providers, alongside DfE changing staff:child supervision ratios for 2-year-olds and practitioner qualifications, could jeopardise quality. There will be some time lag in DfE's understanding of any emerging quality issues given it relies on Ofsted's inspections. In the interim, DfE told us it engages with Ofsted, local authorities and the sector to inform its understanding (paragraphs 3.27 to 3.29).

19 DfE is still defining how it will respond should risks materialise or performance falls below expectations. DfE's approach to monitoring has evolved. It now uses performance indicators around parental take-up, sufficiency of places and local readiness. However, it has yet to define the thresholds for what constitutes 'good' performance or what would trigger it to intervene or change its approach. DfE is developing a delivery strategy, with formal checkpoints, to take stock of performance and has started to explore options to define how it would respond to, for example, low staff recruitment (paragraph 2.19).

Conclusion

20 Following the Spring Budget 2023, DfE responded quickly to establish a programme to extend early years entitlements. It had 13 months to start introducing entitlements and, recognising this challenge, staggered its own activities sensibly. However, despite the importance of providers in delivering the Programme, it could not consult the early years sector given HMT's usual restrictions when developing budget proposals. This, along with cancelling early testing plans given affordability pressures, creates significant uncertainties around whether the sector can implement the changes and be financially sustainable. DfE has met its first milestone for the number of codes issued by the end of April and 79% of these have been validated. However, it has assessed its confidence in meeting milestones beyond April 2024 as "problematic". It must now use available data to understand when it needs to intervene and consider how it will respond to risks should they materialise, particularly given the lack of contingency and flexibility in its fixed, ambitious timetable.

21 In extending entitlements, the government's primary aim is to encourage more parents into work. Even if DfE successfully navigates the significant uncertainties, it remains unclear whether the extension will achieve its primary aim, represent value for money and not negatively impact DfE's wider priorities relating to quality and closing the disadvantaged attainment gap.

Recommendations

22 For DfE to increase its chances of meeting forthcoming milestones it should:

a continuously review the achievability of the September 2025 milestone and set interim performance thresholds that, once passed, would prompt consideration of corrective action, such as resetting the timetable or Programme;

b better use data to explore how variations in availability of early year places, parental take-up and workforce could impact future performance and costs. It should then set out contingency arrangements for plausible scenarios with clear criteria for activating these plans;

c consider the impact of its decision not to proceed with early testing and explore alternative ways to test feasibility, build confidence and develop early indicators of labour market impacts; and

d establish how to monitor the relative impact of its interventions, including the funding rate on the number of early years staff, and therefore places, to determine where resources should be focused.

23 In the longer term:

e DfE should monitor the impact of new entitlements on quality to understand whether unintended effects, such as on the availability and quality of places for disadvantaged children or those with special educational needs and disabilities (SEND), need to be managed.