



National Audit Office

---

## **Report**

by the Comptroller  
and Auditor General

---

## **Department for Education**

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

---

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office (NAO) helps Parliament hold government to account for the way it spends public money. It is independent of government and the civil service. The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether government is delivering value for money on behalf of the public, concluding on whether resources have been used efficiently, effectively and with economy. The NAO identifies ways that government can make better use of public money to improve people's lives. It measures this impact annually. In 2018 the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £539 million.

---



National Audit Office

---

Department for Education

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

Report by the Comptroller and Auditor General

Ordered by the House of Commons  
to be printed on 11 March 2020

This report has been prepared under Section 6 of the  
National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

Gareth Davies  
Comptroller and Auditor General  
National Audit Office

6 March 2020

This report examines whether the Department for Education is supporting disadvantaged families effectively through entitlements to free early education and childcare.

---

© National Audit Office 2020

The material featured in this document is subject to National Audit Office (NAO) copyright. The material may be copied or reproduced for non-commercial purposes only, namely reproduction for research, private study or for limited internal circulation within an organisation for the purpose of review.

Copying for non-commercial purposes is subject to the material being accompanied by a sufficient acknowledgement, reproduced accurately, and not being used in a misleading context. To reproduce NAO copyright material for any other use, you must contact [copyright@nao.org.uk](mailto:copyright@nao.org.uk). Please tell us who you are, the organisation you represent (if any) and how and why you wish to use our material. Please include your full contact details: name, address, telephone number and email.

Please note that the material featured in this document may not be reproduced for commercial gain without the NAO's express and direct permission and that the NAO reserves its right to pursue copyright infringement proceedings against individuals or companies who reproduce material for commercial gain without our permission.

Links to external websites were valid at the time of publication of this report. The National Audit Office is not responsible for the future validity of the links.

006603 03/20 NAO

---

---

# Contents

**Key facts** 4

**Summary** 5

**Part One**

Entitlements to free early education  
and childcare 12

**Part Two**

Take-up and impact of the entitlements 17

**Part Three**

Provision of entitlement-funded early  
education and childcare 31

**Appendix One**

Our audit approach 45

**Appendix Two**

Our evidence base 47

The National Audit Office study team  
consisted of:

Martin Chong, Mark Parrett and  
Lauren Petrie, with assistance from  
Simona Ahmed, Emma Green,  
Julian Hall, Hannah Lahham,  
Rachel Nash, Aferdita Qerimi,  
Sarika Sharma, Syed Taqvi and  
Hector Whitrow, under the direction  
of Laura Brackwell.

This report can be found on the  
National Audit Office website at  
[www.nao.org.uk](http://www.nao.org.uk)

For further information about the  
National Audit Office please contact:

National Audit Office  
Press Office  
157–197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Enquiries: [www.nao.org.uk/contact-us](http://www.nao.org.uk/contact-us)

Website: [www.nao.org.uk](http://www.nao.org.uk)

Twitter: @NAOorguk

---

## Key facts

---

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

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

children taking up the entitlements at January 2019

providers receiving entitlement funding at January 2019

---

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

# Summary

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

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

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

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

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

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

## Focus of our report

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

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

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

## Key findings

### Take-up and impact of the entitlements

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Recommendations**

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

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

# Part One

## Entitlements to free early education and childcare

**1.1** This part of the report sets out background information about the entitlements to free early education and childcare that the Department for Education (the Department) funds.

### The three entitlements

**1.2** Parents have been entitled to some free childcare since 2004 and the Department has expanded its offer several times. It currently funds three main entitlements – for disadvantaged 2-year-olds, a universal entitlement for all 3- and 4-year-olds, and an extended entitlement for 3- and 4-year-olds with eligible working parents (**Figure 1**). By funding the entitlements, the Department aims to support children’s development and help parents manage childcare costs so that they can work. At January 2019, nearly 150,000 2-year-olds and 1.3 million 3- and 4-year-olds were taking up free childcare in England.<sup>3</sup>

**1.3** The entitlement for 2-year-olds is the only one of the three schemes to support disadvantaged families specifically, but the entitlements generally are part of the Department’s ambition to improve social mobility. The Department’s 2017 social mobility plan committed it to increasing spending on early education and childcare with the aim of closing the development gap, and particularly the ‘word gap’ (early language and literacy), between disadvantaged children and their peers.<sup>4</sup> In introducing the extended entitlement, the government said that, among other things, the entitlement was intended to help low-income families back into work or to increase their hours, and noted that entering employment is the best way to lift families out of poverty.<sup>5</sup>

<sup>3</sup> The data include children aged 4 in reception classes at school.

<sup>4</sup> Department for Education, *Unlocking Talent, Fulfilling Potential: A plan for improving social mobility through education*, Cm 9541, December 2017.

<sup>5</sup> Department for Education, *Explanatory Memorandum to The Childcare (Early Years Provision Free of Charge) (Extended Entitlement) Regulations 2016*, Statutory Instrument number 1257, 2016.

**Figure 1**

## The Department for Education's (the Department's) entitlements to free early education and childcare

## The Department funds three main entitlements to free early education and childcare in England

Entitlement	Main aims	Eligibility
<p><b>Disadvantage entitlement</b></p> <p>15 hours per week for 38 weeks each year for disadvantaged 2-year-olds.</p>	<p>To improve the cognitive, social and behavioural development of 2-year-olds from disadvantaged backgrounds.</p> <p>To close the achievement gap between poorer children and all children.</p>	<p>A parent must be receiving at least one of a number of qualifying benefits such as income-based Jobseeker's Allowance or Universal Credit (with a household income of £15,400 or less per year, after tax).</p> <p>Children may also be entitled if they are under or have left local authority care, have an education, health and care plan, receive Disability Living Allowance or as a result of their parent's immigration status.</p>
<p><b>Universal entitlement</b></p> <p>15 hours per week for 38 weeks each year for all 3- and 4-year-olds.</p>	<p>To support children's development and make sure they are ready for school.</p>	<p>All children are eligible.</p>
<p><b>Extended entitlement</b></p> <p>An additional 15 hours per week for 38 weeks each year for 3- and 4-year-olds with eligible working parents.</p>	<p>To reduce the cost of childcare to families.</p> <p>To support parents into work, or to work more hours.</p>	<p>Both parents must be in work (or one parent in work in lone-parent families).</p> <p>Each parent must earn, on average, a weekly minimum equivalent to 16 hours at national minimum/living wage, and less than £100,000 per year.</p> <p>Households where one parent is unable to work or is temporarily away from work may also be eligible.</p>

**Note**

- 1 As well as the three entitlements, the Department provides funding to providers to support disadvantaged 3- and 4-year-olds through the early years pupil premium, and to support disabled 3- and 4-year-olds to access the entitlements through the disability access fund.

Source: National Audit Office analysis of Department for Education information

**Funding**

**1.4** The Department's total funding for the entitlements rose in cash terms from £2.7 billion in 2016-17 to £3.5 billion in 2019-20 (**Figure 2** overleaf). We estimate that this was an increase of 24% in real terms. The increase was due to the introduction of the extended entitlement in 2017, and funding for the other two entitlements fell by an estimated 4% in real terms over the four years.<sup>6</sup> The government has allocated an extra £66 million to the entitlements in 2020-21 as part of the 2019 Spending Round.<sup>7</sup>

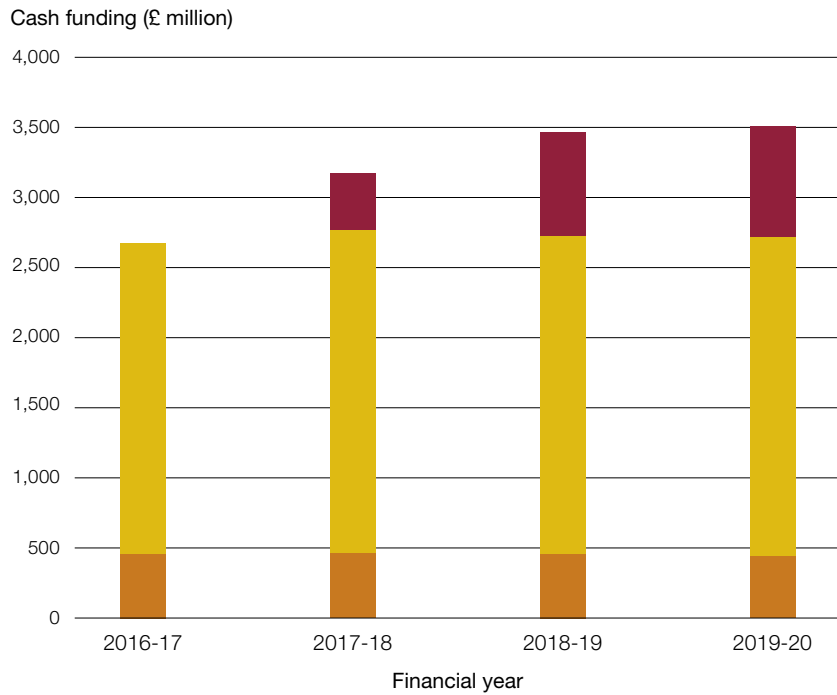
6 Adjusted for inflation, using HM Treasury's gross domestic product deflators published in January 2020, at 2016-17 prices. The deflator for 2019-20 was not available at the time of our work so the inflation adjustment for that year is our estimate based on Office for Budget Responsibility forecasts at March 2019.

7 HM Treasury, *Spending Round 2019*, CP 170, September 2019.

**Figure 2**

Funding for the entitlements to free early education and childcare, 2016-17 to 2019-20

The Department for Education's (the Department's) funding for the three entitlements rose to £3.5 billion in 2019-20



	2016-17	2017-18	2018-19	2019-20
<b>Total entitlement funding</b>	<b>2,670</b>	<b>3,177</b>	<b>3,480</b>	<b>3,504</b>
■ Extended entitlement for 3- and 4-year-olds	–	405	744	779
■ Universal entitlement for 3- and 4-year-olds	2,217	2,303	2,287	2,283
■ Disadvantage entitlement for 2-year-olds	454	470	449	442

**Notes**

- 1 The Department introduced the extended entitlement in September 2017.
- 2 Funding is shown in cash terms and may not sum due to rounding.
- 3 The Department's 2019-20 funding allocations are at January 2020. Final allocations for 2019-20 were not available at the time of our work.
- 4 As well as the three entitlements, the Department funds providers through the early years pupil premium (£30 million in 2019-20), disability access fund (£13 million in 2019-20) and supplementary funding for maintained nursery schools (£56 million in 2019-20).

Source: Department for Education

**1.5** The Department distributes entitlement funding to local authorities as part of the dedicated schools grant, which is ring-fenced for educational purposes. The dedicated schools grant also includes other early years funding, including a supplement for maintained nursery schools which totalled £56 million in 2019-20. The Department gives this extra funding in recognition of the higher costs of maintained nursery schools compared with other providers – for example, they are legally required to have a headteacher.



## Responsibilities and accountabilities

**1.6** The Department sets policy and oversees the early years system (**Figure 3** overleaf). It is ultimately accountable to Parliament for securing value for money for the funding it provides for the entitlements. Local authorities play a central role in implementing the entitlements. They have statutory duties relating to early years provision. Specifically, they must:

- secure enough places so that all children who meet the eligibility criteria are able to take up a free place if their parents want one;
- provide information, advice and assistance to parents about childcare provision in the local area; and
- secure information, advice and training for childcare providers in their area who have been identified as needing to improve the quality of their provision, including those graded as less than good by Ofsted.

**1.7** Parents choose which early years provider to send their children to and for how many hours. There are different types of provision, including: state-funded schools and nurseries; private, voluntary and independent providers; and childminders. The Department estimates that there were 72,000 early years providers in England in spring 2019.<sup>8</sup>

**1.8** Early years providers do not have to offer entitlement-funded places; those that do must be registered with Ofsted (schools do not need to register their early years provision separately). At January 2019, there were 53,810 providers offering at least one of the entitlements (Figure 3).

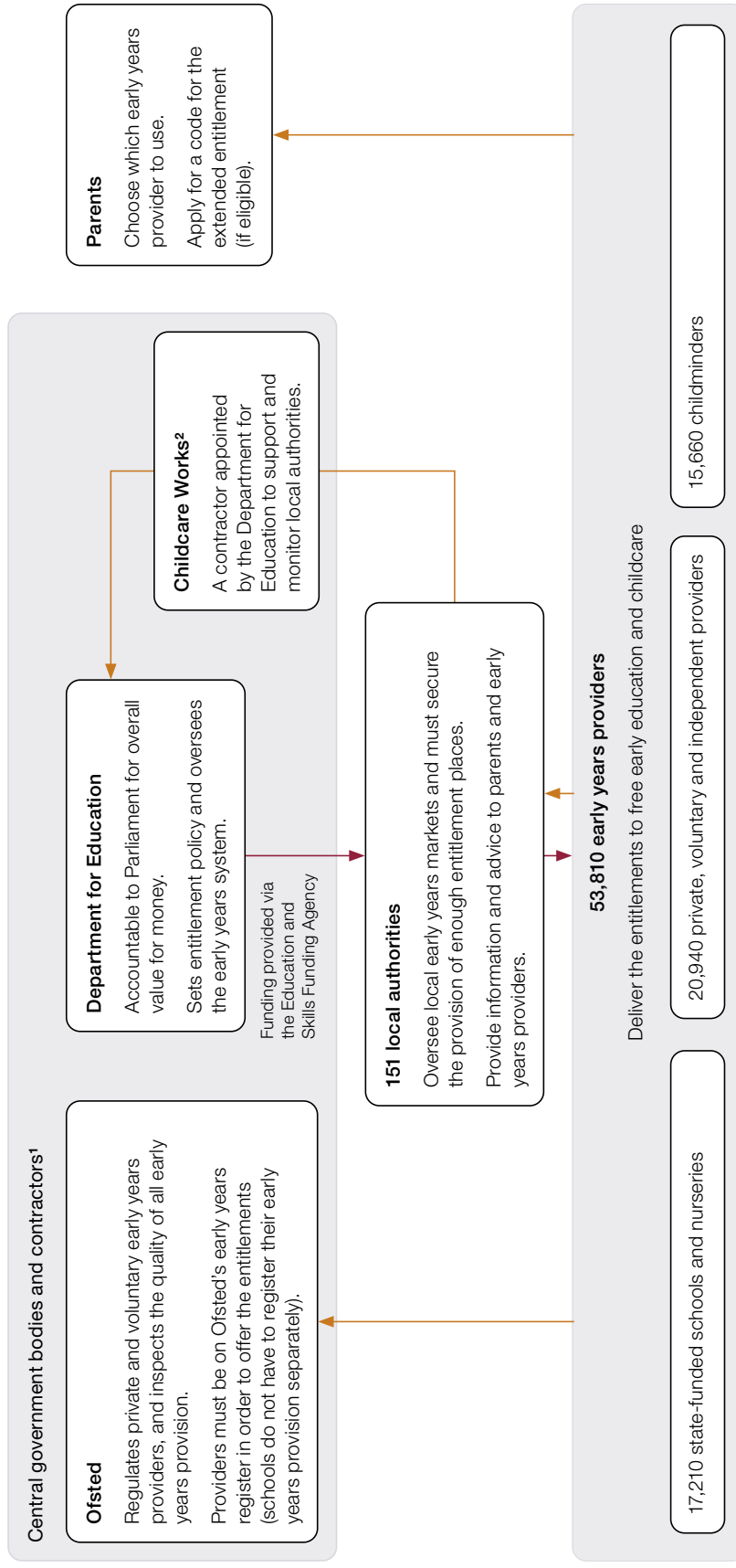
## Other childcare funding

**1.9** Central government provides other funding for early education and childcare which is outside the scope of this report. For example, the Department funds activities: to improve social mobility, including to support early education at home; to support local initiatives led by the early years sector and local authorities; to promote good practice in early years providers; and to help students with childcare costs.

**1.10** In addition, the Department for Work & Pensions provides, through Universal Credit, an amount to help parents with the costs of looking after their children; and HM Revenue & Customs, through the tax-free childcare scheme, funds 20% of childcare costs up to a maximum of £2,000 each year, or up to £4,000 for those with a child who is disabled, for eligible parents in work.

<sup>8</sup> Department for Education, *Survey of Childcare and Early Years Providers: Main Summary, England, 2019*, November 2019.

**Figure 3**  
The system for delivering the entitlements to free early education and childcare  
The Department for Education (the Department) funds and oversees delivery of the entitlements



**Notes**

- 1 The Department for Work & Pensions provides the Department with details of families receiving benefits who are potentially eligible for the disadvantaged entitlement, which the Department then passes on to local authorities. HM Revenue & Customs operates the online application process for the extended entitlement.
- 2 The Department's contract with Childcare Works ran between October 2016 and January 2020. At the time of our work, the Department was re-procuring this service, with the new contractor expected to begin in spring 2020.
- 3 Numbers of early years providers are those receiving universal entitlement funding at January 2019 and have been rounded to the nearest 10.
- 4 State-funded schools and nurseries include maintained nursery schools, state-funded primary, secondary and special schools, and local authority day nurseries.
- 5 Private, voluntary and independent providers include independent schools and providers categorised as 'other'.

Source: National Audit Office analysis of Department for Education information

# Part Two

## Take-up and impact of the entitlements

**2.1** This part of the report examines take-up of the entitlements to free early education and childcare, particularly by disadvantaged families, and the impact of the entitlements.

### Take-up

#### Disadvantage entitlement

**2.2** Take-up of the disadvantage entitlement is below the Department for Education's (the Department's) aspiration. Its aspiration, based on 2013-14 take-up and survey data, is for between 73% and 77% of eligible 2-year-olds to take up the entitlement. Between 2016 and 2018, take-up increased from 68% to 72% (**Figure 4** on pages 18 and 19).<sup>9</sup> In 2019, the number of children taking up the entitlement fell to just under 150,000, 68% of the eligible population. The Department is investigating why take-up has dropped.

#### Universal and extended entitlements

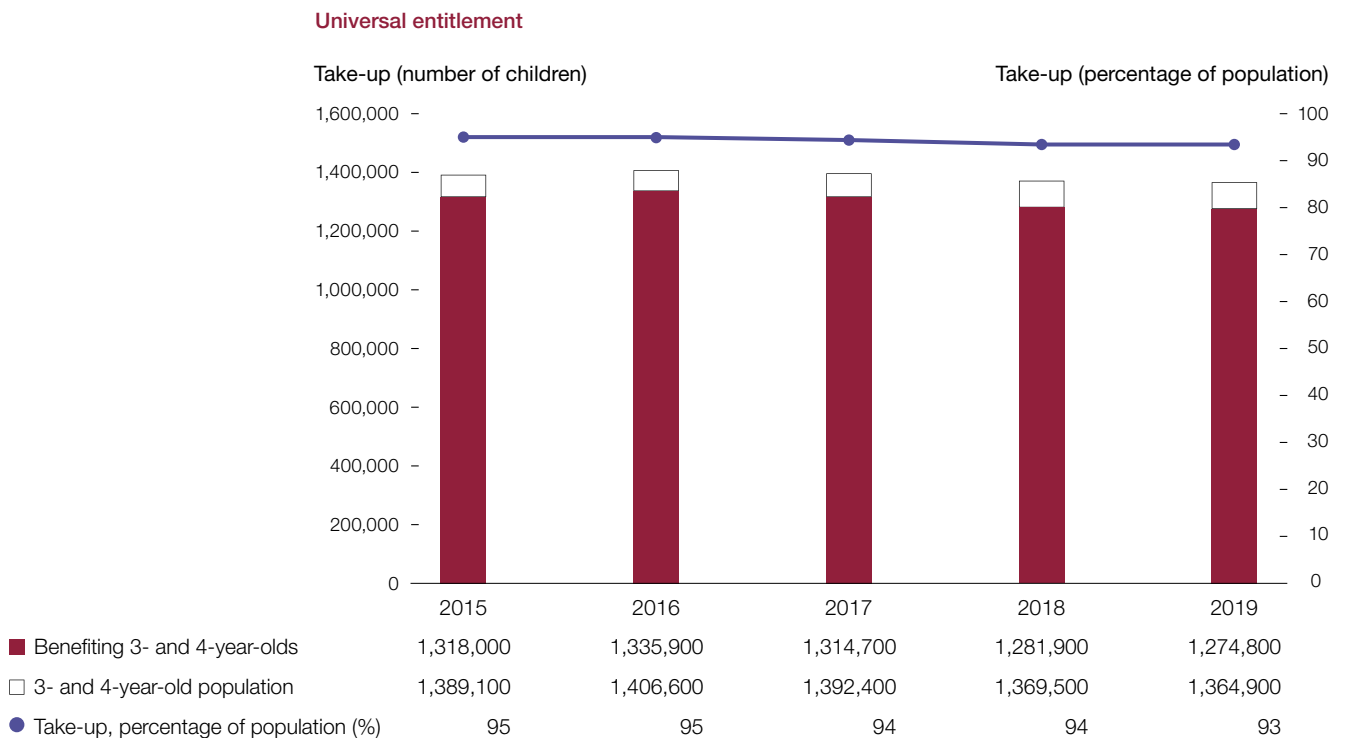
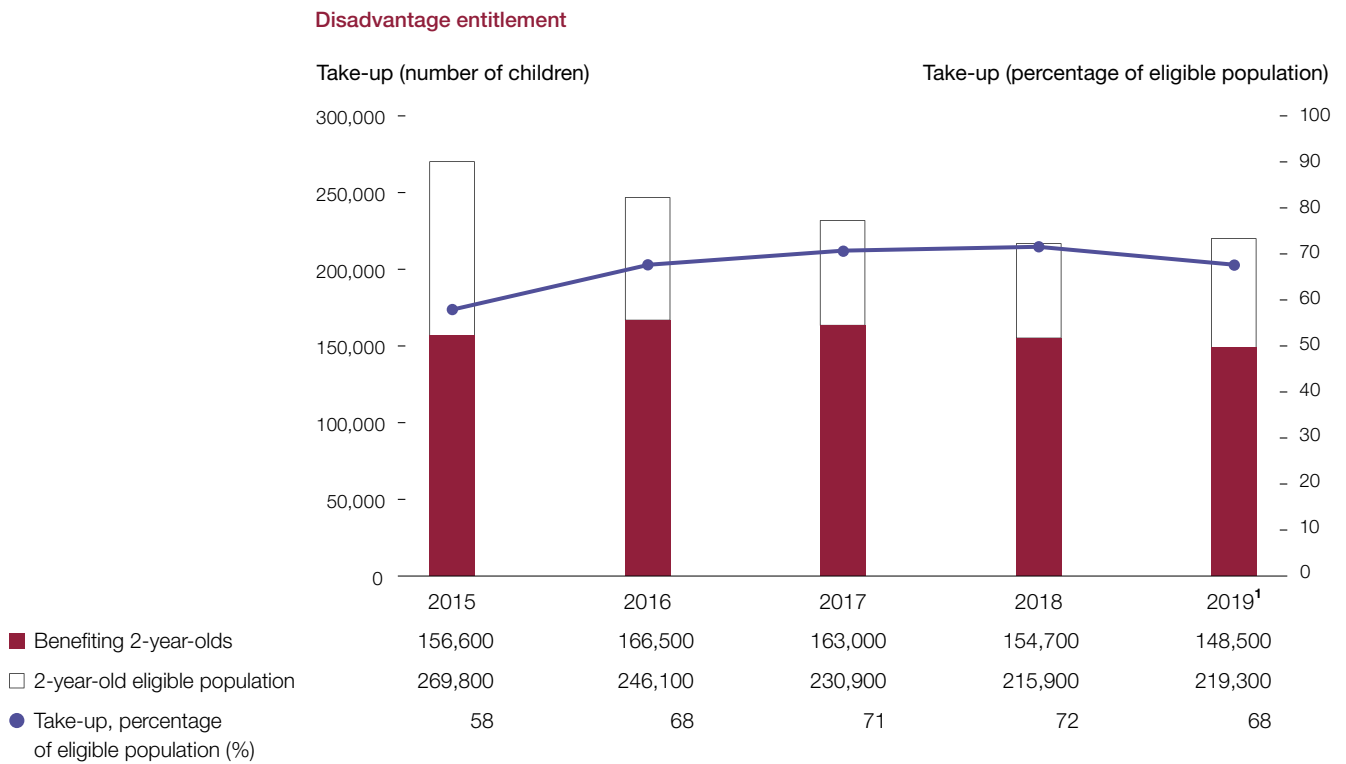
**2.3** Take-up of the universal entitlement has been consistently high. Some 1.3 million children (between 93% and 95% of the population) have taken up the entitlement each year since 2015 (Figure 4). Take-up by 4-year-olds is higher than by 3-year-olds because it includes children in reception classes at school. The Department has not set targets for take-up of the universal entitlement but told us that it expects take-up to remain at the current level.

**2.4** The number of 3- and 4-year-olds using the extended entitlement has increased since it was introduced in 2017. Nearly 330,000 children took up the entitlement in 2019 (Figure 4), in line with the Department's initial expectations. Using survey data, the Department estimated the eligible population was 410,000 in January 2019. Using this estimate, the take-up rate in 2019 was 80%. The Department expects that take-up will rise to 82% by 2020-21 and then remain stable, based on its forecasts in July 2019.

<sup>9</sup> The Department measures take-up in a census carried out each January.

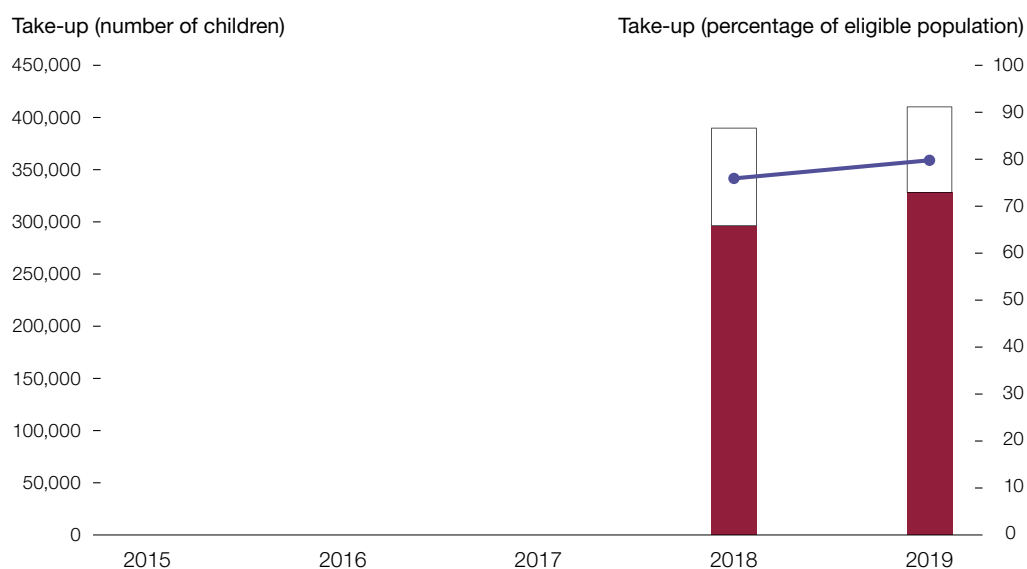
**Figure 4**  
Proportion of eligible children taking up the entitlements, 2015 to 2019

Take-up of the disadvantage entitlement dropped in 2019, but take-up of the extended entitlement increased



**Figure 4 continued**

Proportion of eligible children taking up the entitlements, 2015 to 2019

**Extended entitlement**

■ Benefiting 3- and 4-year-olds	–	–	–	296,500	327,700
□ Estimated eligible population	–	–	–	390,000	410,000
● Take-up, percentage of eligible population (%)	–	–	–	76	80

**Notes**

- 1 The eligible population for the disadvantage entitlement is based on data provided by the Department for Work & Pensions to the Department for Education (the Department). This does not include: a) children who, for example, are looked after by a local authority, who are eligible for this entitlement; and b) in 2017 and 2018, children who were eligible for this entitlement as their parents were Universal Credit claimants. Some of these children may have taken up the entitlement in those years. If we had data on the full population, take-up percentages would have been lower than stated here.
- 2 The population for the universal entitlement is based on Office for National Statistics population estimates data.
- 3 The eligible population for the extended entitlement is based on the Department's estimates.
- 4 Take-up is measured using the school and early years censuses, which the Department carries out each January.
- 5 The extended entitlement was implemented nationally in September 2017, so the first take-up data are from the January 2018 census.
- 6 Figures have been rounded to the nearest 100.

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

**Geographic variation**

**2.5** Take-up varies widely between different local authorities, ranging from 39% in Tower Hamlets to 97% in Stockport for the disadvantage entitlement in 2019. Take-up was low in many London boroughs. Our analysis also suggests there are considerable differences within local authority areas – the largest variation was in Essex where take-up was 69% overall but ranged from 58% to 99% between districts (**Figure 5** overleaf).

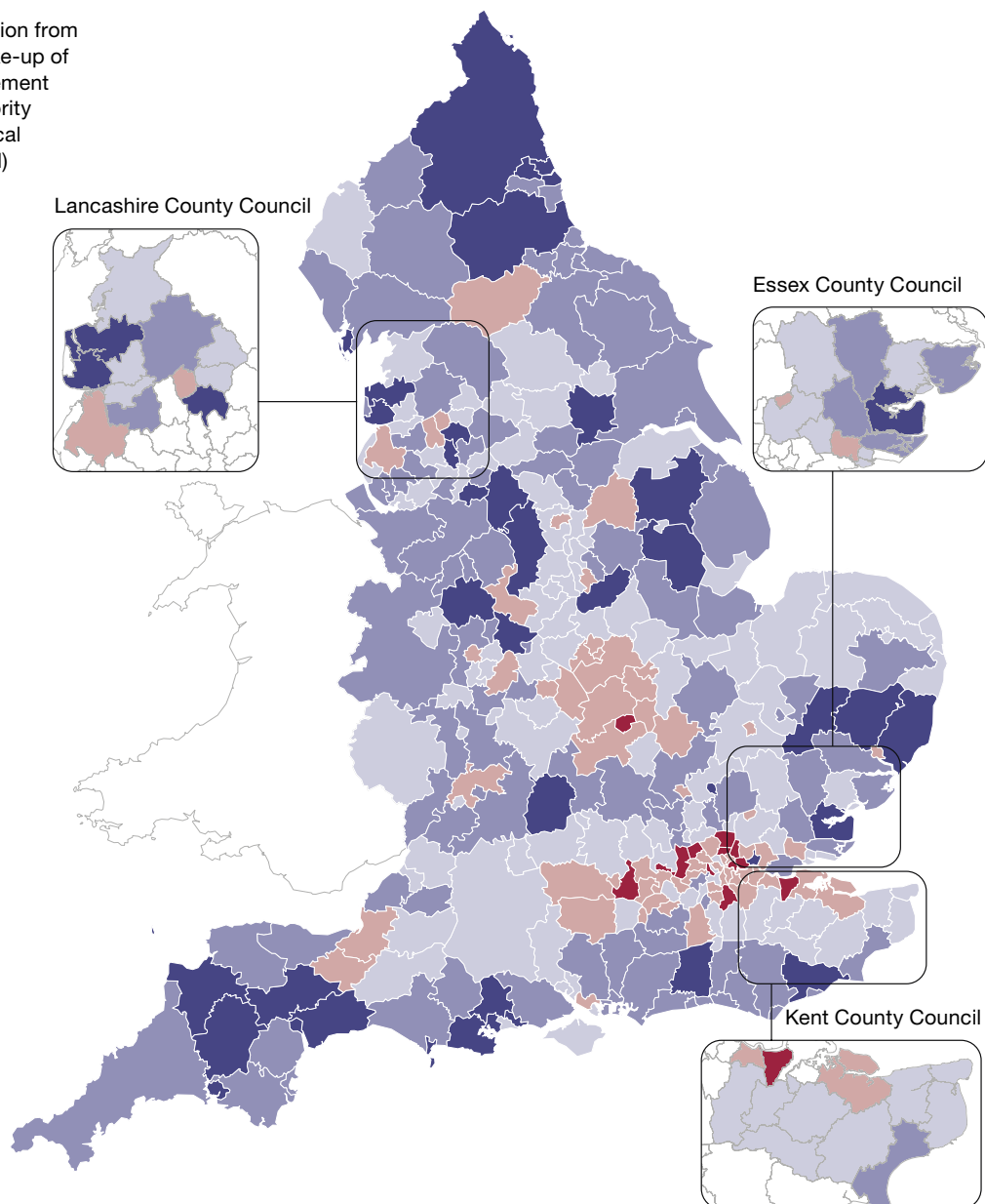
**Figure 5**

Differences in proportions of eligible children taking up the disadvantage entitlement for 2-year-olds by lower-tier local authority, 2019

Take-up varies widely within local authority areas with, for example, differences in take-up of more than 20 percentage points between districts in Essex, Kent and Lancashire

Percentage point deviation from the national average take-up of the disadvantage entitlement by lower-tier local authority (number of lower-tier local authorities in each band)

- Less than -15 (13)
- -15 to -5.1 (62)
- -5 to 4.9 (109)
- 5 to 14.9 (102)
- 15 or more (39)



**Notes**

- 1 Map shows the percentage point difference in take-up of the disadvantage entitlement between each lower-tier local authority and the national average.
- 2 Map based on December 2018 lower-tier local authority boundaries. There were 326 lower-tier local authorities in England.
- 3 To illustrate the variation, we have enlarged the three upper-tier local authorities with the most districts.
- 4 We excluded Isles of Scilly because, in 2019, it had no eligible 2-year-olds and therefore no take-up.

Source: National Audit Office analysis of Department for Education data

**2.6** Take-up of the entitlements is generally lower in areas of higher deprivation than in more advantaged areas.<sup>10</sup> The pattern of take-up by deprivation level remained fairly consistent from 2015 to 2019. In 2019:

- Average take-up of the disadvantage entitlement in the 20% most deprived areas was 68%, compared with 74% in the least deprived areas. This gap was largest in the West Midlands (64% and 80% respectively).
- For Income Deprivation Affecting Children Index (IDACI) deciles 3 to 10, take-up increased with advantage (**Figure 6** overleaf). However, this pattern did not hold for the most deprived deciles (1 and 2). Take-up in decile 2 (66%) was slightly higher than in decile 3 (65%), and take-up in decile 1 was higher still (70%). The Department does not know the reasons for this take-up pattern but suggested it may be because efforts to improve take-up have focused on the most disadvantaged families or that these families are more likely to be in contact with other services that alert them to the entitlements.
- Average take-up of the universal entitlement was 94% in both the 20% most deprived and least deprived areas, but was lower in deciles 3 and 4 combined at 92%. We could not analyse take-up of the extended entitlement by deprivation since the Department does not have robust estimates of the eligible population at local level.

## Factors affecting take-up

**2.7** The Department has a good understanding of the factors that may affect take-up of the entitlements. In 2018, it commissioned a research study that identified a number of interrelated reasons why parents did not take up the entitlements.<sup>11</sup> Early years organisations, such as provider associations and charities, reported similar factors. Many of these factors are likely particularly to affect disadvantaged families.

### Parental choice

**2.8** Some parents choose not to take up their entitlements. In the Department's 2019 survey, 69% of parents with pre-school children who did not use childcare said that they preferred to look after their children themselves. The Department's take-up study found that some parents who did not take up the entitlements felt they were best placed to look after their child. Some wanted to keep their child at home to teach them about their culture, religion or language; others looked to extended family members for support rather than formal childcare.

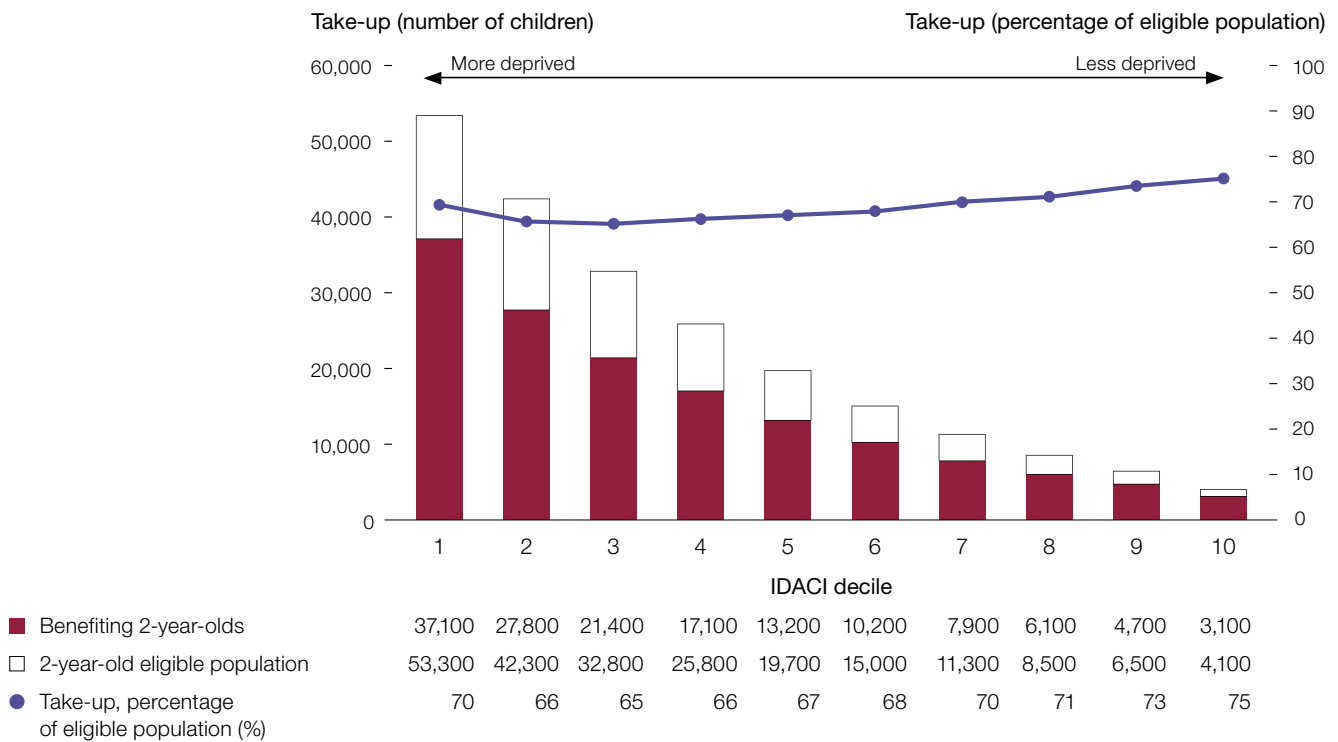
<sup>10</sup> We used the Income Deprivation Affecting Children Index (IDACI) deciles to assess deprivation. This index is produced by the Ministry of Housing, Communities & Local Government and is a supplementary index to the main Index of Multiple Deprivation. IDACI measures the proportion of children aged 0 to 15 living in income-deprived families. Decile 1 comprises the most deprived areas, while decile 10 comprises the least deprived areas.

<sup>11</sup> Department for Education, *Take-up of free early education entitlements*, September 2018.

**Figure 6**

Proportion of eligible children taking up the disadvantage entitlement by deprivation, 2019

Take-up of the disadvantage entitlement was generally lower in more deprived areas than in less deprived areas



**Notes**

- Income Deprivation Affecting Children Index (IDACI) deciles are based on children's home postcodes. Decile 1 is the most deprived, while decile 10 is the least deprived.
- We excluded 220 2-year-olds with home postcodes outside England, or where the Department for Education (the Department) was unable to match the child to an area.
- The eligible population is based on data provided by the Department for Work & Pensions to the Department. This does not include, for example, children who are looked after by a local authority, who are also eligible for the disadvantage entitlement, so take-up percentages will have been lower than stated here.
- Figures have been rounded to the nearest 100.

Source: National Audit Office analysis of Department for Education and Ministry of Housing, Communities & Local Government data



## Awareness and understanding

**2.9** Parents' awareness of the entitlements is high overall, but lower in deprived areas. The Department's 2019 parents survey found:

- 79% of parents with a child aged 2 were aware of the disadvantage entitlement;
- 93% of parents with children aged under 5 were aware of the universal entitlement, and 81% were aware of the extended entitlement; and
- awareness of the universal and extended entitlements was lower in more deprived areas: in the 20% most deprived areas, 90% of parents were aware of the universal entitlement compared with 96% in the least deprived areas; the gap was larger for the extended entitlement, with awareness of 72% in the most deprived areas and 91% in the least deprived areas.<sup>12</sup>

**2.10** Even if parents are aware of the entitlements, they may not take them up due to a lack of understanding. The Department's 2018 study found that some parents who do not qualify for one entitlement may believe they do not qualify for any of them and so do not take them up. Such misunderstandings may persist as word of mouth is the most common way for parents to obtain information about childcare, according to the Department's 2019 parents survey. Local authorities have also reported that language may be a barrier to awareness and understanding where English is not parents' first language.

## Application requirements

**2.11** Parents do not have to apply for the universal entitlement but must apply for the disadvantage and extended entitlements to confirm their eligibility. Early years providers have reported that application requirements can result in some parents not taking up the entitlements in full. For example:

- So that the Department can check continuing eligibility, parents have to reapply for the extended entitlement every three months. However, some forget to do so meaning they lose the entitlement until they reapply the following term.
- Some parents find the online application process challenging. Research by the National Centre for Social Research (NatCen) in 2018 found that parents were potentially being put off applying for support because they perceive the application process to be too difficult, particularly for the extended entitlement.<sup>13</sup> Parents can apply in other ways – for example, HM Revenue & Customs accepts applications for the extended entitlement through its telephone helpline and local authorities may accept paper applications for the disadvantage entitlement.

<sup>12</sup> Department for Education, *Childcare and Early Years Survey of Parents in England 2019*, December 2019.

<sup>13</sup> NatCen, *Low and middle-income parents' understanding of childcare entitlements: A qualitative study*, October 2018.

## Cost

**2.12** The entitlements provide parents with free hours of childcare, but providers may levy additional charges that can be difficult to avoid. The need to pay charges will generally have a larger impact on disadvantaged families, who are more likely to perceive cost as a barrier.

**2.13** The Department's guidance says government funding is not intended to cover the cost of meals, other consumables, extra hours or additional activities, and providers can charge for these.<sup>14</sup> A departmental survey in 2018 found 74% of providers had additional charges.<sup>15</sup> The Department's 2019 parents survey found 89% of parents could use their entitlement with their first choice of provider and, of those who could not, 11% said that this was because the provider was too expensive.

**2.14** The Department's guidance also states that providers should be mindful of the impact of additional charges on the most disadvantaged parents and sets out that parents should be able to access an entitlement place free of charge and without any restriction. However, some providers operate in ways that mean parents effectively have to pay to access the entitlement. For example, parents may have to pay for extra hours that are not covered by the entitlement in order to obtain a place. In 2019, a CEEDA survey found this was the case for 12% of private, voluntary and independent providers offering the disadvantage entitlement, 17% for the universal entitlement and 18% for the extended entitlement.<sup>16</sup>

**2.15** The Department's 2018 evaluation of the first year of the extended entitlement found variation in how local authorities monitor providers' compliance with the Department's guidance.<sup>17</sup> Some local authorities did not consider they had the resources or ability to enforce the guidance; others were more active, reporting they had senior support and resources for enforcement. Complaints from parents are handled at local level and the Department's monitoring indicates that local authorities do not generally receive many complaints.

## Availability of provision

**2.16** The Department's 2018 take-up study found that providers may restrict when they offer entitlement-funded sessions or how many places they make available, which can act as a barrier to take-up. Some providers and stakeholders, such as Coram Family and Childcare, told us that places for children with special educational needs and disabilities may be particularly limited as it costs providers more to meet their needs.

<sup>14</sup> Department for Education, *Early years entitlements: operational guidance for local authorities and providers*, June 2018.

<sup>15</sup> Department for Education, *Providers' finances: Evidence from the Survey of Childcare and Early Years Providers 2018*, March 2019.

<sup>16</sup> CEEDA, *Counting the cost in spring 2019*, June 2019. CEEDA is an independent research agency specialising in analysis of the early years sector. It surveyed a sample of 270 day nurseries and pre-schools and 86 childminders, drawn from its panel of providers on Ofsted's early years register. Survey data were then weighted to reflect the profile of providers on the early years register at December 2018.

<sup>17</sup> Department for Education, *Evaluation of the first year of the national rollout of 30 hours free childcare*, September 2018.

**2.17** The Department's 2018 evaluation found that introducing the extended entitlement had not affected the availability of places for the other entitlements. However, it also found some local authorities believed that this could be a risk in the future since providers might see offering the extended entitlement as more attractive than the disadvantage entitlement, given the lower cost of looking after 3- and 4-year-olds.

## **Increasing take-up**

### National campaigns

**2.18** The Department's actions to increase take-up of the entitlements have focused on improving awareness and understanding. HM Revenue & Customs, working with other government departments, launched the Childcare Choices website in 2017 as the place for parents to find out about and apply for government-funded childcare including the entitlements. The Department has also worked with other bodies to improve awareness in harder-to-reach groups. For example, until March 2020, it is providing funding to support Coram Family and Childcare to run a 'parent champions national network' to help spread information through word of mouth.

**2.19** The Department has targeted disadvantaged families in initiatives to promote two of the entitlements:

- The disadvantage entitlement – between January and July 2019, the Department undertook a trial with nine local authorities experiencing low take-up rates. This looked at two alternative ways, rather than an official letter, of contacting families who might be eligible – one a postcard highlighting the benefits of the entitlements and the other a 'golden ticket' for parents to exchange for their entitlement. The Department has also funded the Professional Association for Childcare and Early Years to work with Jobcentre Plus to provide resources and guidance to its staff so they can advise parents about the entitlement.
- The extended entitlement – the Department has a communications strategy to promote this entitlement to lower-income families who are just outside the eligibility criteria, both directly and through sector stakeholders. It aims to encourage parents in these families to increase their working hours and thereby qualify for the entitlement. It also seeks to remind parents to reapply and confirm their eligibility for the entitlement each term.

**2.20** The Department does not yet have full assessments of the effectiveness of these initiatives, but initial data indicate they have had some impact. The number of extended entitlement applications increased during a period of social media activity, suggesting it may have reminded some parents to reapply; the full evaluation of the effectiveness of the communications strategy is expected in 2020. The Department is also collecting data from its trial to promote take-up of the disadvantage entitlement to identify which intervention was more effective; final results are expected in spring 2020.

## Local action

**2.21** Local authorities are encouraging take-up of the entitlements in a variety of ways. For example, some of the local authorities we visited contact parents directly in areas of low take-up, via telephone and home visits, to promote the entitlements and put them in contact with providers. The Department for Work & Pensions provides the Department with details of families receiving benefits who are potentially eligible for the disadvantage entitlement, which the Department then passes onto local authorities. The Department also supported local authorities to improve take-up through Childcare Works, an external contractor. Between October 2016 and January 2020, Childcare Works monitored local authorities' activities and ran workshops to share good practice. For example, in 2019 it ran 18 events with local authorities as part of a national programme to engage with providers including about ways to improve take-up.

**2.22** Local authorities told us that the actions needed to increase take-up, particularly among disadvantaged families, can be resource-intensive. The Department's 2018 take-up study found some local authorities had diverted resources from efforts to improve take-up of the disadvantage entitlement to promote the extended entitlement. Factors such as the extent of senior support within local authorities and information on eligible families may also affect how much work local authorities undertake to promote take-up.

**2.23** There is no robust evidence on the effectiveness of local action. The Department's take-up study found there was limited evidence about impact and, for some actions, local authorities had differing views about effectiveness. Coram Family and Childcare also told us that, until the Department's trial in 2019 (paragraph 2.19), there had not been large-scale market research by government on designing effective marketing tools, with local authorities relying on intuition and parent feedback.

## Impact on outcomes

**2.24** The Department has set high-level aims for what it is seeking to achieve from the entitlements. It relies on periodic evaluations and longitudinal studies to demonstrate the impact of the entitlements and make the case for spending on this area. It does not consider it would be feasible to monitor impact more routinely as this would involve additional assessment of young children.

## Children's development

**2.25** The Department's aims for the disadvantage and universal entitlements include supporting children's development and preparing them for school. It also aims to narrow the achievement gap between poorer children and all children through the disadvantage entitlement.

**2.26** There has been evidence for some time of the positive impact that early education and childcare can have on children's development and outcomes. The Effective Pre-School, Primary and Secondary Education (EPPSE) study, which began in 1997, monitored a sample of children from age 3 through to age 16.<sup>18</sup> Among other things, the study found that children who had early education experiences were more likely to achieve better academic outcomes compared with those who had not, and the differences in attainment continued through to GCSEs. Disadvantaged children particularly benefited from high-quality early years provision.

**2.27** The Department is funding a longitudinal study to assess the impact of the disadvantage and universal entitlements. Beginning in 2013, the Study of Early Education and Development (SEED) is monitoring a sample of children from age 2 to the end of Key Stage 1 (age 7).<sup>19</sup> The Department expects final results from the study in 2021. Interim findings have included the following:

- Some formal early education and childcare may have a positive effect on a child's development – for example, the study has found that children from disadvantaged families who had formal childcare from at least the age of 2 had more chance of achieving the expected levels of development in their reception year at primary school.
- The evidence is mixed on what might lead to better lasting outcomes. For example, the research has found that children who received more hours in formal group provision showed better socio-emotional development at age 4 but poorer development at age 5.

**2.28** The Department uses the Early Years Foundation Stage (EYFS) profile assessment to monitor how well children are developing in general. The assessment takes place in school in the final term of reception year (age 5). A child is considered to have a good level of development if they achieve at least the expected level of learning in five areas.<sup>20</sup>

**2.29** The results of the EYFS profile assessment indicate children's development is improving. Between 2016 and 2019, the percentage of children assessed as achieving a good level of development rose from 69% to 72% (**Figure 7** overleaf). The gap in development between children in the 10% most and least deprived areas remained substantial but narrowed slightly over this period, from 19 percentage points in 2016 to 17 percentage points in 2019.

18 Further details on the EPPSE study, including published reports, can be found at [www.ucl.ac.uk/ioe/research-projects/2019/mar/effective-pre-school-primary-and-secondary-education-project-eppse](http://www.ucl.ac.uk/ioe/research-projects/2019/mar/effective-pre-school-primary-and-secondary-education-project-eppse).

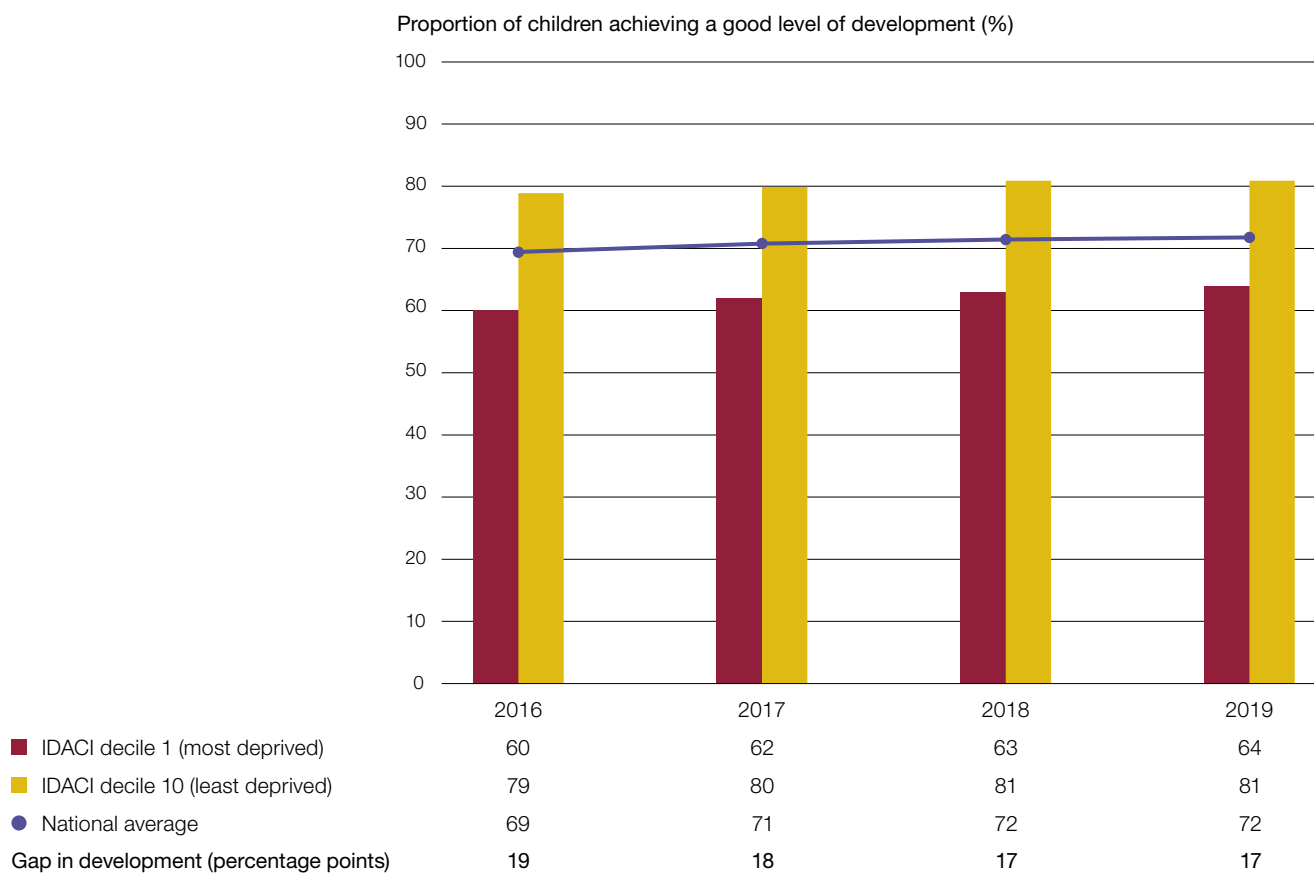
19 Further details on SEED, including interim reports, can be found at <http://www.seed.natcen.ac.uk/about-the-seed-study/background-and-study-design.aspx>.

20 These areas are: communication and language; physical development; personal, social and emotional development; literacy; and mathematics.

**Figure 7**

Early Years Foundation Stage profile assessment results by deprivation, 2016 to 2019

The gap in development between children in the most and least deprived areas narrowed slightly but remained substantial



**Notes**

- 1 Income Deprivation Affecting Children Index (IDACI) deciles are based on children's home postcodes. Decile 1 is the most deprived, while decile 10 is the least deprived.
- 2 Figures are rounded to the nearest percent.

Source: National Audit Office analysis of Department for Education data

**2.30** There are concerns the extended entitlement could inadvertently increase the development gap between disadvantaged children and their peers. This is because the scheme focuses on supporting parents to work, and children in non-working families or the lowest-income working families are not eligible for the additional hours.<sup>21</sup> In 2019, the Social Mobility Commission concluded that the most disadvantaged children who stand to gain from additional professional contact time are losing out because either they are not eligible for the additional support, or their parents are not aware that they are eligible.<sup>22</sup> The Department has highlighted, however, that low-income families may be able to access other childcare support through Universal Credit.

**2.31** Although the entitlements support children's development, the EYFS profile assessment is not a meaningful measure of the specific impact of the entitlements. The timing of the assessment at the end of reception year means that it reflects the impact of school and early years provision, as well as wider factors relating to a child's home and family circumstances.

**2.32** In 2018, the Early Intervention Foundation concluded the EYFS profile is an insensitive measure to use in assessing the disadvantage entitlement's effectiveness, making it challenging to detect any impact the offer may be having.<sup>23,24</sup> Despite these limitations, the Early Intervention Foundation found mixed evidence of impact. At national level it was unable to detect an impact, but at local authority level it found a small positive relationship between increases in take-up of the entitlement and a narrowing of the gap in EYFS results between disadvantaged children and their peers.

**2.33** At the time of our work, the Department was planning changes to early years assessment. It has piloted a reception baseline assessment since September 2019 and intends to implement the assessment in full in 2020. This assessment will be conducted during a child's first half-term in reception and provide a baseline for primary schools to judge the progress pupils subsequently make. The Department does not plan to use the new assessment to measure performance in early years settings or to hold early years providers to account.

21 Each parent must earn a weekly minimum equivalent to 16 hours a week at national minimum/living wage to be eligible for the extended entitlement.

22 Social Mobility Commission, *State of the Nation 2018-19: Social Mobility in Great Britain*, April 2019.

23 Early Intervention Foundation, *An initial assessment of the 2-year-old free childcare entitlement: Drivers of take-up and impact on early years outcomes*, August 2018. Its research defined disadvantaged children as those eligible for free school meals at the start of their reception year.

24 The measure is insensitive as nearly 30% of children eligible for free school meals received the same overall attainment score, so it would be difficult to judge the impact of childcare. There are only three possible levels of achievement ('emerging', 'expected' or 'exceeded') for each development goal, and most children achieve the 'expected' level.

## Working hours

**2.34** The Department's aims for the extended entitlement are to reduce the cost of childcare to families and support parents to move into work or work more hours, should they wish to do so. In 2016, we reported that the success of the extended entitlement would be difficult to measure but, given the size of the investment, the Department needed to find measurable ways to track impact.<sup>25</sup> In its business case, the Department said it would consider introducing targets after the evaluation of the first year of the entitlement. It subsequently decided not to introduce targets. The Department told us it would be difficult to set targets given the number of factors that could influence changes in the labour market.

**2.35** The Department's evidence suggests the extended entitlement has led to some parents entering the labour market or increasing their working hours. For example:

- The evaluation of the first year of the entitlement found 26% of mothers surveyed reported they had increased their working hours and 2% said they had entered work. Fewer fathers had changed their working hours.
- The 2019 parents survey found 33% of parents thought that, in the absence of the entitlement, they would be working fewer hours. This perception was greater in households with incomes of less than £45,000 per year (42%) compared with households earning more than that amount (26%).

<sup>25</sup> Comptroller and Auditor General, *Entitlement to free early education and childcare*, Session 2015-16, HC 853, National Audit Office, March 2016.



## Part Three

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

**3.1** This part of the report examines the provision of entitlement-funded early education and childcare, including the quality and quantity of provision, particularly in deprived areas.

#### Quality of provision

**3.2** The Department for Education (the Department) relies on Ofsted regulation and inspection to provide assurance about the quality of early years provision. Ofsted visits providers during the registration process to assess their suitability and then carries out regular inspections (schools do not need to register their early years provision separately).<sup>26</sup> The Department intends that, as far as possible, entitlement places should be delivered by providers that have been graded as ‘good’ or ‘outstanding’ in their most recent Ofsted inspection. Local authorities should stop funding providers graded as inadequate as soon as is practicable.

**3.3** The proportion of entitlement-funded providers that Ofsted has graded as good or outstanding has increased (**Figure 8** overleaf). At January 2019:

- 94% of providers were graded as good or outstanding, up from 85% at January 2015;
- 4% of 2-year-olds (5,400 children) taking up the disadvantage entitlement were with providers that Ofsted had graded as ‘requires improvement’ or ‘inadequate’, down from 15% (20,600 children) at January 2015; and
- 9% of children taking up the universal entitlement (103,600 children) were with providers graded as requires improvement or inadequate at January 2019, an improvement from 15% (185,500 children) at January 2015.

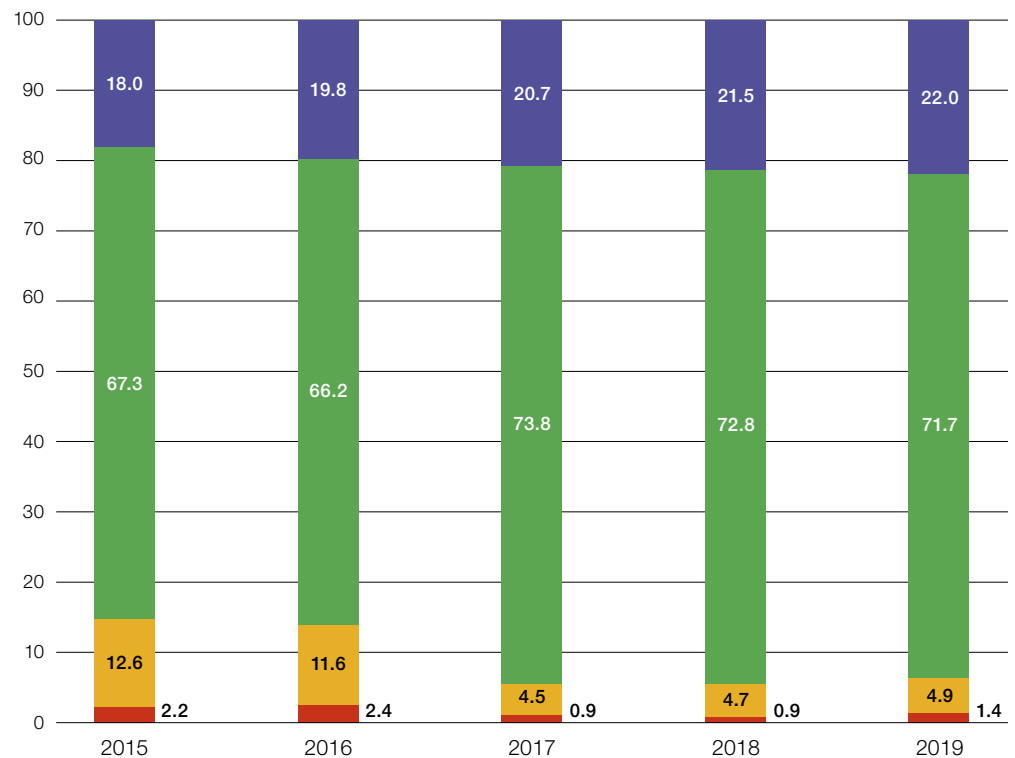
<sup>26</sup> Ofsted normally inspects registered providers at least once during a four-year cycle. It normally inspects newly registered providers within 30 months of registration.

**Figure 8**

Ofsted inspection grades for entitlement-funded early years providers, 2015 to 2019

The proportion of entitlement-funded providers that Ofsted has graded as good or outstanding has increased since 2015

Percentage of funded providers (%)



- Outstanding
- Good
- Requires improvement
- Inadequate

**Notes**

- 1 The data include all providers who were providing any hours of any entitlement at the annual January census.
- 2 The data exclude providers that did not have an Ofsted grade; these include providers that have not yet been inspected and some independent schools.
- 3 A new inspection cycle began in August 2016. Since then Ofsted has prioritised the inspections of childminders that had previously been judged as requires improvement or inadequate. These may explain the sharp decline in the number of providers graded as requires improvement between January 2016 and January 2017.
- 4 Figures may not sum due to rounding.

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

**3.4** In general, the quality of providers in deprived areas is lower than in advantaged areas. Our analysis indicates that at January 2019:

- 18% of providers in the 20% most deprived areas were graded as outstanding, compared with 27% of providers in the least deprived areas;
- 10% of providers in the 20% most deprived areas were graded as requires improvement or inadequate, compared with 4% in the least deprived areas; and
- the proportion of children with outstanding providers was lower in the most deprived areas compared with the least deprived, and the proportion with providers graded as requires improvement or inadequate was higher. For example, for the universal entitlement, the gap in the proportion of children with outstanding providers, between the 20% least and most deprived areas, was 14 percentage points. If this gap were closed, more than 40,000 more children in deprived areas would be in outstanding provision.

### **Number of places and providers**

**3.5** The available data do not provide a fully accurate picture of the number of entitlement-funded places potentially on offer. The number of recorded places at providers on Ofsted's early years register has remained at around 1.3 million since 2015. However, registered providers do not have to offer all these as entitlement-funded places. These data also reflect the maximum number of children a childminder could look after up to the age of 8 (six children) and not how many aged under-5 (three children). In addition, the capacity of private and voluntary providers is recorded at registration or their most recent Ofsted inspection, and therefore may not be up to date.

**3.6** High take-up suggests there are enough places overall to meet demand for the universal entitlement. Furthermore, in the Department's 2019 parents survey, just 3% of families who had not used any childcare in the past year reported that this was because they could not find a place as local providers were full.<sup>27</sup> The Department's 2019 providers survey indicated that providers generally had available places – on average, spare capacity was 19% at group-based providers and 27% at childminders.<sup>28</sup>

<sup>27</sup> Department for Education, *Childcare and Early Years Survey of Parents in England, 2019*, December 2019.

<sup>28</sup> Department for Education, *Survey of Childcare and Early Years Providers 2019*, November 2019. Spare capacity refers to the proportion of available full-day provision that providers reported as spare.

**3.7** The Department has received qualitative updates on whether local authorities have enough childcare places through its contractor, Childcare Works, but does not have data on the scale of any shortfalls. Evidence indicates there is local variation in whether there are enough places:

- Our review of 25 ‘childcare sufficiency assessments’ found that 13 local authorities reported they had enough places to meet demand, while five said there were not enough places.<sup>29</sup> The remaining seven local authorities reported enough places overall, but significant variation within their areas with gaps in provision in certain localities.
- In a 2019 survey by Coram Family and Childcare, 63% of local authorities reported there were enough places for the disadvantage entitlement; 74% for the universal entitlement; and 62% for the extended entitlement.<sup>30</sup> Nearly all the remaining local authorities reported they had enough places only in some localities.

**3.8** In the absence of robust data on the number of places, we examined trends in the number of entitlement-funded providers. This analysis suggests provision of the disadvantage entitlement may be most at risk. The number of providers for this entitlement increased between 2015 and 2016 but has plateaued since 2017, while the number of providers for the universal and extended entitlements has continued to rise (**Figure 9**).

**3.9** A Local Government Association survey in 2018 found that 10 of the 88 local authorities that responded had seen a reduction in places for disadvantaged 2-year-olds.<sup>31</sup> London Councils told us that London boroughs reported in late 2017 that some providers had switched, or were considering switching, from offering places for the disadvantage entitlement to providing the extended entitlement. The Department’s evaluation of the first year of the extended entitlement found that, in its sample of 12 local authorities, funded hours for disadvantaged 2-year-olds fell very slightly, by 0.2 places per provider on average between 2017 and 2018.

**3.10** There are more entitlement-funded providers in advantaged areas than in disadvantaged areas (**Figure 10** on page 36). At January 2019, there were 8,770 providers in the 20% most deprived areas compared with 11,620 in the least deprived areas. Children in deprived areas were more likely to be at maintained nursery and state primary schools than those in less deprived areas, and less likely to be at private and voluntary providers.

**3.11** In recent years there has been greater turnover of providers in deprived areas, potentially leading to more disruption for families in these localities (**Figure 11** on page 37). Between 2015 and 2018, the proportion of providers leaving Ofsted’s early years register was higher in the 20% most deprived areas (10.3%) than in the 20% least deprived areas (9.2%). The proportion of providers joining the register was also higher in deprived areas (9.8% compared with 8.1%).

29 The Department requires each local authority to prepare an assessment of the sufficiency of childcare provision in their area and report on this annually to their council members.

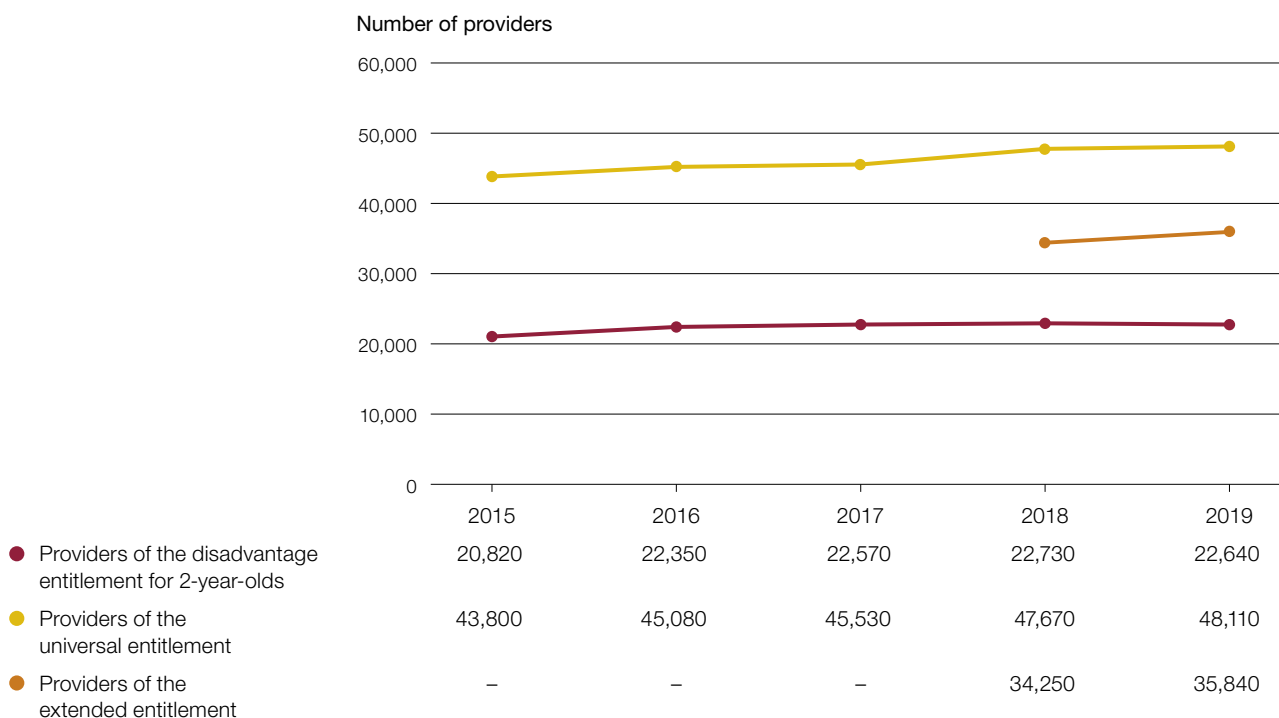
30 Coram Family and Childcare, *Childcare Survey 2019*.

31 Local Government Association, *Early Years Provision Survey Results*, June 2018.

**Figure 9**

## Number of early years providers by entitlement, 2015 to 2019

Since 2017, the number of providers for the universal and extended entitlements has increased but the number for the disadvantage entitlement has plateaued

**Notes**

- Parents may split their entitlement hours between providers but the Department for Education's (the Department's) data count, for each child, the provider where the entitlement has been used most. The number of providers who provide entitlement-funded places may therefore be higher than recorded.
- The Department introduced the extended entitlement in September 2017.

Source: Department for Education

## Flexibility of provision

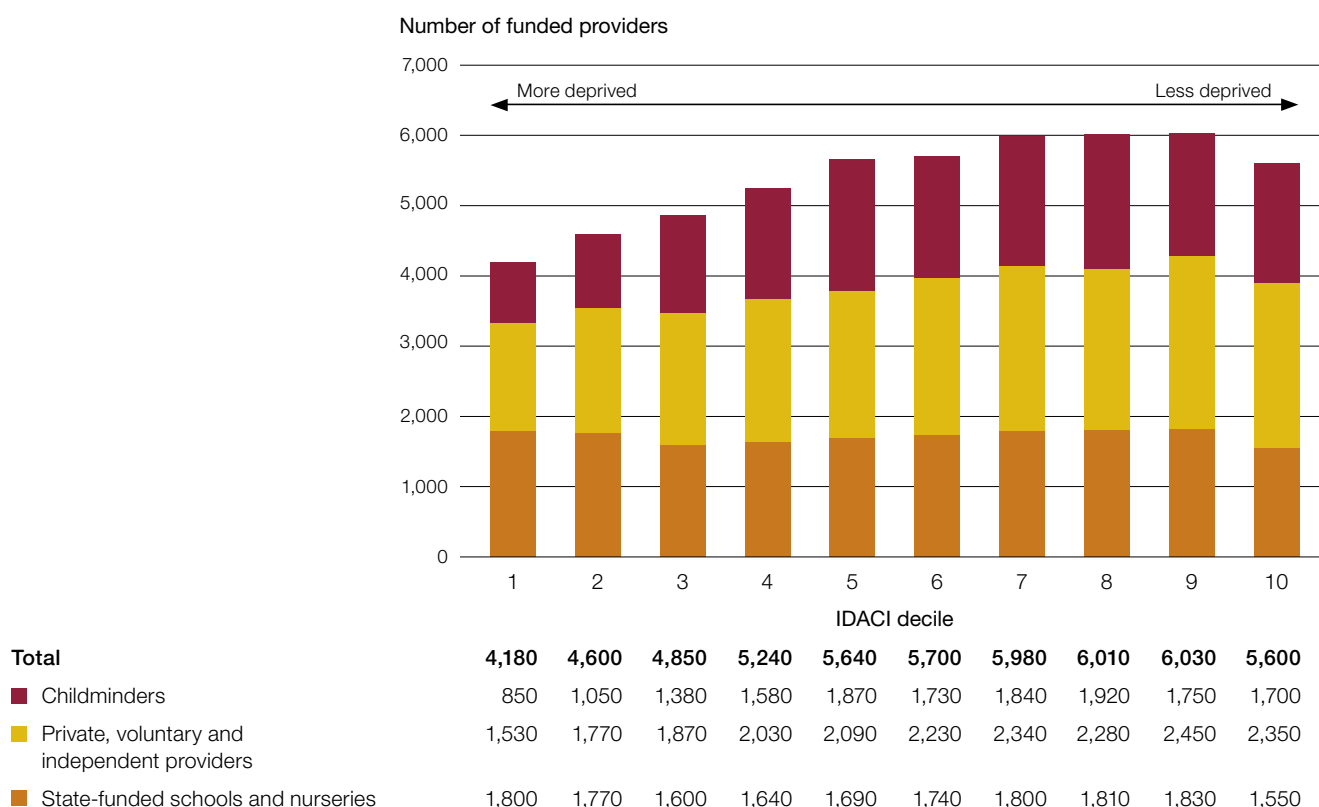
**3.12** Even if entitlement-funded places are available, provision may not be flexible enough to meet parents' needs. The disadvantage and universal entitlements each provide 570 hours of funded childcare per year.<sup>32</sup> Providers can choose how they offer these hours – some, particularly schools, may offer hours only during term-time, while others may choose to spread the total across the whole year, averaging around 11 hours per week.

<sup>32</sup> Based on 15 hours per week and 38 weeks per year.

**Figure 10**

Number of entitlement-funded early years providers by deprivation, January 2019

There are more entitlement-funded providers in advantaged areas than in deprived areas

**Notes**

- 1 Data are from the January 2019 census, rounded to the nearest 10.
- 2 Private, voluntary and independent providers comprise: private (total of 15,030 providers), voluntary (4,220), independent (830) and other (860).
- 3 State-funded schools and nurseries comprise: maintained nursery and state-funded primary schools (total of 16,080), special schools (520), local authority day nurseries (460) and state-funded secondary schools (160).
- 4 Income Deprivation Affecting Children Index (IDACI) deciles are based on children's home postcodes. Decile 1 is the most deprived, while decile 10 is the least deprived.
- 5 Figures may not sum due to rounding.

Source: National Audit Office analysis of Department for Education and Ministry of Housing, Communities &amp; Local Government data

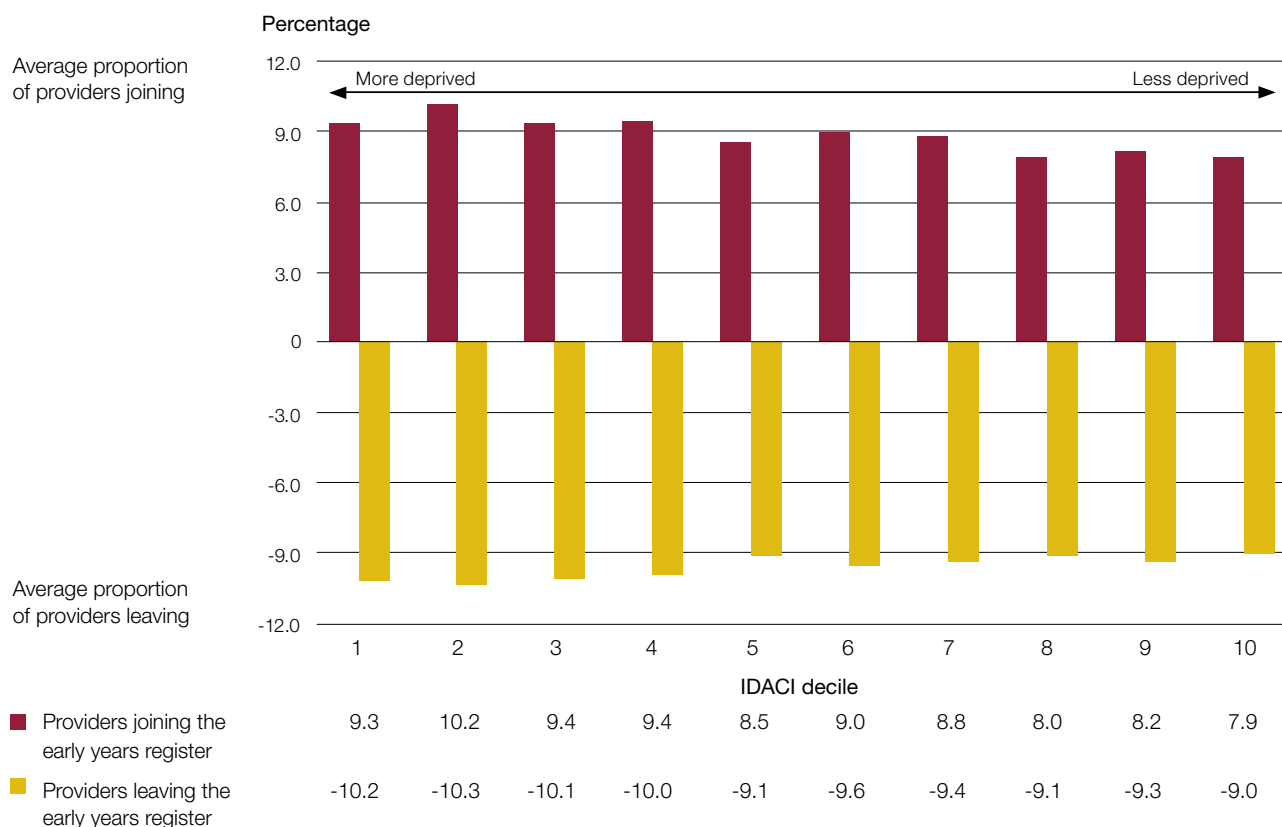
**3.13** In the Department's 2019 parents survey, 22% of respondents said that they had problems finding childcare that was flexible enough to fit their needs, while 51% did not have such problems. A Local Government Association survey in 2018 found that 17 of the 85 local authorities that responded thought that lack of flexibility was one of the main reasons for children not accessing the entitlements, and 16 thought it was lack of suitable provision at the times required.<sup>33</sup>

33 See footnote 31.

**Figure 11**

Proportion of providers joining and leaving Ofsted's early years register by deprivation, 2015 to 2018

The turnover of providers was higher in more deprived areas, with proportionately more providers joining and leaving the early years register

**Notes**

- 1 We analysed the number of providers of childcare on non-domestic premises joining and leaving Ofsted's early years register between December 2015 and December 2018. Our analysis therefore excluded state-funded and independent schools, and childminders.
- 2 We calculated turnover based on the number of active providers by decile at the end of the previous year and then averaged across the three years.
- 3 Providers joining and leaving the register may include those who did not renew their registration one year but subsequently reactivated in one of the following years, or those who have changed provider type and/or location. Providers who have left the register cannot offer entitlement-funded places.
- 4 Income Deprivation Affecting Children Index (IDACI) deciles are based on provider postcodes. Decile 1 is the most deprived, while decile 10 is the least deprived.

Source: National Audit Office analysis of Ofsted, Office for National Statistics and Ministry of Housing, Communities & Local Government data

**3.14** More flexible working patterns, including the development of the 'gig economy', may make it more difficult for parents to find childcare that meets their needs.

The Family and Childcare Trust's 2018 survey of local authorities reported significant sufficiency gaps for families who worked atypical hours including many low-paid shift workers.<sup>34</sup> The Department's 2018 take-up study also found limitations in providers' ability to meet the needs of some parents for atypical hours, variable arrangements or evening and weekend childcare.<sup>35</sup>

<sup>34</sup> Family and Childcare Trust, *Childcare survey 2018*. The Trust, now known as Coram Family and Childcare, defined atypical hours as any time outside 8 am to 6 pm on a weekday.

<sup>35</sup> Department for Education, *Take-up of free early education entitlements*, September 2018.

## Providers' financial sustainability

### Funding

**3.15** The Department allocates entitlement funding to local authorities using a national funding formula. Local authorities are then responsible for paying providers for entitlement places.

**3.16** The Department's funding formula is based on the number of children taking up the entitlements multiplied by hourly funding rates. It adjusts the rates to account for differences in wages across England and, for the universal and extended entitlements, also the proportion of children with additional needs, receiving free school meals or who have English as an additional language. The adjustments mean local authorities receive different hourly funding rates. In 2019-20, the rates ranged widely:

- for the disadvantage entitlement, from £5.20 to £6.50, with an average of £5.40; and
- for the universal and extended entitlements, from £4.30 to £8.51, with an average of £4.75.<sup>36</sup>

**3.17** The funding rates local authorities pay to providers also vary considerably. The Department allows local authorities to retain some of the funding they receive (up to 5% of universal and extended entitlement funding) for uses such as covering their own costs, and to use a limited proportion of funding for other purposes including to incentivise provider behaviour (paragraph 3.30). Local authorities distribute the remaining funding to providers using local formulae. In 2019-20, the average hourly base rates local authorities paid to providers ranged:

- for the disadvantage entitlement, from £4.75 to £8.10, with an average of £5.27; and
- for the universal and extended entitlements, from £3.65 to £7.21, with an average of £4.27.<sup>37</sup>

### Trends in funding

**3.18** The Department's hourly funding rates paid to local authorities between 2016-17 and 2020-21 increased by an estimated 0.9% on average in real terms for the disadvantage entitlement, but fell by an estimated 0.5% for the universal and extended entitlements (**Figure 12**).

<sup>36</sup> Our analysis of local authority rates excludes the City of London and Isles of Scilly as they have different funding arrangements, receiving instead a central grant from government which includes funding for early years.

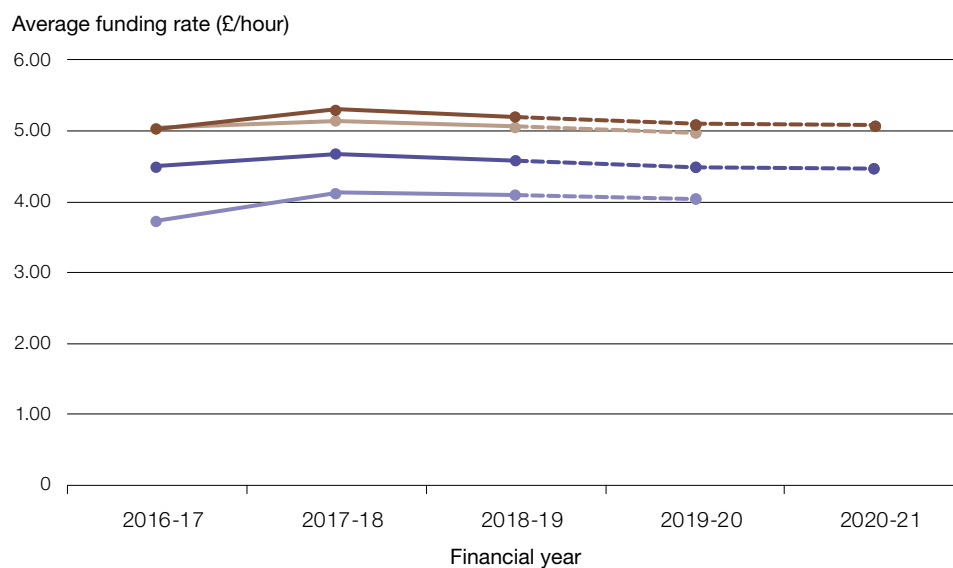
<sup>37</sup> Base rates to providers exclude any supplements and funding to maintained nursery schools as they receive higher rates compared with other types of provider (see paragraph 1.5).



**Figure 12**

Average hourly rates paid by the Department for Education (the Department) to local authorities and by local authorities to early years providers, 2016-17 to 2020-21

On average, hourly base rates paid to providers for the universal and extended entitlements increased by an estimated £0.30 (7.9%) but rates for the disadvantage entitlement dropped by an estimated £0.07 (1.4%) in real terms between 2016-17 and 2019-20



● Rate to providers (universal and extended entitlements) (£/hour)	3.74	4.13	4.10		
--- Estimated rate				4.03	-
● Rate to local authorities (universal and extended entitlements) (£/hour)	4.50	4.68	4.58		
--- Estimated rate				4.49	4.48
● Rate to providers (disadvantage entitlement) (£/hour)	5.05	5.15	5.06		
--- Estimated rate				4.97	-
● Rate to local authorities (disadvantage entitlement) (£/hour)	5.03	5.30	5.20		
--- Estimated rate				5.09	5.08

**Notes**

- 1 This Figure shows the average hourly funding rates paid by the Department to local authorities and the average hourly base rates paid by local authorities to providers.
- 2 Base rates to providers exclude any supplements and funding to maintained nursery schools as they receive higher rates compared with other types of providers.
- 3 Funding rates are adjusted for inflation, using HM Treasury's gross domestic product deflators published in January 2020 at 2016-17 prices. The deflators for 2019-20 and 2020-21 were not available at the time of our work and the inflation adjustments for those years are our estimates based on Office for Budget Responsibility forecasts at March 2019.
- 4 The rates to local authorities for 2020-21 are estimated based on the increase in funding that the government announced in the Spending Round in November 2019. They assume an average increase of £0.08 per hour before adjusting for inflation. At the time of our work, local authorities had not published their funding rates to providers for 2020-21.
- 5 Our analysis of rates paid by the Department to local authorities excludes the City of London and Isles of Scilly as they have different funding arrangements, receiving instead a central grant from government which includes funding for early years.
- 6 Figures are rounded to the nearest penny.

Source: National Audit Office analysis of Department for Education data

**3.19** Overall, between 2016-17 and 2019-20, changes in the rates paid to providers shifted the balance of entitlement funding from disadvantaged 2-year-olds to 3- and 4-year-olds. Local authorities:

- decreased the average hourly base rate paid to providers for the disadvantage entitlement by an estimated 1.4% in real terms; and
- increased the average hourly base rate paid to providers for the universal and extended entitlements by an estimated 7.9% in real terms. This rise resulted from the Department introducing a new funding formula in April 2017 that obliged local authorities to pass on a larger proportion of funding to providers.

At the time of our work, local authorities had not published their funding rates for 2020-21.

### Financial pressures

**3.20** Providers have faced cost pressures in recent years. The government has increased the national minimum and living wages by more than inflation – for example, the national living wage rose by an estimated 8% in real terms from £7.20 in 2016-17 to £8.21 in 2019-20 for those aged 25 and over.<sup>38</sup> From April 2017, the government also required most employers to provide and contribute to employee pensions. The Department has assessed that these changes particularly affected the early years sector as it has a large proportion of low-paid workers and around three-quarters of providers' spending is staff-related.<sup>39</sup> Its surveys also indicate that average annual rental payments for the premises of private and voluntary providers rose by almost a quarter in real terms between 2016 and 2019.

**3.21** The Department has not reflected rising provider costs in the rates it pays to local authorities, and the data used to set the rates are now out of date. It revised its hourly funding rates in April 2017, using cost data recorded in 2015 or earlier. The rates subsequently remained unchanged in cash terms for three years.

**3.22** The provider bodies we consulted reported that the funding rates paid to providers had not kept pace with general inflation or sector-specific cost pressures. The National Day Nurseries Association told us, for example, that providers could not afford to offer competitive salaries, which was making it more difficult for them to recruit and retain qualified staff. The Early Years Alliance reported financial pressures were leading to providers closing, especially in deprived areas where parents were less able to supplement government funding.

**3.23** Research provides conflicting evidence on the extent to which the Department's funding rates are sufficient to cover providers' costs:

<sup>38</sup> Adjusted for inflation using HM Treasury's gross domestic product deflators published in January 2020 at 2016-17 prices. The deflator for 2019-20 was not available at the time of our work and the inflation adjustment for that year is our estimate based on Office for Budget Responsibility forecasts at March 2019.

<sup>39</sup> The Education Policy Institute reported the average hourly pay for childcare workers in the private sector was £7.70 in 2018.

- Recognising that its data were out of date, the Department commissioned two studies on provider costs in 2018.<sup>40, 41</sup> Both studies concluded, based on samples of providers, that the average hourly cost to providers of a childcare place was less than £4.00, less than the average funding rates. Both also described, but could not fully explain, variation in the financial characteristics of providers. One of the studies also found that, although providers received £1.30 in income for every £1.00 in cost on average, half of the providers surveyed reported that their costs exceeded income.
- CEEDA estimated in 2019 that the average hourly cost for private, voluntary and independent providers, including childminders, was £7.22 for a 2-year-old place and £5.36 for a 3- or 4-year-old place, based on its survey of providers.<sup>42</sup> It estimated that these costs would mean a funding shortfall of at least £455 million across the sector in 2019-20.

**3.24** Some of the disparity in average hourly costs may be due to differences in how the research was undertaken. For example, the Department's studies covered all provider types, while the CEEDA research focused on private, voluntary and independent providers, and there were differences in when the evidence was gathered. All three studies calculated the average hourly costs on the basis of a sample of providers, so some uncertainty in the results is to be expected, especially if the sample size is small. The Department's research was clear in fully setting out the assumptions underpinning the analysis. To help make data from different provider types more comparable, its studies excluded some costs that providers may incur.<sup>43</sup> Along with other limitations, these exclusions mean that the Department's studies potentially under-stated the average hourly cost.

**3.25** Providers may look to cover shortfalls in funding by asking parents to pay additional charges or by restricting access to entitlement hours (paragraphs 2.12 to 2.15). They may also increase their fees for non-entitlement hours to cross-subsidise entitlement places. The Department's 2019 providers survey found just over half of private and voluntary providers had increased their fees in the previous year, compared with just under half in 2018.<sup>44</sup>

<sup>40</sup> Department for Education, *Providers' finances: Evidence from the Survey of Childcare and Early Years Providers 2018*, March 2019. The study's analyses of total cost and income and hourly cost were based on samples of around 1,500 providers and weighted to be nationally representative of provider types in 2017.

<sup>41</sup> Department for Education, *Early years providers cost study 2018*, February 2019 (revised April 2019). The study analysed data on costs and income from 120 early years settings during March to July 2018. The sample of childcare providers was randomly selected, ensuring sufficient numbers across provider types and regions in England to analyse differences in cost against those categories, and weighted to be nationally representative based on the Department's 2018 provider survey.

<sup>42</sup> CEEDA, *Counting the cost in spring 2019*, 2019. CEEDA surveyed a sample drawn from its panel of providers on Ofsted's early years register. It assessed costs for 270 day nurseries and pre-schools and 86 childminders. Survey data were then weighted to reflect the profile of providers on the early years register at December 2018.

<sup>43</sup> The Department's studies, for example, did not include costs such as spending on improving or expanding facilities or interest payments for bank loans, and did not include staff, rent or mortgage costs consistently.

<sup>44</sup> Department for Education, *Survey of Childcare and Early Years Providers 2019*, November 2019 and Department for Education, *Survey of Childcare and Early Years Providers 2018*, November 2018.

## Ensuring sufficient supply of places

**3.26** The Department monitors how effectively local authorities are discharging their statutory duty to ensure there are enough childcare places to deliver the entitlements in their area.<sup>45</sup> After the introduction of the extended entitlement in 2017, the Department's concerns about sufficiency in local authorities dropped. Its contractor, Childcare Works, rated 71 local authorities as 'red' or 'amber' for sufficiency in September 2017, 31 in September 2018 and 34 in September 2019.<sup>46</sup>

### Capacity of local authorities

**3.27** Both the Department and local government have raised concerns about the capacity of some local authorities to ensure there are enough childcare places. The Department, through Childcare Works, commonly identified a lack of capacity or resources in local authorities as a risk to sufficiency.

**3.28** The Family and Childcare Trust reported in 2016 that most local authorities focused their efforts on their statutory duty to support early years providers who have been graded by Ofsted as inadequate or requires improvement, and the offer of support, such as training, for other providers varied significantly.<sup>47</sup> In 2018, the Department's evaluation of the extended entitlement found some providers had seen a drop in quality improvement support available from local authorities due to funding pressures. The Local Government Association's 2018 survey found that, after the Department capped the amount that could be retained for central costs, 29 of the 86 local authorities that responded had reduced support for providers.<sup>48</sup>

### Influencing providers

**3.29** We reported in 2016 that local authorities had limited powers to incentivise providers to enter the market or expand provision. For example, they were not allowed to pay higher hourly rates to new providers, although they could pay different rates to different types of provider. The Department limited local authorities' flexibility further in its new funding formula introduced in April 2017. For example, with the exception of maintained nursery schools, each local authority now has to pay all types of provider the same basic rate.<sup>49</sup> The Department made this change to address concerns over the variation in rates paid to providers in the same area.

<sup>45</sup> Department for Education, *Early education and childcare: Statutory guidance for local authorities*, June 2018.

<sup>46</sup> Childcare Works changed its rating system in October 2018 so ratings made before this month are not directly comparable to those under the current system.

<sup>47</sup> Family and Childcare Trust, *Driving high quality childcare: the role of local authorities*, August 2016.

<sup>48</sup> See footnote 31.

<sup>49</sup> Local authorities receive additional grants from the Department to provide maintained nursery schools with higher rates of funding.

**3.30** Local authorities retain some flexibility to influence providers, but few choose to use this fully. They can use up to 10% of early years funding from the Department as ‘supplements’ to support providers to meet local needs.<sup>50</sup> All local authorities must have a supplement to support provision to deprived families, and the other four supplements are optional. How much funding local authorities allocate as supplements varies significantly. In 2019-20, the average was 4.3% but the amounts ranged from less than 0.1% to 10.9% (**Figure 13**). The Local Government Association told us that local authorities consider the arrangements are too inflexible to allow them to manage the childcare market as effectively as they might.

### Figure 13

Proportion of local authorities using funding supplements and the average level of funding allocated, 2019-20

**Most local authorities choose not to make full use of funding supplements to incentivise providers to meet local needs**

Funding supplement	Proportion (and number) of local authorities using the supplement	Average proportion of funding allocated where supplement used <sup>1</sup>	Maximum and minimum proportion of funding allocated where supplement used <sup>1</sup>
Deprivation – to support provision for deprived families specifically	100% (149) <sup>2</sup>	3.0%	Less than 0.1% to 10.0%
Quality – to support workforce qualifications and/or to support high-quality providers to lead others	24.8% (37)	3.1%	0.3% to 8.7%
Flexibility – to support providers in offering flexible provision for parents. For example, wraparound childcare or out-of-hours provision	14.8% (22)	3.0%	0.1% to 6.1%
Rurality or sparsity – to support providers serving rural areas less likely to benefit from economies of scale	7.4% (11)	0.7%	Less than 0.1% to 3.6%
English as an additional language – to support providers where this could be a factor in their location	3.4% (5)	0.6%	0.2% to 1.0%
<b>Total supplement allocation across all local authorities</b>		<b>4.3%</b>	<b>Less than 0.1% to 10.9%</b>

#### Notes

- 1 Based on local authority funding allocations in 2019-20. The Department for Education (the Department) allows local authorities to allocate up to a total of 10% of entitlement funding to supplements to support providers to meet local needs; only the supplement for deprivation is mandatory. The 10% limit excludes the funding that local authorities can retain for central costs, contingency, special educational needs and additional funding for maintained nursery schools.
- 2 Our analysis excludes the City of London and Isles of Scilly as they have different funding arrangements, receiving instead a central grant from government which includes funding for early years.
- 3 One local authority allocated 10.9% of its funding to supplements, above the Department's limit. The Department has written to the local authority to remind it of the funding rules.
- 4 Figures rounded to the nearest 0.1.

Source: National Audit Office analysis of local authority financial returns

<sup>50</sup> The 10% cap excludes the funding that local authorities can retain for central costs, contingency, special educational needs and additional funding for maintained nursery schools.

## The Department's support and oversight

**3.31** The Department has improved its support for, and oversight of, local authorities' delivery of the entitlements. In 2016, the Committee of Public Accounts reported that the Department had no mechanisms for identifying whether local authorities were managing childcare provision in their area effectively or to intervene if needed.<sup>51</sup> The Department subsequently contracted Childcare Works, between October 2016 and January 2020, to monitor local authorities and provide support where required. At the time of our work, the Department was re-procuring this service, with the new contractor expected to begin in spring 2020.

**3.32** Childcare Works made an assessment each term of each local authority based on a range of information, including a questionnaire to local authorities, and provided more regular reports to the Department about emerging issues. As well as sufficiency (see paragraph 3.26), Childcare Works considered other factors such as the level of provider engagement in making its assessments. How many local authorities were judged to need support and in which areas varied from term to term. For example, Childcare Works assessed 15 local authorities as requiring specific support in December 2019, compared with 30 in June 2019 and 35 in December 2018.

**3.33** We heard positive feedback about the support and training that Childcare Works provided, which included workshops on sufficiency planning and 'buddying' local authorities for peer-to-peer support. The Local Government Association and the small sample of local authorities we visited highlighted the benefits of a centrally coordinated approach to bringing authorities together and sharing good practice.

**3.34** The Department focuses its oversight at local authority level. It has data available for areas below the level of local authorities but has not carried out any systematic analysis of these data to assess local variation in take-up and provision. More detailed analysis could help the Department to investigate the reasons for variation, identify good practice and intervene where the data indicate cause for concern. We analysed some of the available data for this report.<sup>52</sup> Our analysis indicates there is considerable variation in take-up of the entitlements and quality of provision, with the position generally worse for families living in deprived areas. Based on its 2018 take-up study, the Department considers that variation reflects parents' choices and local context and practice.<sup>53</sup> However, this study considered variation only down to local authority level and the Department has not conducted further work to investigate the reasons for local variation.

51 HC Committee of Public Accounts, *Entitlement to free early years education and childcare*, Fourth Report of Session 2016-17, HC 224, June 2016.

52 See paragraphs 2.5, 2.6 and 3.4, along with Figures 5, 6, 8, 10 and 11.

53 Department for Education, *Take-up of free early education entitlements*, September 2018.

# Appendix One

## Our audit approach

**1** This report examines whether the Department for Education's (the Department's) provision of free early education and childcare is providing value for money, with particular reference to disadvantaged families. The report examines:

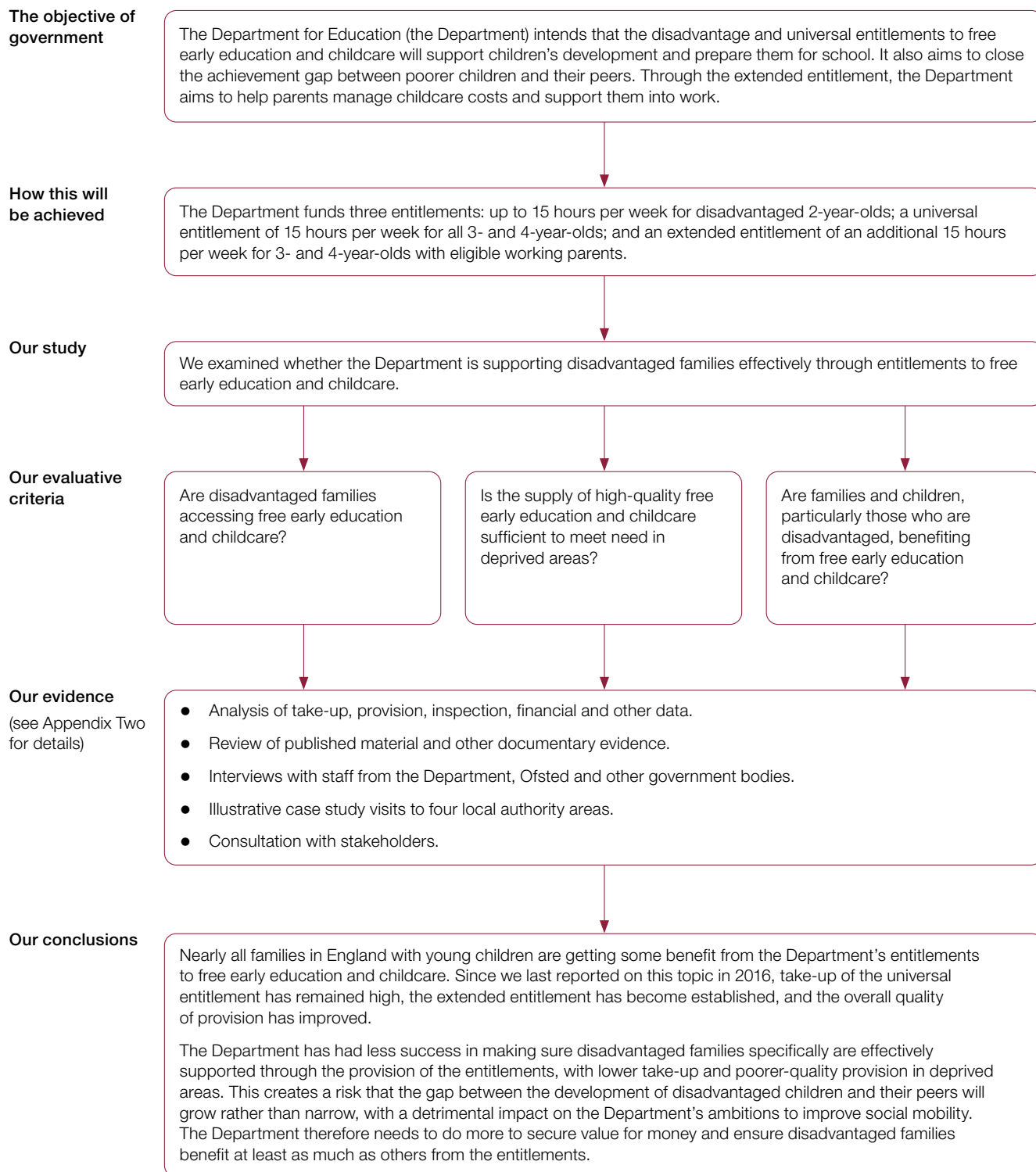
- the entitlements to free early education and childcare;
- the take-up of the entitlements, particularly by disadvantaged families, and the impact of those entitlements; and
- the provision of entitlement-funded early education and childcare, including the quality and quantity of provision, particularly in deprived areas.

**2** We applied an analytical framework with evaluative criteria, which considered what arrangements would be optimal for achieving value for money. By 'optimal' we mean the most desirable possible, while acknowledging expressed or implied restrictions or constraints. For the Department to achieve value for money from its funding for free early education and childcare, the system needs: to provide sufficient childcare places of the right quality that meet the needs of parents and children, including disadvantaged families; to demonstrate that the Department's objectives for the entitlements are being achieved with disadvantaged families benefiting at least as much as others; and to be financially sustainable.

**3** Our audit approach is summarised in **Figure 14** overleaf. Our evidence base is described in Appendix Two.

**Figure 14**

**Our audit approach**





# Appendix Two

## Our evidence base

**1** We reached our independent conclusions on whether the Department for Education (the Department) supports disadvantaged families effectively through entitlements to free early education and childcare after analysing evidence collected between May 2019 and February 2020. Our audit approach is outlined in Appendix One.

**2** Our report covers the three entitlements that the Department funds in England – for disadvantaged 2-year-olds, a universal entitlement for all 3- and 4-year-olds, and an extended entitlement for 3- and 4-year-olds with eligible working parents. Central government also provides other funding for early education and childcare, such as tax-free childcare and through Universal Credit, which is outside the scope of this report.

**3** In designing and carrying out our work, we took account of previous relevant National Audit Office reports on early education and childcare. These included our reports on *Delivering the free entitlement to education for three- and four-year-olds* and *Entitlement to free early education and childcare*.<sup>54</sup>

**4 We interviewed staff from the Department, Ofsted and other central government bodies.** The people we interviewed included:

- departmental staff responsible for a range of areas including implementing national policy in respect of free early education and childcare, and oversight of local authority and provider funding;
- specialist advisers from the Department's contractor, Childcare Works, which, between October 2016 and January 2020, monitored the work of local authorities and provided support where required;
- Ofsted staff responsible for national oversight of early years regulation and inspection, and for inspection data;
- Department for Work & Pensions staff responsible for Universal Credit and the provision of information to the Department on families potentially eligible for the disadvantage entitlement; and
- HM Revenue & Customs staff responsible for managing the extended entitlement application process.

<sup>54</sup> Comptroller and Auditor General, *Delivering the free entitlement to education for three- and four-year-olds*, Session 2010-2012, HC 1789, National Audit Office, February 2012; and Comptroller and Auditor General, *Entitlement to free early education and childcare*, Session 2015-16, HC 853, National Audit Office, March 2016.

**5 We analysed data on children taking up the entitlements and early years providers delivering entitlement-funded early education and childcare.**

With the exception of Ofsted inspection gradings, these data had been collected by the Department as part of its annual early years and school censuses. We used these data to analyse trends in the numbers and proportion of children taking up the entitlements nationally and locally. The main data we used were:

- numbers of children taking up the entitlements by entitlement type, age of child, provider category and Ofsted grading;
- numbers of 2-year-olds eligible for the disadvantage entitlement;
- numbers of entitlement-funded providers by category type and Ofsted grading; and
- inspection outcome data collected and published by Ofsted.

**6** To analyse take-up by deprivation, we:

- requested the data at lower super output area (LSOA) level, a 2011 census geography provided by the Office for National Statistics (ONS). The sub-national take-up figures in this report differ from the official statistics published by the Department since our analysis is based on where each child lives, while the Department's data are based on where each child's provider is located;
- used ONS population estimates at LSOA level as the eligible population for the universal entitlement, and Departmental data (originally from the Department for Work & Pensions) at LSOA level as the eligible population for the disadvantage entitlement, to calculate percentage take-up; and
- used the Income Deprivation Affecting Children Index (IDACI) 2019 rankings published by the Ministry of Housing, Communities & Local Government to assess the deprivation of each LSOA.

**7** We also analysed data on childcare providers in non-domestic settings on Ofsted's early years register. We examined changes in the numbers of these providers joining and leaving the early years register in 2016, 2017 and 2018 by deprivation area. We matched provider postcodes to LSOAs and their 2019 IDACI ranking to assess the deprivation of each provider's location.

**8 We analysed data on children's development as measured by the Early Years Foundation Stage (EYFS) profile assessment.**

We used the annual results published by the Department to analyse trends in the proportion of children achieving a good level of development at the end of reception year by deprivation between 2016 and 2019.

**9 We analysed the following financial data:**

- data on the Department's dedicated schools grant allocations to local authorities covering the early years block. We used these data to analyse trends in funding allocations between 2016-17 and 2020-21.
- data on local authorities' allocations of entitlement funding to early years providers from the 'Section 251' data returns that local authorities submit to the Department. We used these data to analyse:
  - trends in average funding rates to providers between 2016-17 and 2019-20; and
  - the proportion of funding allocated to 'supplements' in 2019-20, which local authorities can use to support providers to meet local needs. All local authorities must have a supplement to support provision to deprived families, and the other four supplements (relating to quality, flexibility, rurality or sparsity, and English as an additional language) are optional.

**10 We reviewed published and unpublished information from the**

**Department.** We used this information to understand how the Department exercises its responsibilities for the entitlements, the range of information it uses to inform its decisions and its mechanisms for overseeing the early years system. These documents included material relating to:

- responsibilities and accountabilities within the system for delivering the entitlements;
- eligibility criteria and application processes for the entitlements;
- the Department's statutory and operational guidance for local authorities and providers;
- the impact of the entitlements on the children and parents who have benefited from the entitlements;
- the Department's and local authorities' work to improve take-up of the entitlements and ensure sufficient supply of high-quality provision;
- the Department's and local authorities' funding allocations and provider costs; and
- the work of the Department and Childcare Works to monitor and support local authorities in implementing the entitlements.

**11** We also reviewed a sample of ‘childcare sufficiency assessment’ reports published by local authorities. The Department requires local authorities to report annually to their council members on how they are meeting their statutory duties relating to early years provision and to make this report publicly available.<sup>55</sup> The Department does not prescribe how to present these reports so the assessments vary and comparisons can be made only on a subjective basis. We reviewed the sufficiency assessments to identify barriers to take-up, risks to the provision of entitlement places in each local authority area, and any actions taken by the local authority to improve take-up and manage risks to provision. We judgementally selected a sample of 25 assessments for review, based on take-up and deprivation (using IDACI scores). The sample included at least two local authorities from each of the 10 English regions. The assessments we reviewed were produced between 2015 and 2019.

**12 We carried out illustrative case study visits to four local authority areas in different parts of England.** We selected the local authorities judgementally, taking into account factors such as take-up of the entitlements and deprivation. During the visits we met local authority staff with key responsibilities for supporting delivery of the entitlements. These included the responsible director and the head of early years provision, along with members of their teams. During our visits we also held discussions with early years providers, including private and voluntary providers, childminders, maintained nursery schools and schools with nursery provision. We used these visits to understand how different organisations work together in practice, what challenges they face in delivering the entitlements and how they are responding to those challenges. We visited:

- Leicestershire County Council;
- Middlesbrough Council;
- Staffordshire County Council; and
- London Borough of Tower Hamlets.

<sup>55</sup> Department for Education, *Early education and childcare: Statutory guidance for local authorities*, June 2018.

### **13 We sought the views of stakeholders and representative groups.**

We asked stakeholders for their views, and any supporting evidence they had, on the following issues:

- the benefits of the entitlements to families and children, particularly those who are disadvantaged;
- the barriers to disadvantaged families accessing the entitlements;
- the barriers to providers entering and staying in the market, particularly in deprived areas;
- the Department's and local authorities' work to encourage take-up and ensure sufficient supply of places; and
- any possible improvements to the system of entitlements and their provision.

**14** We interviewed, or received formal responses from:

- Action for Children;
- the Association of Directors of Children's Services;
- Coram Family and Childcare;
- the Early Intervention Foundation;
- the Early Years Alliance;
- the Local Government Association;
- London Councils;
- the National Day Nurseries Association;
- the Professional Association for Childcare and Early Years; and
- the Social Mobility Commission.

We also met with a number of academics while we were designing our study to discuss their research work into early years education and childcare.



This report has been printed on Pro Digital Silk and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.



National Audit Office

Design and Production by NAO External Relations  
DP Ref: 006603-001

£10.00

ISBN 978-1-78604-307-8



9 781786 043078

---