

Title: Revised Statutory Guidance for Local Authorities on Delivery of Free Early Education Provision for 3 & 4 year olds IA No: DFE0014 Lead department or agency: Department for Education Other departments or agencies:	Impact Assessment (IA)		
	Date: 30/03/2012		
	Stage: Final		
	Source of intervention: Domestic		
	Type of measure: Other		
Contact for enquiries: Chris Armstrong-			
Summary: Intervention and Options			RPC: AMBER

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, One-Out?	Measure qualifies as
£342m	£4.3m	£-0.5m	Yes	OUT

What is the problem under consideration? Why is government intervention necessary?

Evidence shows that high quality early education is beneficial for children’s cognitive and social development. However 30% of children can only access their free place in a setting rated “satisfactory” by Ofsted. 5% of eligible children (often the most disadvantaged) do not take up a free place and of those that do 14% take up less than 13 hours a week. Statutory guidance is overly long and prescriptive. It suggests a single “one-size” fits all method for local authorities to assess and raise quality that limits their freedom to drive up quality in an appropriate way for their area. Guidance also sets out limits on the flexibility of the entitlement which can make it harder for parents to take up their child’s entitlement.

What are the policy objectives and the intended effects?

- To reduce bureaucratic burdens on local authorities and providers of delivering free early education.
- To ensure that more children can take up their free place at a high quality setting through a clear and transparent range of quality measures.
- To make the free entitlement more flexible to maximise take-up of the full free early education entitlement.
- To give local authorities the discretion to secure free early education places in a way that best meets the needs of children and families in their area and the capacity of providers to deliver high quality free places

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The following principle options have been considered:

- 1: Do nothing – retain current statutory guidance
- 2: Amend guidance to strip out all unnecessary national prescription and use guidance to focus on key aims of raising quality in all settings and maximising take-up of and participation in free early education.

An alternative option of removing all statutory guidance was considered at previous stages but was rejected as it did not meet the policy objectives.

The Government judges that option 2 would best ensure value for money of the free entitlement by realising benefits for children’s development and life chances while reducing burdens on local authorities and providers.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 09/2014						
Does implementation go beyond minimum EU requirements?			N/A			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		Micro No	< 20 No	Small No	Medium No	Large No
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			Traded:		Non-traded:	
			n/a		n/a	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: _____ Date: _____

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base	PV Base	Time Period	Net Benefit (Present Value (PV)) (£m)		
Year 2011	Year 2011	Years 10	Low: £314m	High: £35m	Best Estimate: £398m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	£20.1m	£167.3m
High	Optional	£24.2m	£201.3m
Best Estimate	£0.15m	£20.9m	£173.9m

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

- Administrative costs to local authorities and providers in meeting new quality improvement criteria
- Additional costs to government for additional hours taken up due to increased flexibility

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

- None

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	£236m
High	Optional	Optional	£565.5m
Best Estimate	£0m	£62.1m	£516.1m

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

- Reduction in administrative costs for local authorities and providers due to simplification of guidance
- Benefits to parents of increased take up of free entitlement due to increase in flexibility of provision of early education

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

- Benefits to children of increased take up of free entitlement due to increase in flexibility of provision of early education
- Benefits to children of improvement in quality of provision due to simpler application of quality controls

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

- Reduction in local authority and provider administrative costs arising from simplification of guidance exceed the estimated administrative costs incurred by providers in meeting quality improvement criteria.
- This is based on the assumption that most providers (76%) would not need to meet any additional quality measures as they are already rated as Good or Outstanding by Ofsted and that an additional 50% of those rated Satisfactory are already meeting one or more of the quality criteria.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0.6m	Benefits: £1.1m	Net: £0.5	Yes	OUT

Evidence Base (for summary sheets)

Background and problem under consideration;

1. All three and four year olds are entitled to 15 hours per week of free early education over 38 weeks of the year. This entitlement increased from 12.5 to 15 hours per week from September 2010. The entitlement provides every child with two years of free provision before they reach compulsory school age.
2. The free entitlement has legal foundation; Section 7 of the Childcare Act (2006) places a duty on local authorities to secure a certain amount of free early education provision (defined in Regulations) and to have regard to statutory guidance when meeting this duty.

Rationale for intervention and policy objectives

3. This statutory guidance is currently 50 pages long and, in addition to the core guidance on clarifying how statutory duties are to be carried out, includes policy ambitions, information on good practice and information for local authorities on support they can access. This not only means that the guidance is too long, it also presents a prescriptive national model for administering the free entitlement which discourages local authorities from innovating or making judgements on the appropriate way to carry out their duties to meet local needs. It also confuses areas where local authorities have discretion from core requirements.
4. The current level and nature of central Government intervention is overly prescriptive. We know that different local authorities face different local challenges to securing high quality provision – for example the challenges in low-cost rural areas are very different to those in high-cost suburban areas. An example of the prescriptive approach can be seen in the current guidance specifying the content and format of local authorities' agreements with providers rather than allowing them to tailor agreements to address local challenges. Reducing the level of central Government intervention in this area would allow local authorities to better oversee the local early education and childcare market to meet local circumstances. It should also allow them to assess quality more easily and in a more transparent way and therefore drive improvements.
5. There are also two specific elements of provision where current arrangements are not producing the required outcomes – parents' take-up of their child's entitlement is too low and the quality of provision is not consistently high enough to realise maximum benefit.
6. Only 95% of three year and four year olds currently take up some of their free hours each week, meaning that over 60,000 children receive no benefit from free early education. 14% of those children accessing the entitlement do not take up their full 15 hours, again meaning that they do not receive the full benefits of the free early education available to them (Department for Education, 2011).
7. One of the barriers to parents taking-up their child's full entitlement is the restrictions that are placed on providers' flexibility in the current guidance. Pathfinder studies of previous measures to increase providers' flexibility in how they offer the entitlement suggested that increased flexibility may lead to increased take-up (DCSF, 2009). Research by the Daycare Trust earlier this year found that there is parental demand for an extra hour's provision at the end of the day (Singer, R, 2011). We expect these increased flexibilities to have a greater effect for three year olds who are more likely to be accessing their place in a private or voluntary provider.
8. The evidence of the benefits of high quality early education to children's development is clear from a range of domestic and international studies, notably the Effective Provision of Pre-school Education study (Sylva, K., Melhuish, E. C., Sammons, P., Siraj-Blatchford, I. and Taggart, B., 2004). High quality education has a stronger impact on attainment in later schooling than lower quality provision. However, not all children receiving their entitlement to early education are benefiting from high quality provision. Ofsted statistics (Ofsted 2012) on the findings from inspections of early education and childcare providers show that there are fewer private, voluntary and independent (PVI) providers offering outstanding and good-rated provision (14,352) than there are PVI free entitlement providers (20,311). Not all of those good and outstanding providers will provide funded provision).
9. The proposed changes do not constitute additional Government intervention; they reduce the level of existing intervention and make existing intervention more transparent and consistent. Changing

the statutory guidance does not constitute direct intervention in provision of services – the guidance outlines local authorities' duties. The nature of their intervention in the market of provision in their area will not necessarily change.

10. The reformed Government intervention seeks to improve the effective functioning of the early education market and achieve the following policy objectives:

- a. To reduce the burdens on local authorities of assessing the quality of provision using a range of transparent quality improvement / assessment measures to ensure that more children can take up their free place at a high quality settings.
- b. To make the free entitlement framework more flexible to maximise take-up of the full free early education entitlement.
- c. To give local authorities the discretion to secure free early education places in a way that best meets the needs of children and families in their area and the capacity of providers to deliver high quality free places.

11. The Department has considered a range of options for addressing the identified problem; including withdrawing all statutory guidance and giving local authorities complete discretion over delivery of the free entitlement. Having considered the impact of other options, the Department believes the recommended option below is the only viable way to achieve the objectives.

12. The Department does not intend to apply for an exemption to the moratorium on regulations that apply to small business as these measures do not directly impact on small business. The statutory guidance is for local authorities and, any consequential impacts on small business would not be regulatory. The only impact on small business would be a change to local authority funding conditions which are not regulatory – if businesses do not want to accept these conditions, they do not have to accept funding.

13. The Department has consulted on these proposals and has received broad support. Responses to the consultation have affirmed that the Government's proposals should help achieve the policy objectives set out above. Some respondents made comments on the estimated costs in the draft impact assessment. This impact assessment takes into account those comments, with the costs relating to quality improvement programmes having been increased accordingly.

Options considered (including do nothing) – including cost and benefits:

Option 1 – Maintain current arrangements (do nothing)

The Department takes no action, leaving the current version of the statutory in force. This would mean that the way local authorities deliver the free entitlement and the quality criteria they use to assess eligibility of providers and the flexibility framework would remain unchanged. The ambiguity and misunderstanding of certain aspects of the guidance for local authorities and providers would continue.

The current policy position means that, in practice, local authorities should only fund providers who have at least a satisfactory Ofsted rating although this is not explicit in the current guidance. The guidance does say that local authorities should support providers to improve their quality. Under this system local authorities offer improvement support in many different ways meaning that providers are subject to different quality eligibility criteria across sectors and local authorities. This position is ambiguous, confusing and lacks a clear nationally supported mechanism for local authorities to support providers on a progression to high quality provision. Ofsted statistics suggest a slow rate of improvement in quality under this system. The proportion of PVI providers rated Good or Outstanding by Ofsted increased by 6 percentage points between 2009/10 and 2010/11, meaning around 73,500 children moved from a satisfactory to a good setting. Making no changes to the guidance mean this improvement rate is likely to remain low, or even stagnate as resource pressures on local authorities lead to a reduced focus on quality improvement.

Costs - none

This option represents the current baseline and therefore would have **no additional costs** to providers, local authorities, parents or children.

Benefits - none

This option represents the current baseline and therefore would have **no additional benefits** to providers, local authorities, parents or children.

This option would pass up the opportunity to provide benefits by clarifying the duties of local authorities in relation to the delivery of free early education and allowing them greater discretion to meet local circumstance, and the reduction in administrative burdens for local authorities and providers associated with these changes.

In addition, making no changes to the statutory guidance would continue to reduce scope for improvements in the number of children accessing closer to their full free entitlement. Currently 22% of three year olds do not access their full entitlement to 15 hours of free early education per week (Department for Education, 2011). Research conducted by the Daycare Trust suggested that the statutory guidance may prevent some parents from accessing the full 15 hours (Singer, R, 2011).

Assumptions and risks

- There will be no change in the take-up rate of the free entitlement as there is no action being taken which we expect to impact upon take-up.
- The proportion of providers rated Good or Outstanding by Ofsted will continue to show small improvements each year (the number of PVI providers rated Good or Outstanding by Ofsted increased by 6 percentage points between 2009/10 and 2010/11). However, this assumption may be optimistic as local authorities are facing increasing pressure on resources which may reduce their focus on quality improvement.
- As the proportion of providers rated Good or Outstanding changes, the proportion of children accessing their entitlement in Good or Outstanding providers will change proportionally. So a 6 percentage point increase in the number of providers rated Good or Outstanding would result in a 6 percentage point increase in the number of children accessing entitlement in a Good or Outstanding setting (assuming average sized settings).

Option 2: Amend statutory guidance (preferred option)

Amend statutory guidance to remove much of the central prescription, best practice material and policy messages. This would result in streamlined statutory guidance that concisely and coherently explains local authorities' duty to secure free early education places and how they should do this. The fundamentals of the guidance would be mostly unchanged to minimise the disruption on local authorities and providers.

However, we would also relax the flexibility framework to incentivise greater take-up. We would amend the current framework in the guidance to allow free hours to be taken between 7am and 7pm rather than 8am and 6pm (whilst maintaining a limit of 10 hours in any one day – important for child development.). We would also allow all the free hours to be taken over 2 days rather than the current minimum of 3.

The guidance would set out a new framework of quality criteria for providers to deliver the free places. This would replace the current guidance on local authorities making assessments of provider quality. Provider would be required to meet the same basic standard as currently (Early Years Foundation Stage minimum workforce requirements and an Ofsted rating of Satisfactory). Providers only rated Satisfactory by Ofsted would also need to meet one or more of a 'basket' of measures of quality or quality improvement. Local Authorities would define each measure, judge whether they were met and would be able to require that providers in their area needed to meet more than the nationally set minimum number of measures from the basket.

This new basket of measures would also enable more childminders to deliver the free entitlement, removing the requirement for them to be in a childminding network. This removes a bureaucratic barrier to parents' ability to choose the type of provider that best meets their child's needs.

Costs - £20.1m - £24.2m (best estimate £20.9m)

The costs of amending guidance have been estimated based on the following drivers:

- Administrative costs to local authorities and providers in meeting quality improvement criteria
- Additional costs to government for additional hours taken up due to increased flexibility

Costs of meeting quality improvement criteria

There would be small additional administrative costs for local authorities and providers in meeting some of the quality improvement criteria. However, the additional quality improvement schemes would only be necessary for the 26% of providers who are not already rated good or outstanding by Ofsted. Of these, we assume that 50% already engage in one of these schemes, so only the remaining 13% of providers will incur additional costs. Costs will vary as local authorities will define each measure in a manner which meets local circumstances but the estimated costs of the likely indicators are:

Local Authority Quality Assessment Scheme

- A system where local authorities make assessments of provider quality through a combination of observations, reviewing evidence of practice and externally verified data.
- Local authority - 1 FTE per local authority at a cost of £56,240
- Provider - 12 hours of manager's time per year – £191.23 cost per provider.
- Maximum cost (all providers engaging in additional quality schemes choose this option): £1.5m
- Central estimate (70% providers engaging in additional quality schemes choose this option) providers engage in this scheme): £1.1m.

Peer to Peer Support

- A structured forum, often facilitated by the local authority or a voluntary sector organisation, for providers to share experiences and good practice,
- Provider - 2 hours a month of manager's time – £382.46 annual cost per provider.
- Maximum cost (all providers engaging in additional quality schemes choose this option): £1m
- Central estimate (20% providers engaging in additional quality schemes choose this option) providers engage in this scheme): £0.2m.

Sector Led Quality Improvement Programme

- A programme run by a sector body (often a provider representative organisation) to provide training on one or more areas of practice that contribute to high quality provision.
- Provider - participation fee: £1000 (participation fee for National Day Nurseries Association scheme is £947 per member)
- Provider - 5 hours a week of manager's time for 3 months to complete the scheme: £956.14 per provider
- Maximum cost (all providers engaging in additional quality schemes choose this option): £5.1m
- Central estimate (10% providers engaging in additional quality schemes choose this option) providers engage in this scheme): £0.5m.

Costs of increased take up of free entitlement due to increase in flexibility

The changes to the flexibility framework would allow providers to offer the free hours at times, and in patterns, that they cannot currently offer and take advantage of parental demand at these times. Currently, 14% of those children accessing the entitlement do not take up their full 15 hours (National Statistics: DfE: Provision for Children Under Five Years of Age in England - January 2011). Based on the impact of previous increases in flexibility, we estimate that 36,700 (or 3%) more children who currently

access only part of their entitlement would benefit from accessing their full free entitlement (more detail about this assumption is set out in the Assumptions and Risks section below). This would increase the proportion of children accessing their full entitlement from 86% to 89% and would incur additional costs to Government of around £19.1m, calculated by multiplying the estimated additional hours that children will take up (4,885,615) by the average hourly cost of provision to government (£3.91) as explained in the assumptions. Costs to providers incurred through delivering additional hours of provision will be met by the increased funding received from government. Government guidance to local authorities says that funding levels should be based on an assessment of the costs of different types of provision in their area. As there will be no requirement for providers to offer this additional flexibility, we expect that they will only do so where it does not adversely impact on their business. The £3.91 per hour figure is the average hourly rate that local authorities paid providers for the free entitlement in 2010 (see assumptions below).

There has been a long-standing commitment to increasing the take-up of free early education hours in order to maximise the benefits for children and prepare them for making the transition into full-time schooling at age 4-5. Funding is demand-led (based on parental choice) and reflects levels of take-up and therefore any additional cost will be met from the Department's budget, through the Dedicated Schools Grant. The opportunity costs of funding early education places over other government priorities were considered by HMT in the 2010 Spending Review. This resulted in a confirmation of the commitment to a 15 hour per week free entitlement for all three and four year olds and an extension of this entitlement to all disadvantaged two year olds (pages 41-42 - http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf)

Benefits – £36.6m

The benefits of amending guidance have been estimated based on the following driver:

- Reduction in administrative costs due to simplification of guidance
- Improvement in quality of provision due to simpler application of quality controls (non-monetisable)
- Increased take up of free entitlement due to increase in flexibility

Reduction in administrative costs - £10m (£1.9m reduction for providers and £8.1m for local authorities)

Amending the existing guidance would bring clarity over the national requirements for delivery of the free places and where there is room for local discretion. In addition there will be less good practice material in the statutory guidance for local authorities which may be regarded as requirements. The fall in administration is estimated to save 1 FTE (at £44,000) per local authority, and 2 hours of manager time per provider per term in liaising with the local authority (saving £95.61 a year per provider). This estimate is based on informal discussions with local authorities over the resources used to administer the free entitlement. This would result in total administrative savings of **£10m** per year.

Improvement in quality of provision – non-monetisable

There would also be significant benefits for children of any increases in provider quality. Providers who do not meet the quality thresholds may exit the market and they could be replaced by higher quality providers. At present over 100,000 new places are registered with Ofsted each year which presents opportunities for high quality places to be created in the system (Ofsted, 2010-11). The rate at which this takes place would be influenced by how local authorities made use of the measures in their area. Therefore we have not made any assumptions about the level of quality improvement that may result from these changes

Increased take up of free entitlement – £52.1m

As stated above, analysis of the impact of previous increases in flexibility has led the Department to estimate 36,700 more children who currently only take-up part of their entitlement will benefit from accessing their full free entitlement (an additional 4,885,615 hours per year), and thus maximising the benefits of their early development and life chances. Unfortunately, there is no robust evidence on the effects of small changes in the amount of early education – existing evidence relates to overall usage of early education and does not provide any estimates of the impact of additional hours. However, whilst the research evidence does not quantify the additional benefit to a child's development of a couple of, for

example 3.5 extra hours per week, it is likely that the additional learning opportunities for children would provide some benefits.

As well as the benefits of additional hours of early education for children, there would also be significant benefits for parents, in the form of additional hours of time (where the increase in take up of the free entitlement is an actual increase in use of provision), and reductions in costs (where parents substitute hours that they previously paid for with free hours). It is difficult to estimate what proportion of the additional 4,885,615 free entitlement hours would be additional provision, and what proportion would replace privately funded provision. Analysis of the 2011 Early Years Census shows that of the 80,000 children accessing 10.5-12.5 hours per week, around 20% of them are spending additional hours in the setting. The main reason for this is likely to be that providers are not able to offer the free hours at the times or in the patterns that parents need due to the current restrictions in the guidance and so they have to pay for these hours themselves. There are other reasons why parents are paying for hours whilst not taking their child's full entitlement including that providers are setting their own restrictions. We do not have evidence to support the precise split but, from discussions with stakeholders during consultation, have made an assumption that if 15% (the majority of the 20% who purchase additional hours) of the additional free entitlement hours replace privately funded provision, then there would be a transfer of cost from parents to government of 732,850 hours of childcare per year. At an hourly rate of £3.76 (Daycare Trust, 2011), this would be a reduction in cost to parents of £2.8m per year.

The remaining 85% of additional free entitlement (4,152,775 hours) would be additional use of provision, resulting in additional hours of spare time for parents that could be used for work or leisure. The value of an individual's time outside working hours is the value that they place on their own leisure time. Classic labour market theory assumes that when individuals make an employment decision, they elect to work the number of hours that gives them their preferred combination of income and leisure. A worker will decide to work an additional hour only if the wage on offer exceeds their valuation of the benefits from leisure. In a perfect labour market, an employee's chosen wage rate would thus reflect the point at which they obtain just as much satisfaction in work as out of work. Therefore the wage rate would be the value a worker placed on all states - in work and out of work and so we have assumed that the value of work and leisure time is equal. Strictly speaking this should be the workers disposable income, after tax and other deductions, as this is the effective wage rate they experience. We do not have information on the occupation of parents of children eligible for the free entitlement so we have used average wage rate across the economy to value their leisure time. HMRC Survey of Personal Incomes (SPI) – available up until 2007-08 - shows the average effective income tax rate is around 18.7%, including National Insurance Contributions. Based upon the ASHE survey results, this implies an average take-home wage of £11.87 per hour. This suggests a benefit of additional parental time valued at around £49.3m per year.

One-in, One-out

The assessment of the direct impact on business included in the summary sheet represents the elements of the administrative costs and benefits of the preferred option that will fall to the private and voluntary sector. The Childcare and Early Years Providers Survey 2010 gives the proportion of all registered places that are in the private sector and maintained sector for each category of provision (full daycare, sessional provision, holiday provision and after school provision). Using a weighted average for all provision types, we estimate that 40% of providers are in the public sector and that 60% are in the private and voluntary sector. We therefore attribute monetised costs and benefits to providers proportionately to business at 60% of all costs and benefits impacting on providers (shown on pg 2 above). This suggests a net benefit to business of £0.5m and so qualify as an OUT for one-in-one-out purposes.

Assumptions and risks

- Costs of quality measures
 - Setting Manager costs £13.17 per hour (Childcare and Early Years Providers Survey 2010, average of senior manager pay across setting types, weighted by proportion of places)
 - Local authority senior official wage of £44,000 (mean gross annual earnings for senior official in local government - ASHE 2011)
 - Wage costs have been uprated by 21% to reflect additional costs of employment (e.g. overheads, national insurance and pensions contributions), based on evidence from the Labour Cost Survey (2004)

- 152 local authorities and 20,000 providers (Department for Education, 2011)
- Assume all providers rated good or outstanding and 50% of remaining providers already undertake similar quality improvement activity so only 13% of gross costs are additional. Although this leads to a net administrative saving on average, in practice there would be a net cost to any provider not already engaged in improvement activities.
- The above assumptions of staff time, costs and the percentage proportion of providers who are already undertaking one of these measures are based upon discussions with representatives of early education providers and local authorities. They have been revised following feedback from provider representatives during the consultation (particularly the National Day Nurseries Association which offered more accurate cost estimates based on the experience of their members).
- Central estimate of cost of quality measure (included on analysis and evidence summary sheet) based on assumption that 70% of providers will participate in the Local Authority Quality Assessment Scheme (the least expensive option for providers); 20% of providers will participate in the Peer to Peer support Scheme; the remaining 10% would participate in the Sector Led Quality Improvement Programme (the most expensive option). There is no evidence available of which measures providers will seek to meet but it is reasonable to assume most will choose the lowest cost option.
- That increased flexibility will lead to an increase in the number of children accessing their full entitlement, with associated costs and benefits:
 - Current take up of 3 and 4 year old free entitlement is 1,224,465 children (Department for Education, 2011).
 - A similar increase in flexibility in September 2010 (extending hours and allowing parents to take more hours over fewer days per week) saw a 3 percentage point increase in the proportion of those using the free entitlement taking up their full allowance of hours. This was measured following analysis of the annual Early Years and School Censuses which provide details of the number of hours of free early education that each child is taking per week. It was published in the Statistical First Release on Provision for Children under Five Year of Age in England 2010 and 2011.
 - Assuming a similar impact (a further 3 percentage point increase) suggests around 36,700 more children (3% of the 1,224,465 children accessing the free entitlement to early education) would take up the full entitlement
 - The change in flexibility is likely to produce marginal impacts, so we assume that the 36,700 children taking up full entitlement will come from the 80,000 children currently receiving 10.5-12.5 hours of free entitlement per week. They would receive an additional 3.5 hours per week (moving from the mid point of 10.5-12.5 hours to 15 hours) over 38 weeks – a total increase of 133 hours per year. We have made this assumption following discussions with early years stakeholders during the consultation. For those children taking close to the maximum hours, increases in flexibility will be more likely to lead to them taking up their full entitlement. For those children who only take half of their entitlement, for example, this is more likely to be as a result of parental choice.
 - Average hourly price of provision faced by parents - £3.76 (Daycare Trust, 2011)
 - Average hourly cost of provision to government - £3.91. Based on analysis of early years single finding formula (EYSFF) pathfinders (Department for Education, 2010a).
 - 15% of additional free entitlement hours replace privately funded provision; 85% are additional provision. This assumption is not evidence based and therefore subject to a high degree of uncertainty. However, even if no hours were additional provision, the reduced cost to parents would broadly offset the additional funding requirements on government so there would be minimal net costs to increased take up of free entitlement. Sensitivity analysis testing the impact of 0% additional hours and 100% additional hours has been included in the calculation of low and high NPV estimates presented on the summary sheet.
 - Additional hour of time valued at £11.87 (HMRC Survey of Personal Incomes (SPI) – available up until 2007-08 - shows the average effective income tax rate is around 18.7%, including National Insurance Contributions. Based upon the ASHE survey results, this implies an average take-home wage of £11.87 per hour.)
- Low NPV (included on analysis and evidence summary sheet) based on maximum cost estimate and no increase in free entitlement hours being additional provision; high estimate based on minimum cost estimate and 100% of increase in free entitlement being additional provision.

- **Summary and preferred option with description of implementation plan.**

In summary, the Government judges that option 2 would best ensure value for money of the free entitlement by realising real benefits for children's development and life chances while reducing burdens on local authorities and providers.

We plan to streamline the statutory guidance, making changes to the flexibility framework and strengthening the quality criteria. To reduce burdens on local authorities further we will merge the free entitlement guidance with streamlined guidance on how local authorities should assess childcare sufficiency, and operate the new entitlement to free early education for disadvantaged two year olds. This single piece of statutory guidance is shorter, more concise and coherent reducing ambiguity. Consequently, local authorities will be able to spend less time resolving disputes and more time improving access to high quality early education places.

Consultation responses have led us to anticipate minimal transition costs from this option. Local authorities will, at least initially, continue to operate the free entitlement in a similar way to now. There will be some staff time required for familiarisation with the new guidance and working out how to apply the new quality measures locally. We estimate that this may take approximately 5 days of staff time for each local authority – a total cost of £962 per authority, £146k nationally.

Implementation plan

- Final version of the new statutory guidance published – Easter 2012.
- Statutory guidance for three and four year olds comes into force – September 2012.

Post-implementation

The statutory guidance will be reviewed 2 years after it comes into force in September 2012. This will be with the view to producing revised guidance, if necessary, in September 2015 (3 years after the previous version of the guidance).

The review will be a proportionate examination of the impact of the changes to the statutory guidance on the stated policy objectives, involving both data analysis and consultation with the early education sector. It will examine the following progress of indicators:

- Have the changes had the desired effects on take-up and quality of provision?
- Have the changes also resulted in a perception of lower administrative burdens?

Annex 1: Quality of Childcare and Early Education Settings

Trends in improvement of settings (Ofsted annual report 2010-2011):

Year	% Outstanding	% Good	% Satisfactory
10/11	12	62	23
09/10	10	58	29
08/09**	9	56	30
07/08	4	52	39
06/07	3	55	38
05/07	2	55	38

** EYFS introduced in September 2008 which may account for rapid increase.