Early years: Public spending and public policy

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Feature #1: Growth in free entitlement
Free entitlement spending boom over the last 20 years

Real-terms spending on free entitlement in England

Source: IFS education spending microsite – “Early Years”.

Nursery World conference 2023
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Nursery World conference 2023
More hours, more children, more spending
Real-terms spending on the 3- and 4-year-old entitlements

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Early years spending growth has outstripped schools

Real-terms per-pupil education spending, by stage

Source: IFS education spending microsite – “Annual reports”.

Early years funding and policy
More hours, more children, more spending... more pressure?

Real-terms spending on the 3- and 4-year-old entitlements

Source: IFS education spending microsite – “Early Years”.

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Feature #2: The impacts of inflation
Price pressures on providers

Economy-wide and childcare-specific measures of inflation

Source: Figure 4.2, Drayton et al. (2022).
The importance of staffing

Childcare providers’ costs (2019)

- Staff at minimum wage: 11%
- All other staff: 59%
- Rent/mortgage and utilities: 17%
- Food: 11%
- Other: 3%

Source: Table 2, Drayton and Farquharson (2022). Based on 2019 data from the Department for Education’s ‘Survey of Childcare and Early Years Providers’.
Price pressures on providers

Economy-wide and childcare-specific measures of inflation

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Early years funding and policy
Price pressures on providers

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Early years funding and policy
Cost rises outstrip funding growth

Core per-hour funding for 3/4yo entitlements (indexed)

Note: Funding per hour in 2023-24 is based on the Department for Education’s plans, currently under consultation. Funding per hour in 2024-25 is an illustrative scenario based on IFS modelling, taking into account the total free entitlement budget, historical funding formula allocations and population change. Source: Adapted from Figure 12, Drayton and Farquharson (2022).
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Index (2017-18 = 100)

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Feature #3: Decline in wider support
8 programmes to support childcare

The free entitlement

1. Universal free entitlement (15 hours) – all 3- & 4-year-olds
2. Extended entitlement (+15 hours) for 3- & 4-year-olds in working families
3. Means-tested early education (15 hours) – 40% most disadvantaged 2-year-olds
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Relief through the tax system

4. Employer-supported childcare (e.g. vouchers) – tax & NICs
5. Tax-free childcare – relief from basic-rate tax
6. VAT exemptions for (some) childcare providers*
Big pandemic drop in spending on childcare ‘tax reliefs’

Real-terms spending on childcare via ‘tax relief’

Source: Figure 8, Drayton and Farquharson (2022).

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8 programmes to support childcare

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Childcare subsidies through the working-age benefit system

7. Childcare element of Working Tax Credit
8. Childcare element of Universal Credit
Long-standing fall in childcare subsidies via benefits system

Real-terms spending on childcare via benefits system

Source: Figure 6, Drayton and Farquharson (2022).
Long-standing fall in childcare subsidies via benefits system

Real-terms spending on childcare via benefits system

Source: Figure 6, Drayton and Farquharson (2022).

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Focus is on free entitlement

Real-terms spending on childcare support programmes

Source: IFS education spending microsite – “Early Years”. Note that data on the cost of VAT relief is not available.

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Feature #4: Changing distribution of support
Support to low-income workers is being squeezed

Share of childcare spending targeted at different groups

Source: IFS education spending microsite – “Early Years”. 

Nursery World conference 2023
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Nursery World conference 2023
Free entitlement expansions help families with 3 and 4yos

Weekly out-of-pocket childcare spend (2019)

Source: Adapted from Figure 2.4, Farquharson and Olorenshaw (2022).
Free entitlement expansions help families with 3 and 4yos

Weekly out-of-pocket childcare spend (2019)

Source: Adapted from Figure 2.4, Farquharson and Olorenshaw (2022).
But younger children face much higher costs

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Weekly out-of-pocket childcare spend (2019)

Source: Adapted from Figure 2.4, Farquharson and Olorenshaw (2022).

Nursery World conference 2023
Feature #5: Access to support
Lack of awareness of some sources of support

Awareness among pre-school parents of main programmes of gov’t support for childcare (2019)

Source: Figure 3.1, Farquharson and Olorenshaw (2022).

Early years funding and policy
Lack of awareness of some sources of support

Awareness among pre-school parents of main programmes of gov’t support for childcare (2019)

- 15-hour entitlement for 3/4-year-olds: 93%
- 30-hour extended entitlement: 81%
- 15-hour entitlement for disadvantaged 2-year-olds: 79%

Source: Figure 3.1, Farquharson and Olorenshaw (2022).

Early years funding and policy
Lack of awareness of some sources of support

Awareness among pre-school parents of main programmes of gov't support for childcare (2019)

- 15-hour entitlement for 3/4-year-olds: 93%
- 30-hour extended entitlement: 81%
- 15-hour entitlement for disadvantaged 2-year-olds: 79%
- Tax-free childcare: 40%

Source: Figure 3.1, Farquharson and Olorenshaw (2022).
Many families miss out on support they are entitled to

Take-up of childcare element of UC (Feb 2022)

Note: Shows share of UC-claiming households where all parents are earning who are taking up the childcare element. Some ‘eligible’ households may not have any childcare expenses. Great Britain only.
Source: Table 3, “Universal Credit claimants eligible for and receiving the childcare element between March 2021 to February 2022.”
Or leave funded hours on the table

Hours spent in formal childcare, compared to entitlement

- All 3- & 4-year-olds: 48% use less than entitlement, 19% use exact entitlement, 34% use more than entitlement
- 3- & 4-year-old: universal: 48% use less than entitlement, 33% use exact entitlement, 29% use more than entitlement
- 3- & 4-year-old: extended: 60% use less than entitlement, 11% use exact entitlement, 29% use more than entitlement
- 2-year-old offer: 65% use less than entitlement, 18% use exact entitlement, 17% use more than entitlement

Source: Figure 3.2, Farquharson and Olorenshaw (2022).

Early years funding and policy
Summing up
Five features of the early years system in England

1. Early years spending has grown quickly
   - The early years have been prioritised over other stages of education, and over public services more widely
   - Total spending has doubled since 2009-10 (even after inflation)
Five features of the early years system in England

1. Early years spending has grown quickly
2. But rising provider costs are eating away resources
   - Providers’ costs are increasing more quickly than funding
   - We could be set for a 3% real-terms cut in per-hour resources over the next two years
Five features of the early years system in England

1. Early years spending has grown quickly
2. But rising provider costs are eating away resources
3. Subsidies outside free entitlement have plummeted
   ▪ Spending on childcare subsidies fell by more than a third versus pre-pandemic
   ▪ Continuing a longer-running decline in spending via benefits system
Five features of the early years system in England

1. Early years spending has grown quickly
2. But rising provider costs are eating away resources
3. Subsidies outside free entitlement have plummeted
4. Changing distribution of early years support
   - Less support specifically targeted to low-income workers
   - ‘Double whammy’ for parents of younger children, facing higher prices with less government support
Five features of the early years system in England

1. Early years spending has grown quickly
2. But rising provider costs are eating away resources
3. Subsidies outside free entitlement have plummeted
4. Changing distribution of early years support
5. Some families are missing out on support
   - Many families don’t use full funded entitlements
   - Just 40% of pre-school parents knew about tax-free childcare
   - Just a quarter of eligible pre-school families get UC subsidies
Five features of the early years system in England

1. Early years spending has grown quickly
2. But rising provider costs are eating away resources
3. Subsidies outside free entitlement have plummeted
4. Changing distribution of early years support
5. Some families are missing out on support

And one big question: **What do we want our EY system to deliver?**
Early years: Public spending and public policy