National Audit Office

REPORT

Preparations to extend early years entitlements for working parents in England

Department for Education

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HC 701

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Preparations to extend early years entitlements for working parents in England

Department for Education

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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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.

Part One

Background

1.1 The Department for Education (DfE) subsidises early years childcare and education through various entitlements for parents.[3] This Part provides an overview of the sector, roles and responsibilities for providing places, and spend on entitlements.

The early years sector

1.2 DfE is responsible for overseeing and providing funding to the early years sector and sets the relevant policies. This supports one of its four priority outcomes: to provide children with the best start in life through high-quality early education and childcare to raise standards and help parents to work.

1.3 DfE is accountable to Parliament for securing value for money from the funding it provides the sector. Most of its early years funding comprises entitlements for parents to access government-funded places. Since 2004, DfE has expanded eligibility for entitlements three times and, in March 2023, the Chancellor of the Exchequer announced a further significant expansion within a package of measures to encourage people into work (**Figure 1** overleaf). Between April 2024 and September 2025, DfE is introducing a new entitlement for working parents to access up to 30 hours a week of government-funded provision for children aged from 9 months until school age for 38 weeks of the year.[4] DfE estimated that with these changes 662,000 more children could become eligible for entitlements in 2024-25.

1.4 Local authorities play a central role within the sector (**Figure 2** on page 15). They have statutory duties to secure enough places for children qualifying for entitlements and must provide information to providers and parents. They must also pass DfE funding, covering parents' entitlements, to providers. To reflect local variations in cost, DfE uses a formula to set a funding rate for each local authority and age group. Local authorities then allocate funding to providers based on their own formulas, the numbers taking up entitlements, and funding rules set by DfE.[5]

3 Where parents are referred to in this report, this also includes carers.
4 Working parents earning between £8,670 and £100,000 a year will be eligible.
5 Local authorities must distribute at least 95% of their funding from the government to providers for specified entitlements.

Figure 1

Early years entitlements provided by the Department for Education (DfE), up to September 2025 as at December 2023

DfE has expanded entitlements for different purposes; the new expansion extends the working offer to parents of children aged 9 months to 3 years

	Universal	Disadvantage	Working offer	New working offer
Introduced	2010	2013	2017	Phased in from April 2024 to September 2025
Aim	Support children's development and prepare them for school	Support children's development and prepare them for school; close attainment gap	Help parents manage early years costs and support them into work	Help parents manage early years costs and increase labour market participation and encourage parents into work
Description	Up to 15 hours per week for all 3- and 4-year olds	Up to 15 hours per week for disadvantaged 2-year-olds	Up to 30 hours per week for 3- and 4-year olds of eligible working parents	Up to 30 hours per week for children over 9 months of eligible working parents
Number of children receiving	1,196,000	124,200	363,000	434,500 (estimate)
Proportion of eligible children receiving	94%	74%	around 80% (estimate)	65% (estimate)

Notes

1 All entitlements are for a period equivalent to term-time only i.e. 38 weeks of the year, though they may be used at any time up to the total number of hours for the entitlement.

2 The disadvantage entitlement includes: children whose families have low incomes or who are (or have been in) local authority care, and children with special educational needs and disabilities.

3 Take-up of the universal and working offer by 4-year-olds includes children in reception classes.

4 Figures for the number of children taking up the working offer entitlement are also included in the universal entitlement.

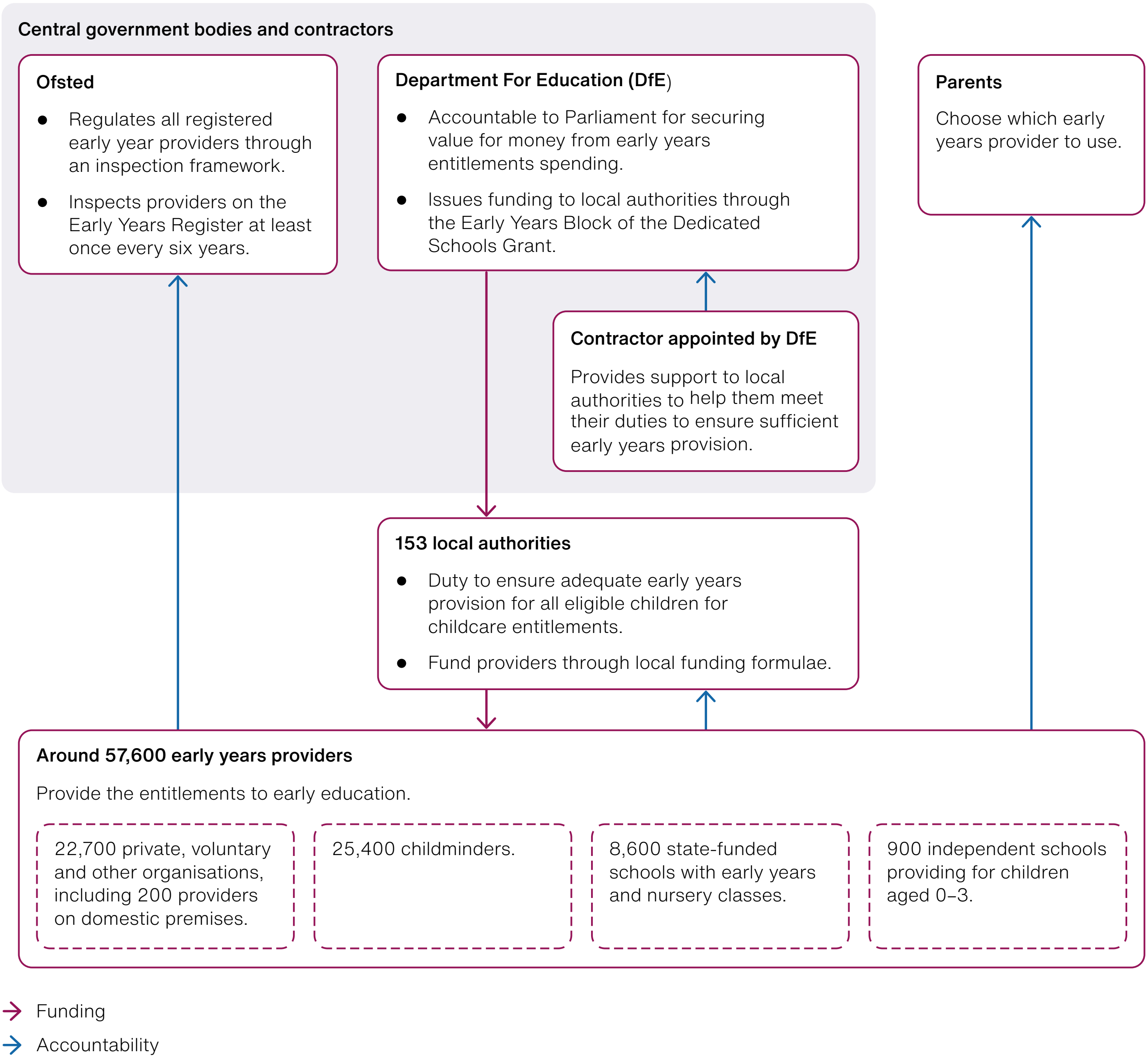
5 Figures for the number of children taking up the universal, disadvantaged and working offer entitlements is at January 2023. DfE's estimate for those taking up the new working offer entitlement is at September 2023.

6 The proportion of eligible children taking up entitlements is at January 2023. DfE's estimated proportion for the working entitlement is based on a number of different surveys and censuses, with the working offer estimate as at September 2023.

Source: National Audit Office analysis of Department for Education data

Figure 2
Overview of early years provision, funding and accountability, April 2023

The Department for Education funds and oversees early education and childcare entitlements in England, working with local authorities and early years providers



Notes
1 Provider figures represent those eligible to provide government-funded places, whether or not they do so.
2 Early years provider figures are subject to rounding.

Source: National Audit Office summary and analysis of Department for Education and Ofsted data

1.5 We estimate there are around 58,000 early years providers in England, primarily comprising private and voluntary providers, childminders, and state-funded schools (**Figure 3**). Children aged 2 years and under mainly attend private and voluntary providers and childminders, whereas schools predominantly cater for those aged 3 and older. Parents choose where to send their children – should a provider have space – and for how many hours. Parents can pay privately or receive entitlements for government-funded hours if they meet specified criteria.

Figure 3

National Audit Office estimate of the numbers of early years providers, as at August 2023

The number of providers has fallen by 21% since 2018, mainly due to reductions in the number of childminders

<table>
<tr><th>Provider type</th><th>Description</th><th>Number of providers</th><th>Number of places</th><th>Change in number of providers since 2018</th><th>Change in places since 2018</th></tr>
<tr><td>Private, voluntary and other organisations</td><td>Private companies, voluntary organisations and other providers who provide childcare on non-domestic premises, and 200 providers on domestic premises.</td><td>22,700</td><td>1,097,000</td><td>-7%</td><td>4%</td></tr>
<tr><td>Childminders</td><td>Individuals working on domestic premises alongside no more than two other childminders or assistants.</td><td>25,400</td><td>166,000</td><td>-35%</td><td>-33%</td></tr>
<tr><td>State-funded schools</td><td>Includes maintained nurseries, and primary and other schools with provision for children in early years and nursery classes.</td><td>8,600</td><td rowspan="2">350,000</td><td>5%</td><td rowspan="2">7%</td></tr>
<tr><td>Independent schools</td><td>Independent schools where there is provision for children of early years or nursery age.</td><td>900</td><td>-8%</td></tr>
<tr><td>Total</td><td></td><td>57,600</td><td>1,613,000</td><td>-21%</td><td>-1%</td></tr>
</table>

Notes

1 Figures may not sum due to rounding.

2 Figures include those eligible to provide government-funded early year places, whether or not they do so.

3 Figures for private, voluntary and other organisations, and childminders, are from Ofsted registers as at 31 August 2023 and include all providers eligible to provide free entitlements for children up to 4 years of age.

4 Figures for childminders exclude 1,645 childminders registered with childminder agencies in August 2023.

5 Figures for private, voluntary and other organisations and childminders, include 4,337 of out-of-school daycare providers, with 176,000 places.

6 State-funded schools and independent school numbers are from the school census, complemented with data from DfE's Get Information About Schools service. The figure for the reduction in the number of independent schools since 2018 is an estimate based on proxy data.

7 State-funded schools and independent schools places numbers are from DfE's survey of Childcare and Early Years Providers (run between April and July), with the survey results weighted to be nationally representative.

Source: National Audit Office analysis of Department for Education and Ofsted data

1.6 Providers do not have to offer government-funded places, but to do so they must be registered with Ofsted, or an Ofsted-registered childminder agency. Ofsted regulates all registered early years providers and understands the quality of those registered on the early years register through its inspection framework. As at August 2023, 96% of early years places in private and voluntary providers, 97% in childminders, and 93% of children in early years and nursery classes in state-funded schools inspected by Ofsted had a judgement of good or outstanding. There was little variation by area deprivation. However, if only considering the outstanding rating, deprived and average areas tended to have a lower proportion of places in providers (or children in schools) than less deprived areas.[6]

Funding entitlements

1.7 DfE's early years entitlement spending is demand-led based on the entitlements available, DfE's funding rates, and how many hours are taken up. Since 2020-21, entitlement spending has risen in cash terms, primarily due to a 2023-24 rise in funding rates for 3- and 4-year-olds. In 2023-24, DfE spent £4 billion, 13% more than in 2020-21 (**Figure 4** overleaf). In extending entitlements, DfE will increase the proportion of early years hours it funds from around 50% to 80%, with parents contributing less.

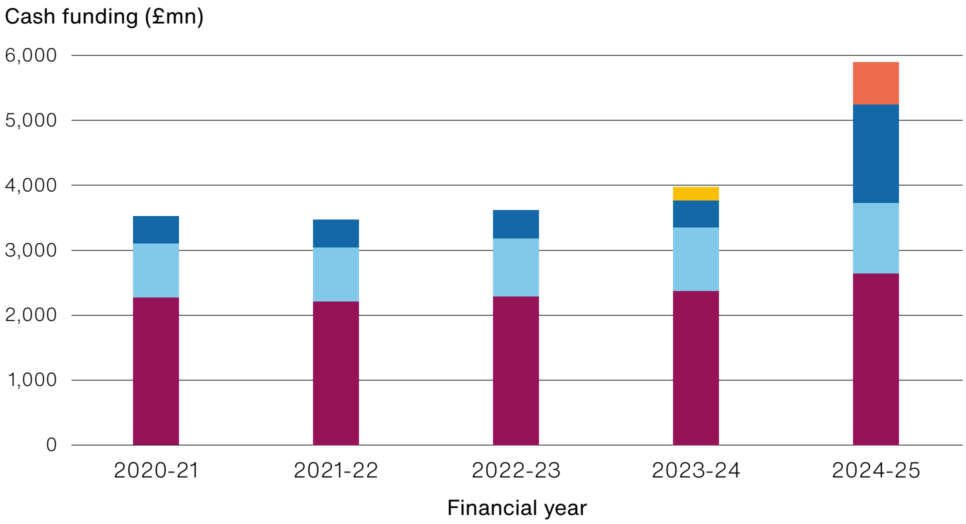
1.8 Looking ahead, given the expansion in entitlements and the higher funding rates, DfE expects to spend 49% (around £1.9 billion) more in 2024-25 than in 2023-24. In February 2024, DfE estimated that additional public spending will be around £4.8 billion in 2027-28 and around £15.2 billion over 2024-25 to 2027-28. This reflects a significant growth in investment when compared with that across other government spending.

6 At August 2023, 14%–15% of early years places at private, voluntary and other organisations and childminders in most deprived, deprived and 'average' areas were rated as outstanding, compared to 18%–21% in the least and less deprived areas. For schools, 24%–26% of children in early years and nursery classes in the most deprived, deprived and 'average' areas were in schools where provision was rated as outstanding, compared with 36%–40% in least and less deprived areas. Our evidence base in Appendix One sets out details behind this analysis.

Figure 4

Department for Education's (DfE's) cash funding for early years education and childcare entitlements, 2020-21 to 2024-25

DfE expects to spend nearly £6 billion on entitlements in 2024-25, 49% more than in 2023-24



	2020-21	2021-22	2022-23	2023-24	2024-25
Universal entitlement for 3- and 4-year-olds	2,275	2,212	2,289	2,373	2,639
Extended entitlement for 3- and 4-year-olds	832	837	894	978	1,091
Entitlements for 2-year-olds	422	425	433	413	1,517
Early years supplementary grant				206	
Entitlements for 9-month- to 2-year-olds					650

Notes

1 Funding is shown in cash terms and may not sum due to rounding.

2 Funding for 2-year-olds between 2020-21 and 2023-24 reflects DfE's disadvantaged funding. Its funding for 2024-25 reflects funding for both disadvantaged and those with working parents.

3 This figure excludes DfE's funding for the Early Years Pupil Premium, Disability Access Fund and supplementary funding for maintained nursery schools.

Source: National Audit Office analysis of Department for Education financial data

Part Two

Delivering the Programme

2.1 In spring 2023, the Chancellor of the Exchequer announced that, between April 2024 and September 2025, the Department for Education (DfE) would widen eligibility for early years funded entitlements, to help increase labour market participation. This part considers the early decision-making, set-up and progress to date.

Early decision-making

Expanding entitlements

2.2 In the four months before March 2023, DfE and HM Treasury (HMT) appraised options for extending early years entitlements. By December 2022, DfE had assessed shortcomings in existing provision, sector challenges and potential changes. HMT subsequently shortlisted the options, which included extending entitlements for all parents, including those in paid work and not.

2.3 In the Spring Budget 2023, the Chancellor of the Exchequer announced a significant package of reforms focused on increasing participation in the labour market. Extending entitlements for working parents comprised a significant component.[7] For 38 weeks a year, working parents who meet income requirements will be entitled to government-funded early years places covering:

- 15 hours for 2-year-olds, available from 1 April 2024;
- 15 hours for 9-month- to 2-year-olds, from September 2024; and
- 30 hours for 9-month-olds to 2-year-olds, from September 2025.

2.4 The Office for Budget Responsibility (OBR) estimated that, as a result, by 2027-28, it expects around 60,000 mothers to enter employment and around 1.5 million already in employment to increase their hours by a small amount. Using a different methodology, DfE has estimated that between around 17,000 and 128,000 additional mothers will enter employment and between around 222,000 and 461,000 will substantially increase their hours over the same period between its low and high scenarios.

7 The package also included: funding for wraparound childcare in schools; parents receiving Universal Credit being able to access childcare support upfront with an increase in the maximum they could claim; and start-up grants for new childminders.

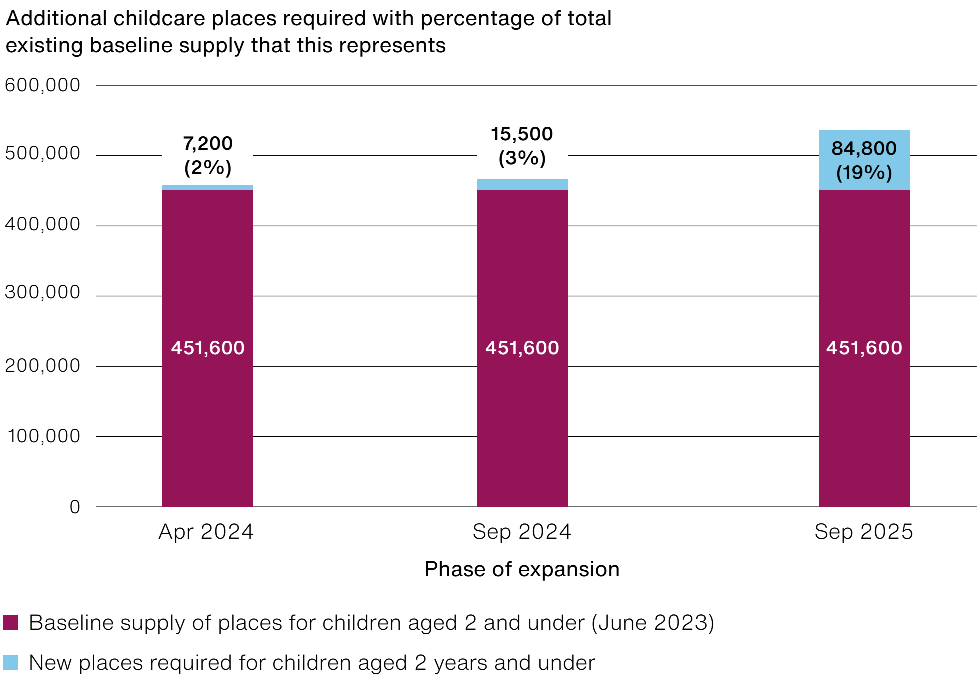
Deciding the timetable

2.5 The Spring Budget 2023 set out changes to entitlements, alongside the implementation milestones. DfE told us that it adopted the timetable given a policy imperative to realise the expected benefits as quickly as possible. However, the level of places and workforce growth required would be unprecedented, which DfE describes as the "largest ever expansion of childcare that England has ever seen". DfE estimates that by September 2025, 170,000 places will be needed, of which 85,000 will be new places, although this will vary locally (**Figure 5**). This includes a 19% increase in new places for children aged 2 and under.

Figure 5

Department for Education's (DfE's) estimate of the cumulative additional early years' places required between April 2024 and September 2025, as at March 2024

DfE expects that nearly 85,000 new early years places will be required by September 2025



Notes

1 These numbers were provided by DfE from their supply and demand model. We did not audit the underlying analysis for these numbers.

2 Percentages shown are the proportion of the baseline supply that the increase in supply required represents.

Source: National Audit Office analysis of Department for Education data

2.6 Given the timetable constraints and limited contingency, DfE carefully considered how to sequence its activities and milestones. It drew on learning from its previous rollout of entitlements to working parents of 3- and 4-year-olds (paragraph 2.10) and explicitly considered where it could speed up. It initially proposed a phased rollout, starting from September 2024, focusing on providing entitlements to those parents already paying for places, delaying riskier and more uncertain milestones which included increasing places and creating entitlements for new age groups. Subsequently, DfE decided to rollout the extension six months earlier, from April 2024, as it felt it could update systems and establish legislation and funding rates quickly by building on existing arrangements. DfE had considered the trade-offs with speed and accepted the risk that providers may not have enough staff. It hoped that increasing funding rates would be attractive to providers.

Impact of decision-making

2.7 Before the Spring Budget 2023, DfE and HMT worked quickly to decide on the entitlement changes and how they would be implemented. However, the pace left significant uncertainties around feasibility, benefits and costs. Given HMT's usual restrictions on information-sharing, only a limited number of DfE staff were involved in developing budget proposals and:

- DfE could not complete analysis to gain full assurance on delivery feasibility or expected benefits. It had begun to estimate the additional places and staff required but this was based on untested assumptions.
- DfE was unable to consult with the sector to understand the capacity of local authorities and providers. In November 2023, we received feedback from five representative organisations. Of the four commenting on early engagement, they all described regular and constructive engagement with DfE but were not consulted before the March 2023 announcement. All five raised specific concerns including:
    - providers being unable to prepare given inadequate funding information;
    - insufficient transparency on DfE's plans to increase the workforce and maintain quality; and
    - work to generate demand possibly leading to disappointed parents if they could not find places or misunderstood the offer.

Programme set-up

2.8 After the implementation timetable had been set through the Spring Budget 2023, DfE launched the Early Years and Childcare Reform Programme (the Programme). This included workstreams addressing funding, sufficiency of places, workforce growth, parental engagement, and local authority support. DfE sought approval to spend around £256 million on extending entitlements between 2023-24 and 2027-28. As at March 2024, DfE forecast spending around £110 million in the first year. It now expects whole-life programme costs of around £222 million.

2.9 DfE worked quickly to set-up the Programme while preparing for the April 2024 rollout (**Figure 6**). It scaled up its programme team to 93 staff and set up governance and assurance mechanisms, alongside preparing business cases and finalising funding rates. In September 2023, DfE's Investment Committee approved the Programme Business Case. HMT did not formally scrutinise or approve the business case, though it scrutinised underlying business cases for individual projects. Since then, the team has continued more detailed work to assess likely benefits. HMT requires accounting officers to assess whether programmes align with Managing Public Money, which includes considering their feasibility to be implemented accurately, sustainably, and to the intended timetable. On 2 April, six months after DfE approved the Programme, it published an accounting officer assessment.[8]

2.10 In setting-up the Programme, and in line with good practice, DfE sought to apply learning from its 2017 smaller-scale expansion of entitlements to the working parents of 3- and 4-year-olds. It used data and evidence to assess what could be delivered and focused on securing enough staff. However, DfE did not test the expansion with some local authorities to better understand the barriers to delivery before its national rollout. DfE saw testing as a critical success factor in 2017. In October 2023, DfE were considering options to roll out the full 30-hour entitlement to a small number of local authorities a year early, in September 2024, with a budget of £35 million. However, in January 2024, DfE cancelled its plans given affordability constraints. DfE considers rolling out untested entitlements as a significant risk and is exploring how it will mitigate the impacts of this, partly from gathering insights from its planned evaluations.

8 Where an accounting officer assesses that a proposal will lead to them not meeting Managing Public Money standards, ministers can issue a direction requiring accounting officers to proceed.

Figure 6

Timeline for the Department for Education's (DfE's) Early Years and Childcare Reform Programme (the Programme), March 2023 to April 2024

DfE had 13 months from the 2023 Spring Budget to deliver its first extension of early years entitlements in April 2024

2023

15 Mar 2023

In the Spring Budget 2023, the Chancellor of the Exchequer (the Chancellor) announced plans to widen eligibility to early years entitlements for working parents of 9-months- to 2-year-olds.

Jul 2023

DfE issued first survey to local authorities seeking feedback on their readiness to deliver the new entitlements. It plans to undertake surveys each term.

Sep 2023

DfE's Investment Committee approves the Programme Business Case.

DfE allocated local authorities £206 million in supplementary grants to distribute to early years providers.

DfE changed the statutory framework to allow providers to change staff:child supervision ratios for 2-year-olds from 1:4 to 1:5.

DfE started a new programme of systematic engagement with the largest provider chains to understand the impact of extended entitlements and their delivery and expansion plans.

Nov 2023

DfE provided local authorities £12 million in grants to support them recruit staff, administer funding, develop delivery plans and increase their capacity to engage with providers and parents.

DfE published 2024-25 funding rates for local authorities for early years entitlements.

2024

2 Jan 2024

Date from which parents could request a code to enable them to apply for early years places.

Feb 2024

DfE provides local authorities £100 million in capital grants to help providers expand or refurbish facilities and update IT systems.

6 Mar 2024

In the Spring Budget 2024, the Chancellor announced the government's plans to uplift funding in line with inflation, average earnings growth and the National Living Wage in 2025-26 and 2026-27.

1 Apr 2024

Local authorities became legally responsible for providing eligible working parents of 2-year-olds 15 hours of government-funded childcare per week.

Source: National Audit Office analysis of Department for Education documents

Progress to date

2.11 As of 1 April 2024, parents were able to access new entitlements for 2-year-olds should they find places. This includes preparing the statutory and regulatory groundwork; publishing new local authority funding rates in November 2023; and working with HM Revenue & Customs (HMRC) to update an IT system for parents to check their eligibility for entitlements from January 2024. However, there were time lags in some local authorities informing providers of their funding rates given the time local authorities need to set and consult on their local funding formulas (see paragraph 3.5). Also in late January, when some providers asked parents for a code to secure their child's place, some parents using the government's Tax-Free Childcare scheme could not confirm their eligibility online. DfE worked with HMRC to find a solution, issuing 57,000 manual codes in mid-February 2024.

2.12 By 17 April 2024, parents had applied for eligibility codes for 246,833 children against an expected 246,000. At that date, 195,355 (79%) codes had been validated by providers. DfE expects this to rise further to stabilise at around 85% although the timescale for when this will happen is uncertain. This provides DfE the best way to understand additional places secured for children. The number of codes validated will never match those issued given, for example, some parents may decide not to use entitlements and some codes are generated automatically for parents using Tax Free Childcare. The proportion of issued codes validated aligns with DfE's experience rolling out entitlements to working parents of 3- and 4-year-olds in 2017.[9] Following higher than expected parental demand for the new entitlements, DfE revised upwards its estimates of places and staff required along with its milestones and spending in early 2024. If demand is higher than expected, and assuming providers can meet that demand, the government will need to provide additional funding.

2.13 DfE's approach to track and report on the Programme's main activities and indicators has developed over time. It uses a live dashboard where it estimated that at mid April 2024, it was on track but DfE assessed all aspects as increasingly high-risk for September 2024 and 2025 (**Figure 7**). Its use of data to track progress is still maturing, and it is seeking to fill gaps in its management information to track changes in the size of the workforce. DfE does not routinely collect such information given the nature of the early years market.

9 By 5 September 2017, the start of the first term, 71% of codes were validated. By 9 October 2017, one month after the rollout, codes validated reached 90%.

Figure 7

The Early Years and Childcare Reform Programme's priorities, targets and delivery confidence, April 2024

DfE is on track to meet its April 2024 milestone, but later milestones will be more challenging

	April 2024 rollout		September 2024 rollout	September 2025 rollout		
Objective	**At April 2024**	**Performance – 17 April 2024**	**Delivery confidence:**	**Delivery confidence:**	**Overall performance**	**Comments**
1 Parents use more childcare	246,000 codes issued by April 2024 with 35% of eligible children using the new entitlment.	246,833 codes issued of which 195,355 were validated by providers. 31% of population of eligible children using new entitlement. DfE expects this to rise over the course of April.	Amber/Green	Amber/Red	40% of eligible children using expanded the new entitlement.	DfE is monitoring data on parents' requests for eligibility codes and providers' validation of those codes as a proxy for demand for the new places.
2 Sufficient staffed childcare places	DfE expects the proportion of issued codes being validated by providers to stabilise at 85%	79% of total codes issued have been validated.	Amber/Red	Amber/Red	DfE expects the proportion of issued codes being validated by providers to stabilise at 85%.	DfE is monitoring enablers to this target, namely: the number of new places created (85,000 by September 2025) and workforce growth (40,000 full time equivalent staff). It has models to estimate what is needed at each stage. Ofsted provides data on new places, but there is currently no timely data on workforce.
3 Local authorities ready to deliver expansion	less than 10 local authorities rated as high risk for delivery readiness for the April 2024 rollout.	No high risk local authorities.	Amber/Red	Amber/Red	less than 10 local authorities rated as high risk for delivery readiness in the run up to each milestone.	

Notes

1 An amber/green rating indicates the following, "it is probable that the milestone will be met – no major issues currently affecting delivery" and amber/red is "doubtful the milestone will be met – major issues. Urgent action required to resolve".

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

3 On codes issued and validated, these proportions will never match exactly as not all parents will opt to take up the entitlements.

Source: National Audit Office summary of Department for Education performance reports

Funding arrangements

2.14 DfE sees getting provider funding rates right as critical to incentivising the market to create places, influencing the speed and scale of expansion, and supporting financial sustainability. As part of its Spring Budget 2023 analysis, DfE assessed that, between 2019-20 and 2021-22, funding rates for 3- and 4-year-olds and disadvantaged 2-year-olds were below providers' estimated delivery costs. Rates for 2-year-olds were loss-making. DfE estimated that, without intervention, inflationary pressures alone (including higher energy, food and wage costs) would create a £230 million funding gap in 2023-24 and a £315 million gap in 2024-25. It felt that the financial sustainability risks which resulted could lead to: parents facing higher fees, providers reducing the number of government-funded places provided, and providers closing.

2.15 In September 2023, DfE allocated local authorities £206 million extra entitlement funding to help address providers' cost pressures. For 2024-25, it increased funding by £412 million for: existing entitlements (£288 million); National Living Wage increases (£67 million); and teachers' pay and pensions (£57 million). In 2024-25, the combined hourly funding rate for 3- and 4-year-olds increased by an average of 4.7% compared to 2023-24 (from £5.62 to £5.88). DfE's new rate for 2-year-olds (£8.28) represents a significant increase from 2023-24, although these rates are not directly comparable.[10] It introduced a new rate of £11.22 for children aged under 2.

2.16 Alongside entitlement rates, DfE provided local authorities with resource and capital funding to support the expansion. However, time pressures and a lack of data meant that DfE made allocations without fully understanding requirements. This included the following:

- **Delivery support funding:** In 2023-24, DfE provided local authorities with £12 million through formula-based grants to help administer entitlement funding, develop delivery plans, and increase their capacity to engage with providers and parents. It did not complete analysis of what resources local authorities may need, but recognised that funding may not cover all local authorities' actual costs.[11]

10 DfE's average hourly funding rate for disadvantaged 2-year-olds in 2023-24 was £6.00. For 2024-25 it introduced a new single rate for both disadvantaged 2-year-olds and 2-year-olds with working parents.

11 The Department for Levelling Up, Housing & Communities requires government departments to assess and fully fund where new duties lead to local authorities increasing their spending.

- **Childcare expansion capital grants:** In February 2024, DfE provided local authorities with £100 million in capital funding to help expand or refurbish facilities and update IT systems.[12] In August 2023, DfE had estimated this may create 4,500 additional places, around 5% of the 80,000 additional places it then thought would be required by September 2025. DfE lacked the time and evidence to run a bidding process and used a formula to distribute funds.[13] It identified a "significant" risk of capital underfunding. It has committed to improve data on local authorities' funding requirements and seek further funding if required.

Using data and evaluation

2.17 DfE has acted to improve its understanding of providers' capacity and intention to expand and make effective use of data on parental take-up. DfE and Ofsted routinely collect data on the supply, capacity, and use of provision. However, the data snapshots are not always current – some only provide an annual record for example, DfE's provider survey and there are gaps, for example, in workforce data. To address this, and get more accurate and timely information, DfE:

- sought additional information through, for example, more frequent provider, and local authority surveys;
- built models to estimate what was needed from the sector, for example, in terms of the new places and staff, to expand provision; and
- set up an Insight Unit to centralise monitoring and analysis, respond to trends and inform decision-making (**Figure 8** overleaf).

2.18 The Insight Unit has set out demand and supply estimates to help monitor how parts of the system are preparing for the expanded entitlements. These forecasts include assumptions as they depend on fluctuating variables, such as parental demand. In Summer 2023, it shared estimates with each local authority to help them identify where they may not have enough places. DfE continues to refine information and regularly shares it with local authorities. For example, in early 2024 it increased its estimates of the places and staff required when data showed higher than expected parental demand.

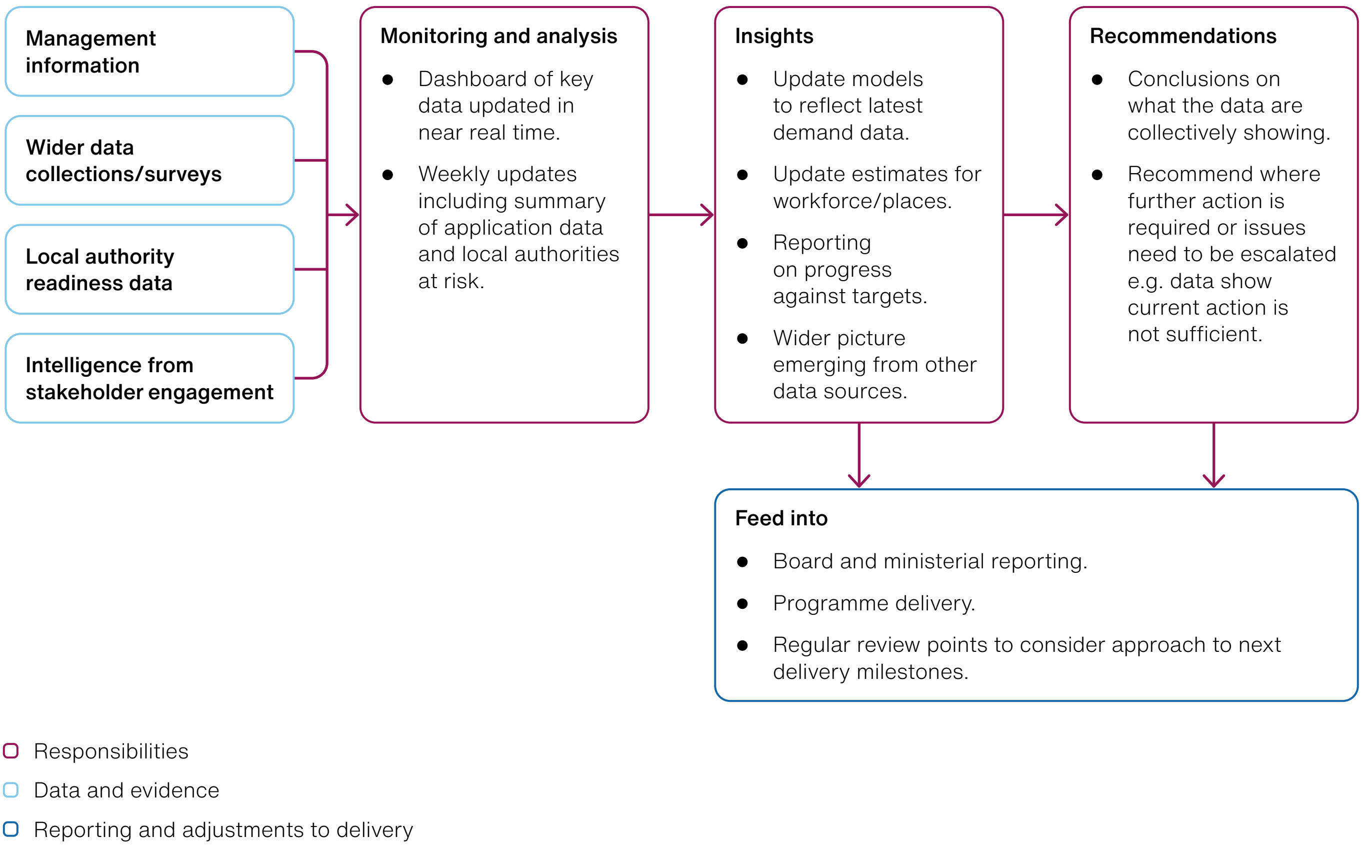
12 Local authorities can prioritise spending across new entitlements or providing wraparound childcare for primary-aged children. To estimate costs, DfE assumed an 80:20 split.

13 DfE did not have sufficient data on existing early years places to inform its approach. It distributed capital funding based on the number of 3- and 4-year-olds taking up the additional 15-hour entitlement for working parents, adjusting for regional differences in construction costs.

Figure 8

Responsibilities of the Early Years and Childcare Reform Programme's (the Programme's) Insight Unit, April 2023

The Programme is making use of a range of data, analysis and insights to inform reporting and decision-making



Source: National Audit Office analysis of Department for Education documents

2.19 The Insight Unit is developing a delivery strategy setting out when current interventions should have their intended impact, and what DfE can do if progress is not on track. This includes formal checkpoints to review performance. However, it has yet to define the thresholds for what constitutes 'good' or 'poor' performance and what would trigger it to intervene, change its approach or reset the Programme. For example, it is not clear what is 'enough' parental demand to deliver the expected benefits, or at what point DfE may need to intervene to help increase the workforce. DfE is exploring workforce options should performance vary significantly from expectations. Its fixed timetable means it has limited flexibility to develop and respond quickly to possible scenarios.

2.20 In line with good practice, DfE has considered its evaluation plans early, to assess the process, impact and value for money (**Figure 9**). In March 2024, it appointed a contractor to undertake evaluations. DfE has set clear expectations for these evaluations to use appropriate data and asked its contractor to conduct a feasibility study over summer 2024 on how best to assess labour market outcomes. It recognises this will be challenging given the lack of a counterfactual and complexities attributing changes in parents' employment outcomes to entitlements.

Figure 9

The Department for Education's (DfE's) planned evaluations of its extended early years' entitlements, March 2024

DfE is commissioning evaluations, on process, impact and value for money, to be completed between 2025 and 2027

Evaluation	Purpose	Scope	Interim reports (internal to DfE)	Expected publication date
Process	To improve understanding of how successfully local authorities and early years providers have delivered the extended entitlements for working parents and their children.	The evaluation will include assessments of: • how local authorities and early years providers have delivered the new entitlements and to explore the barriers and enablers they faced; • the uptake of the extended entitlements among eligible working parents, exploring their experiences and how this has influenced their intentions and ability to work; and • how other families not eligible for the entitlements have experienced finding and using childcare.	August 2024	Summer 2026
Impact and value for money	To determine if the policy has had the intended impact to make childcare more affordable for families and enable parents to enter or return to the labour market more quickly after having children. Includes impacts from parents entering work and increasing their hours.	The evaluations will include assessments of: • parents' labour market participation; • parental demand for the entitlements; • childrens' experiences of childcare; • families' outcomes; • access to childcare; • quality of childcare provision; and • value for money, costs and economic impacts.	June 2026	Spring 2027

Source: National Audit Office summary of Department for Education documents

Part Three

Managing risks

3.1 The Department for Education (DfE) recognises there are significant risks to expanding early years entitlements for working parents. It has committed to challenging milestones and must navigate significant uncertainties. This part of the report considers DfE's risk management approach and our assessment of implementation- and outcome-related risks.

DfE's risk management approach

3.2 Following the March 2023 announcement, DfE started identifying risks with internal stakeholders, HM Treasury (HMT) and the No. 10 Delivery Unit. It consolidated these into a log, providing a structured list of operational risks. For each risk, DfE has clarified accountability, defined the causes, identified proposed metrics for monitoring and considered potential mitigations. DfE is developing a risk management culture with transparent and timely risk information and reporting; clear accountability and ownership of risks; and risk ratings.

3.3 At the time of our report, DfE's top programme risks related to implementing the entitlement changes. These covered: insufficient places for those parents wanting to claim entitlements; operational infrastructure not being ready; insufficient parental demand to support the expected expansion; and an unstable market.

Implementation-related risks

Local authorities cannot support providers in their areas

3.4 Local authorities play a critical role in distributing funding to providers; providing information to parents; and ensuring their areas have enough early years places to meet demand. Feedback collected by DfE showed significant variation in local authorities' readiness to deliver the new entitlements. In March 2024, 82% of 152 local authorities responding to DfE's survey were confident they could expand provision by April 2024, falling to 34% for September 2024 and 9% for September 2025 (**Figure 10** overleaf). This is a slight increase in local authorities' confidence to expand since the November 2023 survey where 65% of all 153 local authorities confident for April, 25% for September 2024 and 8% for September 2025. DfE told us these figures matched its expectations given the uncertainties, but it expects local authorities to become more confident over time. More specifically of the 152 local authorities responding in March 2024:

- 70% felt they had the analytical capacity to assess the expected supply and demand for the expanded entitlements; and
- 89% had assessed demand for April 2024; this decreased to 59% assessing demand for September 2024 and 30% for September 2025.

3.5 Local authorities must distribute DfE's entitlement funding to providers using local rates they set. DfE recognise that uncertainty over funding may discourage providers from expanding given they do not have financial information to inform business planning. At the start of February, only 45 local authorities had published their final rates informing providers what they would be paid from April. As at 20 March 2024, all 153 local authorities had published their final rates.

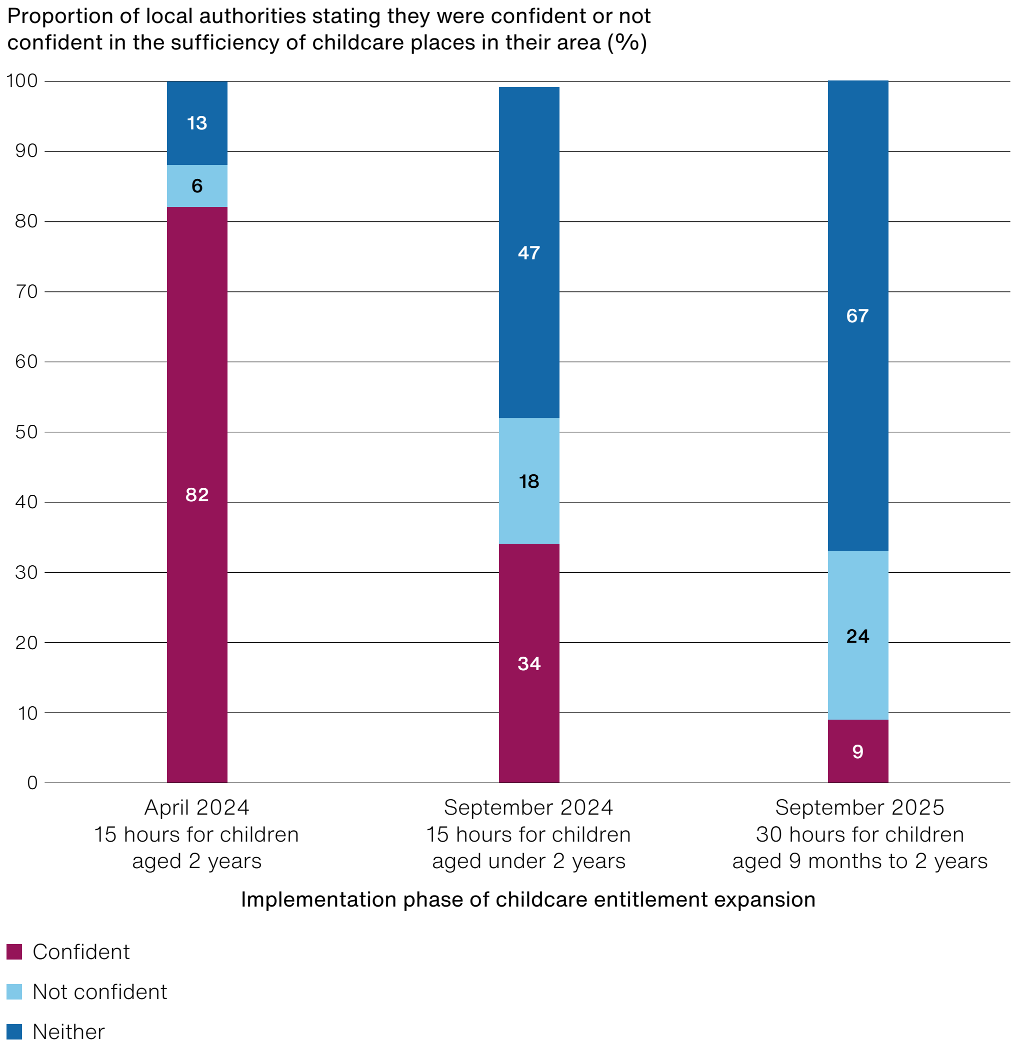
3.6 To support local authorities, DfE has:

- undertaken regular communications, including around six-weekly meetings with every local authority and, since summer 2023, surveys to understand their ability to deliver and the support required. It has more regular contact to those local authorities with concerns about milestones;
- appointed a contractor to provide advice and facilitate events, alongside supporting those local authorities at most risk of not having enough spaces; and
- provided local authorities additional grant funding and started providing data on local supply and demand to support their planning.

Figure 10

Local authorities' confidence in having enough places to meet demand for each entitlement expansion milestone, March 2024

Local authorities' confidence in having enough places declines to 9% for September 2025



Notes

1 Percentages are rounded and may not sum to 100%.

2 A total of 152 out of 153 local authorities responded to the survey.

Source: National Audit Office analysis of Department for Education local authority readiness survey March 2024

3.7 DfE identified a risk that local authorities would not be able to update their IT systems in time to accommodate the new entitlements, meaning parents may not get their eligibility codes validated to secure places. To address this, it introduced manual workarounds and worked with suppliers to deliver changes. As at 5 March, 145 of 153 local authorities were able to check the new codes via full or partial systems, with others checking codes manually.

Providers do not have enough places to meet demand

3.8 To meet their statutory duties and maximise labour market benefits, local authorities, with DfE's support, must ensure there are enough places in the right areas at the right time. Between 2018 and 2023, provider numbers fell by 21% to 58,000, with a 1% fall, to 1.61 million, in the estimated number of places. This included a 7% (22,000) increase in state-funded school places, 4% (42,000) increase at private and voluntary based providers and 33% (83,000) decrease in childminder places. This will partly be due to a fall over time in the preschool population.

3.9 DfE does not have robust data on whether there will be enough places but has developed a model to estimate supply and demand. It has used this to inform planning and target its interventions. It has estimated the following:

- From April 2024, requirements could largely be met by converting existing places paid by parents to those government funded, although this may vary across local areas and providers. In 2023, DfE's provider survey showed spare capacity varied for private, voluntary and other organisations, ranging from 12% of full day places in the East of England to 22% in the North East.
- By September 2024, providers would need to create an estimated 15,500 additional places, with a total 85,000 extra by September 2025. This requires the hours provided to increase by between 20% to 41% across a fifth of areas (**Figure 11** overleaf). Given limited engagement, DfE does not know the market's willingness and capacity to increase places.

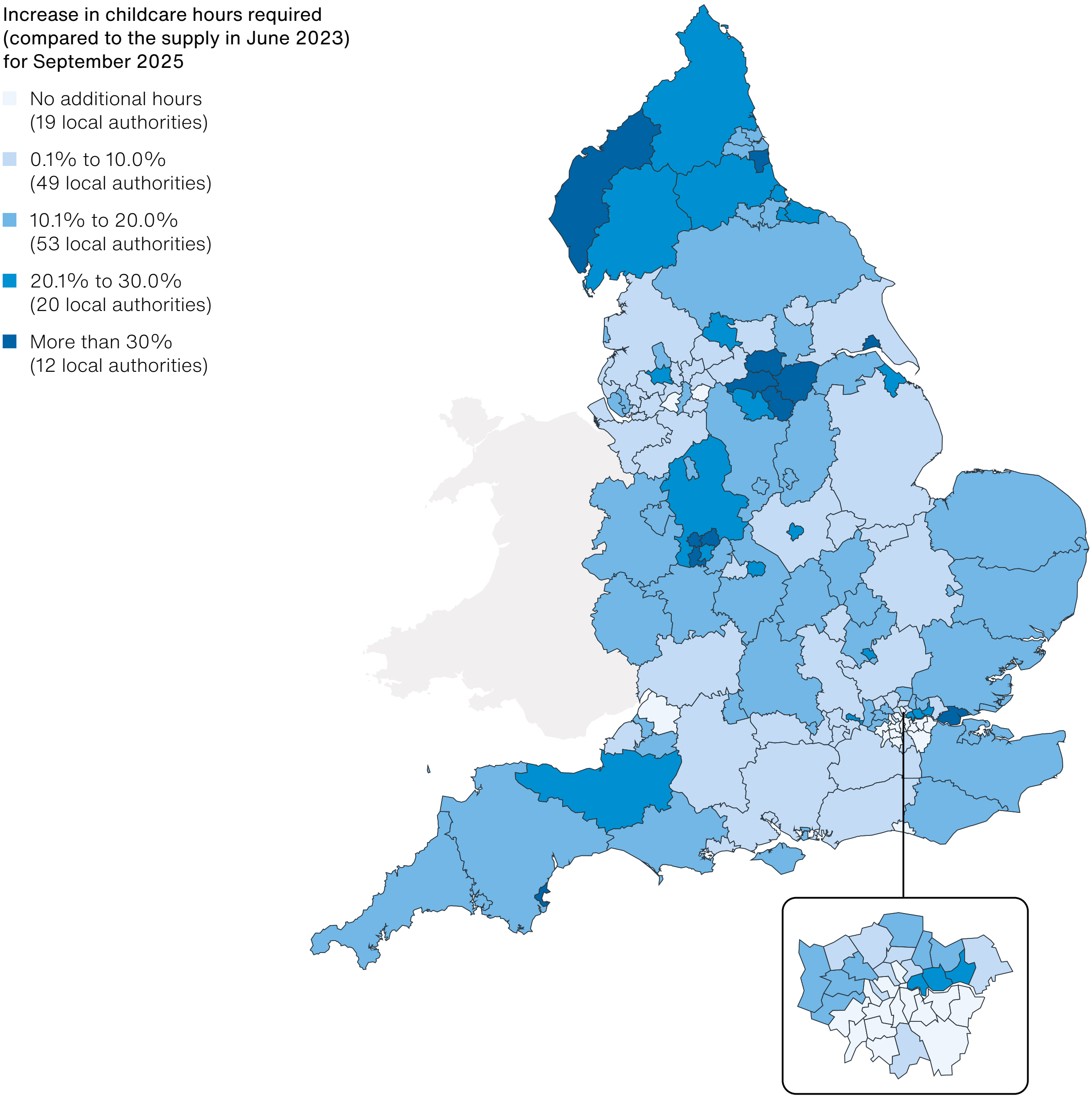
3.10 There remain uncertainties over whether the sector can expand. Feedback collected by DfE from 152 local authorities include concerns about insufficient staff, lack of staff qualified to a suitable level and a lack of suitable space. DfE has used surveys to understand the market's willingness and capacity to expand. In its October 2023 survey of those who currently offer places to children under 3, 46% said it was either "very likely" or "fairly likely" that they would offer more places.[14] Representative bodies told us they have little confidence there will be enough places and the sector continues to face financial pressures.

14 Department for Education, *Early Years Foundation Stage: A survey of early years providers*, Research report, October 2023.

Figure 11

The Department for Education's (DfE's) estimates for required increases in early years hours to meet demand in September 2025 compared to June 2023, as at March 2024

DfE estimates that a fifth of local authorities must increase early years hours by 20% or more for September 2025



Notes

1 Percentage increases are calculated using DfE's March 2024 modelling of the number of early years hours needed for children aged two and under in September 2025, compared to actual hours provided in June 2023. We have not audited the underlying calculations.

2 The highest increase in the percentage of hours required is 42.2%, with the second highest 34.4%. The average increase for all local authorities is 12.5% and the increase needed across England overall is 11.0%.

3 This map is based on upper-tier local authorities at December 2023.

Source: National Audit Office analysis of Department for Education data. Map boundaries from the Office for National Statistics licensed under the Open Government Licence v.3.0. Contains OS data © Crown copyright and database right 2024

3.11 Given uncertainties over the sector's capacity, DfE sees the likelihood of meeting the September 2024 and 2025 milestones as amber-red, "problematic". DfE told us this assessment is unlikely to change until closer to milestones, when data becomes available.

Providers do not have enough staff to provide the additional places needed by September 2025

3.12 DfE, representative bodies and local authorities told us, in November 2023, that insufficient staff represents the main barrier to expansion. In DfE's March 2024 local authority survey, 91% of the 152 responding cited a lack of early years staff as a problem, and 63% a lack of staff with appropriate qualifications. Some providers were already struggling to meet demand due to a lack of qualified staff and were capping places. Over two-thirds (68%) of private and voluntary providers, and over half of schools (55%) surveyed by DfE in 2022 had experienced difficulties in getting enough staff. Challenges include attracting and retaining people given low pay and limited progression opportunities. Although the paid early years workforce has increased by 5% between 2018 and 2023 to 347,000, there are significant local variations, and the number of childminders has reduced by 13,600 (35%) over that period.

3.13 DfE has refined its approach to estimating the staff needed. It first estimated, in March 2023, it would need around 44,000 full-time equivalent (FTE) staff. It has since revised this figure by assuming providers will adopt staff:child supervision ratios of 1:4 for 2-year-olds currently in childcare, removing around 7,800 from its estimate. It has also presented ranges to reflect significant uncertainties around levels of parental take-up. In its November 2023 'central' scenario, DfE estimated that providers would need to recruit around 36,000 additional FTE staff by September 2025. In February 2024, DfE refined its model based on parents' registrations for places. This showed a requirement for around 40,000 FTE staff (**Figure 12** overleaf). This is a 12% increase on numbers from July 2023.[15] DfE has not estimated requirements regionally.

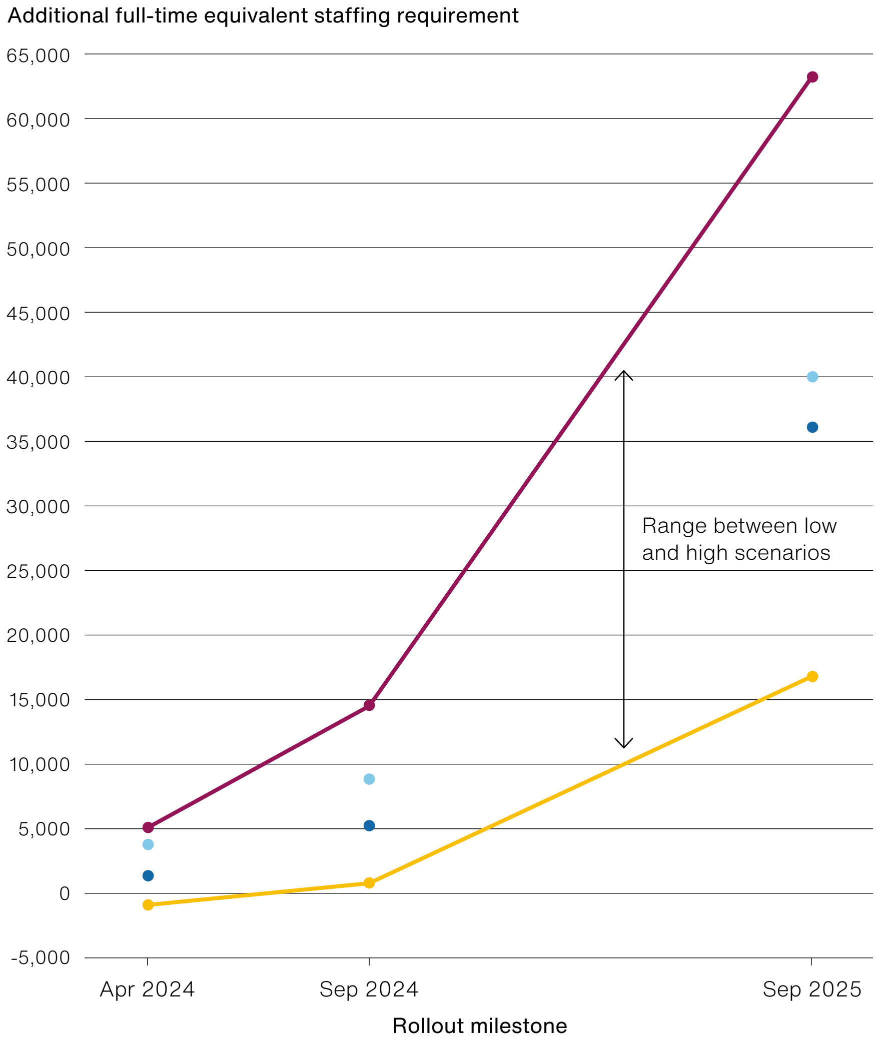
3.14 DfE has created an ambitious workforce growth strategy with measures designed to increase and better use the workforce and improve staff retention (**Figure 13** on page 37). It includes, for example, a scheme offering childminders start-up grants (£7.3 million)[16] and a pilot offering financial incentives of around £1,000 after tax to those new or returning to the profession (£4.9 million). DfE is trying to improve its training pipeline as only around a quarter of those who start relevant qualifications then work in the sector.

15 We have not audited DfE's analysis and workforce model.
16 Childminders registering with Ofsted receive a start-up grant of £600 and those with childminder agencies £1,200.

Figure 12

The Department for Education's (DfE's) low, central and high scenarios for the additional workforce required to provide the new early years entitlements, November 2023 and February 2024

DfE estimates around 40,000 additional full-time equivalent staff will most likely be needed by September 2025, 3,900 more than its earlier estimate



	Apr 2024	Sep 2024	Sep 2025
High scenario	5,100	14,500	63,200
Revised central scenario (February 2024)	3,800	8,800	40,000
Central scenario (November 2023)	1,300	5,200	36,100
Low scenario	-900	800	16,800

Notes

1 In February 2024, DfE only updated its central scenario.

2 DfE's analysis assumes providers will adopt a staff:child supervision ratio of 1:4 for 2-year-olds.

3 DfE's low scenario, for April 2024, assumes existing staff exceeds those required, leading to a negative value.

4 Figures are rounded to the nearest 100.

Source: National Audit Office analysis of Department for Education data

Figure 13

The Department for Education's (DfE's) main workforce growth initiatives, March 2024

DfE is attempting to improve recruitment and retention of the early years

DfE Objective	Actions	Progress
Better use of existing workforce skills and experience to ease recruitment burden	Regulatory framework changes to staff:child ratios and changing qualification requirements for practitioners.[1]	Ratio changes in place since September 2023. Changes to maths requirement and trainee status in ratios since January 2024.
Support early years workforce recruitment	Funding rates increased.	Available for 2024-25.
	National recruitment campaign.	Launched February 2024.
	Financial incentives for new and returning staff.	Piloting in 20 local authorities.
Maximise the skills pipeline into early years	Introduce experienced-based route for entrants.	Consultation May–July 2023. DfE developing further policy detail.
	Launch early years skills bootcamp.	Launched March 2024.
	Increase completion of qualifications.	Increase in early years educator apprenticeship funding from April 2024.
	Wider investment in training as part of early years education recovery programme.	Ongoing delivery of national continuing professional development programme.
Recruitment and retention of childminders	Offer start-up grants to new childminders.	Grants launched in November 2023.
	Give childminders flexibility to work on non-domestic premises and in larger groups.	Aiming to start new flexibilities from autumn 2024.
	Consult on how to further improve recruitment and retention.	Consultation launched 15 March 2024.

Note

1 Level 3 practitioners no longer need level 2 maths to count within staff: child ratios, and student and apprentices can count at the level below their level of study where appropriate. Level 2 qualifications are broadly equivalent to GCSE level and level 3 to A-Level. See here for further details: www.gov.uk/what-different-qualification-levels-mean/list-of-qualification-levels.

Source: National Audit Office summary of Department for Education workforce expansion strategy

3.15 DfE does not yet have timely data to actively monitor changes across the workforce. As a result, it will not know what impact its interventions have had at each stage of the rollout, and which will work most effectively at increasing numbers. For example, it is not yet clear whether providers will increase salaries following the higher funding rates or whether they will use funding elsewhere. Similarly, it does not undertake detailed monitoring to assess whether measures designed to encourage people to join the sector will make a significant difference.

Outcome-related risks

The extension does not achieve its primary aim or demonstrate value for money

3.16 In its business case, DfE identified supporting more parents into work, and becoming economically active, as its primary outcome-focused objective. Its 2022 parents survey showed that 32% of families found it 'difficult' or 'very difficult' to meet childcare costs, compared with 24% in 2021. Of mothers, 54% said that, if they could arrange good quality, convenient, reliable and affordable childcare, they would prefer to go out to work. However, the extent to which the new entitlements will achieve this outcome is uncertain as it relies on parents' behaviour and the availability of jobs. Take-up will also be influenced by parents being able to access places when and where they need them. Most early years places are available during the daytime only, with hours only funded for 38 weeks of the year.

3.17 When DfE's Investment Committee approved the business case in September 2023, DfE initially estimated a cost figure of around £13.4 billion between 2023-24 and 2027-28 (**Figure 14** on pages 39 and 40).[17] It estimated financial benefits of around £19.6 billion, of which £7.8 billion (40%) related to employment.[18] However, DfE's internal economic review raised value-for-money concerns and recommended that around £6 billion of 'free time' financial benefits be removed. In March 2024, the programme team excluded this from its most recent analysis. Following further adjustments, and DfE including a new benefit for longer-term increases in mothers' income by being in work longer, DfE estimated employment-related benefits as now comprising 35% of total estimated benefits. It has also introduced new Exchequer savings benefits through higher tax receipts from children attending childcare (around £2.1 billion). DfE has identified its current benefit:cost ratio (BCR) is £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. More broadly, DfE has relied on feedback from parents of 3- and 4-year-olds in terms of their employment following its 2017 extension for its benefits around mothers entering work or increasing their hours. It has assumed 2% of mothers will enter employment and 26% will increase their hours. However, there are significant uncertainties in how parents of younger children will respond to the new entitlements.

3.18 It will be challenging to assess benefits. The extent to which DfE can attribute changes in labour market participation to entitlements is unclear. Also, as there was no pilot, DfE does not have a counterfactual to test parents' labour market participation without new entitlements.

17 Estimated costs comprised entitlement funding (£15.1 billion), programme delivery costs (£330 million) and wider costs (£201 million), less £2.3 billion in disposable income for parents benefits which DfE included in its first analysis as a standalone benefit. Its internal economic review advised that as HM Treasury's Green Book defines this benefit as a transfer, it should be removed from both costs and benefits. The programme team applied this feedback in its later analyses.

18 Figures include optimism bias adjustments of 10% for costs and 20% for benefits.

Figure 14

The Department for Education's (DfE's) central estimates for the costs and financial benefits of its extensions to early years education and childcare entitlements, as at September 2023 and March 2024

In its most recent analysis, DfE has estimated a benefit:cost ratio of £1.26:£1.00

	September 2023		March 2024	
	Value	Proportion	Value	Proportion
	(£mn)	(%)	(£mn)	(%)
Costs description (2023-24 to 2027-28)				
Early years and childcare entitlement spending minus disposable income benefits.	12,845	96	12,296	96.6
Programme administration and delivery costs, and capital funding to local authorities.	330	2.5	246	1.9
Wider costs from increased travel and environmental costs associated with expanding childcare provision.	201	1.5	182	1.4
Total estimated costs	**13,376**		**12,723**	
Financial benefits description (2024-25 to 2027-28)				
Improved educational attainment from additional children attending formal childcare.	11,564	59	8,120	50.8
Savings to the Exchequer through additional tax receipts from children attending childcare having higher lifetime earnings.	N/A	N/A	2,114	13.2
Benefits for mothers who take up childcare but neither enter employment or increase their hours and benefit from increased free time which is spent on 'home production'.	5,963	30.4	N/A	N/A
Employment: increase in mothers' income through increasing hours in employment.	1,232	6.3	2,881	18
Employment: increase in mothers' income through entering employment.	633	3.2	269	1.7
Employment: increases in mothers' long-term income through avoiding the "motherhood penalty" through having children and not being in work.	N/A	N/A	2,487	15.6
Reduced unemployment benefits from: • reductions in healthcare costs associated with unemployment; • reductions in operational costs to government; and • wellbeing benefits for mothers.	196	1	102	0.6
Total estimated benefits	19,589		15,972	
Benefit:cost ratio	1.46:1.00		1.26:1.00	

Figure 14 *continued*

The Department for Education's (DfE's) estimates for the costs and financial benefits of its extensions to early years education and childcare entitlements, as at September 2023 and March 2024

Notes

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.

2 DfE's estimated costs include a 10% increase for optimism bias and estimated financial benefits include a 20% decrease for optimism bias. These figures include DfE's adjustments for inflation using the Office for Budget Responsibility's March 2023 inflation forecasts and discounting.

3 In its first analysis completed in June 2023, DfE identified disposable income benefits for parents as a standalone benefit. Its internal economic review advised that as this benefit is defined as a transfer in HM Treasury's Green Book, it should remove the benefit from both sides of its cost:benefit equation. The Early Years and Childcare Reform Programme team applied this feedback in its September 2023 analysis (deducting £2,275 million from estimated entitlement spending of £15,119 million) and its March 2024 analysis (deducting £3,456 million from estimated entitlement spending of £15,751 million).

4 Totals may not sum due to rounding.

Source: Department for Education costs and benefits analysis

3.19 DfE can only realise employment-related benefits from those parents starting work or increasing their hours. However, a high proportion of the places funded under the new entitlements will be for parents who would have otherwise paid for provision. The Institute for Fiscal Studies (IFS) estimated that this will comprise around five sixths of new entitlement spending.[19] DfE estimated in February 2024 that, across 2024-25 and 2027-28, 57% of children taking up the new entitlements will already be using childcare.[20]

3.20 It may also take time for DfE to realise employment-related benefits. The IFS' analysis of 3- and 4-year-olds shows that full-time care (when children start school) has a much greater impact on parents' employment than a part-time funded entitlement place. This could suggest that the impacts of the new entitlements will be felt mostly after 30 hours of funded childcare becomes available from September 2025. The earliest DfE may identify impacts could be following its interim or final evaluation in summer 2026 or spring 2027, respectively.

The focus on working parents widens the attainment gap between children from more affluent families and their disadvantaged peers

3.21 Access to good quality early education and childcare influences educational outcomes, by better preparing children for their later education. Research has found that children who attended early years provision had higher attainment than those who did not, particularly those from disadvantaged backgrounds.[21]

19 E Drayton and C Farquharson, *Early years spending update: Budget reforms and beyond*, Institute for Fiscal Studies Report R274, September 2023.

20 We did not audit DfE's model. Modelling assumptions include the take-up rate (ranging from 56% to 79% across age ranges), the share of eligible parents already using provision (ranging from 52% to 62%), and the average number of hours (ranging from 15 to 26).

21 B Taggart, K Sylva, E Mulhuish, P Sammons and I Siraj, *Effective pre-school, primary and secondary education project (EPPSE 3-16+). How pre-school influences children and young people's attainment and development outcomes over time.* Research brief, Department for Education, June 2015.

3.22 For 2022-23, the early year foundation stage outcomes showed an 18.5 percentage point gap between those children living in the most deprived areas reaching a "good level of development" compared to those in the least deprived areas. This difference is mirrored for those receiving free school meals with 19.9% fewer eligible children reaching a good level of development. DfE has two relevant priority outcomes to "support the most disadvantaged and vulnerable children and young people through high-quality local services so that no one is left behind" and to "provide the best start in life through high-quality early education and childcare to raise standards and help parents to work". It has a wider set of initiatives designed to address the attainment gap.

3.23 The early years entitlements expansion only applies to working parents, so does not widen access to early years for disadvantaged families.[22] The IFS reported that the new entitlement will benefit higher income families more, with the lowest 30% of the income distribution seeing almost no direct benefit. It estimates that of parents with a child between 9 months to 2 years, half will benefit from the new entitlements. Of these, 80% have household incomes over £45,000 with only 20% earning below £20,000 a year.[23]

3.24 More widely, we have reported on the challenges of providing early years places in disadvantaged areas.[24] For example, those families in less affluent areas are more likely to experience a shortage of places. Between August 2018 and August 2023, places in providers other than schools reduced by 18,600 (9%) in the most deprived areas and increased by 2,300 (1%) in the least deprived.

3.25 By focusing on labour market reforms, HMT accepted that an entitlement targeting working parents could widen the attainment gap between disadvantaged and other pupils. DfE explored extending working parents and disadvantaged entitlements in parallel, but in March 2023 the government opted to just extend working parents' entitlements given affordability concerns.

3.26 DfE has recognised the potential for the entitlement expansion to widen the attainment gap as a risk and disbenefit. Although it expects to look at this as part of its forthcoming evaluation, by examining access to early education across different groups and the unintended impact of the new provision. It has not yet clarified monitoring and oversight arrangements.

22 To be eligible, working parents need to earn a net income of between £8,670 and £100,000.
23 E Drayton and C Farquharson, *Early years spending update: budget reforms and beyond*, Institute for Fiscal Studies Report R274, September 2023.
24 Comptroller and Auditor General, *Supporting disadvantaged families through free early education and childcare entitlements in England*, Session 2019–2021, HC 104, National Audit Office, March 2020.

The speed of expansion could have unintended impacts on quality and places for vulnerable children

3.27 Given the need to quickly increase the number of early years places, DfE introduced changes so providers can use staff more flexibly but recognises this could increase risks to quality and safety. Factors influencing quality include the following:

- **Staff experience and skills:** To help providers use staff more flexibly, DfE changed the regulatory framework, which sets learning, development and care standards. It removed the requirement for some practitioners, beneath manager, to have a level 2 maths qualification. Providers felt this would positively impact staff recruitment. In 2023, 68% of providers responding to a DfE survey, said that if staff no longer required this qualification, it would be easier to recruit staff. However many Organisation for Economic Co-operation and Development (OECD) countries have raised qualification requirements given a strong relationship between better qualified staff and quality of education and care. More generally, the changes will lead to a higher proportion of less experienced staff, as many new entrants join and experienced staff leave.[25]
- **Staff:child ratios:** To help increase places, in September 2023 DfE gave providers the option to increase staff to child supervision ratios from 1:4 to 1:5 for 2-year-olds. In a consultation survey, 70% of private providers said they would be 'unlikely' or 'very unlikely' to change their provision if ratio requirements were changed. Most believed changing ratios would compromise quality, put children's safety at risk or put staff under additional strain. DfE's research from November 2023 indicates that so far, around 35% of providers have switched to the higher ratios however around 60% have no plans to adopt the change.
- **Provider experience:** There is an increased risk of low-quality providers seeking to enter the market and expand. Ofsted registers and inspects early years providers through a risk-based approach.[26] Routine inspections are at least once within a six year window with newly registered providers inspected within 30 months. Providers assessed as 'inadequate' or 'requires improvement,' alongside those where there are wider concerns, are inspected more often. There are no changes planned to this approach.

3.28 Findings from DfE's March 2024 survey of local authorities showed less than half have assessed the impact of expanded entitlements on disadvantaged places and special educational needs and disabilities (SEND) provision. The six local authorities we spoke to, alongside sector representatives, expressed concerns over quality and early years places no longer being available for vulnerable groups such as disadvantaged 2-year-olds or those with SEND, who may be more challenging or costly to support.

25 DfE's 2023 provider survey showed 55% of staff leaving schools and 39% of staff leaving group providers have over five years of experience, with most leaving the early years sector.

26 Early years providers offering entitlements must be registered, either with Ofsted or a childminder agency, both of which require pre-registration checks.

3.29 DfE has recognised these risks and has set out mitigations including its SEND improvement plan, education recovery programme, provider engagement and some changes to the early years framework.[27] It plans to monitor quality through Ofsted ratings and its evaluation will examine access for children with SEND. However, there will be a time lag in DfE's understanding of any emerging quality issues. DfE told us it is exploring how it can get an earlier indication of changes to quality and in the interim, uses its engagement with local authorities, Ofsted and the sector to inform its understanding.

The provider market becomes unstable in the longer-term given an increased reliance on government funding

3.30 As government becomes the majority funder of early years provision, its funding rates become increasingly important to providers' longer-term financial sustainability. When considering the 2024-25 entitlement funding rates, DfE presented three funding scenarios to HMT:

- **Scenario A:** Aligning funding rates with estimated unit costs of delivering childcare for different age-groups.
- **Scenario B:** Setting funding rates which incentivise providers to expand or enter the market through incorporating a 'modest' profit margin.[28]
- **Scenario C:** Setting funding rates which allow providers to breakeven for 2-year-olds and restoring estimated profits in 2021 through rates for 3- and 4-year-olds.

3.31 HMT's preferred option was to increase funding rates to the estimated breakeven point for 2-year-olds and restore a small level of estimated profits of around £75 million for 3- and 4-year-olds across all providers. It considered this provided the right balance between deliverability and affordability. This would correspond to estimated profits 1 percentage point higher than estimated costs.

3.32 For 2024-25, the government set average funding rates for 2- to 4-year-olds close to scenario C. DfE identified a risk that funding rates will not keep up with providers' cost pressures. To provide greater certainty on future funding, in the Spring Budget 2024 the Chancellor of the Exchequer announced plans to uplift funding in line with a combination of inflation, average earnings growth and the National Living Wage in 2025-26 and 2026-27. Looking ahead, it told us it is trying to model the impact of changes, looking at the health of the market, and is exploring learning from other sectors where the government is the majority funder.

27 For example, DfE strengthened its requirements around supervision while eating, recognising that the expansion would bring in a larger number of young children who need more attention when eating.
28 DfE estimated that to deliver the expansion, estimated profits six percentage points higher than estimated costs would be reasonable to incentivise growth.

Appendix One

Our audit approach

Our scope

1 Our independent conclusions were reached following our analysis of evidence collected mainly between October 2023 and April 2024.

2 The evaluative criteria that we used to assess value for money included:

- Whether DfE had set up its programme in a way which is likely to deliver its objectives and intended outcomes, including to increase labour supply.
- Examination of our assessment of the risks that DfE needs to manage to enable successful delivery, the actions it is taking to manage these risks and whether it is possible yet to see if those actions have reduced the risk. We focused on risks around successfully implementing the programme and achieving the intended outcomes, without unintended impacts on, for example, DfE's wider objectives.

Our evidence base

Methods

3 In forming our conclusions, we drew on a variety of evidence sources, as described below. We collated and analysed the evidence we obtained, using our evaluative criteria as a framework. We looked across different sources of evidence to support each of our findings.

Data analysis

Published data provided by DfE and Ofsted on childcare entitlements and early years childcare provision

4 We used published data to provide a picture of the existing landscape of the take-up of entitlements, the provision of childcare and the views of parents. This included:

- DfE data on the take-up of childcare entitlements.
- DfE data on schools, pupils and their characteristics, collected from the annual school survey, and DfE's Get Information About Schools data.

- DfE childcare and early years provider survey (Pulse surveys).
- DfE childcare and early years survey of parents.
- Ofsted statistics on childcare providers and inspections.
- Ofsted statistics on inspections and outcomes for state-funded schools.

5 In terms of our methods for presenting the number of childcare providers and places in our report (Figures 2 and 3), we refer to the number eligible to provide entitlement funded childcare, whether or not they choose to do so. Figures are calculated from Ofsted's statistics on childcare providers and inspections and DfE data on Schools pupils and their characteristics, and DfE's childcare and early years provider survey. In particular:

- For **private, voluntary and other organisations, and childminders,** providers and childcare places are extracted from Ofsted's statistics on childcare providers and inspections. These are subject to the following caveats:
  - Only providers on the early years register (EYR) are counted. All childcare places are assumed to be available for children aged 4 and under, even if they also registered on the childcare register and are therefore able to provide childcare to older children as well.
  - Providers marked as providing "Out-of-school daycare" are included where those providers are on the EYR.
  - Childminders registered with agencies are not included in the number of childminders because the data for agency childminders is not subject to the same quality assessment when collected as the Ofsted registered childminders.
  - Home childcarers are not included because they are not eligible to provide childcare places funded by the free childcare entitlements.
  - For simplicity of presentation, 200 instances of childcare on domestic premises (providing 4,800 childcare places) are included in "Private, voluntary and other organisations.

The numbers of places include estimates for a very small number of providers whose place numbers were not available at the time of the collation by Ofsted.

Providers are only required to inform Ofsted of the number of places they intend to offer:

- at the provider's registration visit when they first join the early years register (EYR); and
- at subsequent inspections (which must happen within a 6-year window).

For **schools providing childcare**, these were calculated as follows:

- For state-funded schools only those schools on DfE's Schools pupils and their characteristics database which had pupils in either early years or nursery classes were counted.
- For independent schools, only those schools on DfE's Get Information About Schools database which had nursery classes, and where the lowest pupils age is aged 0–3 years, were counted. This figure was not available for 2018, so the figure for the reduction in schools was estimated from the independent schools with pupils aged 0–3 years on DfE's Schools pupils and their characteristics database.

The numbers of places at schools were calculated from DfE's Survey of Childcare and Early Years Providers (run between April and July), with the survey results weighted to be nationally representative. Estimates of total childcare places across all provider types from this source show a 3% increase in places between 2018 and 2023.

In terms of our methods for calculating the children in in early years childcare by inspection grade and deprivation (paragraph 1.6):

6 **Use of deprivation data:** Providers are allocated to one of five deprivation bands, based on quintiles calculated from the Income Deprivation Affecting Children Index (IDACI) 2019. The quintiles range from 'most deprived' (quintile 5) to 'least deprived' (quintile 1). 'Average' is the middle group. For schools, the deprivation is based on the mean of the deprivation indices associated with the home postcodes of the pupils attending the school rather than the location of the school itself. Numbers of children were summed by grade and deprivation rating across all providers of childcare (eligible to provide places for free childcare entitlements) in different ways:

- For private, voluntary and other organisations, and childminders, Ofsted statistics on childcare providers and inspections as at 31 August 2023 were analysed:
  - The percentages of childcare places for each inspection grade were calculated by summing the number of childcare places (including estimates, as for figure 3 above) in providers on the early years register for each most recent overall effectiveness grade.
  - For the comparison by deprivation, figures were additionally summed for each deprivation quintile (from the most deprived 20% of areas to the least deprived 20% of areas).

For schools, Ofsted statistics on inspections and outcomes for state-funded schools as at 31 August 2023 were analysed, and the percentages of children for each inspection grade were calculated as follows:

- Where schools also include children of compulsory schools age (e.g. primary schools) and those schools have been given an early years provision grade, the number of children in early years and nursery classes is summed for each early years provision grade.
- For nursery schools, the number of children in early years and nursery classes is summed for each most recent overall effectiveness grade.
- For the comparison by deprivation, figures were additionally summed for each deprivation quintile (from the most deprived 20% of areas to the least deprived 20% of areas according to the income deprivation affecting children index, IDACI, as above).

On calculating the numbers of children in schools rated as good or outstanding, and the proportions of children in schools in the most and least deprived areas, the:

- Percentages, and totals used to calculate them only include schools where provision for pupils in early years has been graded (with possible outcomes from Inadequate to Outstanding). Around a quarter of non-nursery schools with pupils in early years or nursery classes did not have an early years grade at their latest graded inspection, so data may not be fully representative of the quality of this part of the sector. Figures do not include schools with no pupils recorded in early years and nursery classes in the school census 2023.

7 In terms of our methods for tracking DfE's progress towards entitlement expansion targets, we used DfE's unpublished data and analysis to supplement the picture provided by the published data, and to examine DfE activities to assess and monitor progress towards enabling the successful roll out of the entitlements. These included:

- Internal data collected by DfE to assess the readiness of local authorities to expand childcare provision.
- DfE's estimates of childcare supply and demand data which they supplied to local authorities to support the expansion. This was used to show the proportion by which the baseline supply of childcare hours would, according DfE's estimates, need to be increased to meet the anticipated expansion of childcare entitlements for September 2025.
- Data on numbers of parents who have registered for the new childcare entitlements since 1 January 2024 and the numbers of childcare providers who had validated parents' requests as at 17 April 2024.

8 In terms of our approach to analysing DfE's estimate of the programme costs and benefits, we reviewed DfE's September 2023 and March 2024 cost:benefit analyses for extending entitlements. In order to include as up to date a picture as possible we have included figures we have not audited.

Interviews

Interviews with government departments

9 We interviewed representatives from DfE on a range of topics including:

- Strategy and planning.
- Risk management.
- Benefits strategy and management.
- Data analysis and monitoring.
- Local authority and provider engagement.

Interviews with local authorities

10 We interviewed representatives from local authorities to understand their perspectives on delivering the expansion, local challenges and engagement with DfE. This included six local authorities which we selected based on geographical spread and characteristics such as rural or urban nature, deprivation and employment rates. We met with the early years teams in December 2023 and January 2024 from: Enfield, Kingston upon Hull, Rotherham, Wakefield, Wigan, and Wiltshire.

Written responses from wider stakeholders

11 We wrote to early years representative bodies and invited them to submit a written response to questions around: engagement with DfE, perceptions on opportunities, challenges and risks, feasibility and preparedness. The following bodies provided a response in November 2023 which we analysed to draw out common themes and issues.

- the National Day Nurseries Association (NDNA);
- the Professional Association for Childcare and Early Years (PACEY);
- the Early Years Alliance (EYA);
- Early Education (EE); and
- the Early Education and Childcare Coalition (EECC).

Document review

12 We carried out a review of early years research to contextualise our examination. We also reviewed a range of published and unpublished documents from DfE including documents related to:

- Strategy and governance, including government's early decision-making ahead of the Spring Budget 2023.
- Programme and risk plans, including the main Programme Business Case and underlying business cases for projects in the Programme.
- Modelling and analytical outputs, including DfE's analysis of additional early years places and staffing required to support expansion.
- Delivery plans.
- Management information and reports on performance and risks.

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