



Public Accounts Committee

Susan Acland-Hood
Permanent Secretary
Department for Education
Sanctuary Buildings
20 Great Smith Street
London
SW1P 3BT

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Preparations to extend childcare entitlements for working parents in England

Dear Permanent Secretary

Thank you and your colleagues for giving evidence to the Public Accounts Committee on 8 May 2024 about the extension of childcare entitlement.

With the announcement of a general election and its implications for the parliamentary timetable, the Committee will not have the opportunity to publish a full report in the usual manner.

Instead, I am writing to put on record the Committee's conclusions and recommendations. I would be grateful if you could set out your response to these recommendations in a reply to our successor Committee, within two months of the new Chair being appointed.

- 1. The Department made good progress getting the programme off the ground but now faces huge challenges in increasing the numbers of places available for children.** The Department has made a good start to delivering its ambitious programme to boost parental employment by extending early year entitlements for working parents in England. By choosing to phase delivery and start with a smaller group of children, most of whom were already in early years education, it was able to readily achieve its first April 2024 milestone. As at 7 May, the parents of 247,500 2 year-olds had registered for the scheme with 211,000 children getting a place. However, this early phase did not involve creating significant numbers of new places for children. By September 2024, the Department estimates that early year providers will have to create 15,500 more new places nationally. This rises sharply by September 2025 to 84,500, with a fifth of local authorities having to increase the supply of hours by 20% or more. This is a significant challenge for the early years sector that faces years of underfunding, ongoing cost pressures and a recruitment and retention crisis.

Recommendation 1: The Department should urgently develop a series of interim milestones to provide assurance to Parliament that the expansion is on track, and set out its contingency plans should available data indicate growth in places and the workforce are below what is required.

- 2. The Department is relying primarily on increases in hourly rates being enough to incentivise providers to increase places, without clarity over how providers plan to use the funding.** In extending its funding for early years entitlements, government has become the largest funder of early years provision. Its funding rates are now increasingly



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important to providers' financial decisions and longer-term sustainability. In late 2023, the Department increased its 2024-25 funding rates across all age groups and in the Spring Budget 2024, committed to uplift funding for 2025-26 and 2026-27 to provide greater certainty on future funding. The Department recognises the importance of getting funding rates right and sees these rates as its most important contributor to future sector growth. It claims to be confident that it has set funding rates at the right level. However, the Department does not yet know how the new rates are impacting on provider spending or business decisions. It remains to be seen if the increases will provide sufficient incentive to expand or whether providers will use the opportunity to fill previous funding shortfalls, raise salaries or cover rising costs.

Recommendation 2: The Department should build a clear understanding of how providers have used the additional funding and whether the funding incentivises the market to expand.

- 3. There are significant risks over whether the Department's efforts will be enough to support expansion of the early years workforce by the required 40,000 staff by September 2025.** To support the large expansion in places for children, providers will need significantly more staff. The Department estimates that the early years workforce needs to grow by around 40,000 between now and September 2025, a 12% increase against July 2023. This would be challenging enough but is even more so given providers already face existing staff shortages, difficulties with recruitment and poor retention. The Department has introduced various measures, mainly aimed at boosting recruitment and improving the number of those with relevant qualifications to enter the workforce. However, it does not yet know what works in terms of increasing staff numbers and acknowledges that it will not know until close to each milestone if there are enough staff to meet the expected demand for places. This piecemeal approach is unlikely to address long-standing concerns around the status and low pay of the early years sector.

Recommendation 3: The Department needs to take a holistic approach to early years workforce growth. It should develop and publish a long-term workforce strategy and delivery plan to address recruitment challenges and, working with stakeholders, the root causes of poor retention.

- 4. The Department does not yet know if parents are accessing the early year hours they need in order to return to work or increase their working hours.** The programme's main objective is to support more parents into work. This relies on parents being able to access the hours they need at a time and place that suits them. However, access to early years places varies significantly by area and is affected by the number and distribution of providers locally as well as factors like rurality, and level of deprivation. The Department says that no local authorities have reported issues with meeting demand to date, but it cannot guarantee that every parent got a place with the hours and the provider they needed.



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Inevitably some local authorities will find it more challenging than others to secure the volume of new places required, with DfE estimating that a fifth will need to increase hours available by 20% or more for September 2025. The Department is not yet clear how it plans to measure how the new entitlements are meeting parents' needs or enabling changes to employment patterns, though we are aware that it has an evaluation planned which may partially address this.

Recommendation 4: In line with its key objective, the Department should put in place a system to monitor and report on whether the programme is delivering the intended benefits including whether parents are getting access to the early years hours required to support either a return to work or increase in working hours.

- 5. The programme's focus on eligibility for working families risks adversely impacting places for disadvantaged children or those with special educational needs and disabilities (SEND).** The new entitlements are only available for working parents with annual earnings above £8,670, which could widen the attainment gap given eligibility for the new places excludes those on lower incomes. The Institute for Fiscal Studies has highlighted that most of the benefits of the new entitlements will flow to families who would otherwise have paid for childcare with little direct benefit for the poorest third of families. Children living in areas experiencing high levels of disadvantage may also face the greatest challenges in accessing high-quality early education places. The Department recognises this risk, while also noting that it did not see a widening of the attainment gap following its extension of entitlements to 3- and 4-year-olds in 2017. Although it plans to monitor attainment at a 'headline' level between groups, the Department has not yet set out how it will monitor whether the gap is further widening given these latest reforms. There is also a risk that these new entitlements displace other children if providers choose to offer places to children that are easier or less costly to support. Places for children with SEND are already in short supply with families experiencing considerable challenges accessing existing provision.

Recommendation 5: The Department should make clear how it plans to track how the new entitlements will specifically impact access to places and the attainment of disadvantaged children and those with SEND, and how it will intervene if it becomes clear that these children are losing out on access to early years education.

- 6. The Department does not know how the expansion will affect the quality of early years education and childcare.** The early years sector broadly delivers high quality education and childcare. This is critical in setting solid foundations for children's future success and an important way to identify and address their needs early. The Department has recognised this and has quantified significant financial benefits for improved educational attainment from those children taking up the new entitlements. However, this large-scale, rapid expansion with accompanying changes to early years staff:child ratios and staff qualification



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levels could put this quality at risk. We received written evidence highlighting the risk to quality from the rapid expansion; for example, the Institute for Fiscal Studies highlighted research showing that in some contexts, large-scale, low-cost early childhood programmes geared towards supporting parental employment have delivered limited benefit for children's development, or potentially even negative consequences for social and emotional development. The Department asserts that there will not be an impact on quality based on its experience with earlier reforms, but it cannot know for sure at this stage given the pace and scale of this change has not been done before.

Recommendation 6: The Department should continuously monitor the impact of extended entitlements on the quality of childcare provision. It should be clear that it will be prepared to act if there is evidence that quality is falling.

I am copying this letter to the Comptroller and Auditor General and to the Treasury Officer of Accounts and it will also be published on the Committee's website.

Yours sincerely

Dame Meg Hillier MP
Chair of the Committee of Public Accounts