



Christine Farquharson, Institute for Fiscal Studies

Early years: Public spending and public policy

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@TheIFS

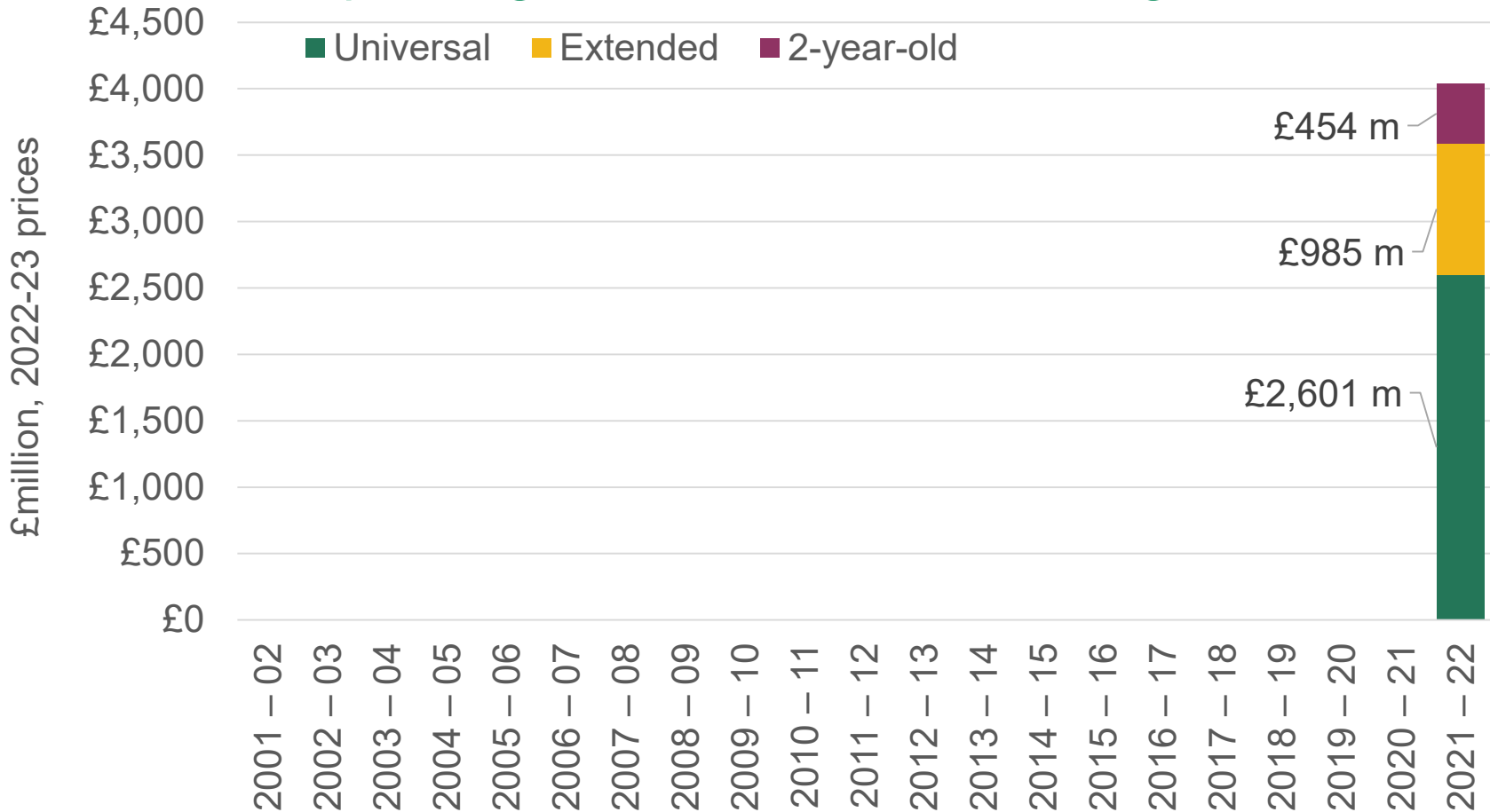




Feature #1: Growth in free entitlement

Free entitlement spending boom over the last 20 years

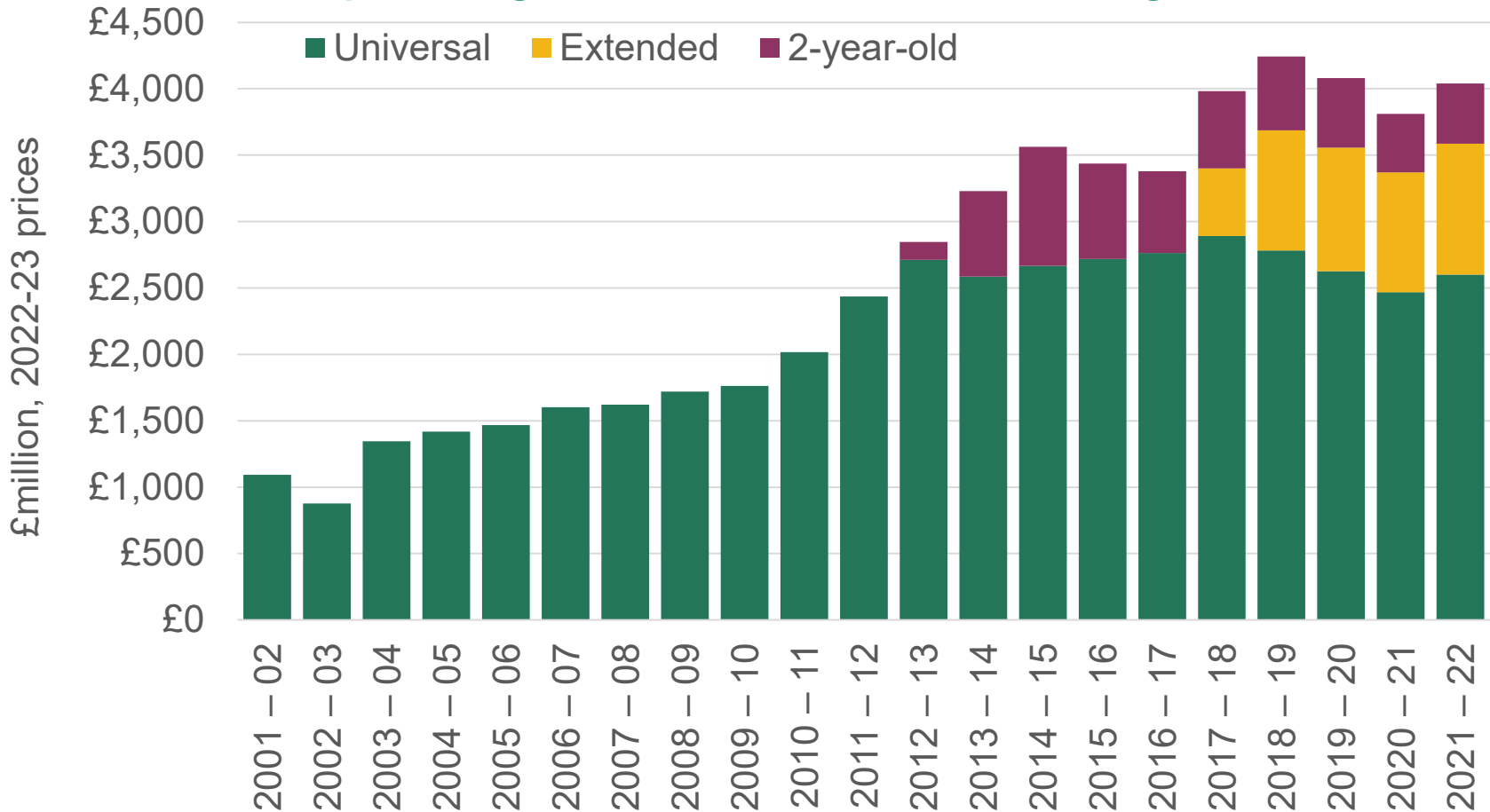
Real-terms spending on free entitlement in England



Source: IFS education spending microsite – [“Early Years”](#).

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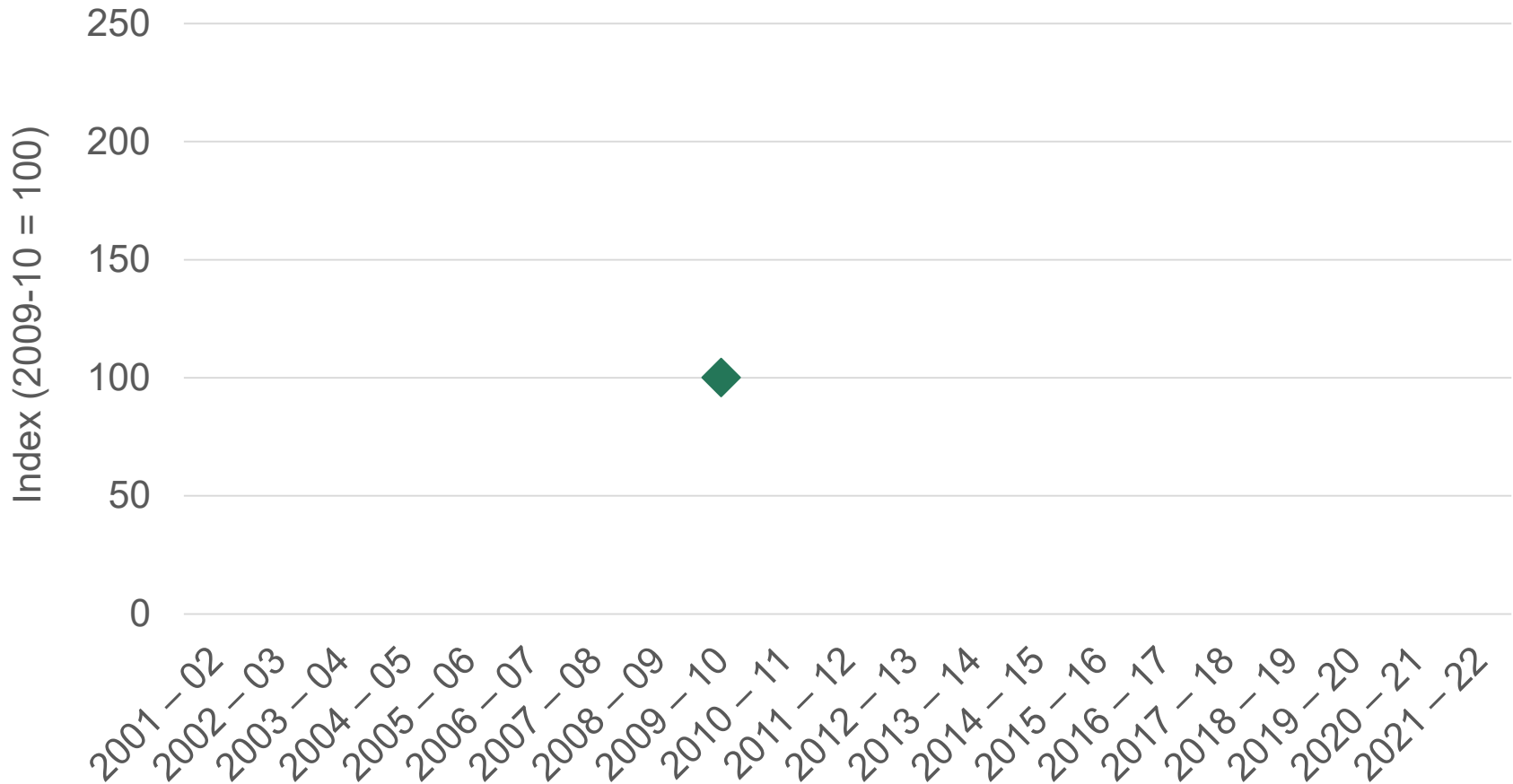


Source: IFS education spending microsite – [“Early Years”](#).

More hours, more children, more spending



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

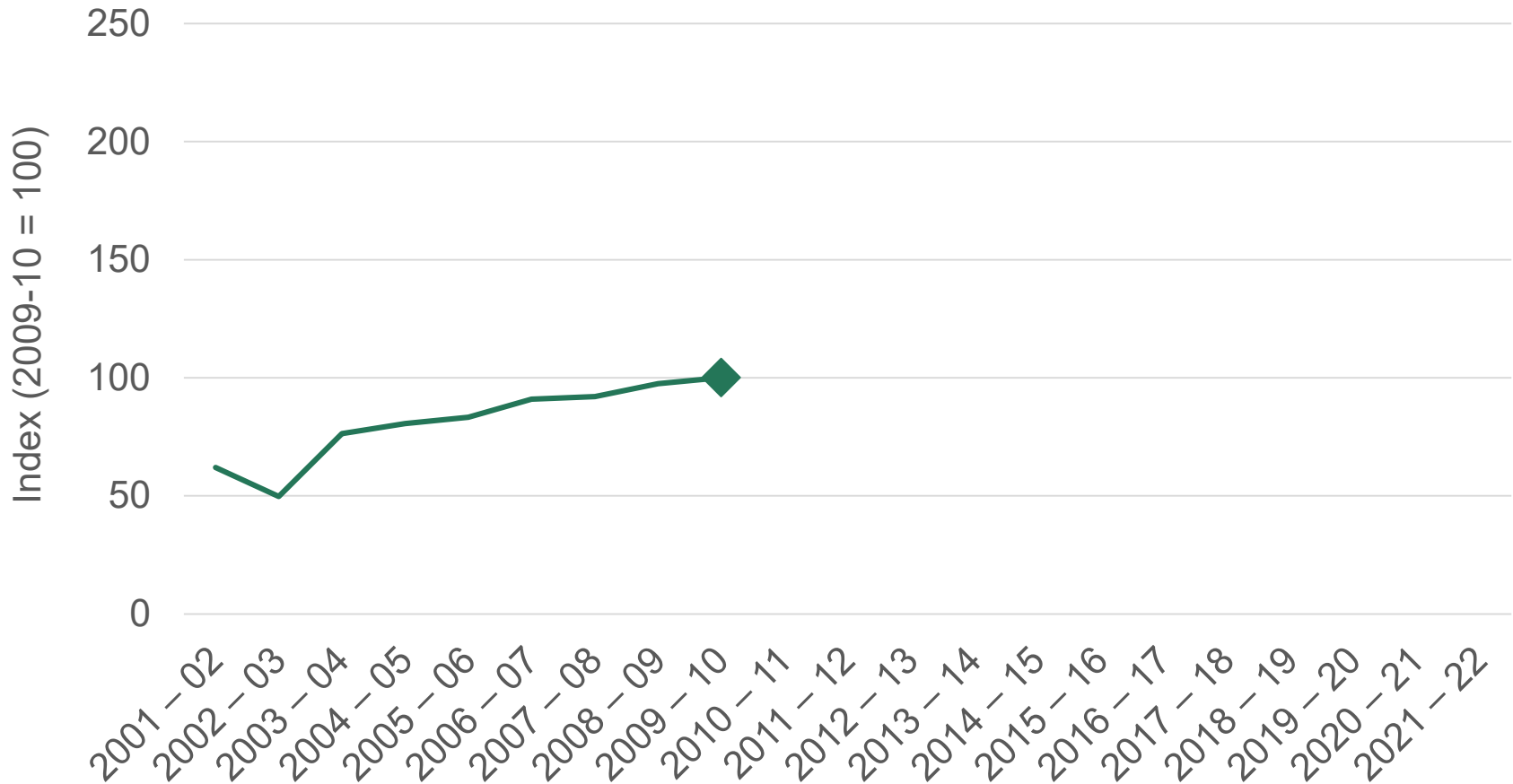


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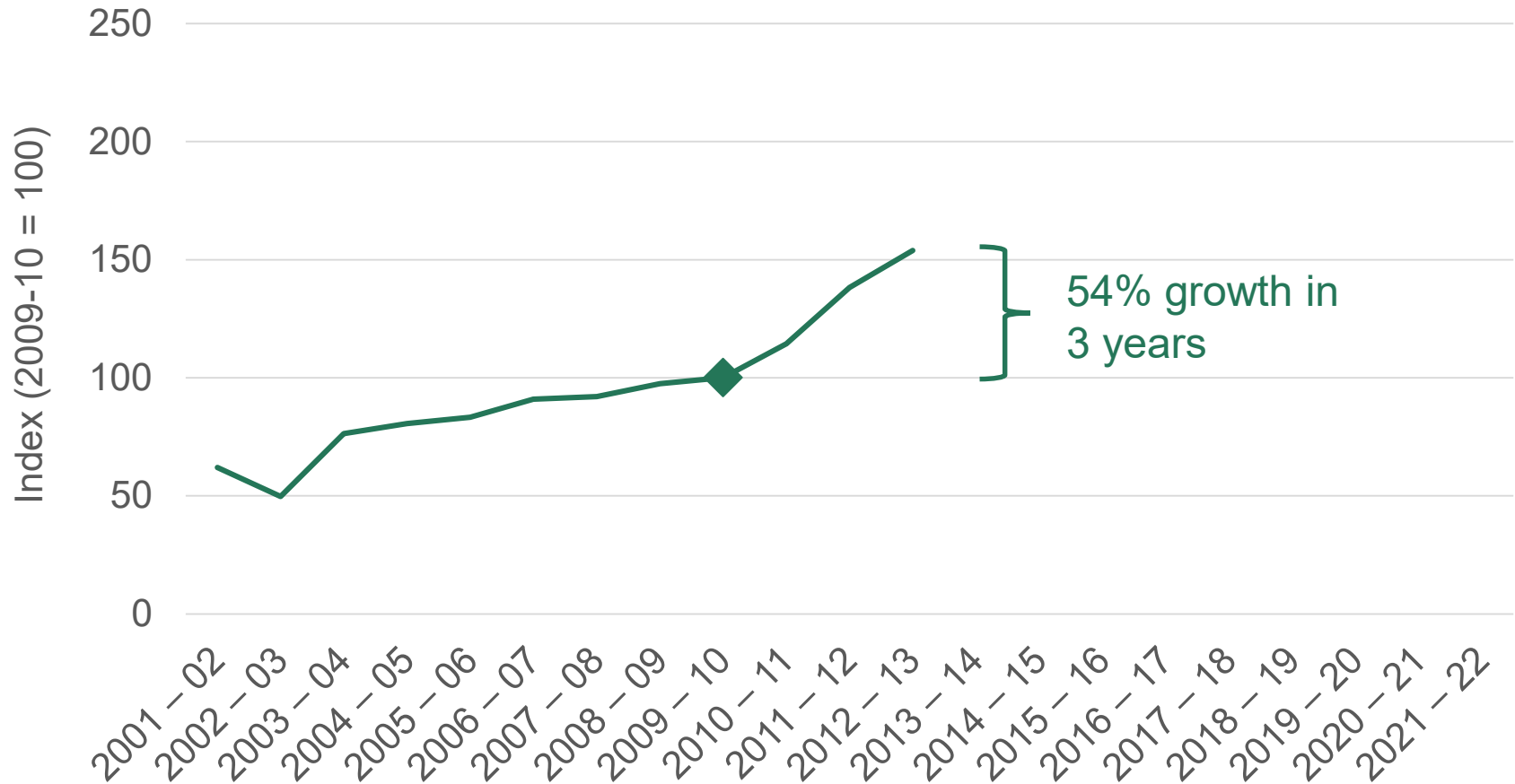


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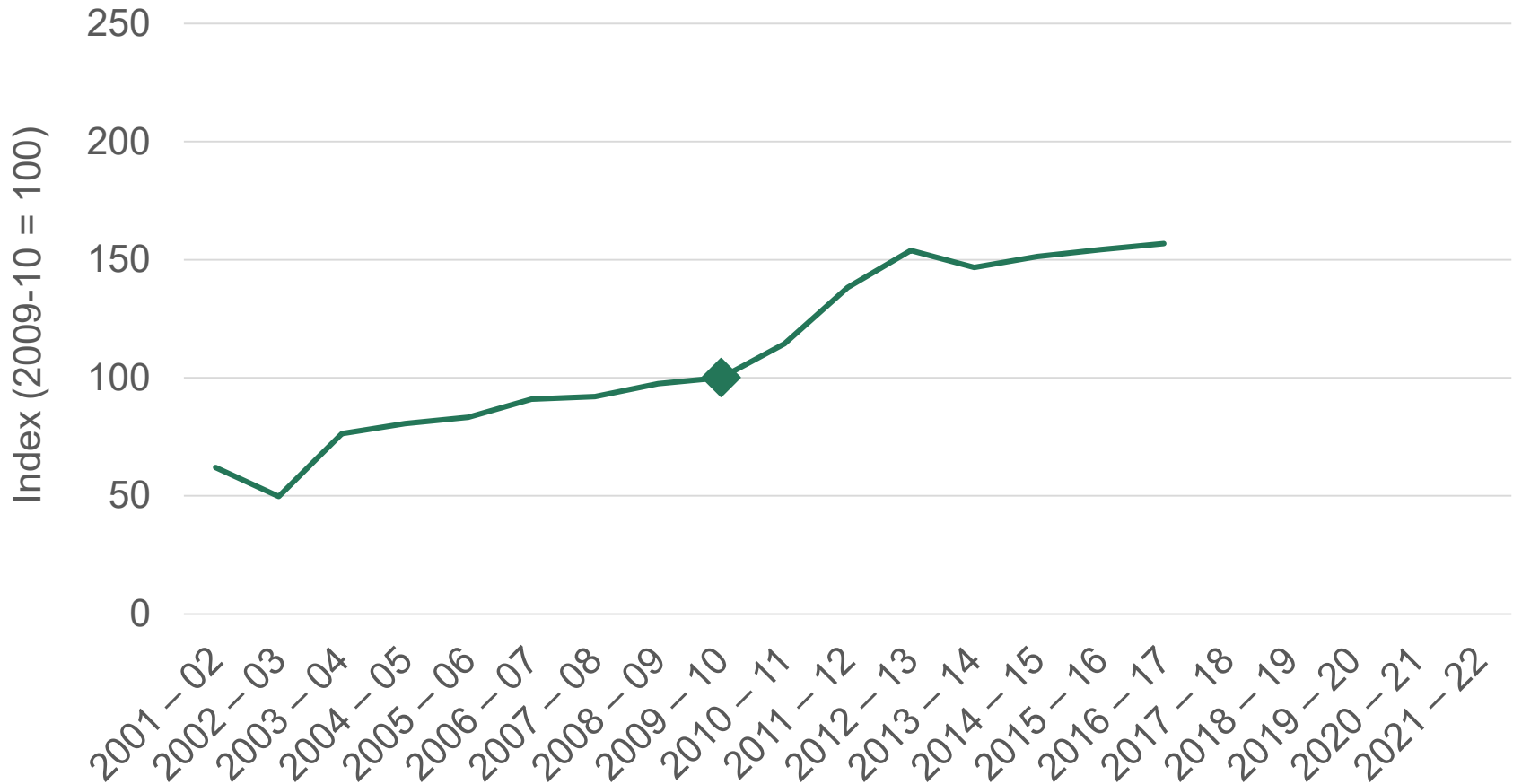


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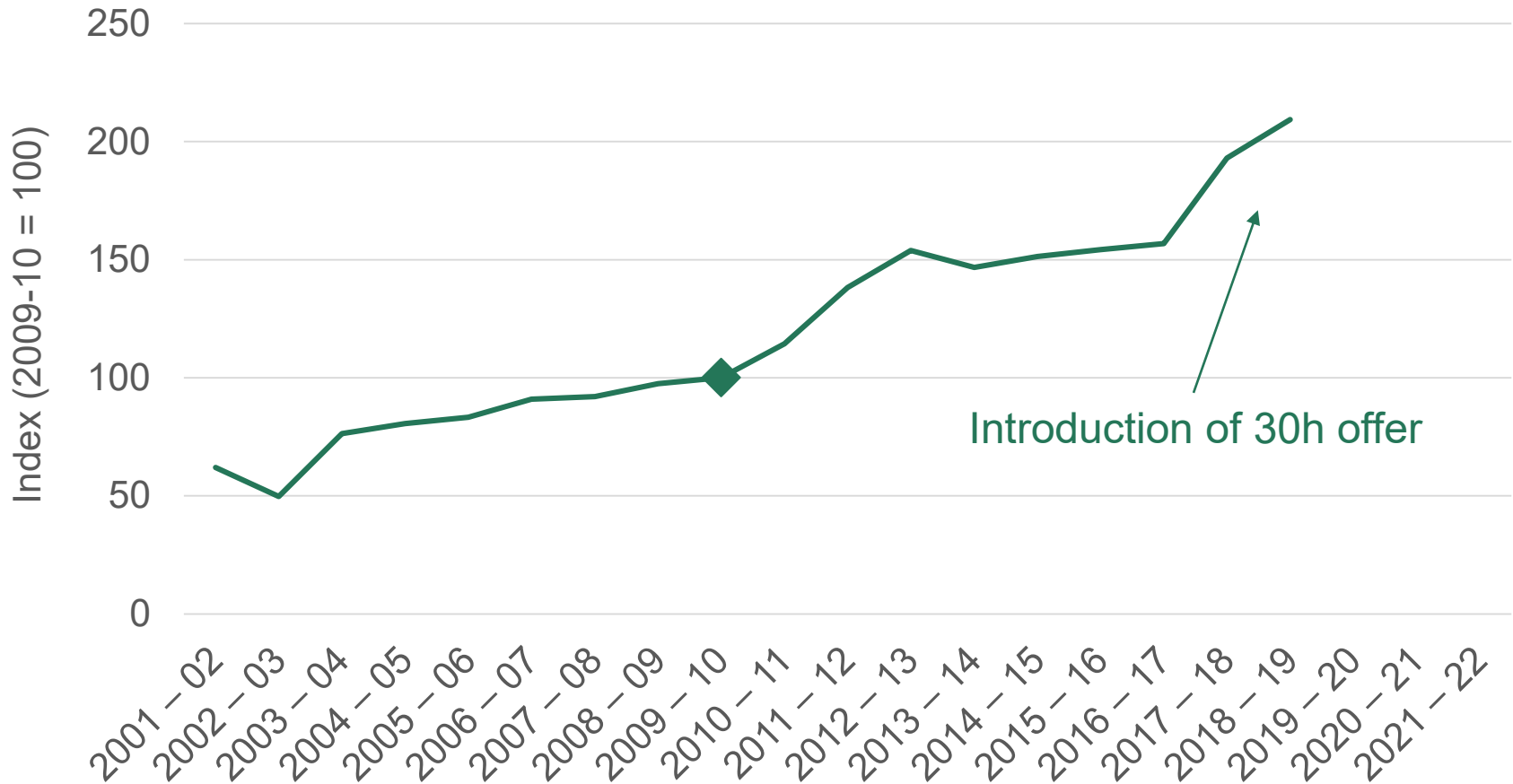


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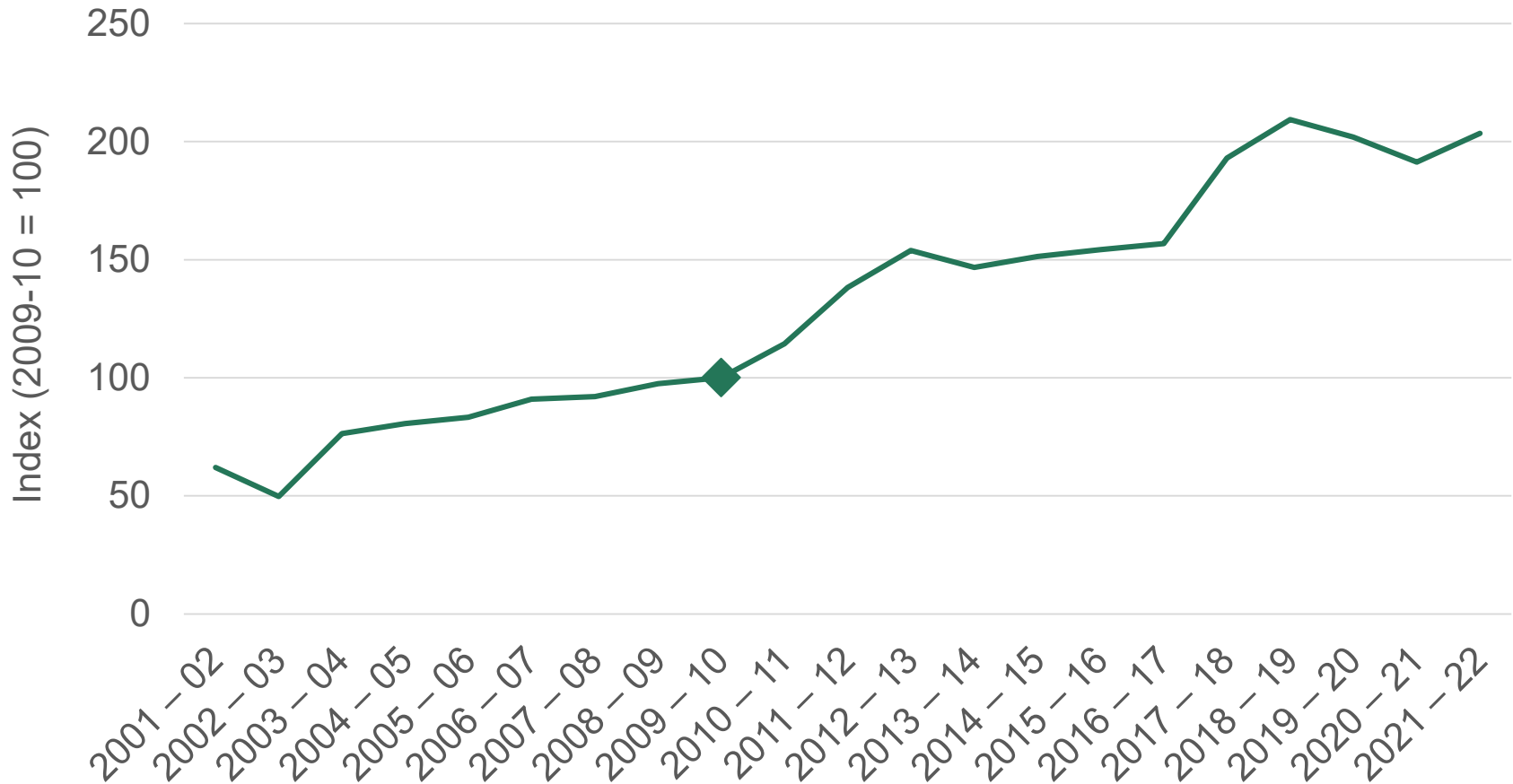
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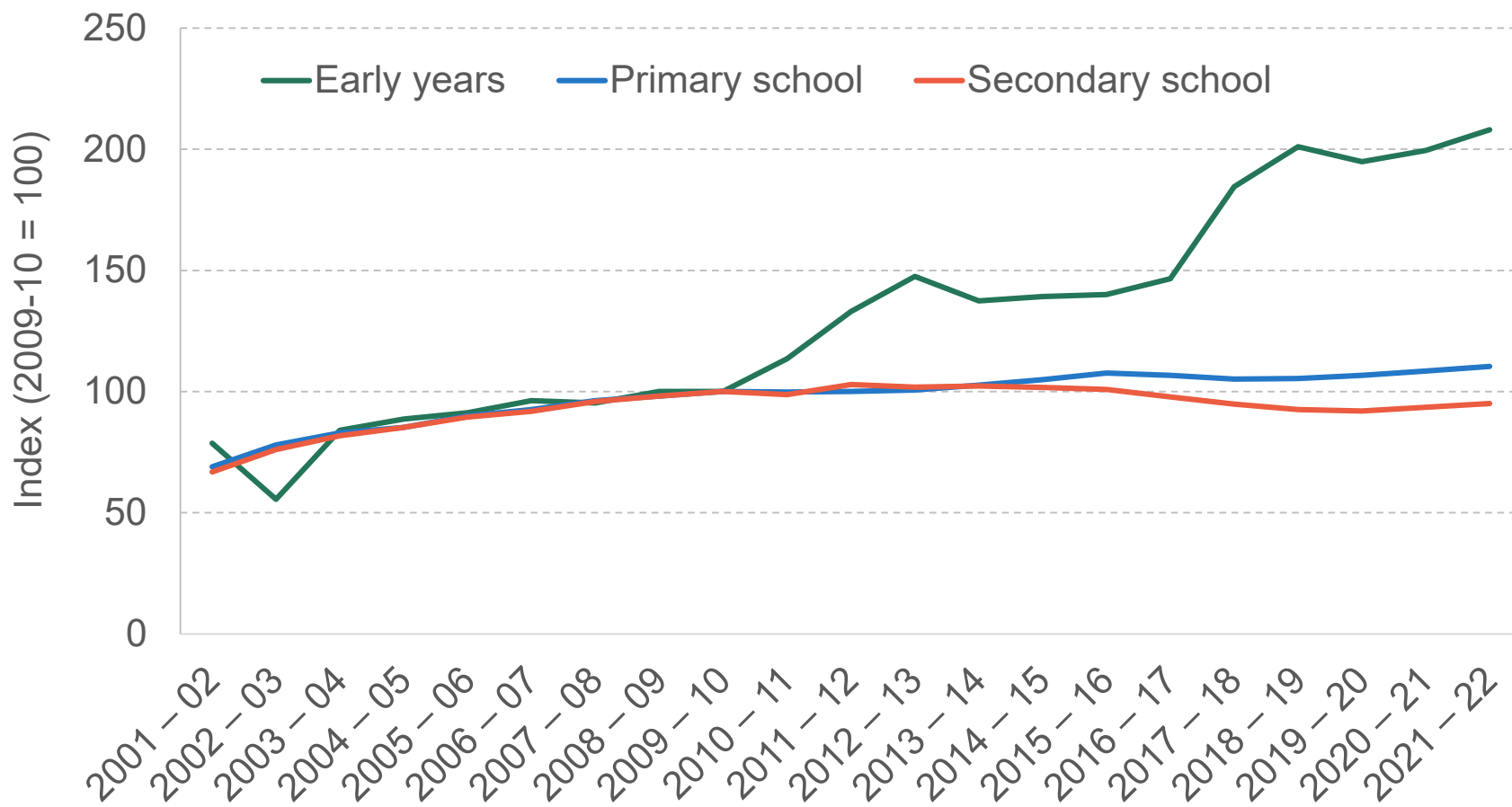


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Early years spending growth has outstripped schools

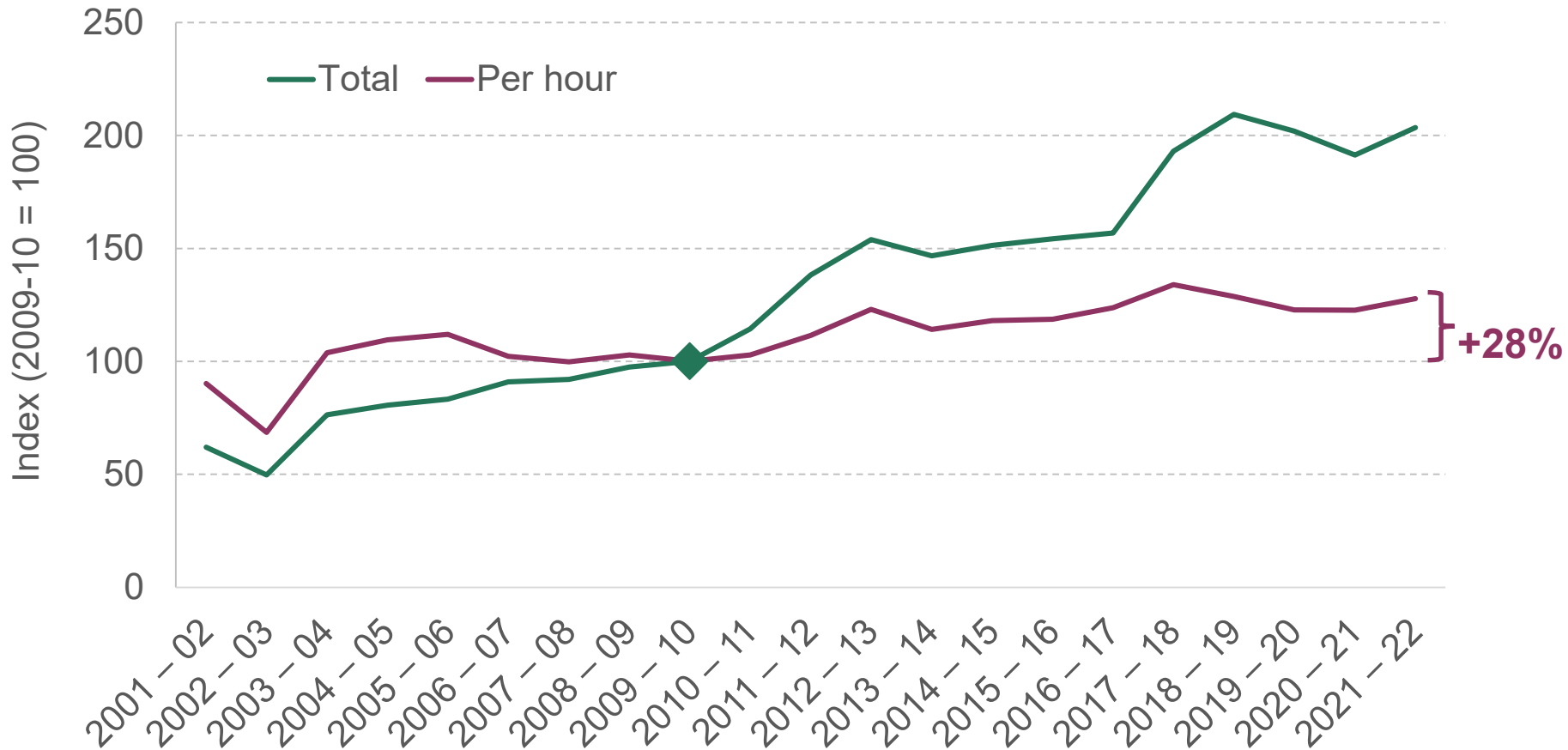
Real-terms per-pupil education spending, by stage



Source: IFS education spending microsite – [“Annual reports”](#).

More hours, more children, more spending... more pressure?

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



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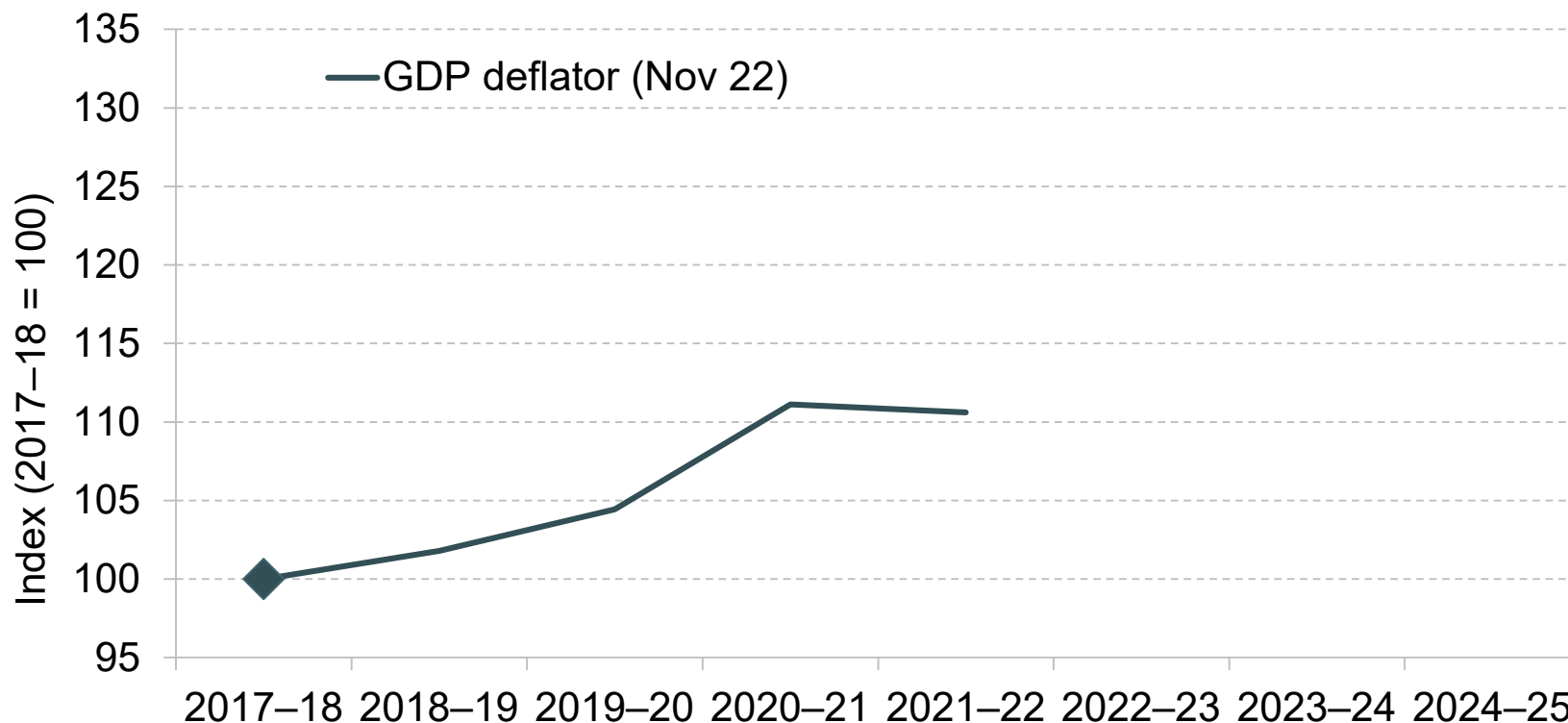
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Feature #2: The impacts of inflation

Price pressures on providers

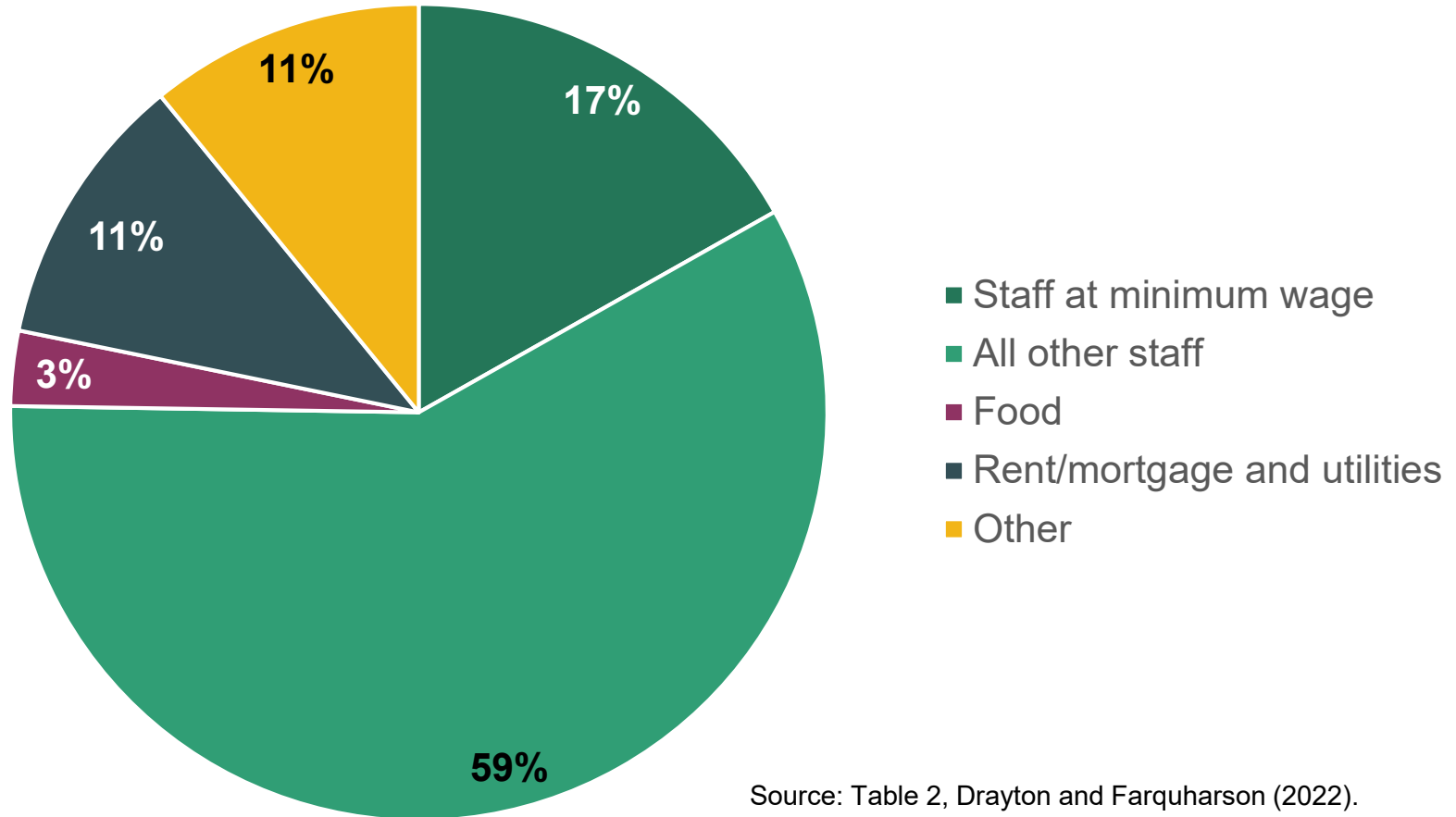
Economy-wide and childcare-specific measures of inflation



Source: Figure 4.2, Drayton et al. (2022).

The importance of staffing

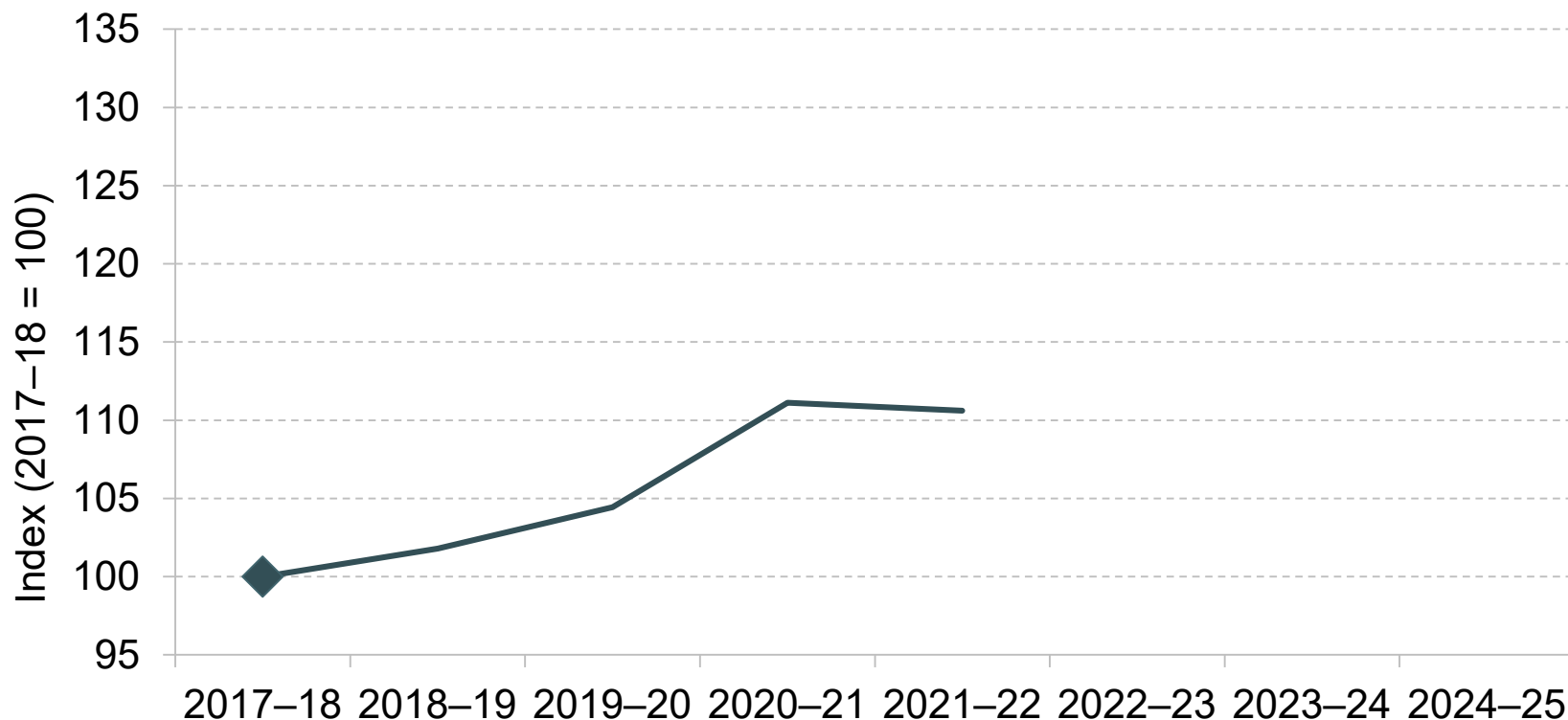
Childcare providers' costs (2019)



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

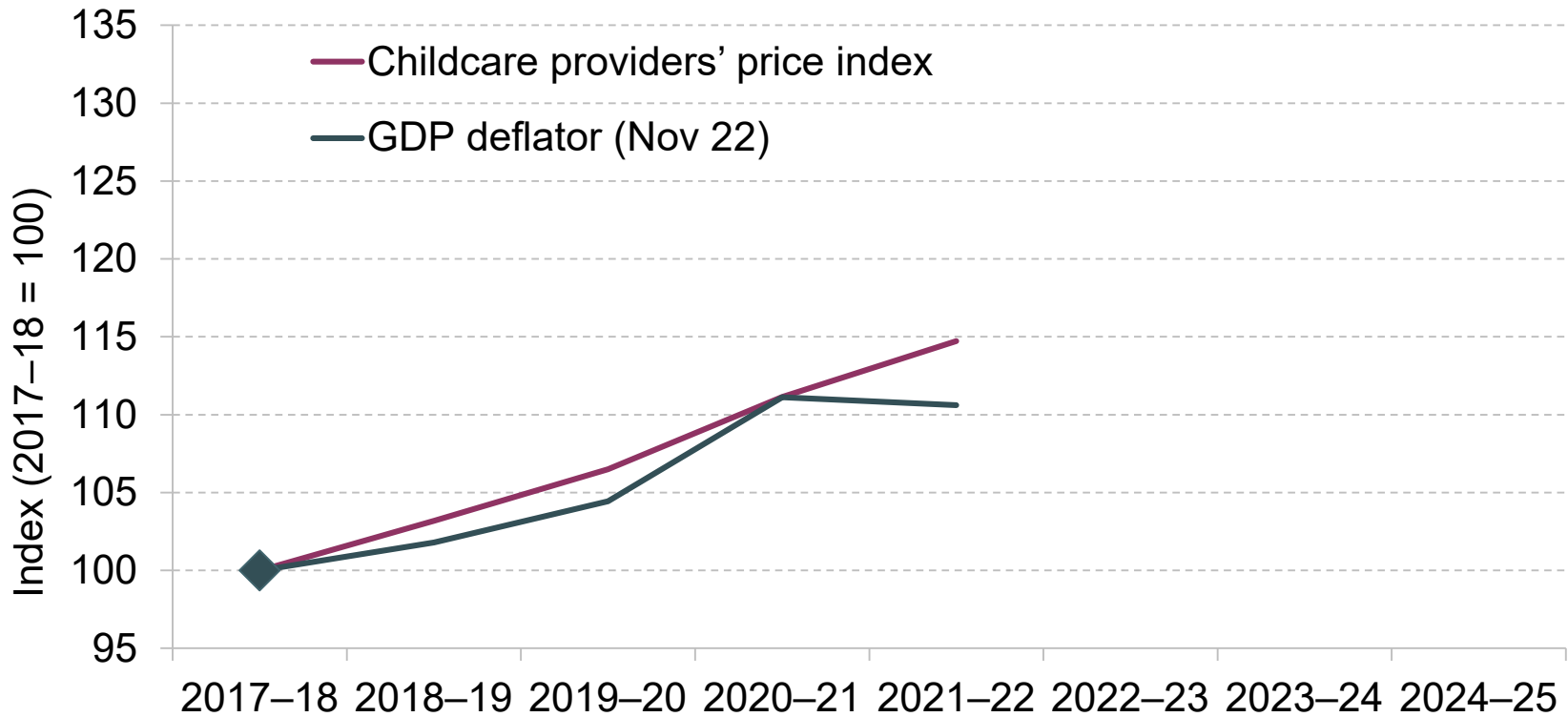
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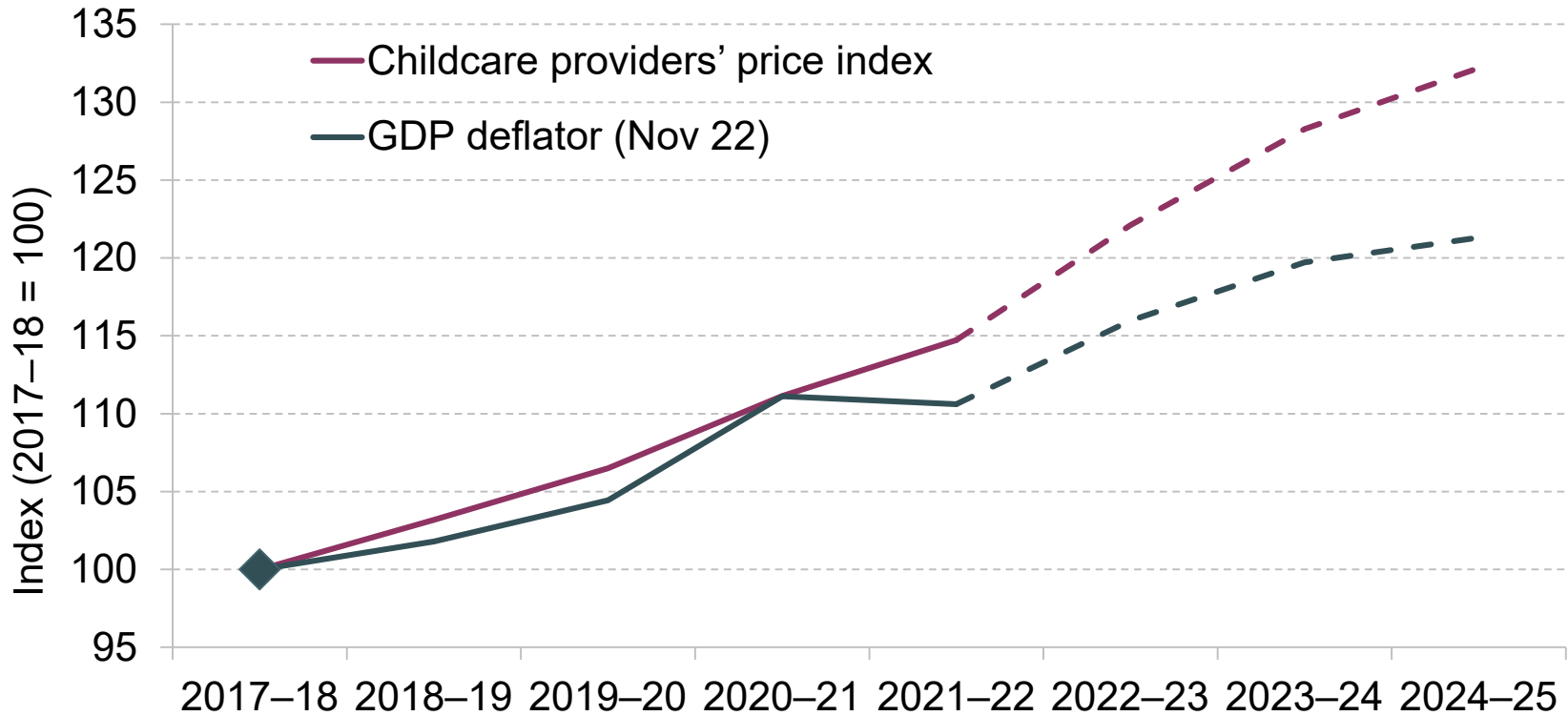
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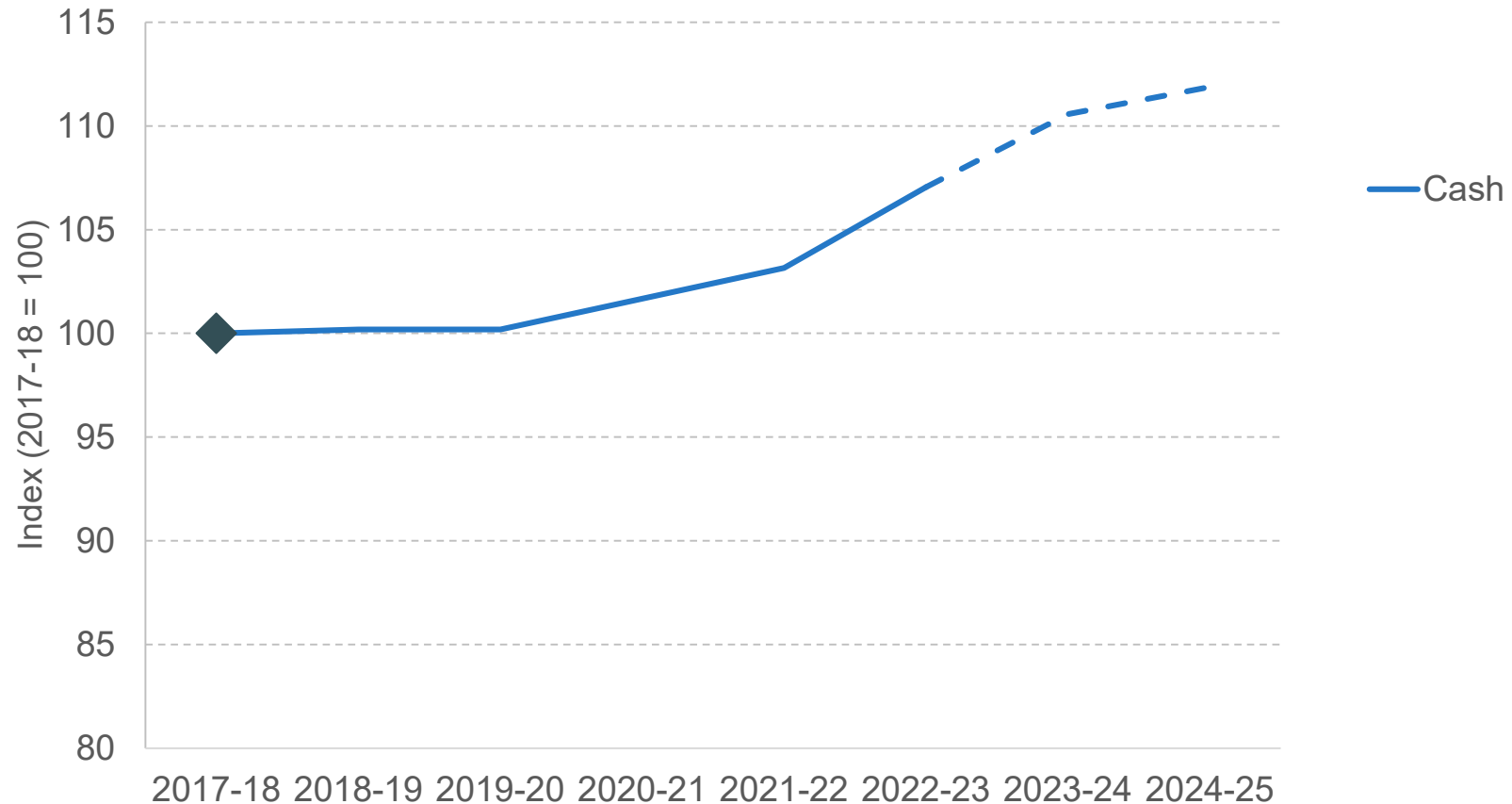
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Cost rises outstrip funding growth

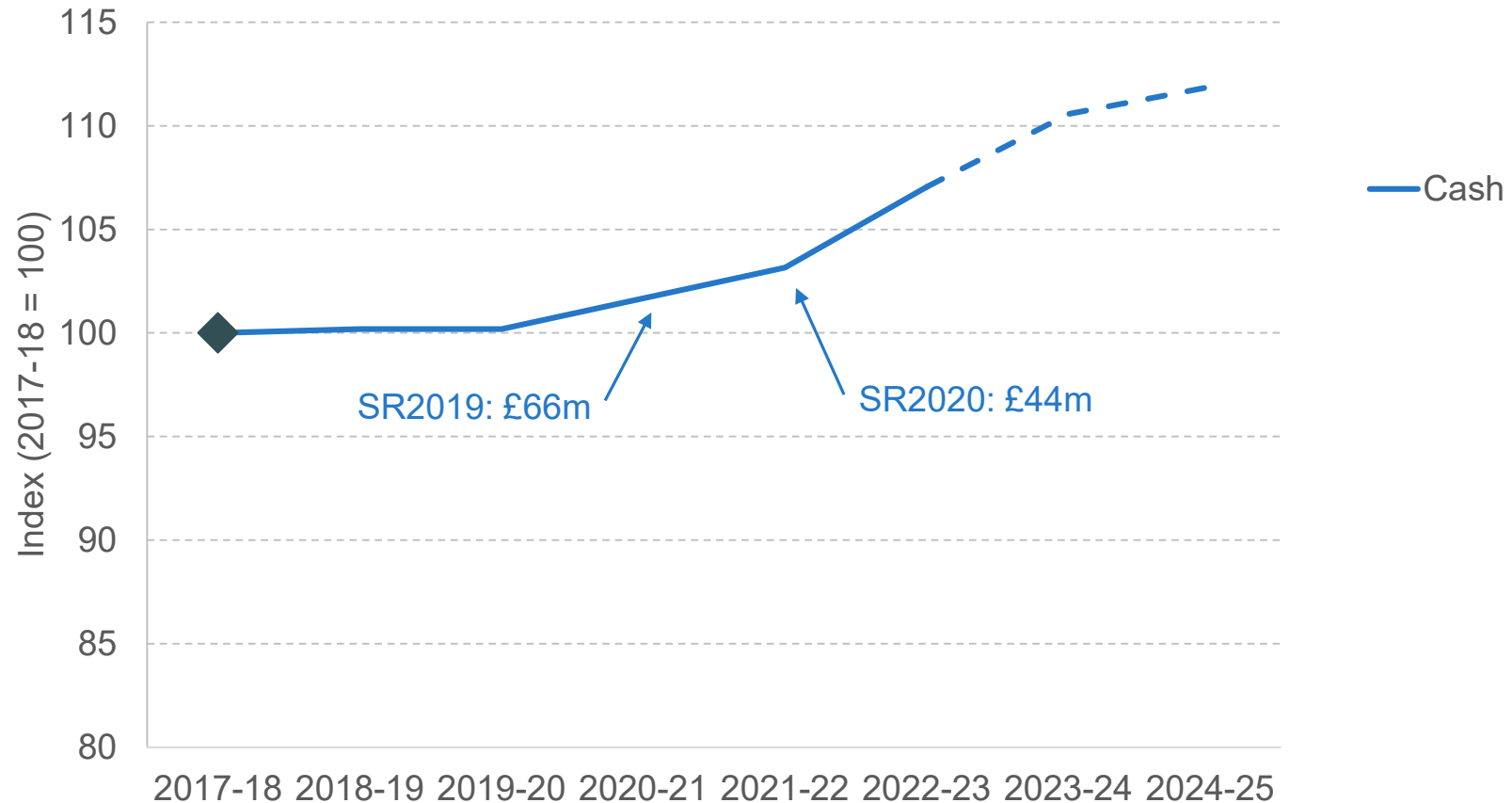
Core per-hour funding for 3/4yo entitlements (indexed)



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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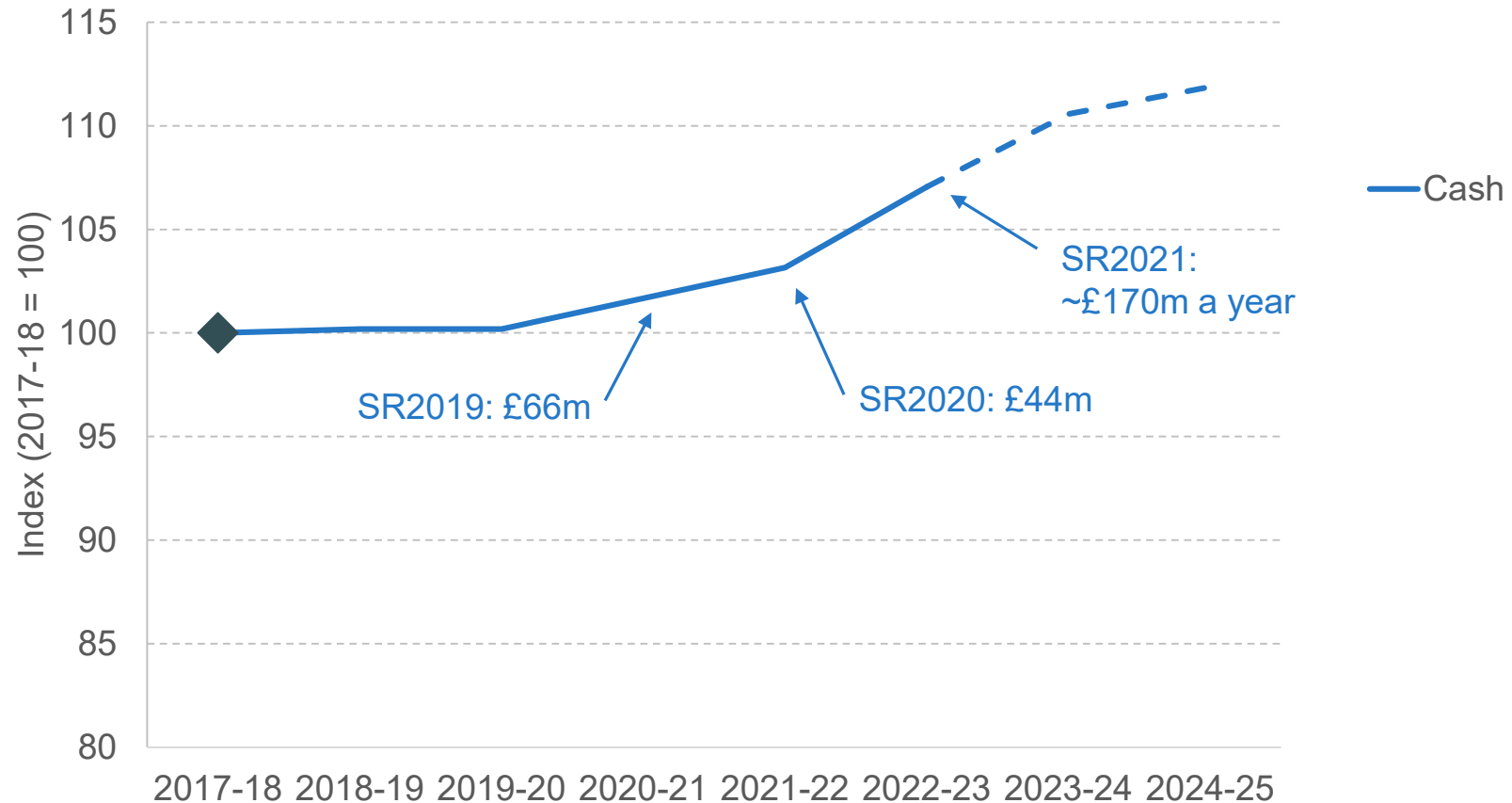
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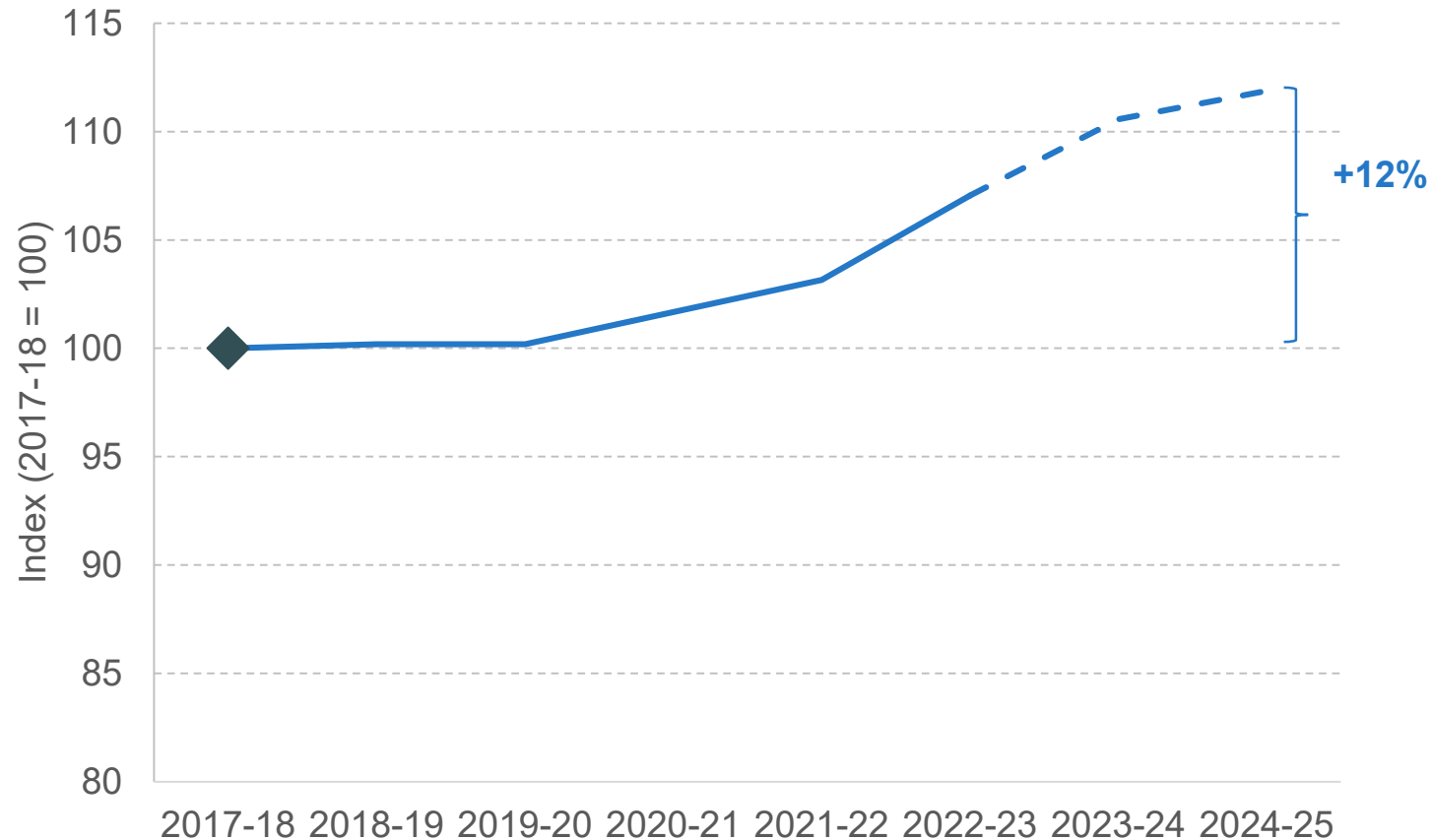
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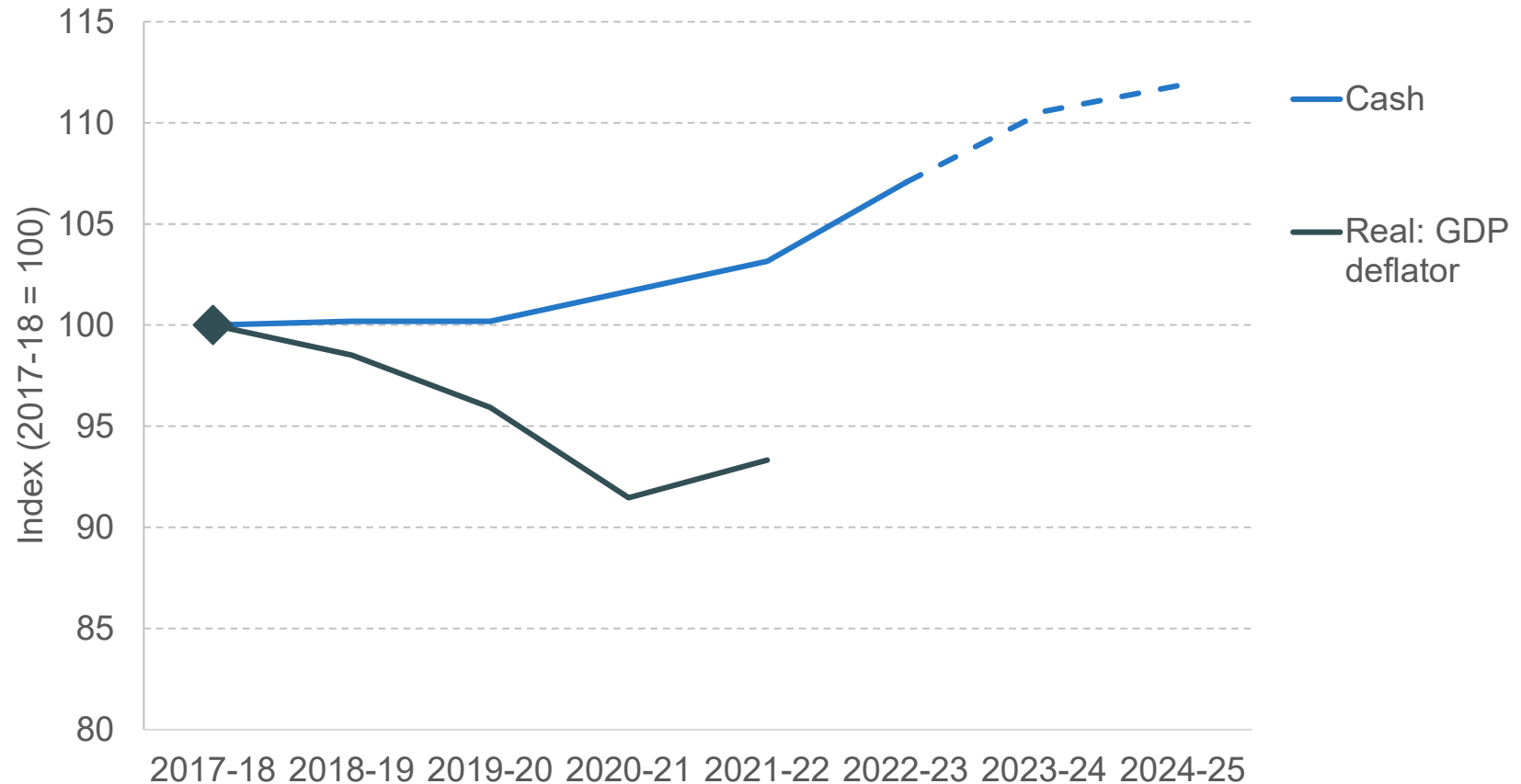
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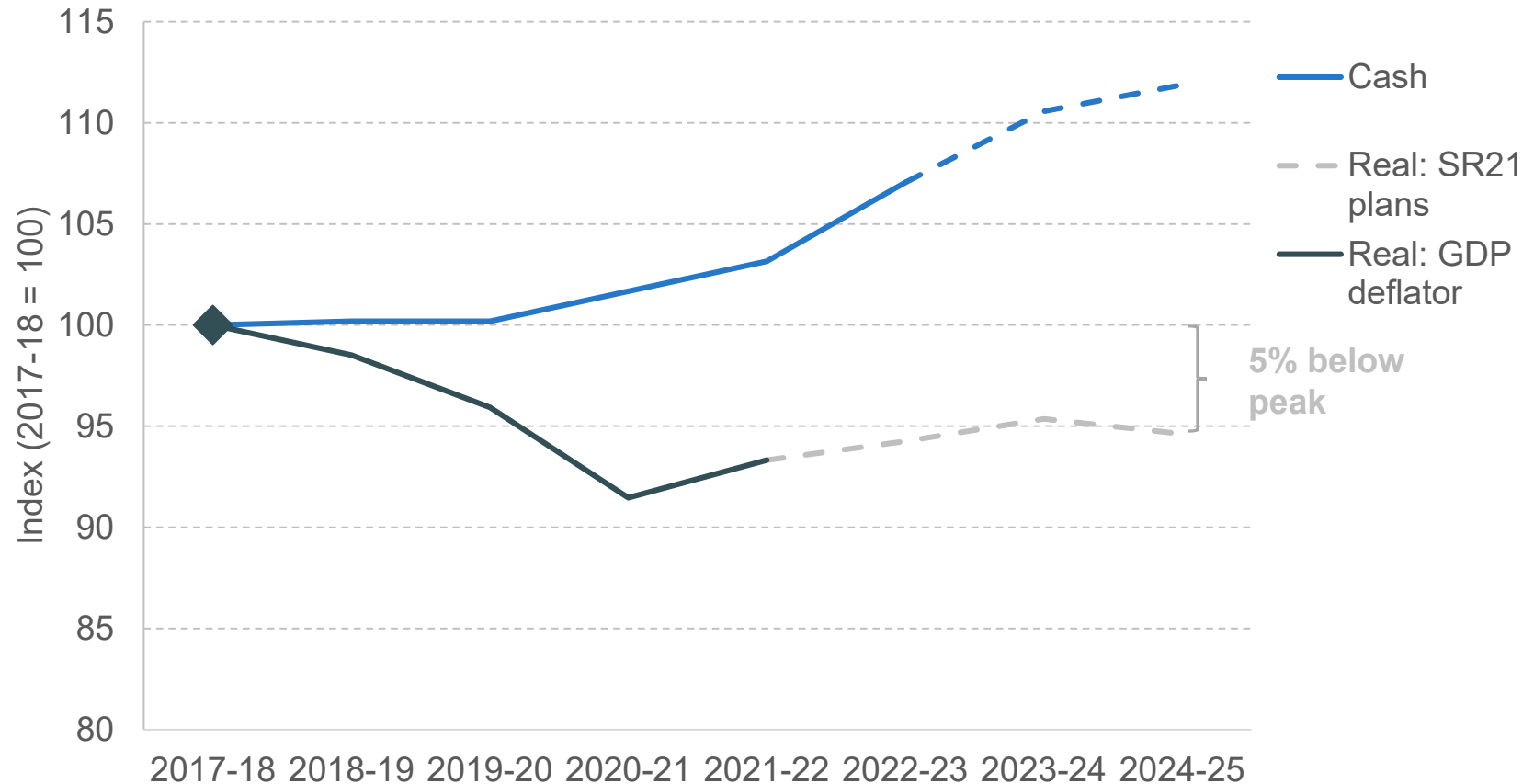
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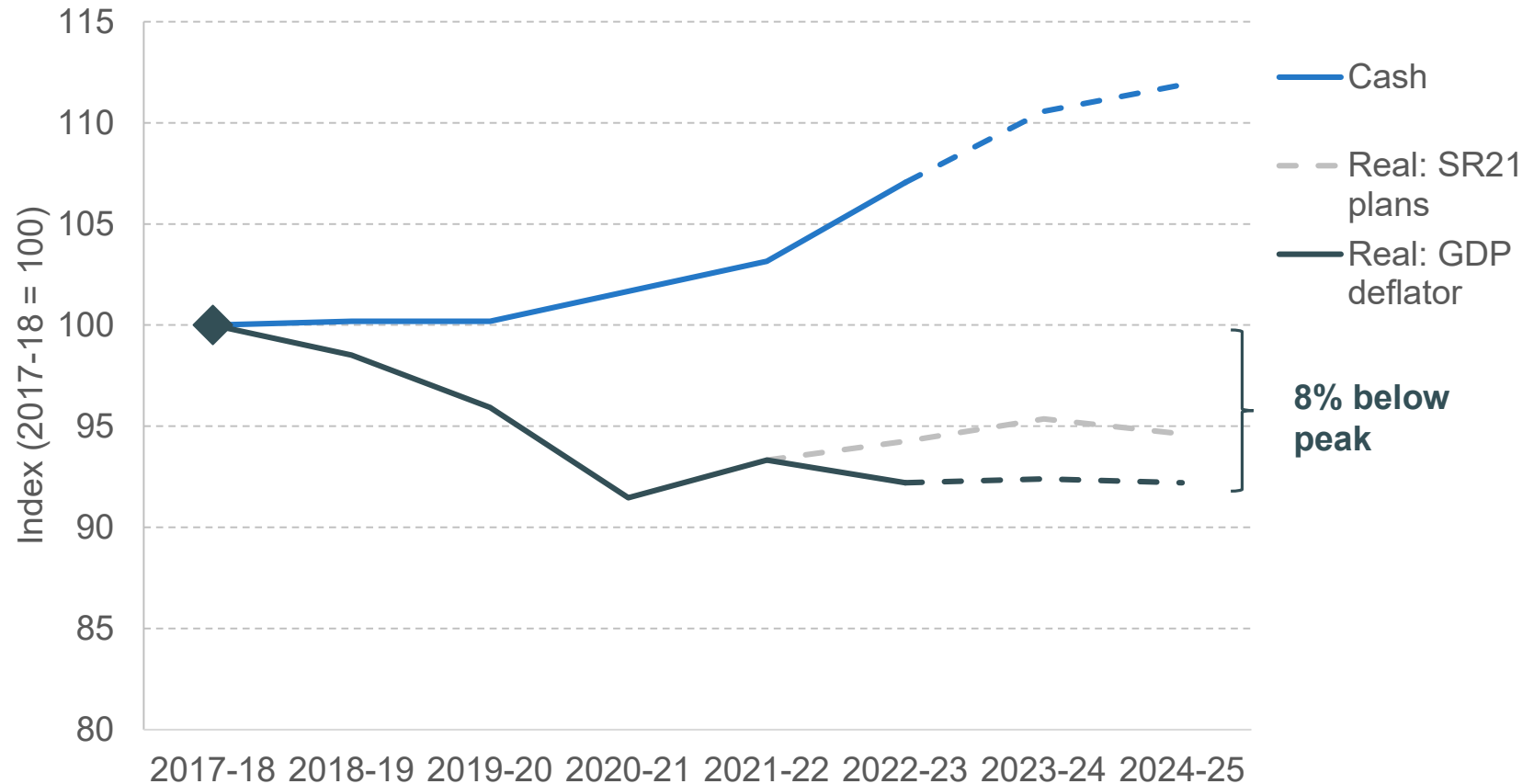
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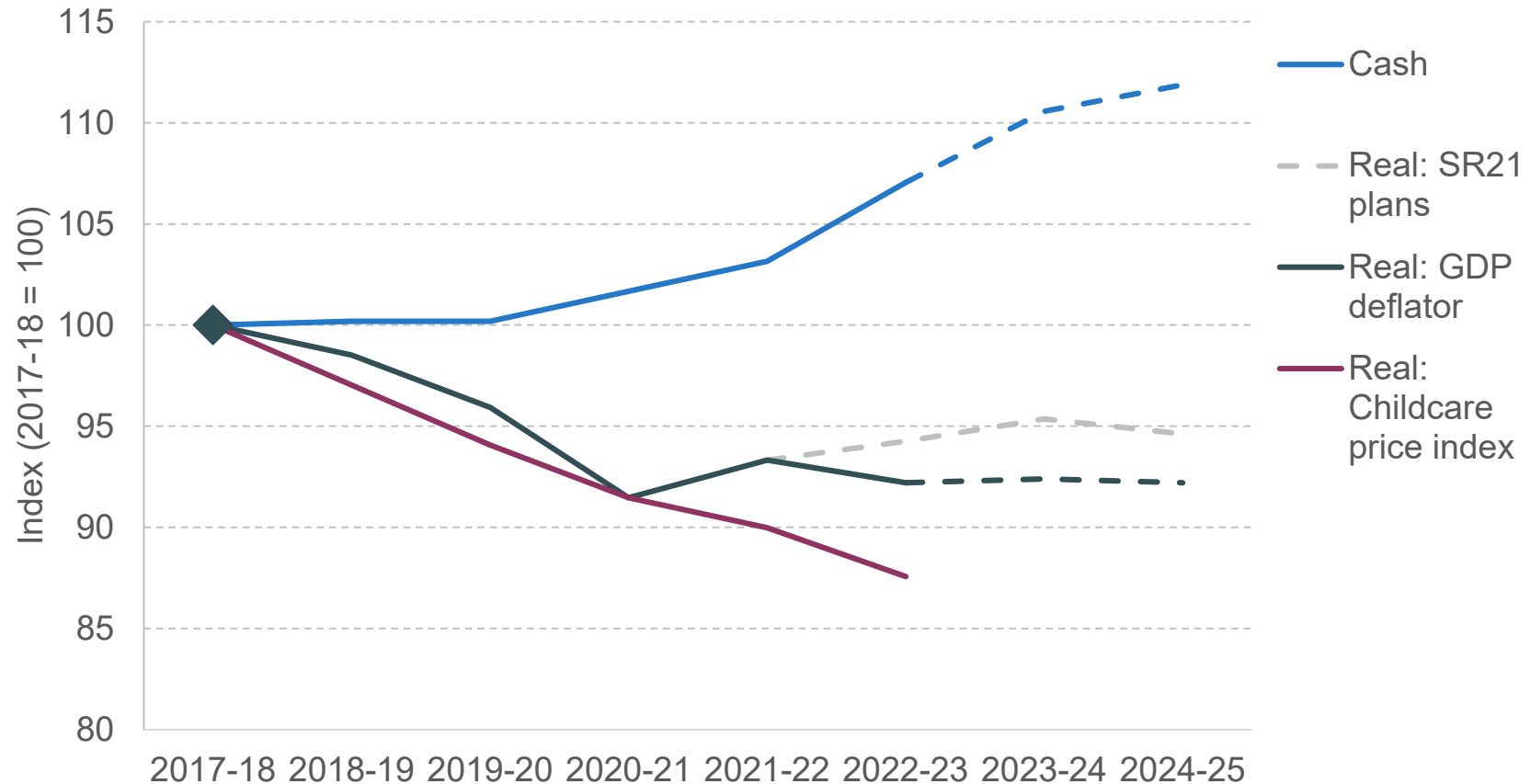
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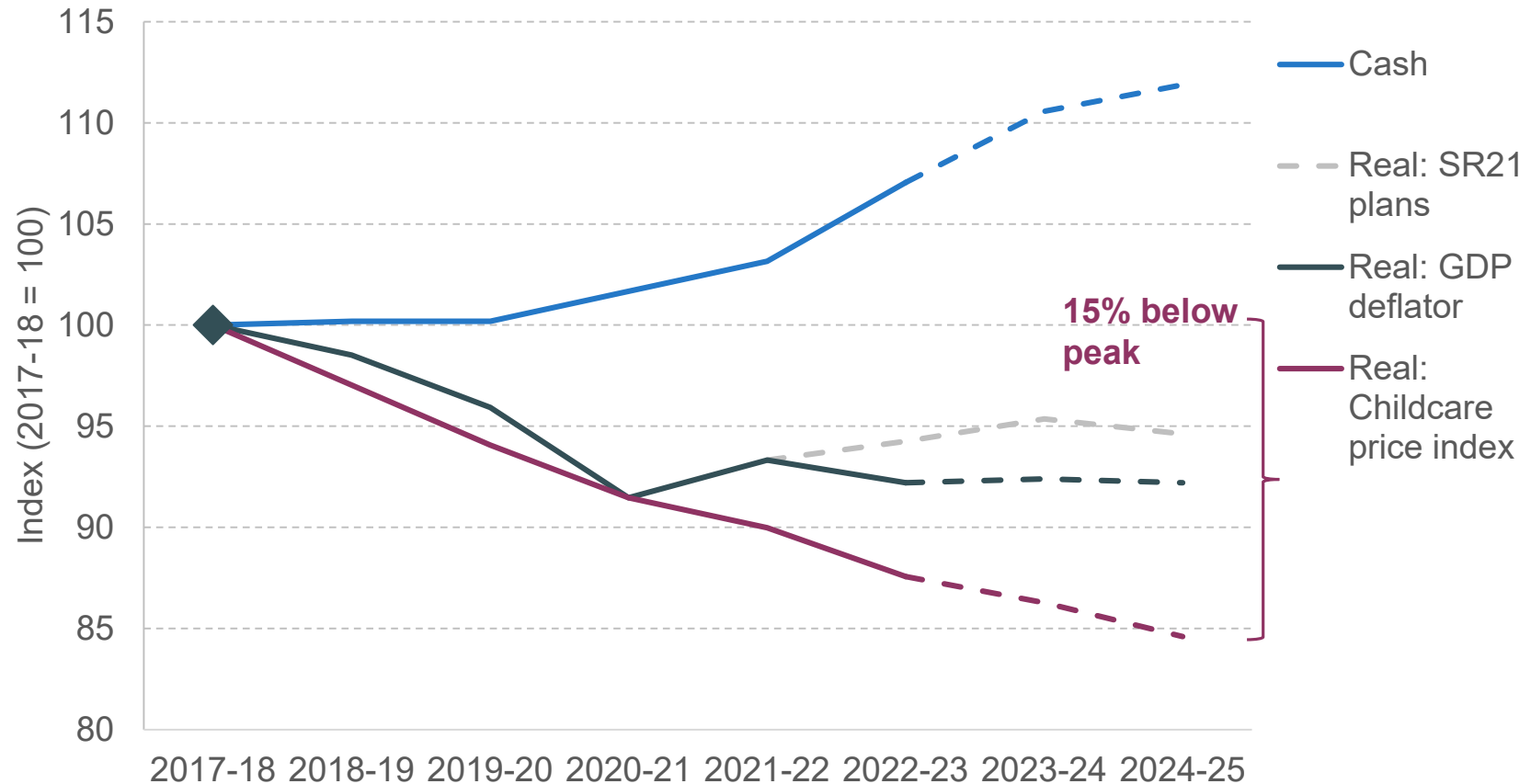
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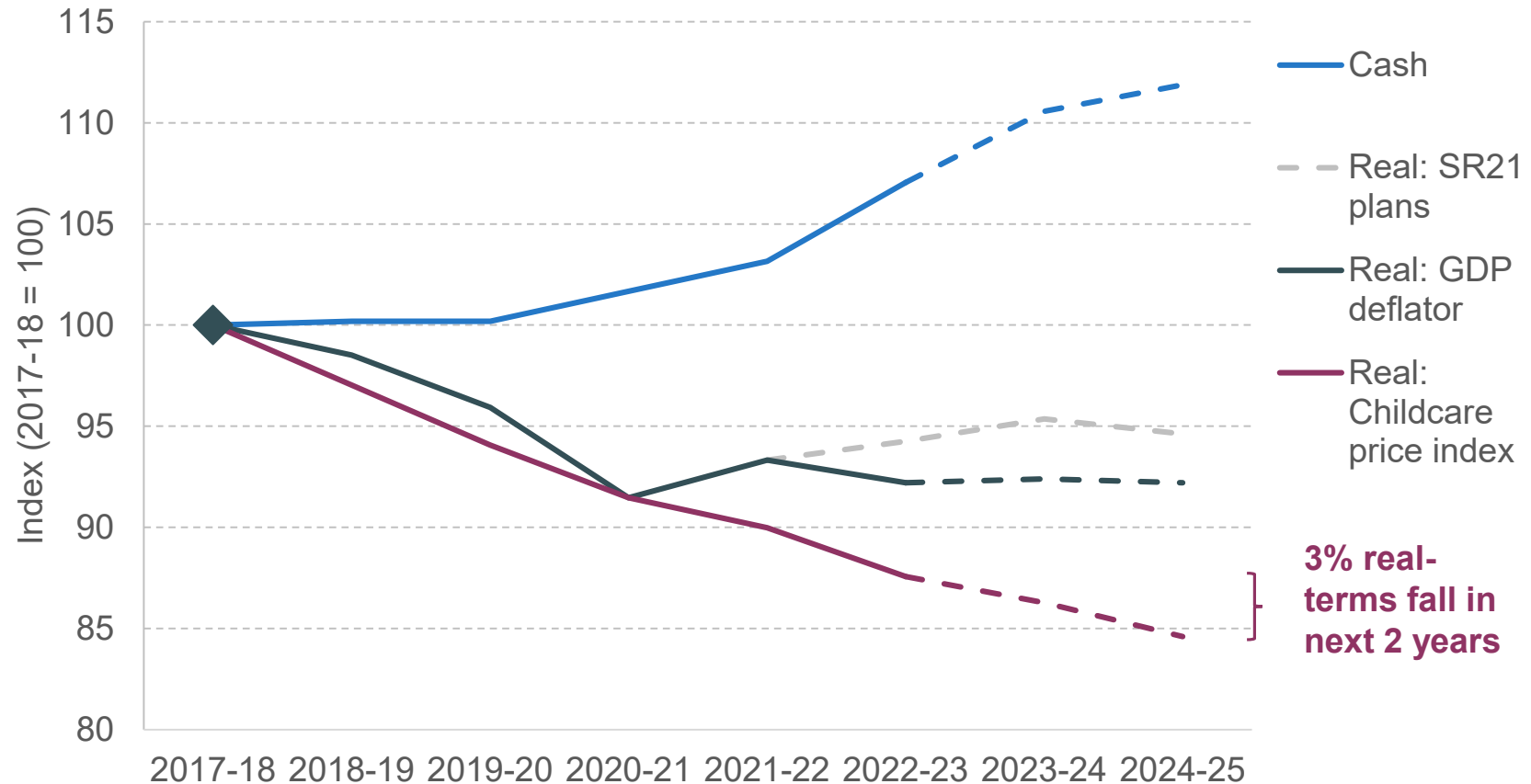
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Feature #3: Decline in wider support

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

8 programmes to support childcare



The free entitlement

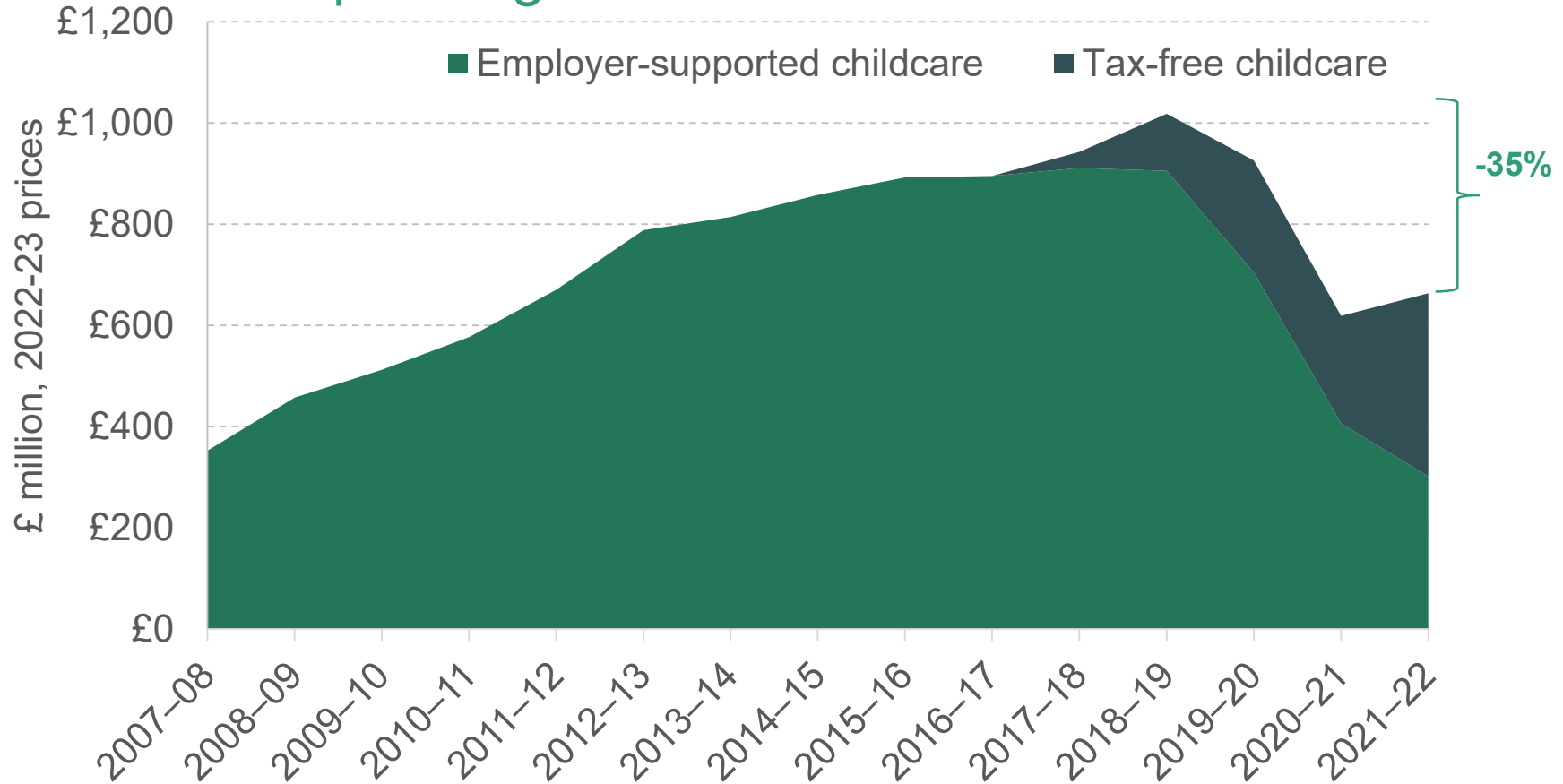
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Relief through the tax system

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).

8 programmes to support childcare



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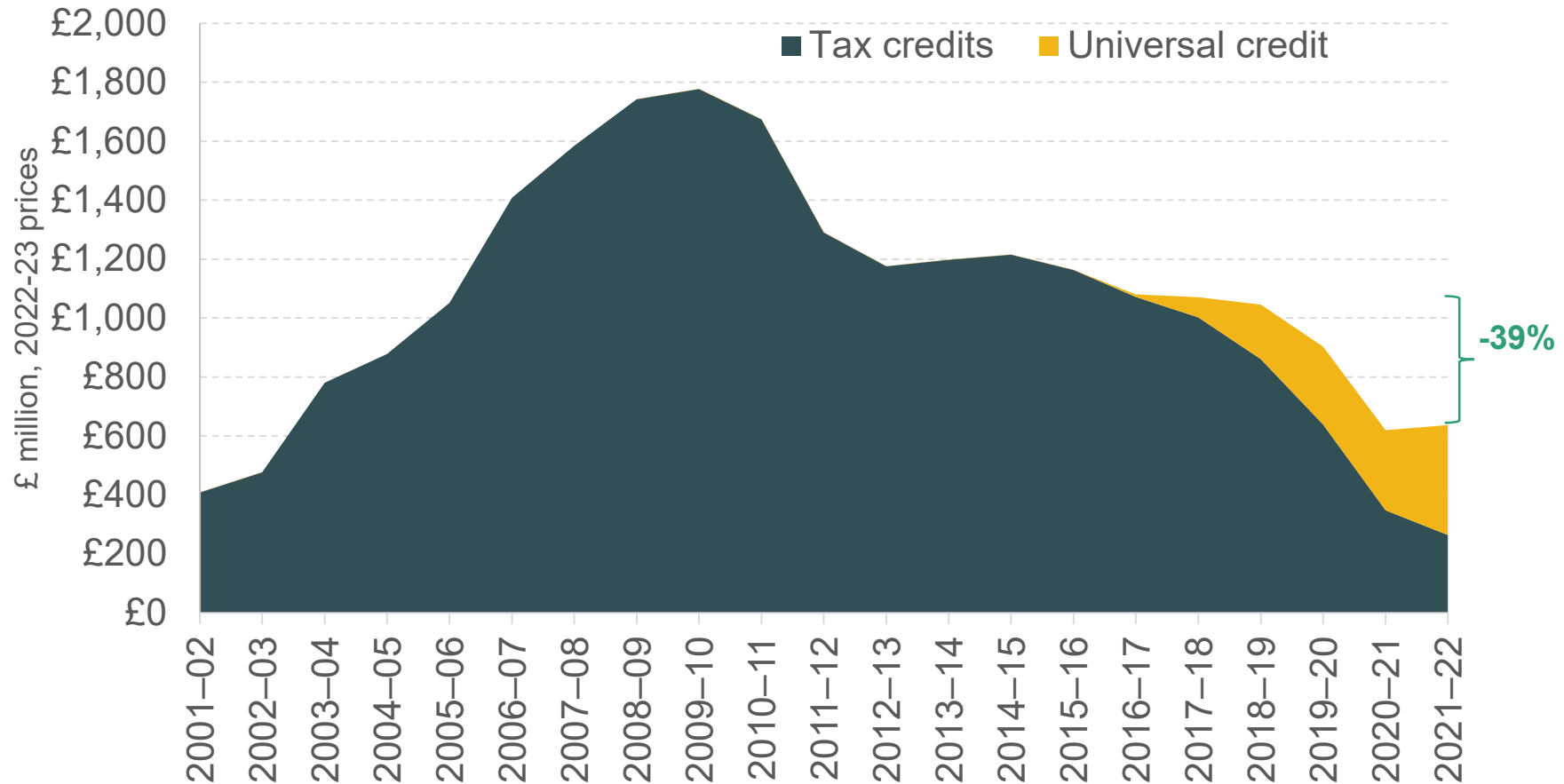
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Childcare subsidies through the working-age benefit system

7. Childcare element of Working Tax Credit
8. Childcare element of Universal Credit

Long-standing fall in childcare subsidies via benefits system

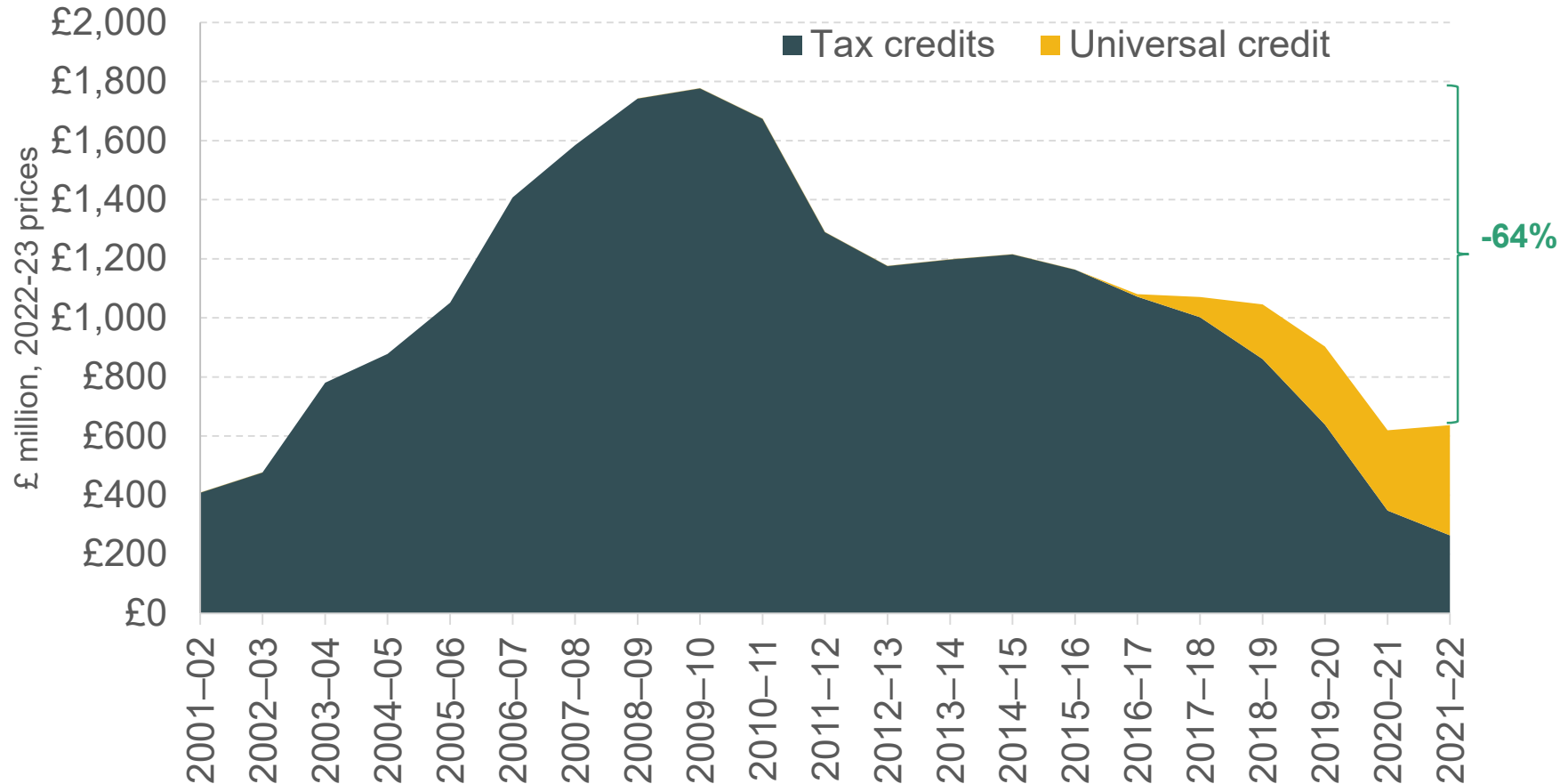
Real-terms spending on childcare via benefits system



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

Long-standing fall in childcare subsidies via benefits system

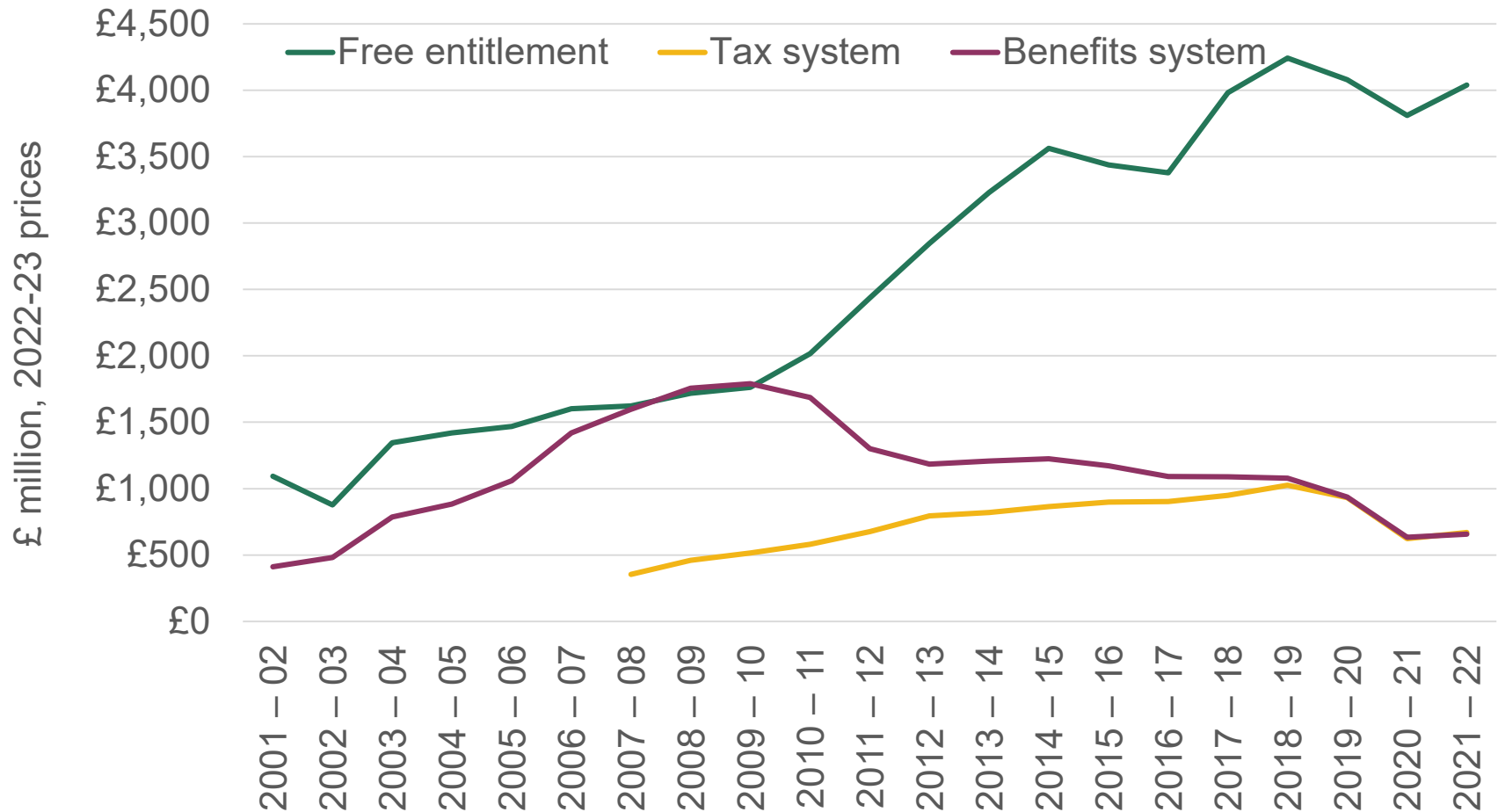
Real-terms spending on childcare via benefits system



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

Focus is on free entitlement

Real-terms spending on childcare support programmes



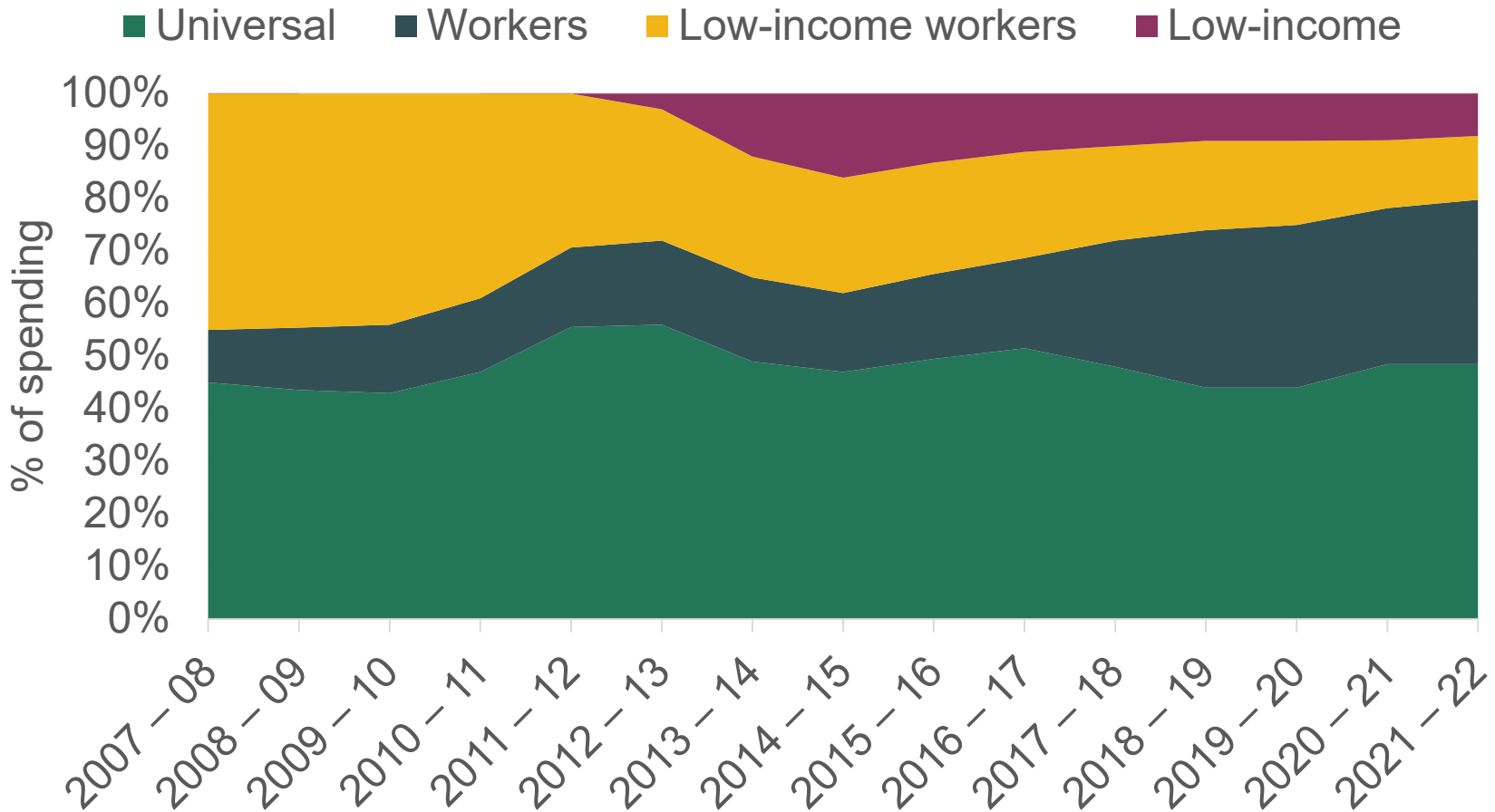
Source: IFS education spending microsite – [“Early Years”](#). Note that data on the cost of VAT relief is not available.



Feature #4: Changing distribution of support

Support to low-income workers is being squeezed

Share of childcare spending targeted at different groups

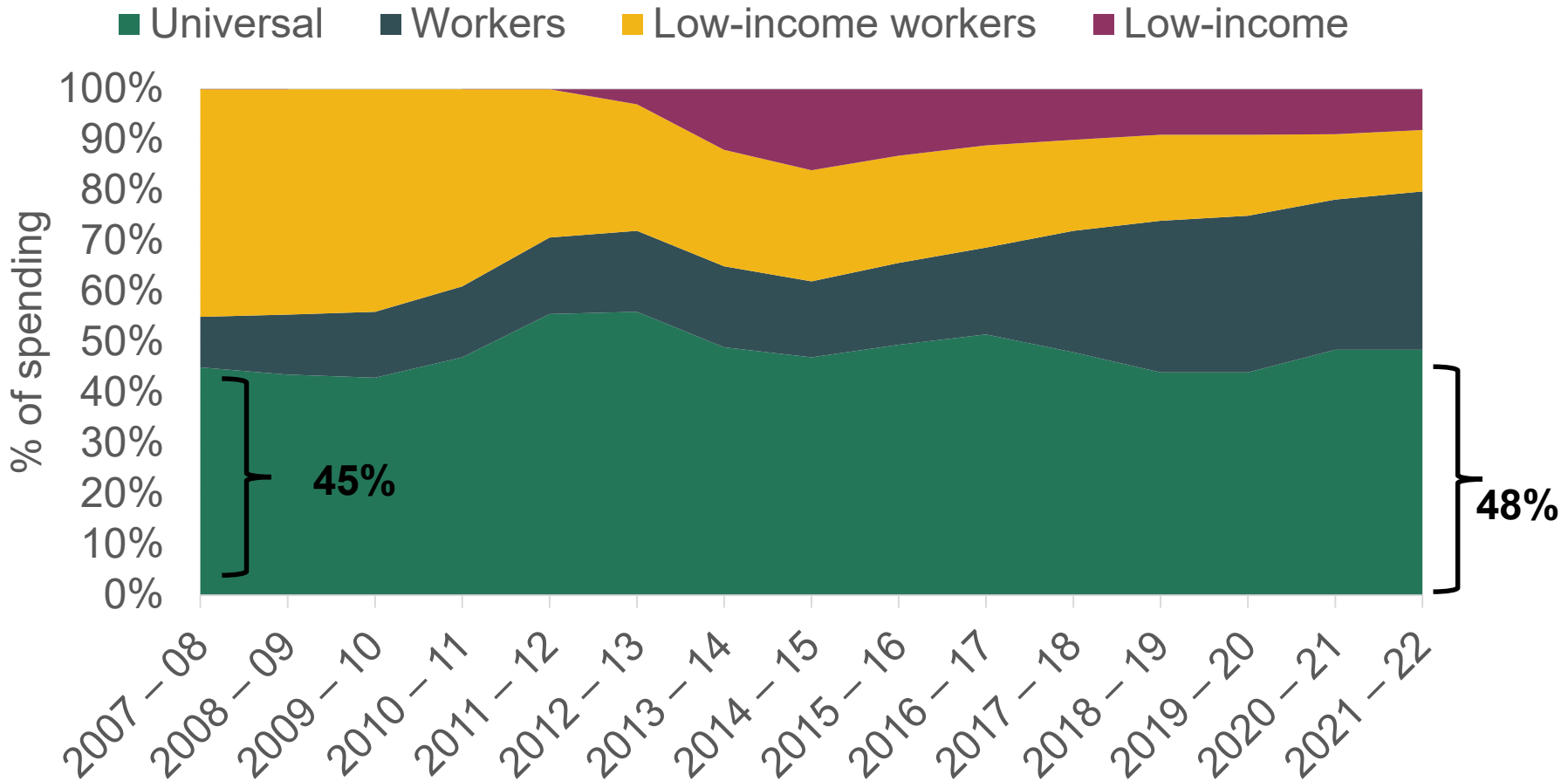


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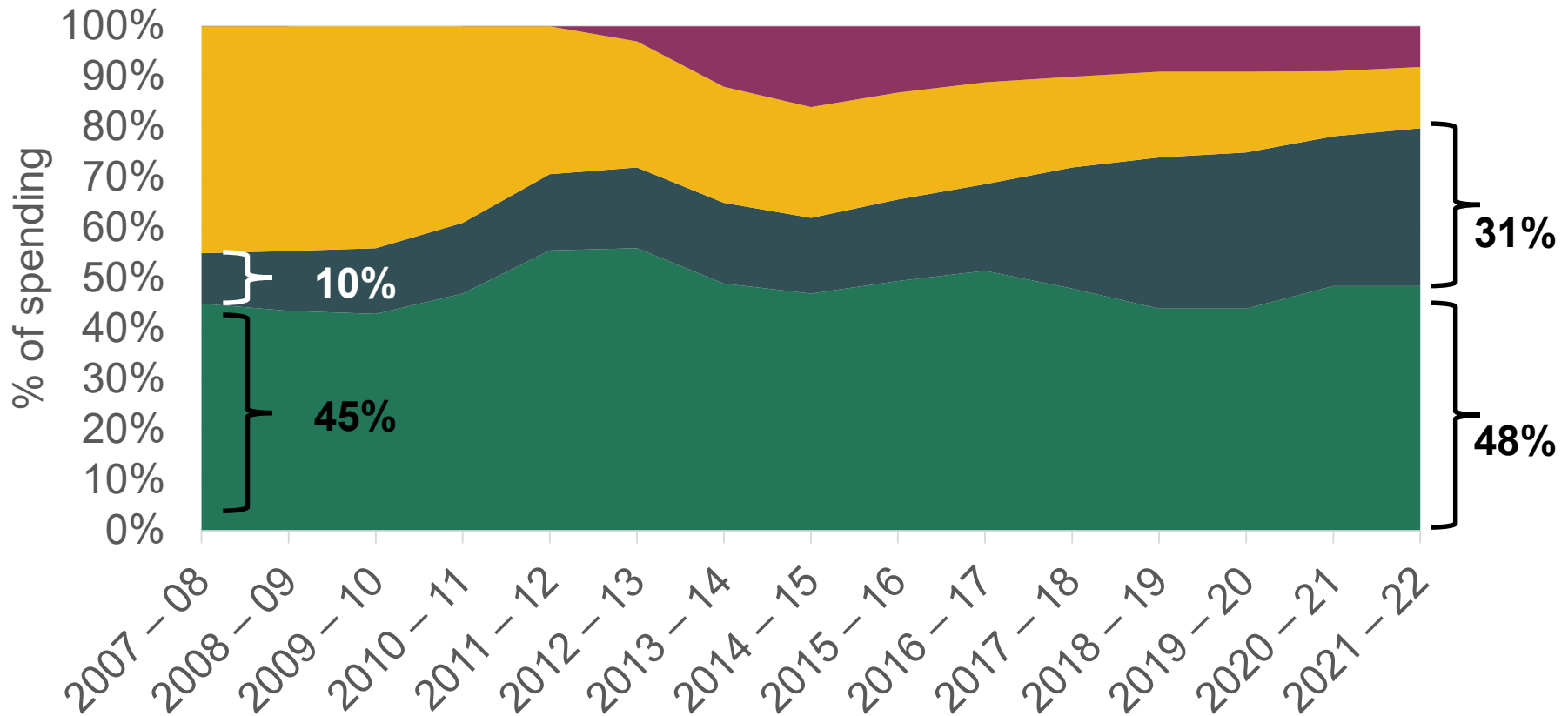
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■ Universal ■ Workers ■ Low-income workers ■ Low-income



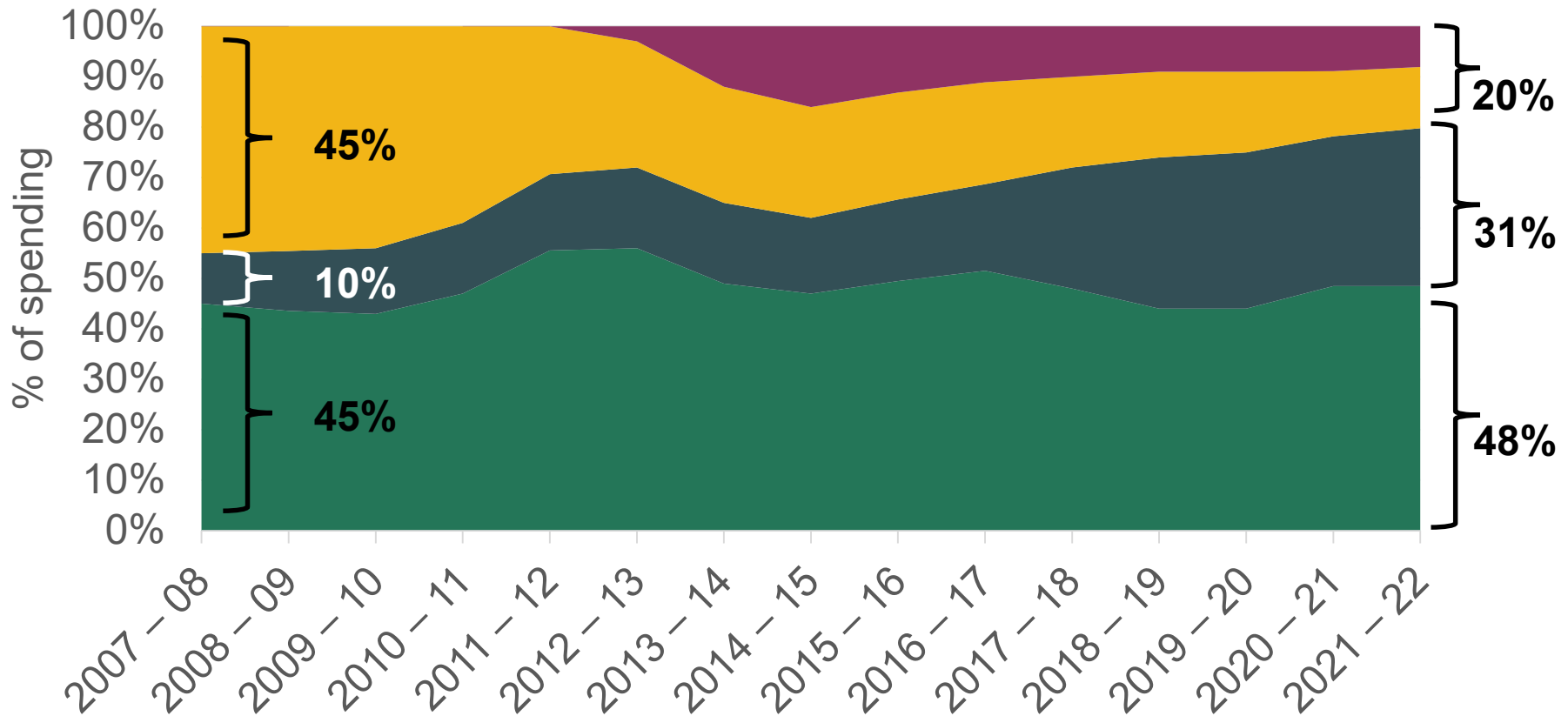
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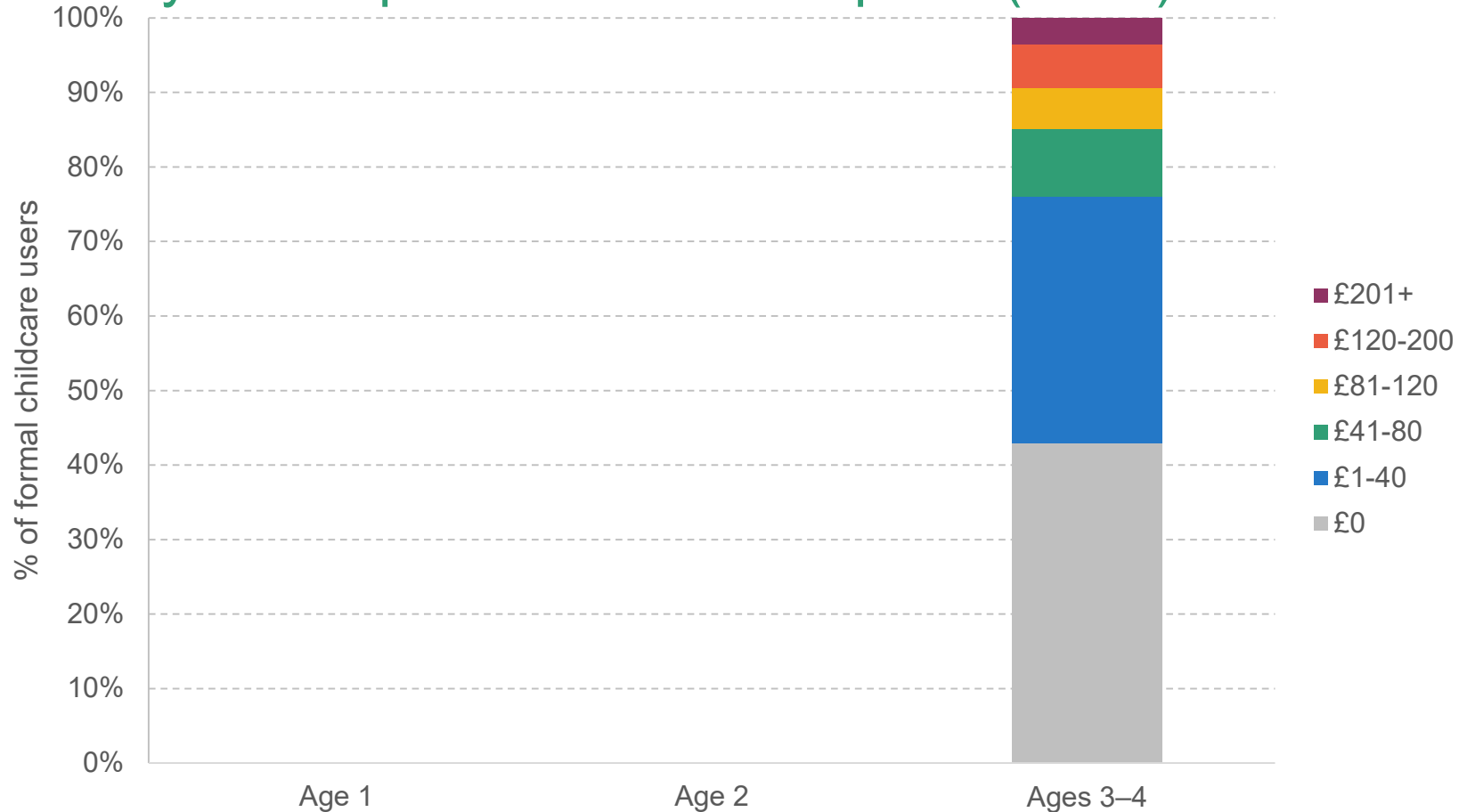


Source: IFS education spending microsite – “[Early Years](#)”.

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Free entitlement expansions help families with 3 and 4yos

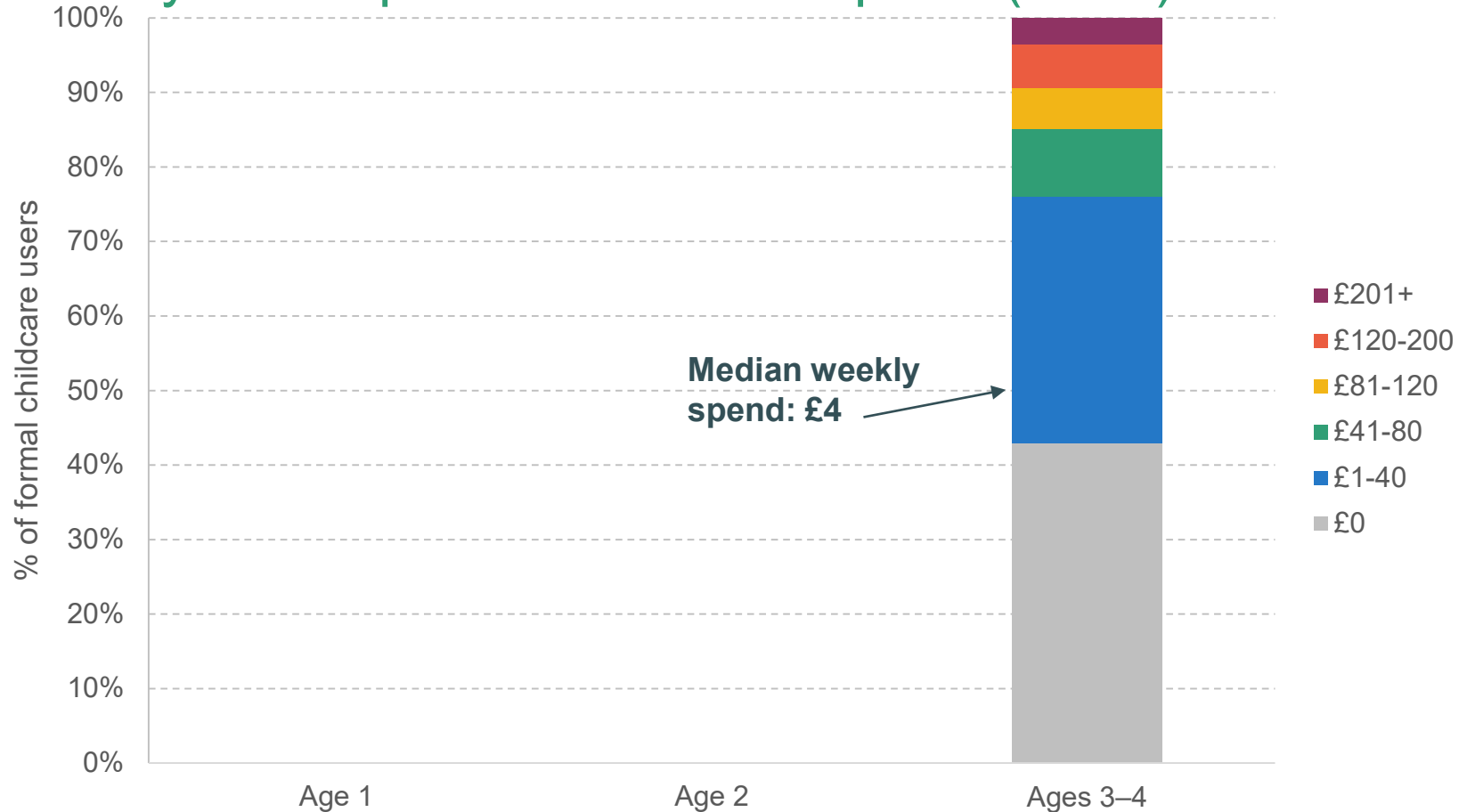
Weekly out-of-pocket childcare spend (2019)



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

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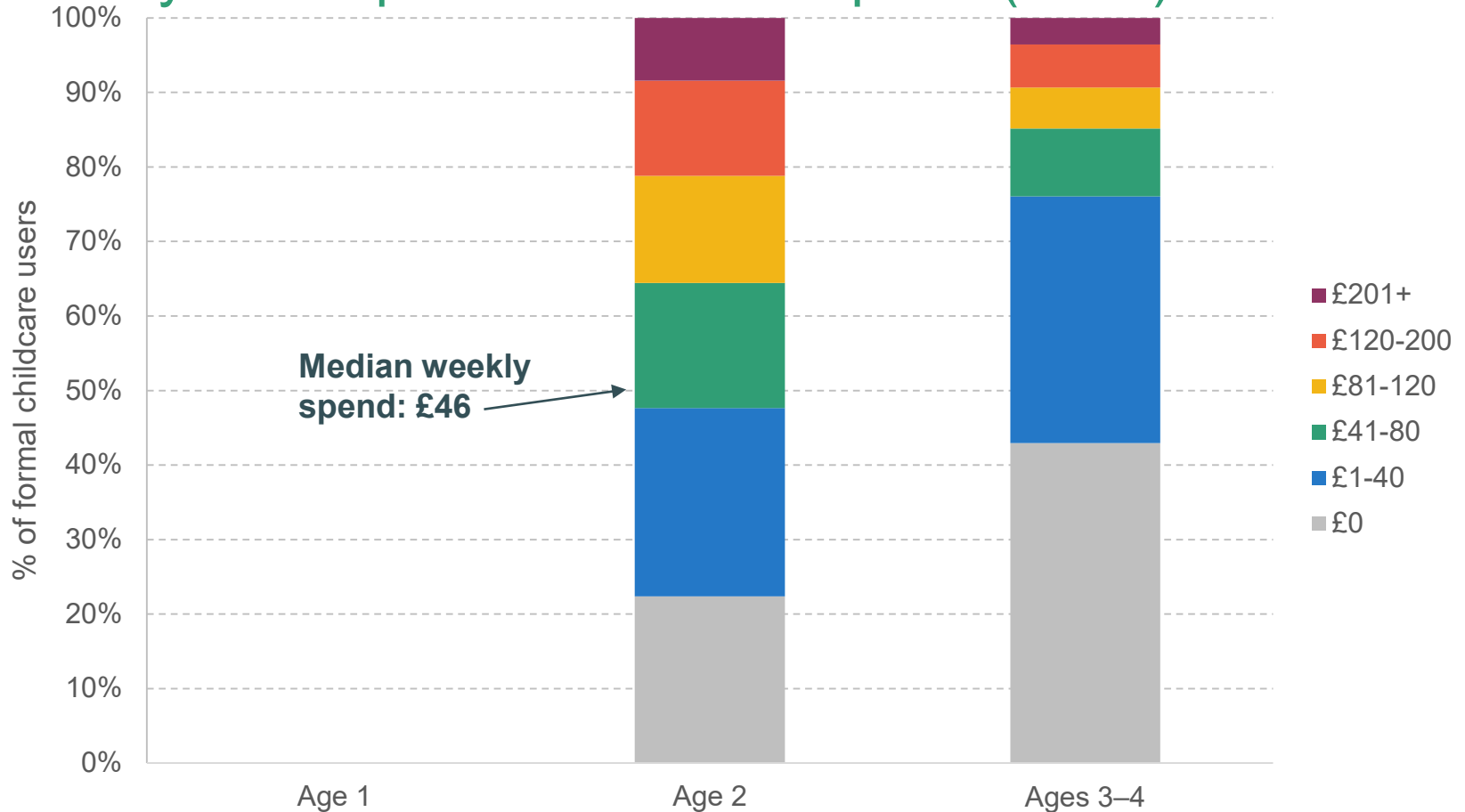
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But younger children face *much* higher costs

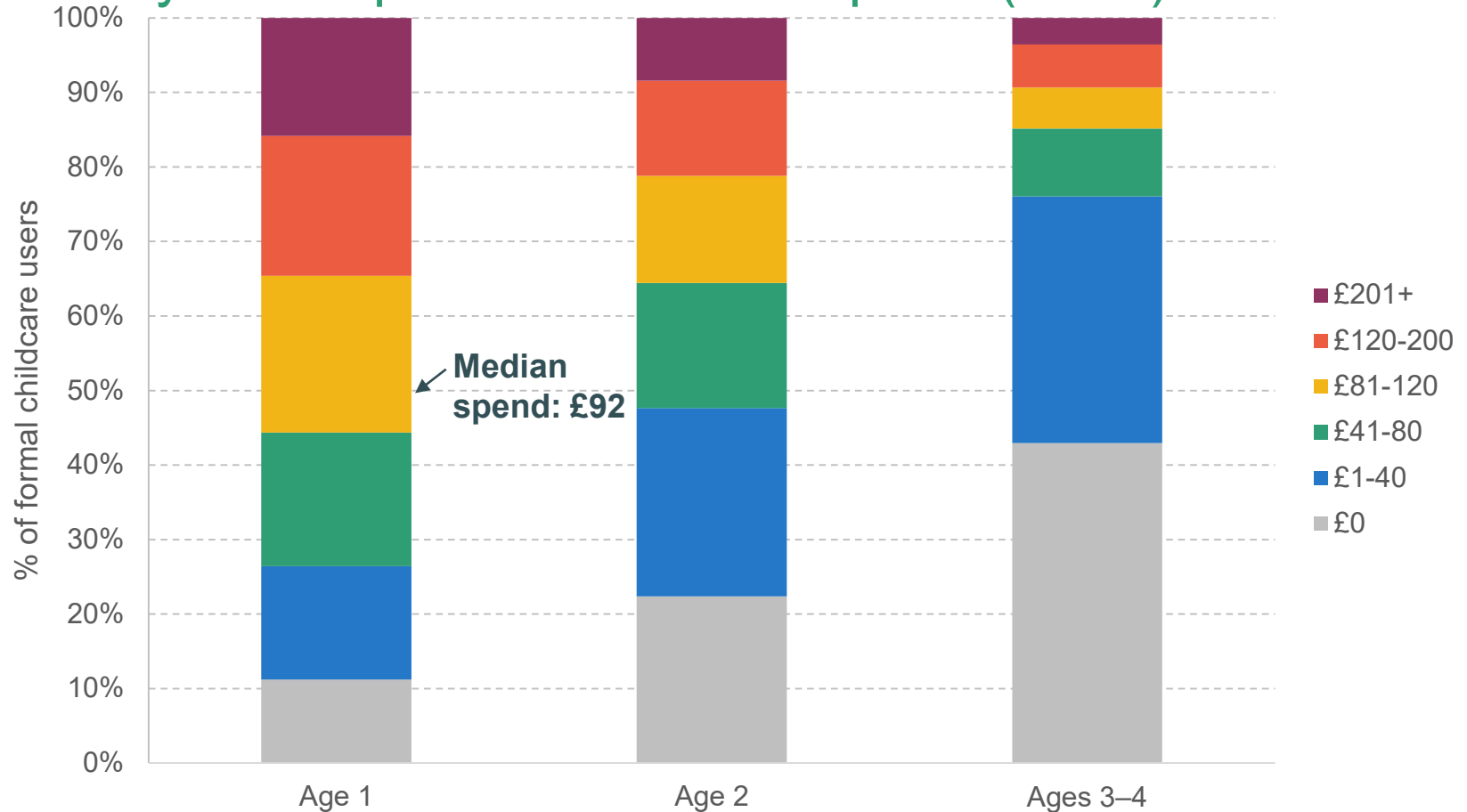
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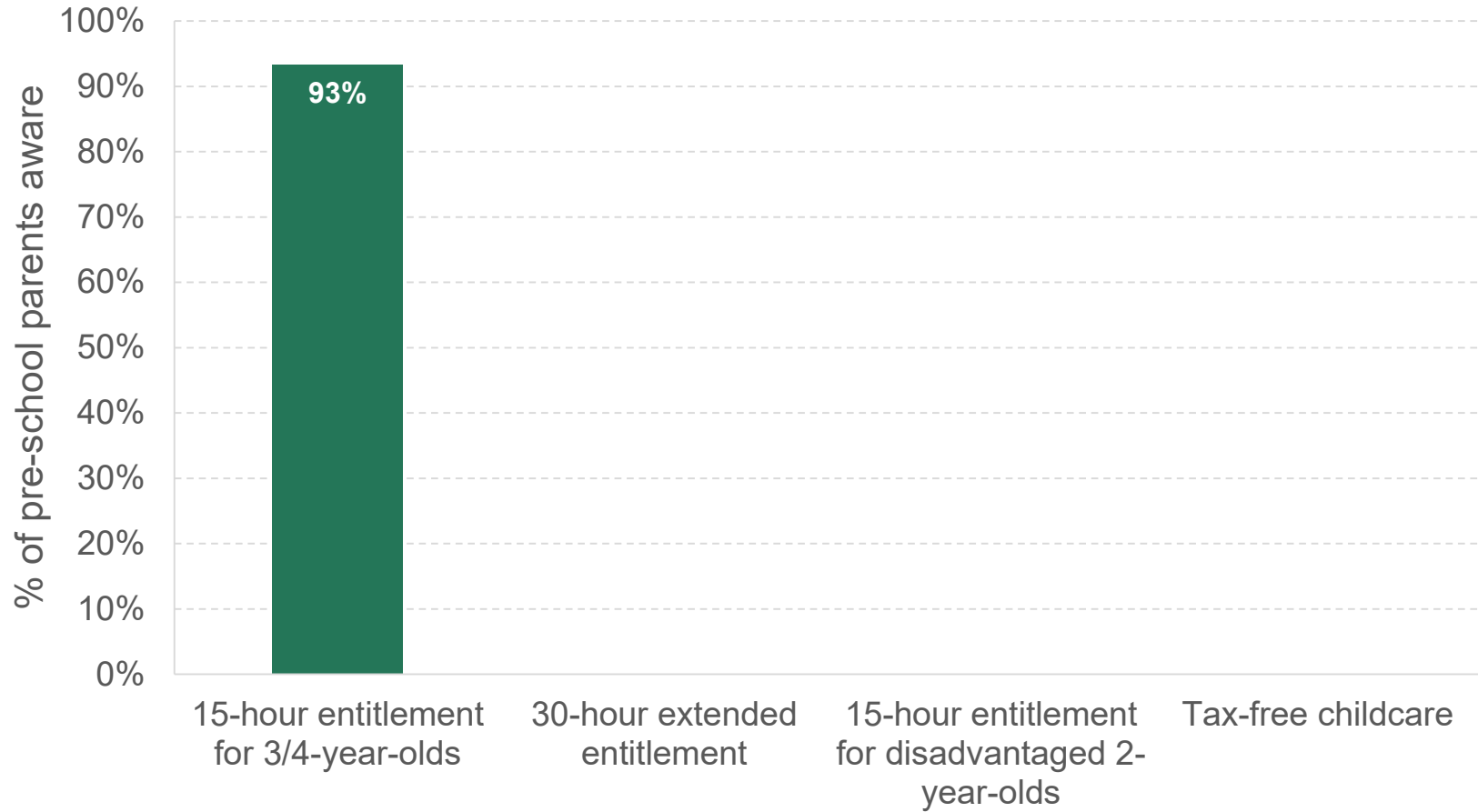
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Feature #5: Access to support

Lack of awareness of some sources of support

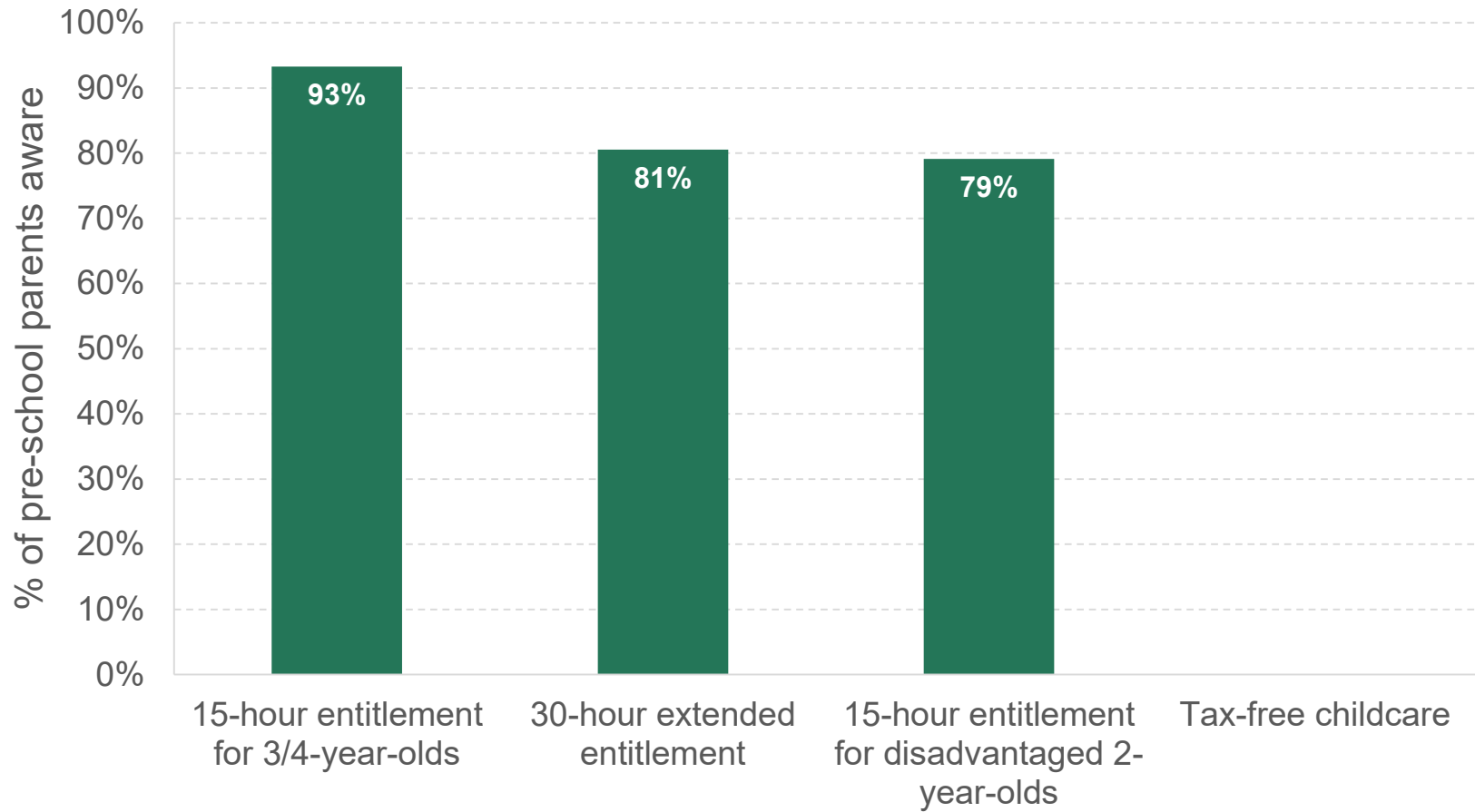
Awareness among pre-school parents of main programmes of gov't support for childcare (2019)



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

Lack of awareness of some sources of support

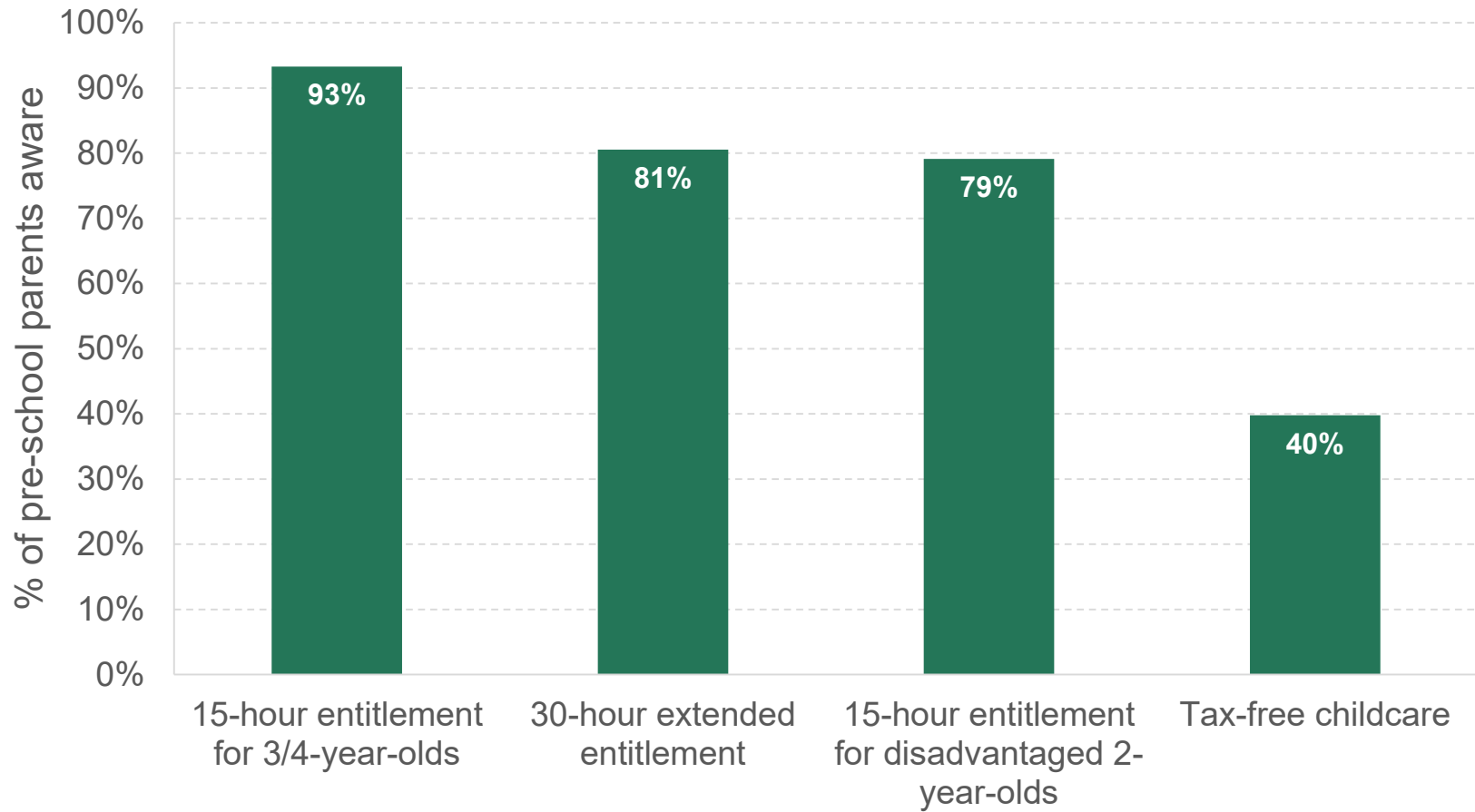
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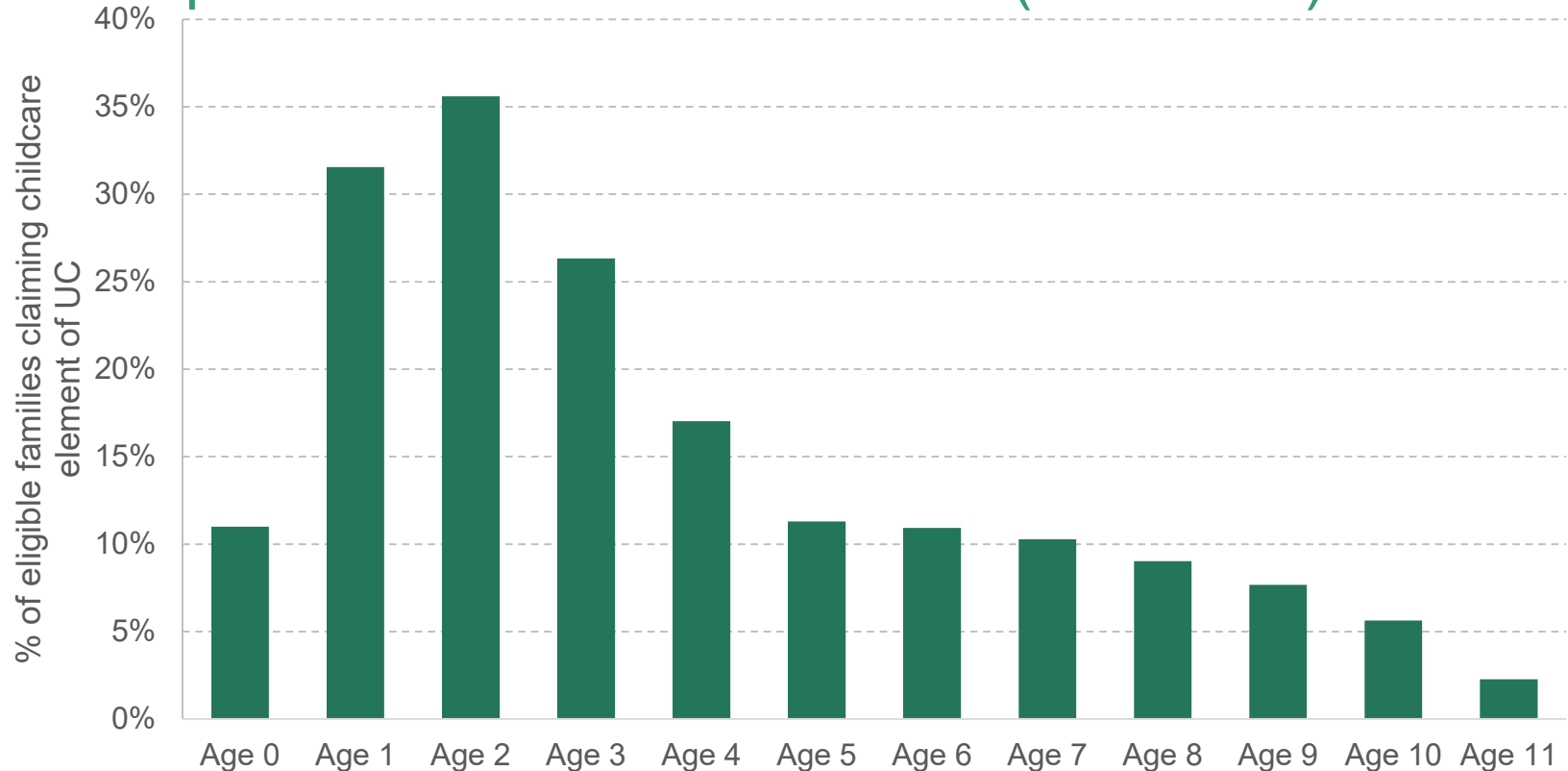
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Source: Figure 3.1, Farquharson and Olorenshaw (2022).

Many families miss out on support they are entitled to

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

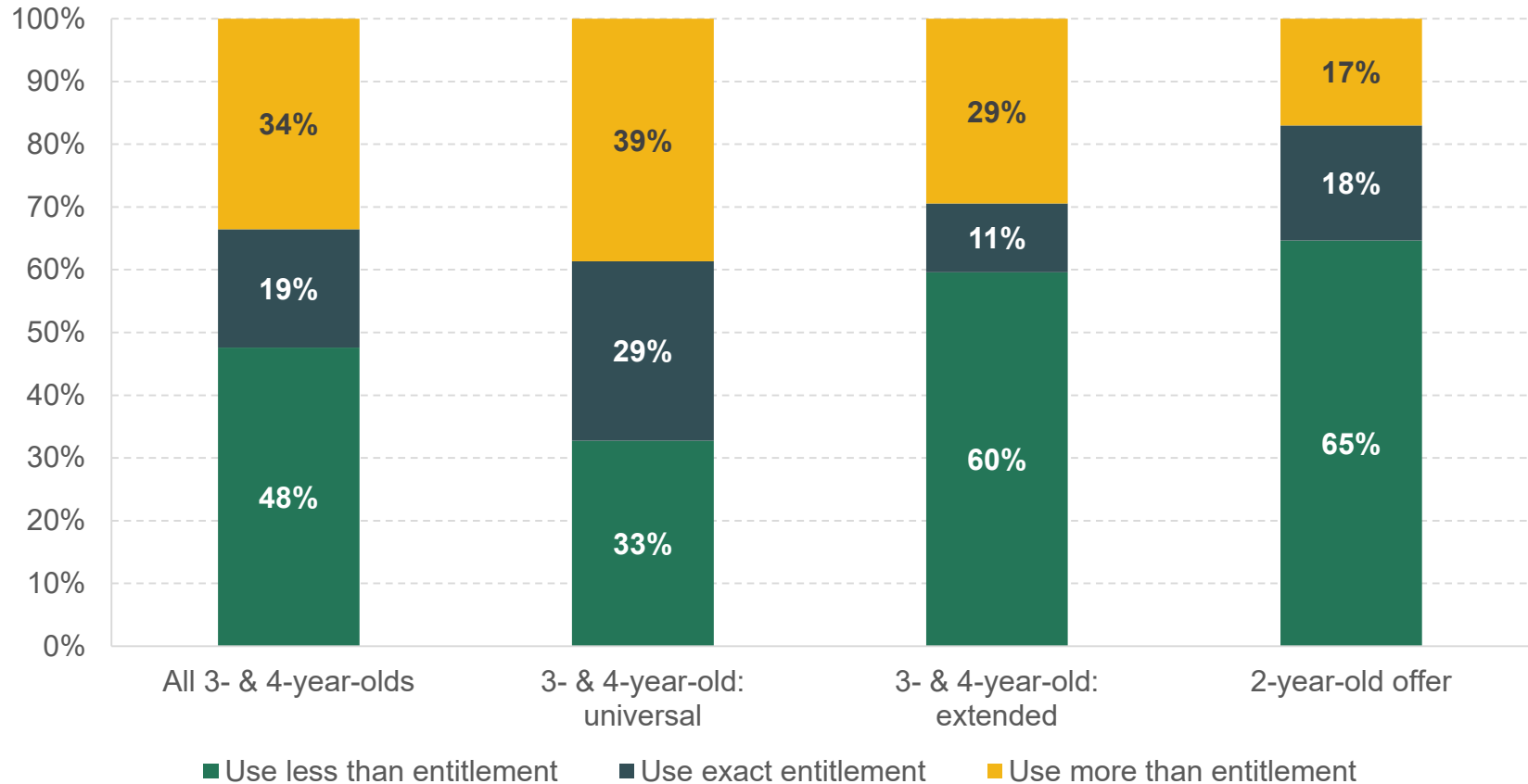


Note: Shows share of UC-claiming households where all parents are earning who are taking up the childcare element. Some 'eligible' households may not have any childcare expenses. Great Britain only.

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



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



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?**



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