

<b>Title:</b> Two Year Olds' Entitlement to Early Education: Options for Extended Eligibility in the First Phase of the Entitlement  <b>IA No: DFE0039</b>  <b>Lead department or agency:</b> Department for Education  <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>		
	<b>Date:</b> 31/05/2012		
	<b>Stage:</b> Final		
	<b>Source of intervention:</b> Domestic		
	<b>Type of measure:</b> Secondary legislation		
<b>Contact for enquiries:</b> Patrick.towgood@education.gsi.gov.uk			
<b>Summary: Intervention and Options</b>		<b>RPC Opinion: GREEN</b>	

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
-£993m	£0m	£0m	No
			NA

**What is the problem under consideration? Why is government intervention necessary?**  
 Currently, disadvantaged two year olds are less likely to access early education than their better off peers. This is partly due to the costs of early education. The Government seeks to enable disadvantaged two year olds to access free early education, to address this inequality of access to early education. It is expected that this will drive social mobility and improve life chances. This impact assessment (IA) considers the first phase of the policy, to enable the most disadvantaged quintile of two year olds in England (around 153,000) to access free early education from September 2013. The Government has consulted on eligibility criteria for the first phase, December to February 2011-12.

**What are the policy objectives and the intended effects?**  
 The policy is intended to improve the cognitive, social and behavioural development of two year olds from disadvantaged backgrounds, closing the achievement gap between poorer children and all children (59% of children not eligible for Free School Meals (FSM) achieve a good level of development at age five compared to 39% of children known to be eligible for FSM (Early Years Foundation Stage Profile 2010)). There is some evidence to suggest that this could contribute to subsequent increases in their achievement at school, and lifetime earnings. There are also wider benefits suggested by the evidence, including job creation, and equity transfers to disadvantaged families.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**  
 Option 1) Do Nothing - no additional support for disadvantaged two year olds. Current funding intended for two year olds would cease.  
 Option 2) Allocate funding for disadvantaged two year olds and allow local authorities total discretion over how the funding is targeted.  
 Option 3) Introduce a national entitlement for disadvantaged two year olds to free early education and provide funding to accompany this entitlement. National eligibility criteria will entitle two year olds who meet the free school meals criteria, or who are looked after, to 570 hours free early education.  
 Option 3 is preferred. Option 1 does not address the policy objectives. Option 2 may not always target the poorest families (evidence from Two Year Old Pilot Evaluation). Option 2 also does not provide an easily understood national entitlement so risks lower take up and reduced benefits compared to Option 3.

<b>Will the policy be reviewed?</b> It will/will not be reviewed. <b>If applicable, set review date:</b> Month/Year						
Does implementation go beyond minimum EU requirements?			No			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		<b>Micro</b> No	<b>&lt; 20</b> No	<b>Small</b> No	<b>Medium</b> No	<b>Large</b> No
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)				<b>Traded:</b>		<b>Non-traded:</b>

**I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.**

Signed by the responsible Minister: \_\_\_\_\_ *Elizabeth Truss* \_\_\_\_\_ Date: \_\_\_\_\_ *27.9.2012* \_\_\_\_\_

# Summary: Analysis & Evidence

Policy Option 1

Description:

## FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 0	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	0	0

### Description and scale of key monetised costs by 'main affected groups'

There will be no additional costs.

### Other key non-monetised costs by 'main affected groups'

There will be no additional costs.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	0	0

### Description and scale of key monetised benefits by 'main affected groups'

There will be no additional costs.

### Other key non-monetised benefits by 'main affected groups'

There will be no additional costs

Key assumptions/sensitivities/risks	Discount rate (%)	
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## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0	Benefits: £0	Net: £0	No	NA

# Summary: Analysis & Evidence

# Policy Option 2

**Description:** Additional funding to allow local authorities to extend free places to around 153,000 (20%) two year olds, but with total local authority discretion over use of the funding.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -1,002	High: -407	Best Estimate: -704

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant	Total Cost (Present Value)
Low			
High			
Best Estimate	£4.1m	£341m	£2,884

### Description and scale of key monetised costs by 'main affected groups'

The majority of costs will be to government for paying for early education places for disadvantaged two year olds. Any funding allocated to local authorities that is not spent on early education places for two year olds is intended to be spent on quality improvement and capacity building for the new entitlement. There will also be some administration costs to local authorities who will be responsible for establishing eligibility for the entitlement.

### Other key non-monetised costs by 'main affected groups'

The increase in the number of two year olds in settings is likely to lead to earlier identification of additional needs, which will raise the short-term total costs of interventions to address these needs. However, there is also potential for long-term savings, by preventing problems from escalating.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant	Total Benefit (Present Value)
Low		£223m	£1,883m
High		£293m	£2,478m
Best Estimate		£258m	£2,180m

### Description and scale of key monetised benefits by 'main affected groups'

Due to lack of robust evidence with which to estimate positive monetised benefits (in terms of an impact on lifetime earnings), the benefits of early education have not been monetised. Only the transfer payments to local authorities and parents have been monetised.

### Other key non-monetised benefits by 'main affected groups'

The main benefits are the expected improvements in child development and school readiness of the two year olds receiving the entitlement, leading to improved future educational attainment. The policy may also contribute to increased take up of the three and four year olds' entitlement by disadvantaged children, further enhancing the benefits.

### Key assumptions/sensitivities/risks

Discount 3.5%

1. Take up - take up is expected to be 60% (range of 50% to 70%), lower than the take-up assumption for Option 3 - higher take up will increase the total benefits of the policy. Low and high estimates relate to 50% and 70% respectively.
2. Focus upon the most disadvantaged - the policy would not meet its stated objectives if provision is not focused primarily on the second most deprived quintile of two year olds.

## BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0	Benefits: £0	Net: £0	No	NA

# Summary: Analysis & Evidence

# Policy Option 3

**Description:** A legal entitlement for two year olds who meet national eligibility criteria, and funding for around 153,000 free places.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -1,291	High: -696	Best Estimate: -993

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant	Total Cost (Present Value)
Low			
High			
Best Estimate		£341m	£2,880m

### Description and scale of key monetised costs by 'main affected groups'

The majority of costs will be to government for paying for early education places for disadvantaged two year olds. Any funding allocated to local authorities that is not spent on early education places for two year olds is intended to be spent on quality improvement and capacity building for the new entitlement. There will also be some administration costs to local authorities who will be responsible for establishing eligibility for the entitlement, these will be lower for Option 3 than for Option 2.

### Other key non-monetised costs by 'main affected groups'

The increase in the number of two year olds in settings is likely to lead to earlier identification of additional needs, which will raise the short-term total costs of interventions to address these needs. However, there is also potential for long-term savings, by preventing problems from escalating.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant	Total Benefit (Present Value)
Low		£188m	£1,590m
High		£258m	£2,185m
Best Estimate		£223m	£1,887m

### Description and scale of key monetised benefits by 'main affected groups'

Due to lack of robust evidence with which to estimate positive monetised benefits (in terms of an impact on lifetime earnings), the benefits of early education have not been monetised. Only the transfer payments to local authorities and parents have been monetised.

### Other key non-monetised benefits by 'main affected groups'

The expected benefits are the same as for option 2, but greater. This is because of higher expected take-up due to the increased drive and clarity that a national entitlement is likely to bring, and quality improvements due to quality criteria set out in statutory guidance

### Key assumptions/sensitivities/risks

Discount 3.5%

1. Take up - take up is expected to be 70% (range of 60% to 80%), higher than the take-up assumption for Option 2 - higher take up will increase the total benefits of the policy. Low and high estimates relate to 60% and 80% respectively.
2. Focus upon the most disadvantaged - the policy would not meet its stated objectives if provision is not focused primarily on the second most deprived quintile of two year olds.

## BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0m	Benefits: £0m	Net: £0m	No	NA

# Evidence Base (for summary sheets)

Evidence Base (for summary sheets)

## Problem under consideration

The Government seeks to enable more two year olds to access high quality early education - in addition to the existing free entitlement for all three and four year olds. To achieve this, the Government plans to fund 570 hours of free early education for eligible two year olds (if taken over 38 term-time weeks, this equates to 15 hours a week). Currently, disadvantaged children are less likely to access early education, and this contributes to attainment gaps at age 5.

The Government plans to take a phased approach to the implementation of this policy:

- From September 2013, around 20% (153,000) two year olds will be eligible to access free early education;
- From September 2014, the free places will be extended to around 260,000 two year olds.

This impact assessment (IA) concerns the Government's plans for the first phase only. A separate IA has been completed to accompany a public consultation on the second phase.

This IA considers the rationale for extending free places to around 153,000 disadvantaged children and how they should be targeted; whether national eligibility criteria (accompanied by statutory duties) should be defined in regulations, or whether eligibility should be left to local discretion.

## Rationale for intervention

Evidence suggests that high quality early education has significant benefits for children's cognitive and social development – particularly for disadvantaged children. However, at the moment disadvantaged children are less likely to access early education. Not all parents are fully aware of the long-term benefits of early education, and many from disadvantaged backgrounds cannot afford it without financial assistance. Government intervention is therefore necessary to ensure that disadvantaged children can access early education.

Recent research suggests a strong case for investing in the foundation years (pregnancy to age 5). Graham Allen's Early Intervention Next Steps points to the way that children's neurological pathways develop before the age of three and the benefits of early support and intervention to ensure all children develop the social and emotional foundations they need<sup>i</sup>. In his report of the Independent Review of Poverty and Life Chances, the Rt. Hon. Frank Field MP also stressed the critical importance of the foundation years upon disadvantaged children's life chances<sup>ii</sup>.

The rationale for intervention has three parts:

- **The benefits of early education** to children's development, and life chances;
- **The rationale for a targeted approach:** extending early education to the children who will most benefit; and,
- **The rationale for free places:** why access to early education should not be left entirely to the market.

## The benefits of early education

Most children who are developing well at the end of their early years go on to exceed expectations in reading and maths at the end of Key Stage 1 (KS1) (age 7)<sup>iii</sup>. Children in the lowest achieving fifth in terms of their learning and development at the end of the Early Years Foundation Stage (age 5) are six times more likely to be in the lowest fifth at KS1<sup>iv</sup>. Research indicates that early education supports children's development in these critical first years. The benefits include both cognitive gains – for example, speech and language development – and non-cognitive developments, such as behaviour<sup>v</sup>. Research evidence suggests that for children with multiple disadvantages, accessing early education from age two rather than age three has a positive impact on English skills, which lasts through to the end of primary school (Key Stage 2)<sup>vi</sup>.

The evidence for the benefits of early education (and starting at age two rather than age three) is set out more fully in the 'benefits' subsection of the Economic Appraisal below.

## The rationale for a targeted approach

Extending free early education to disadvantaged two year olds is part of the Government's 'Fairness Premium', to drive up social mobility and improve life chances.

Targeting disadvantaged two year olds will ensure a focus on those groups for whom the positive impact is expected to be particularly great. For the first phase of the policy, the intention is to target the most disadvantaged quintile of two year olds. The income and benefits criteria used for free schools meals (FSM) are focussed on the most disadvantaged families (chiefly workless households) and around 20% of two year olds are in households who meet this criteria<sup>vii</sup>.

Attainment gaps appear in children's first years, and persist throughout school; 59% of children not eligible for FSM achieve a good level of development at age 5 compared to 39% of children known to be eligible for FSM<sup>viii</sup>. Extending free early education to the most disadvantaged two year olds is intended to help to address this attainment gap in the early years. A 2008 review of research has established that early years interventions can narrow the gap between disadvantaged and other children in terms of their cognitive, social and behavioural development<sup>ix</sup>. The EPPE study also found that disadvantaged children in particular can benefit significantly from good quality pre-school experiences<sup>x</sup>.

Currently, disadvantaged two year olds are less likely to access early education; 43% (65,000) of the most disadvantaged quintile access some formal early education provision, compared to 72% of the most advantaged (because of low sample base sizes, these figures are indicative only)<sup>xi</sup>. However, this includes some 20,000 children who are accessing free places as local authorities continue to deliver the places that were provided during the pilot, in preparation for the expansion of places from 2013. The data suggests considerable inequality in current access to early education; tackling this is a key rationale for government intervention.

Without a national entitlement there is a greater risk that the free places will not be targeted on disadvantaged families. In the Two Year Early Education Pilot the free places were allocated by local discretion, rather than national eligibility criteria, and a notable minority (10%) of two year olds that took up places were from relatively affluent families with an income of £30,000 or more<sup>xii</sup>.

### Free places

The Government expects that extending free places will widen access and increase take-up of early education. One of the reasons for lower take-up of early education among economically disadvantaged children is the cost of early education. An independent survey by the Daycare Trust carried out in 2012 found that the average cost of a nursery place for children aged two and over in England was £98.75 for 25 hours a week (although it should be noted that the costs of childcare vary between providers, and areas; we have used the Daycare Trust figures as a guide)<sup>xiii</sup>. This equates to an average of £59.25 for 15 hours of childcare a week. In 2009 24% of parents said they found it difficult or very difficult to cover the costs of childcare<sup>xiv</sup>. The proportion of families finding it difficult to pay for early education or childcare is significantly higher in lower income families<sup>xv</sup>.

### Policy objective

The Government's objective for the first phase of the two year old entitlement is to extend access to free early education to the most disadvantaged two year olds. This is part of the Government's social mobility strategy and child poverty strategy, aiming to improve life chances for disadvantaged children. The Government aims to:

- **Support child development** - enabling disadvantaged children to access educational provision at a younger age is intended to have a positive impact on children's cognitive, social and behavioural development.
- **Increase take-up of the three and four year old entitlement** - currently, take-up of this entitlement is lower among disadvantaged families. Widening access to free places at two years old is intended to make it more likely that these children will continue to access provision at age three and four. This would strengthen the impact on child development.

There are additional benefits to widening access to free early education places for two year olds:

- **Parental employment** – the majority of the disadvantaged families given access to free early education will be workless households. Access to free early education could help parents enter the

workplace. Whilst the incidence of this was low in the pilot (where 1% of parents said it had enabled them to work <sup>xvi</sup>) changes to Universal Credit may make this more likely.

- **Reduced stress for parents:** evidence from the Two Year Old Pilot found that disadvantaged parents could benefit from reduced stress and thereby improved parent-child relationships when the child had access to free early education <sup>xvii</sup>.
- **Job creation** – Some additional early education provision will need to be created in order to deliver the additional places. This will lead to new employment opportunities. While the impact is difficult to quantify with precision, it is reasonable to assume that this will have a positive impact on reducing unemployment.

## **Options**

### ***Option 1 – Do nothing***

This would mean that central funding currently allocated for free early education for two year olds would cease. Local authorities might choose to continue to support some particular children or groups of children but, in the current economic climate, our working assumption would need to be that there is no provision. Therefore, the 20,000 free places for two year olds that local authorities are currently securing – in preparation for a new entitlement – would cease.

### ***Option 2 – Allocate funding for disadvantaged two year olds, but allow local authorities complete discretion over funds***

The following funding was announced in the 2010 Spending Review for the first phase of the policy: £64m in 2011-12, £223m in 2012-13, £331m in 2013-14 and £380m funding in 2014-15 <sup>xviii</sup>. The funding would be distributed using a formula which takes into account the number of disadvantaged two year olds in each local authority. This would not be ring-fenced and decisions about whether the funding is used to support an offer of early education for two year olds would become the responsibility of the local authority. Likewise there would be local discretion over how many/ which two year olds actually receive funding; how many hours they receive; and what quality criteria providers must meet (if any).

### ***Option 3 – National eligibility criteria and a legal entitlement (preferred option)***

A national entitlement would be introduced through regulations to secure free places for disadvantaged children who meet national eligibility criteria, for a set number of hours of provision per year. This would be accompanied by the funding announced in the 2010 Spending Review (as above), distributed between local authorities based on the numbers of children who will gain an entitlement through regulations. It would be supported by statutory guidance which would set out the quality criteria for deciding which settings can offer the new free entitlement.

This is the Government's preferred option. Following positive responses to the proposed eligibility criteria in the Government's public consultation (winter 2011-12), two year olds are to be entitled to free early education if:

- They meet the same earnings and benefits criteria used for free school meals (FSM) (around 150,000 two year olds) <sup>xix</sup>; or
- They are looked after by the local authority (around 3,000 two year olds) <sup>xx</sup>.

To note that the eligibility figures are revised from those used in the consultation stage impact assessment, as they are derived from more recent data.

Guidance will also set out additional groups of children to be prioritised for free places should local authorities have a margin of funding available (for example, because of less than 100% take-up of the entitlement). This proposal was included in the Government's early education and childcare consultation. Priority groups will include children with special educational needs and disabilities and Children in Need (defined by the 1989 Children Act). A number of respondents to the consultation argued that no priority list could be exhaustive, and that case-by-case professional judgement will always be needed. The Government agrees and, accordingly, the statutory guidance will only provide suggestions of groups to be prioritised - local authorities will be free to prioritise free places for other children when funding the discretionary places.

## Economic Appraisal

### Benefits of the two year old offer

This impact assessment (IA) does not monetise the key expected benefits of extending free early education to disadvantaged two year olds. This is a revision to the approach taken in the consultation stage IA, which did monetise benefits.

The Government believes that, taking a range of research together, the evidence base suggests that there could be significant child development benefits to extending free early education places to disadvantaged two year olds. However, the evidence base does not allow robust quantification and monetisation of these benefits. In particular, there is an inherent difficulty in tracking the impact of early education at such a young age onto monetised benefits such as lifetime earnings, as new research indicates (summarised below).

The Government therefore considers that using non-monetised benefits is a more realistic and transparent appraisal of the expected impact. This does mean that a negative Net Present Value (NPV) is stated for both policy options 2 and 3. This is compatible with there being significant non-monetised benefits.

The main expected benefits of the first phase of the two year old offer are set out below, along with a discussion of the methodological problems with monetising them:

- **Improvements in cognitive development from starting early education at two, rather than three years old.** The Effective Pre-School Education Study (EPPE) in 2004 found a strong body of evidence that good quality early education, especially from age two upwards, has positive benefits on children's all round development and that these benefits last through primary school to at least age 10/11<sup>xxi</sup>. A follow-up to the EPPE study found evidence that starting early education at age two rather than three has a statistically significant impact on cognitive test scores, and that there is a significant positive correlation between the English attainment of multiple disadvantaged children at age 10/11 and starting early education at age two<sup>xxii</sup>. This statistically significant impact was not found with the wider group of economically disadvantaged children (for example those who meet the FSM criteria). However, the EPPE study did find a positive correlation between English attainment at age 5, and the duration spent in early education, up to 36 months<sup>xxiii</sup>. Children taking up the two year old places would be entitled to 36 months of early education before starting primary school.

The evaluation of the Early Education Pilot for Two Year Olds found evidence of immediate cognitive benefits of early education for disadvantaged children – it found some positive impact on language ability at age three, compared to a control group who were not offered free early education<sup>xxiv</sup>. Follow-up research tracked children who had participated in the pilots, and compared their attainment in the Early Years Foundation Stage Profile (age five) with a matched comparison group (research publication forthcoming)<sup>xxv</sup>. The preliminary research found no statistically significant difference between the attainment of the pilot children and the matched comparison children. This may reflect the difficulties in tracking the impact of early education over time. For instance the study was not able to compare the experience of children between the pilot and entry into reception to account for the impact this might have had.

The two year olds early education policy has developed in a number of ways since the pilots, meaning that comparisons to the pilots must be made with care. A range of developments are expected to improve the sustained impact on cognitive development. For example, the pilots did not follow the Early Years Foundation Stage (EYFS), but rather (its predecessor) the Birth to Three Matters Curriculum. Providers of the places for two year olds will now be required to follow the EYFS. The cognitive development of children in the foundation years has improved across all scales since the introduction of the EYFS in 2009<sup>xxvi</sup>. Also, in the pilots children typically accessed 7.5 hours of early education a week, half that of the 15 hours that the Government now plans for disadvantaged two year olds from 2013.

While there is evidence to suggest that free early education for disadvantaged two year olds will lead to improvements in cognitive development, the Government considers that this evidence base could not be used to make a robust estimate of the impact on lifetime earnings, in order to monetise these benefits.



- **Improvements in non-cognitive development, from starting early education at two, rather than three years old.** The EPPE study found evidence of improvement in non-cognitive social, behavioural and emotional development from early education from age two rather than three, with the positive impact lasting until age six<sup>xxvii</sup>. The initial evaluation of the two year olds pilot found that the free places had a positive impact on parent-child relationships<sup>xxviii</sup>. There is also some evidence to suggest that the non-cognitive benefits of early education have a sustained impact, beyond school age. A study published by the US National Bureau of Economic Research (NBER) found that early education has a positive impact on lifetime earnings, despite positive impacts fading out in later school cognitive test scores. The researchers suggest that the positive impact may be the result of the non-cognitive gains of early education, such as social skills, motivation and behaviour<sup>xxix</sup>.

However, the follow-up research to the evaluation of the two year olds pilot did not find a statistically significant difference between the personal, social and emotional development scores in the EYFS of pilot children and the matched comparison group at age 5<sup>xxx</sup>. Again, this may reflect the inherent difficulties in tracking the sustained impact of an additional year old early education. Also, the follow-up research did not compare parent-child relationships, and so we are unable to state whether or not the impact on improved relationships was sustained from the pilots.

While there is some evidence (particularly from the EPPE study) of the positive impact of early education on non-cognitive development, the evidence base is equivocal, and does not support a robust monetisation of the benefits of the free places for disadvantaged two year olds.

- **Improved take-up of the three and four year old entitlement.** 88% per cent of families who took part in the two year old pilot went on to access the three year old entitlement, relative to an estimated 81% in the matched comparison group<sup>xxxi</sup>. The evaluation of the two year old pilots also reported a low drop-out rate in the pilots: 10% of families did not access the offer for the full year-taken together, this evidence suggests that starting free early education at two years old could lead to increased take-up of the three year old entitlement, as children are likely to remain in education once they have started. The EPPE research, which largely focussed on children aged three years and older, suggests that increased take up of early education at three years old would have a positive impact on child development<sup>xxxii</sup>.

In the consultation stage impact assessment, a lifetime earnings benefit of increased take-up of the three and four year old entitlement was estimated by combining evidence from the EPPE study with evidence on the economic benefits of age 10 literacy<sup>xxxiii</sup>.

However, while the evidence from the first pilot is indicative, the increase in take-up is only statistically significant at 12%. In addition, the follow up to the initial evaluation of the pilot found no statistically significant impact on take-up of the four year old entitlement, although an increase was seen for black and minority ethnic (BME) children; 98% of pilot BME children took up the four year old entitlement, compared to 92% of the matched comparison group<sup>xxxiv</sup>. However, take-up of the four year old entitlement is already very high, and so one would expect the impact – if any – to be greater on take-up of the three year old entitlement.

Given these limitations to the evidence base, the Government now considers that projecting an increase in take-up of the three year old entitlement should not form the basis of monetisation of benefits. The Government also notes a recent report by the National Audit Office on the three and four year old entitlement which highlighted that improvements in EYFS results had not led to subsequent improvements in Key Stage 1 results, although we are unable to observe through the national figures what would have happened to Key Stage 1 results in the absence of the entitlement<sup>xxxv</sup>. Again, this highlights the difficulties in tracking the impact of interventions at such a young age.

Local authorities will be gradually increasing the number of free places for two year olds up to the start-date of September 2013. This will give us more evidence of any impact this has on take-up of the three and four year old entitlement – for example, in the 2013 Early Years Census results, published in June 2013. If there is a statistically significant impact, the benefits of increased take-up of early education at age three and four could be monetised. However, this new data would be too late for the final stage impact assessment to accompany regulations and guidance.

To address the limitations of the current evidence base, the Government is commissioning further research. This includes plans for a follow-up to the EPPE study to focus on assessing the longitudinal impact of the roll out of early years education to two year olds, but there is unavoidable time-lag before such research can be concluded.

As well these three main benefits above, which link to the primary policy objective of supporting child development, the following additional benefits are also expected:

- **Supporting parental employment.** While the impact of this was low in the original pilot (1% of parents said that the free place had enabled them to enter work<sup>xxxvi</sup>) changes to Universal Credit, and to the flexibility of when the free places can be taken up, may make employment possible for more parents. Given the lack of evidence of a positive impact from the pilot, the Government does not consider that monetising these benefits is appropriate.
- **Job creation.** The early education and childcare sector is a significant source of employment for women and young people; 98% of the full day care workforce is female, and 30% of staff in full day care settings are aged 16 to 24<sup>xxxvii</sup>. The Government estimates that, while there is some spare capacity in the sector, the new free places for two year olds will mean that some new capacity will be required. This is expected to have a positive impact on reducing unemployment. However, the impact is difficult to quantify at this stage, because of uncertainties over how many new early education staff will be needed; more data is needed on the level of vacant capacity in the sector. To address this, the Government is carrying out further research on the capacity of the early education sector.
- **The equity impact of transfer payments to parents.** As referenced above, up to 43% of two year olds in the poorest quintile are currently accessing early education (around 60,000). Around 20,000 free places are currently being funded by the local authority (continuing and developing the offers in the pilot phase), but the remainder may be paying for some provision. Internal analysis of the Early Years and Childcare Parents Survey 2009 has found that these families are accessing 15 hours early education per week on average (median). Extending free places (also equivalent to 15 hours per week) to these families has an equity impact, because of the primary focus on disadvantaged families. This benefit is monetised in the options appraisal below.

### Assumptions used for costs and benefits

Two central assumptions we have used to compare costs and benefits are set out below.

#### Programme costs

The unit cost of a free early education place for 2 year olds is assumed to be £2,896. This is based on an average of the rates paid in the 2 year old pilot, of £4.85p/h outside London and £6.00p/h in London. Assuming an 80/20% split between outside London and London gives a weighted national rate of £5.08p/h, and a unit cost of £2,896 for 570 hours per year. The Department for Education has carried out an internal delivery review of local authorities' implementation of the two year old free early education policy. This found that these funding levels are sufficient to meet the base costs of provision for two year olds. There will be no national hourly rate set by the Department for Education, these figures are indicative only and used to establish whether nationally the funding is sufficient.

Funding for extending free early education to two year olds was announced in the 2010 Spending Review, as follows: £64m in 2011-12, £223m in 2012-13, £331m in 2013-14 and £380m funding per year from 2014-15. Costs included in this IA cover those incurred from 2013, the year that the national entitlement comes into force. Additional funding was announced in the 2011 Autumn Statement – however, this was in recognition of the costs of extending the free places in the second phase of the policy (to extend places to around 40% of two year olds), and so is not included in the programme funding for this IA.

The gradual increase in funding is designed to allow local authorities time to support quality improvements, build capacity, and increase the number of places before the first phase of the entitlement comes into effect in September 2013.

Once the entitlement is in place, funding is intended to be sufficient to cover the costs of the places made available and other costs to local authorities, principally the cost of identifying eligible two year olds.

Funds that are not spent on two year old places are treated as a transfer payment to local authorities.

## Take up rates

A range of likely take-up rates has been used. These are based on a range of evidence. As in the consultation stage IA, the estimated take-up rates are 10 percentage points higher for Option 3 than for Option 2, to reflect the increased clarity that a legal entitlement, with national eligibility criteria, is likely to bring. For Option 2 a range of 50%, 60% and 70% is used. For Option 3 a range of 60%, 70% and 80% is used. These are the basis of the low, central and high cost estimates.

The take-up estimates are based on:

- A DfE survey of parents found that 76% of families earning between £0-£20,799 per annum (both the poorest and the second poorest quintile) would be 'very likely' or 'fairly likely' to take up a free early education place for their children<sup>xxxviii</sup>. This is new data, that was completed after the consultation stage impact assessment. The survey group is not an exact match for the workless families we will be targeting in the first phase - it includes low and middle income working families. It is a reasonable assumption that initial take-up among the disadvantaged families in the first phase (the poorest quintile) will be slightly lower than 76%, because surveys do not always accurately reflect how people will behave and because of the greater proportion of multiple disadvantaged families, who tend to be 'harder to reach'. The Government believes that a sensible, and conservative, inference is to set a central initial take-up estimate around between 60%-70% for the first phase, although this is expected to rise over time.
- The 2009 Early Years Parents' Survey estimated that current take-up by disadvantaged three year olds is 87% for the universal entitlement, and the Government believes that this is higher than would be achieved initially for a non universal benefit<sup>xxxix</sup>. Evidence from the three year old entitlement supports this: when the three year old offer was scaled up from the most disadvantaged children to being a universal offer - take up amongst three year olds increased from 44% to 93%<sup>xl</sup> of all three year olds over a four year period.
- In the consultation on the two year old entitlement, a number of local authorities (13) responded that engaging parents and encouraging take-up will be a key challenge of the new entitlement. Therefore, assuming high take-up rates (90-100%) would not be appropriate.

### ***Option 1 – Do not introduce a national scheme for free early education for disadvantaged two year olds***

#### **Benefits**

This option would not lead to an increase in disadvantaged two year olds in early education, and would have no additional benefits.

#### **Costs**

This option will have no additional programme costs.

#### **Wider costs and benefits**

Without increasing funding for two year old places it is likely that take-up of early education amongst disadvantaged two year olds will not increase.

### ***Option 2 – Allocate funding for disadvantaged two year olds: Local Authorities have complete discretion over funds***

#### **Monetised Costs**

##### Total costs

The central estimate of annually recurring costs once the entitlement is implemented is £380m

For the purposes of modelling costs, we assume that the average number of places delivered in 2012, 2013 and 2014 will be in line with the proportion of the full annual funding (£380m) received in those years (20% in Sep-Dec 2012, 80% in 2013, 97% in 2014). This has been calculated by assuming that funding in Sep-Dec 2012 is equivalent to one third of 2012/13 funding; 2013 funding is made up of 25% of 2012/13 funding and 75% of 2013/14 funding; and 2014 funding is made up of 25% of 2013/14 funding and 75% of 2014/15 funding.

Taking account of these transition years, the average annually recurring costs over a 10 year period are £341m. This is the cost shown on the summary sheet.

The breakdown of the full annual cost is given below.

### *Costs of provision*

The costs of funding two year old places will depend on the take up rates. While local authorities would develop their own eligibility criteria in Option 2, for comparison the overall number of eligible children is assumed to be the same as for Option 3 (that is, 153,000: the numbers of two year olds who meet the FSM criteria, plus two year olds who are looked after)

	<b>Option 2</b>		
<b>Take up scenario</b>	50%	60%	70%
Number of two year old places funded	73,000	88,000	102,000
<b>Costs of providing two year old places (£m)</b>	222	266	310

The central take-up estimate for Option 2 is 60%.

### *Other costs*

This option delegates the decision making and administration of the offer to local authorities. In this option it is assumed that local authorities develop and consult upon their own criteria and then continue the practice seen in the Two Year Early Education Old Pilot of taking application forms for each place and verifying eligibility themselves. This would be in addition to increasing the capacity and quality of the early years sector to create suitable places for two year olds. Given the differences between this locally devolved approach for two year olds in Option 2, and the national entitlement for three and four year olds, it is likely that dedicated LA staff time will be needed for the two year old places.

Based on this, the potential cost implications of the options are below. We have used feedback from the early education consultation to refine the cost estimates that were used in the consultation stage IA. In particular, many local authorities told us that verifying eligibility will be a key administrative burden, and so we have included the cost of 1.5 FTE administrator to check eligibility in each LA. Following the internal Department for Education delivery review of the free early education for two year olds, the assumptions in this IA on the size of LA teams to administer the places for two year olds have been tested, to ensure that they are robust.

These are estimated average costs: actual costs are likely to vary between local authorities, due to differences in the numbers of eligible children.

### *One off costs*

- 6 months senior staff time (£25.83<sup>i</sup> per/hour, uplifted by 27% to reflect non-wage costs) which equates to £4.1 million across 152 local authorities.

*Annual recurring costs: £24.1m* across 152 local authorities.

- 2 x senior FTE in each LA (at a rate (£25.83<sup>ii</sup> per/hour, uplifted by 27% to reflect non-wage costs, this equates £16.2 million across 152 local authorities)
- 2.0 FTE for an administrator to verify eligibility for free places, process applications for places and answer enquires (at £11.97<sup>iii</sup> per hour, uplifted by 27%<sup>iv</sup> this equates to £6.5 million across 152 local authorities)
- 0.1 x FTE of a finance office to process payments (at £11.97 per hour, uplifted by 27% this equates to about £400K across 152 local authorities)

<sup>i</sup> Mean average hourly wage for a Senior Official in Local Government, Annual Survey of Hours and Earnings, 2011

<sup>ii</sup> Mean average hourly wage for a Senior Official in Local Government, Annual Survey of Hours and Earnings, 2011

<sup>iii</sup> Mean average hourly wage for Local government clerical officers and assistants, Annual Survey of Hours and Earnings, 2011

<sup>iv</sup> Figure derived from evidence on average non-wage labour costs from the most recent ONS Labour Cost Survey, 2004

### Transfer payments to local authorities

Programme funding that is not spent on provision or administration of the free places for two year olds is treated as transfer payment to local authorities. The Government anticipates that this funding will be spent on improving quality or capacity in the early years sector, or additional free places (by local discretion).

The best estimate of the annually recurring transfer payment, based on 60% take up, is £90m. The range is between £134m for 50% take up, and £46m for 70% take up.

This is treated as a programme cost, as well as a benefit. It may reduce over time as take-up increases, although this has not been modelled for the purposes of this IA.

### **Non-Monetised Benefits**

As set out above, the extension of free places to disadvantaged two year olds is expected to have a range of non-monetised benefits:

- Improvements in cognitive and non-cognitive development
- Job creation
- The equity impact of transfer payments to parents;

The policy may also have the following benefits -

- Improved take-up of the three and four year old entitlement
- Supporting parental employment.

Without a national entitlement there is a greater possibility that some two year olds that benefit from the free education will be from better off families – who are more likely to already be accessing early education. In the Two Year Early Education Pilot (which did not set national eligibility criteria) a notable minority (10%) of two year olds that took up places were from relatively affluent families with an income of £30,000 or more<sup>xli</sup>.

### **Monetised Benefits**

As above, the transfer payments to local authorities are treated as a monetised benefit, as well as a cost.

Local authorities will be able to spend this balance on enhancing delivery of the two year old offer, by working to improve take up, providing places for other groups of two year olds who may benefit from access to free early education, or quality improvement to enhance the impact of free places. Alternatively they may choose to spend it on other services that meet local needs. It is likely that local authority spending will deliver net benefits, but for here we make the conservative assumption that spending is cost neutral, and treat the transfer equally in the costs and benefits of the policy.

### Transfer to Parents

The transfers to parents have also been monetised as a benefit as well as a cost.

Around 65,000 two year olds from the target group already take up some form of childcare/early education. We have assumed that 20,000 of these are in funded places, while the remaining 45,000 are privately funded, although we are unable to estimate what proportion of the privately funded places are funded by parents themselves, or other agencies (e.g. Sure Start). The introduction of the free entitlement for this group will therefore be likely to result in a cost saving for these parents. Internal analysis has shown that on average this group take up 15 hours per week of childcare, so the cost saving will be equivalent to the full 15 hours of free entitlement. This is around £2,900 per child (following the costs set out in the 'Assumptions' section above), amounting to £101m for all 45,000 children. This constitutes an economic transfer from the average tax payer to the most disadvantaged quintile. We therefore apply a distributional weight to reflect the higher value of additional income to this disadvantaged group. Applying the distributional weight associated with this group of 1.9 – 2 set out in the Green Book<sup>xliii</sup>, the value of this transfer rises from £90m to £193-203m.

### **Value for Money**

NPV and BCR estimates over 10 years are shown the below table for each scenario.

Take up scenario	Option 2		
	50%	60%	70%
Discounted costs (£m)	£3,080	£3,080	£3,080
Discounted benefits (£m)	£2,556	£2,249	£1,942
NVP (£m)	-£524	-£830	-£1,137
BCR	0.83	0.73	0.63

The central estimate is 60%, with a BCR of 0.73.

### ***Option 3 - National eligibility criteria and a legal entitlement***

#### **Monetised Costs**

The central estimate of annually recurring costs once the entitlement is implemented is **£380m**.

As for Option 2, for the purposes of modelling costs, we assume that the average number of places delivered in 2012, 2013 and 2014 will be in line with the proportion of the full annual funding (£380m) received in those years (20% in Sep-Dec 2012, 80% in 2013, 97% in 2014). This has been calculated by assuming that funding in Sep-Dec 2012 is equivalent to one third of 2012/13 funding; 2013 funding is made up of 25% of 2012/13 funding and 75% of 2013/14 funding; and 2014 funding is made up of 25% of 2013/14 funding and 75% of 2014/15 funding.

Taking account of these transition years, the average annually recurring costs over a 10 year period are £341m. This is the cost shown on the summary sheet.

The breakdown of the full annual cost is given below.

#### Costs of Provision

The costs of funding two year old places will depend on the take up rates. The total number of eligible children is taken to be 153,000 (150,000 two year olds meeting the FSM criteria, and 3000 looked after two year olds).

The central take-up estimate for Option 3 is 70%.

Take up scenario	Option 3		
	60%	70%	80%
Number of two year old places funded	91,800	107,100	122,400
Costs of providing two year old places (£m)	266	310	354

#### Other costs

As for Option 2, the cost figures that were used in the consultation stage IA have been tested against new information from both the consultation and the Government's delivery review. In particular, we have now increased the estimated costs of increasing capacity and quality; this is based on feedback from local authorities that this is a key challenge in delivery of the two year old entitlement. Improving quality will also be a central requirement in the revised statutory guidance to be issued. We now estimate an average of two senior FTE members of staff working on capacity and quality improvements, rather than one FTE in the consultation stage IA.

The following are estimated average costs; actual costs are likely to vary between local authorities, due to differences in the numbers of eligible children.

*One off costs:* £0m across 152 local authorities.

In contrast to Option 2, it is unlikely that there would be significant one off costs for Local Authorities in the first year because consultation/decisions upon eligibility criteria and design of new processes would not be required.

*Annual recurring costs: £18.5m across 152 local authorities*

Recurring costs are assumed to be slightly lower for Option 3 than for Option 2. This is because the national eligibility criteria in Option 3 will mean that local authorities will be able to use the automated Eligibility Checking Service. This computerised system is currently used to check for FSM eligibility, and could be used to check eligibility for the two year old places (because these will mirror FSM).

- 2 x senior FTE member of staff in each LA to work on increasing capacity and quality in the sector as well as negotiating with providers - at a rate of £25.83<sup>v</sup> per/hour, uplifted by 27% to reflect non-wage costs, this equates to £16.2 million across 152 local authorities.
- About 0.1 x FTE finance officer to process payments (at £11.97<sup>vi</sup> per hour, uplifted by 27%<sup>vii</sup> to reflect non-wage costs) this equates to £0.4m across 152 local authorities
- 0.5 FTE administrator to verify eligibility for the entitlement, using the automated Eligibility Checking Service (at £11.97 per hour uplifted by 27%) this roughly equates to £1.9 million across 152 local authorities.

*Transfer payments to local authorities*

As for Option 2, any remainder of the programme funding for the second phase not spent on provision or administration of the two year old places is treated as a transfer payment to local authorities.

Accompanying statutory guidance will put in place minimum quality requirements for the two year old entitlement. The Government therefore anticipates that this funding will be spent on improving quality or capacity in the early years sector, or additional free places (by local discretion).

The best estimate of the annually recurring transfer payment, based on 70% take up, is £51m. The range is between £96m for 60% take up, and £7m for 80% take up. This is treated as a cost, as well as a benefit.

### **Non-monetised benefits**

The non-monetised benefits of Option 3 are expected to be similar to Option 2. However, as above, the Government considers that take-up of the free places is likely to be higher in Option 3, and so the benefits are expected to be greater. The national eligibility criteria in Option 3 would also ensure that, in the second phase, the free places are targeted on disadvantaged children, who are less likely to be already accessing early education.

As in the consultation stage IA, the introduction of national guidance for the free two year old places in Option 3, with statutory quality criteria for providers, is assumed to increase the proportion of high quality settings in deprived areas. Therefore, any benefits to child development are likely to be greater - the EPPE study found a positive correlation between the quality of early education provision and the impact on child development<sup>xliii</sup>.

### **Monetised Benefits**

As discussed under Option 2, the transfer to local authorities is treated equally in the costs and benefits of the policy. The Government intends that local authorities spend this funding on the two year old entitlement, and this will be advised in the accompanying guidance, but doing so would not be statutory.

The transfer to parents will be the same as under option 2; an annual monetised benefit of £193m-£203m

### **Value for Money**

NPV and BCR estimates over 10 years are shown in the below table for each scenario.

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<sup>v</sup> Mean average hourly wage for a Senior Official in Local Government, Annual Survey of Hours and Earnings, 2011

<sup>vi</sup> Mean average hourly wage for Local government clerical officers and assistants, Annual Survey of Hours and Earnings, 2011

<sup>vii</sup> Figure derived from evidence on average non-wage labour costs from the most recent ONS Labour Cost Survey, 2004

Take up scenario	Option 2		
	60%	70%	80%
Discounted costs (£m)	£3,080	£3,080	£3,080
Discounted benefits (£m)	£2,254	£1,947	£1,640
NPV (£m)	-£822	-£1,129	-£822
BCR	0.73	0.63	0.53

The central estimate is 70%, with a BCR of 0.63.

## **Wider Impacts**

### **Equalities Assessment**

An Equalities Impact Assessment has been completed and shows a positive impact upon children from underachieving ethnic groups who are often over-represented within the most deprived groups of two year olds.

### **Impact on business**

This measure is not within the scope of One in One Out (OIOO), because delivery of the free entitlement is voluntary so there are no direct burdens on businesses.

Extending the entitlement to more two year olds will increase demand for the early education sector, and provide potential for businesses to expand and new providers to enter the market. Local Authorities will set funding rates, and will seek to offer a rate that sufficiently incentivises private and voluntary providers to participate in delivering the offer. For both Options 2 and 3, the allocated funding allows for an hourly rate that is higher than the current average hourly cost of a nursery place for a 2 year old of £3.95 (however, as discussed above, this figure is indicative only: the costs vary between providers and between areas – and local authorities will set their own funding levels for providers for the free places)<sup>xliv</sup>. There is no new regulation, inspection or reporting required of any business that does not choose to take up the opportunity of delivering the two year old free early education places. Given the national funding allocations, we have assumed that local authorities will provide sufficient funding to secure the supply of early education places from providers; but that any surplus funding is likely to be held by the local authorities (included as transfer payments to local authorities in the above analysis of costs and benefits).

### **Small and medium sized enterprises (SMEs)**

Many early education providers are small businesses: around 80% of the day nursery market is made up of providers running just one or two nurseries<sup>xlv</sup>. The private and voluntary sector accounts for 43% of the three and four year old free entitlement market, and we anticipate the proportion may well be higher for the two year old entitlement<sup>xlvi</sup>. For both Options 2 and 3, there is no new regulation, inspection or reporting required of any SME that does not choose to take up the opportunity of delivering the two year old free early education places.

### **Preferred Option**

The costs and benefits of Option 3, relative to Option 2, are expected to be similar. Option 2 would also be likely to broadly achieve the key policy objective of improving disadvantaged children's cognitive and non-cognitive development. However, the Government considers that Option 3 is likely to secure greater benefits, and reduce administrative burdens for local authorities:

- The legal entitlement for around 153,000 additional two year olds would best ensure that the second phase targets the disadvantaged children who will most benefit.
- It enables statutory guidance setting out minimum quality criteria for providers offering the free places (local authorities must have regard to statutory guidance). The EPPE study found a positive correlation between the quality of early education settings and the impact on child development. The evaluation of the Two Year Early Education Old Pilot found that the impact on children's cognitive development was greater when children attended high quality settings.



- A consistent national entitlement would make it easier for parents and those advising them to know whether they are likely to be eligible for a free place, compared to Option 2 where eligibility might vary from area to area. The Government considers that this could lead to higher take-up compared to Option 2.
- Having national eligibility criteria would reduce administrative burdens for local authorities, compared to Option 2. In Option 3, Providers would only have one set of eligibility criteria to work with, and local authorities would be able to use the automated Eligibility Checking Service to assess who is eligible.
- Extending the legal entitlement would provide greater reassurance to providers about the sustainability of the increased funding levels, and encourage providers to expand to meet the increase in demand.

For the above reasons, Option 3 is preferred.

### **Implementation plan**

The first phase of the entitlement will begin in September 2013, when around 153,000 (20%) of two year olds will be eligible. In 2011-12 and 2012-13 funding has been allocated which local authorities can use to build capacity, support quality improvement, and begin expanding the number of free places that they fund, in advance of the entitlement coming into force. The Department for Education will be carrying out voluntary surveys of local authorities in April and September in each of 2012 and 2013, to collect data on how many free two year olds places local authorities are funding. This will allow the Government to track how local authorities are building towards the new entitlement, and to identify any local authorities which appear to be facing difficulties in expanding provision.

18 local authority trials ran in 2011-12, to develop effective ways of delivering the free places from two year olds; some trials looked at flexibility in how the offer is delivered, while others focussed on how quality improvements in the early education sector can be supported. C4EO have produced a report containing case-studies on the trials<sup>xlvii</sup>, and lessons learnt will be disseminated to local authorities in June 2012. Further trials are taking place in 10 local authorities in 2012-13. These include trialling delivery of free places for all eligible children (FSM, and looked after children) in localities within the local authority area. Again, the lessons learnt will be disseminated to other local authorities, which we envisage will be a useful resource for local authorities as they develop approaches to stimulate the early education market and to engage more parents in the two year old offer.

In addition, the Department for Education will be funding a National Support Contract, to support local authorities as they prepare for the new entitlement (funding will be up to £3.8m from 2012-13 to 2014-15: however, because the exact funding levels have not been decided, this marginal funding is not included in this iteration of the impact assessment). The support includes:

- support to focus specifically on the relationship between local authorities and local providers and methods for stimulating the local market;
- support to enhance the quality of settings and the workforce, including links to the implementation of the new progress check at age two;
- a specific work strand to help local authorities' engagement with parents, to stimulate take-up of the free places.

The Government recognises that giving early clarity to local authorities and providers will help them to prepare for the new entitlement. Accordingly, the Government plans to publish statutory guidance in 2012, a year before the entitlement begins.

### **Risks**

**Capacity of the early years sector** – There is a risk that it takes time for the capacity of the early years sector to grow to create the number of part time places that are needed and that this limits the availability of the offer to parents and the benefits associated with children receiving provision. While there is some vacant capacity in the sector, there will be challenges for providers in building capacity, recruiting new staff and adapting premises. This challenge was highlighted by respondents to the early education consultation. Following the consultation, the Government is planning to fund a National Support Contract to help local authorities and providers meet this delivery challenge (as set out above). Funding is also available through the Early Implementation Grant in 2012-13 and the Dedicated Schools Grant in 2013-

14 to support improvements in the sufficiency and quality of provision locally (described above under 'transfer payments').

**Quality** – There is an associated risk that local authorities cannot secure enough provision of a high enough quality. The Government consulted on quality criteria for providers (to be defined in statutory guidance), and has confirmed that the same criteria will apply for the two year old entitlement, as for the three and four year old entitlement – a consistent approach will help local authorities and providers meet this delivery challenge. Increasing investment in the years before 2013 will allow local authorities and providers to prepare.

**Take Up** – There is a risk that take-up could be lower than we anticipate, particularly in the first few years of the offer. Local authorities will need to communicate effectively the free entitlement to eligible parents; we anticipate that take up will rise as the offer becomes established. This risk has been reflected in the assumptions behind that range of take up options. Local authorities will be able to build on the outreach channels that were developed during the pilot phase and funding before 2013 will allow local authorities to prepare for a scaling up from the numbers of two year olds involved in the pilot.

**Demographic and economic shifts** – The affordability of giving 570 hours a year of free early education has been established using the latest data on the two year old population and the number of two year olds who would be eligible if the criteria for this offer reflected the eligibility criteria for free school meals. The estimated figures have been revised from the consultation stage IA, to reflect new data. Any increase in the birth rate and/or economic downturn which brought more families into eligibility would increase the pressure upon funding. This risk is being mitigated by ensuring that there is sufficient funding available to manage reasonable shifts in these factors.

- <sup>i</sup> Allen, G, 'Early Intervention: The Next Steps', (DWP, Jan 2011), p14 -15
- <sup>ii</sup> Rt. Hon Frank Field MP, 'Independent Review of Poverty and Life Chances', December 2010.
- <sup>iii</sup> Department for Education (DfE) (2010), *Achievement of children in the EYFSP*, RR-034 London: DfE. To note that 94 percent of children who achieved a good level of development at the end of the EYFS in 2007 – as shown by their EYFS Profile results – went on to exceed expectations in reading and in maths at the end of Key Stage 1.
- <sup>iv</sup> DCSF (2008) *How strong is the relationship between Foundation Stage Profile (2005) and Key Stage 1 (2007)*, DEP2008-1634, Deposited in House of Commons Library
- <sup>v</sup> Sammons, P. Sylva, K. Melhuish, E. Siraj-Blatchford, I. Taggart, B. And Hunt, S. The Effective Provision of Pre-school Education (EPPE) Project: Findings from the Early Primary Year. November 2004 DfES SSU/SF/2004/02
- <sup>vi</sup> Sammons, P. Sylva, K. Melhuish, E. Siraj-Blatchford, I. Taggart, B. And Hunt, S, The effect of starting pre-school at age 2 on long term academic and social-behavioural outcomes in Year 6 for more deprived children. April 2012 (*DfE internal report*).
- <sup>vii</sup> HMRC analysis
- <sup>viii</sup> : *Foundation Stage Profile Attainment by Pupil Characteristics in England, 2009/10*
- <sup>ix</sup> Springate, I., Atkinson, M., Straw, S., Lamont, E. and Grayson, H. (2008) *Narrowing the gap in outcomes: early years (0–5 years)*, Slough: NFER
- <sup>x</sup> Sylva, K et al. The Effective Provision of Pre-school Education (EPPE) Project: Findings from the Early Primary Year. November 2004
- <sup>xi</sup> Source: DfE internal analysis of data collected in the Childcare and Early Years Survey of Parents 2009
- <sup>xii</sup> Smith, R. Purdon, S. Schneider, V. La Valle, I. Wollny, I. Owen, R and Bryson, C. with Mathers, S and Sylva, K. (2009) *Early Education Pilot for Two Year Olds: Evaluation*. DCSF Research report DCSF-RR134 p41
- <sup>xiii</sup> Daycare Trust Childcare Costs Survey, 2012
- <sup>xiv</sup> Smith, R. Poole, E. Perry, J. Wollny, I. Reeves, A. with Coshall, C. and d'Souza, J. (2010), '*Childcare and Early Years Survey of Parents 2009*', DfE Research Report RR054
- <sup>xv</sup> Smith, R. Poole, E. Perry, J. Wollny, I. Reeves, A. with Coshall, C. and d'Souza, J. (2010), '*Childcare and Early Years Survey of Parents 2009*', DfE Research Report RR054
- <sup>xvi</sup> Smith, R., Purdon, S., Schneider, V., La Valle, I., Wollny, I., Owen, R. and Bryson, C. (2009), '*Early Education Pilot for Two Year Old Children Evaluation*', DCFS Research Report RR134
- <sup>xvii</sup> Smith, R., Purdon, S., Schneider, V., La Valle, I., Wollny, I., Owen, R. and Bryson, C. (2009), '*Early Education Pilot for Two Year Old Children Evaluation*', DCFS Research Report RR134
- <sup>xviii</sup> Additional funding was announced in the Autumn Statement 2011: however, this was allocated to reflect the costs of the second phase of the entitlement, and is therefore not included in this impact assessment.
- <sup>xix</sup> Internal analysis, HMRC.
- <sup>xx</sup> Internal analysis, from DfE Statistical First Release: 'Children Looked After by Local Authorities in England (including adoption and care leavers) - year ending 31 March 2011'
- <sup>xxi</sup> Sammons, P. Sylva, K. Melhuish, E. Siraj-Blatchford, I. Taggart, B. And Hunt, S. (2008) Influences on Children's Attainment and Progress in Key Stage 2: Cognitive Outcomes in Year 6. DCSF Research Report DCSF-RR048
- <sup>xxii</sup> Sammons, P. Sylva, K. Melhuish, E. Siraj-Blatchford, I. Taggart, B. And Hunt, S, The effect of starting pre-school at age 2 on long term academic and social-behavioural outcomes in Year 6 for more deprived children. April 2012 (*DfE internal report*)
- <sup>xxiii</sup> Sammons, P. Sylva, K. Melhuish, E. Siraj-Blatchford, I. Taggart, B. And Hunt, S. (2008) *Influences on Children's Attainment and Progress in Key Stage 2: Cognitive Outcomes in Year 6*. DCSF Research Report DCSF-RR048
- <sup>xxiv</sup> Smith, R., Purdon, S., Schneider, V., La Valle, I., Wollny, I., Owen, R. and Bryson, C. (2009), 'Early Education Pilot for Two Year Old Children Evaluation', DCFS Research Report RR134
- <sup>xxv</sup> Natcen research report, 'Early Education Pilot for Two Year Old Children: Age Five Follow Up' (2012).
- <sup>xxvi</sup> DfE: Early Years Foundation Stage Profile Results in England, 2010/2011
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