



**Institute for Fiscal Studies**

**IFS Report**

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# **Support for childcare and the early years: Submission to the Education Select Committee's call for evidence**

# Support for childcare and the early years: Submission to the Education Select Committee's call for evidence

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# 1. Childcare entitlements

## A complex system of support

The current system of government support for early education and childcare in England – and hence affordability and ease of understanding – is markedly different across ages and entitlement programmes. There are a number of different programmes, each targeting different age groups with different overarching aims and intensity of support (see Box 1).

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### Box 1. Eight different programmes supporting early education and childcare in England

There are currently at least 8 programmes that support childcare in England, spread across three different departments. The largest, and probably best-known, are the trio of ‘free entitlements’ to funded early education places supported by the Department for Education:

- The **universal** entitlement offers all 3- and 4-year-olds a part-time (15-hour) place for 38 weeks of the year.
- The **extended** entitlement, introduced in 2017, offers an additional 15 hours a week of childcare to 3- and 4-year-olds in working families.
- The **2-year-old offer**, introduced in its current form in 2014, provides the roughly 40% most disadvantaged children with a part-time early education place, again for 38 weeks a year.

Lower-income working families can instead receive support for childcare expenses through the benefits system. The size of the subsidy varies depending on families’ exact circumstances, but those on universal credit could have 85% of their childcare costs paid for by the government. For families who remain on legacy benefits, the maximum subsidy is 70%.

Working families who do not receive support through the benefits system can instead access childcare subsidies via tax reliefs and government top-ups. These families can opt in to tax-free childcare (which is gradually replacing employer-sponsored childcare vouchers). Despite the name, the link between tax and government support has weakened under tax-free childcare: the programme provides the equivalent of relief from basic-rate tax (20%), but not greater subsidies for higher-rate taxpayers. It also does not make an allowance for National Insurance contributions.

Separately, many childcare providers are also exempt from VAT – a subsidy worth 15 to 20% of the price of childcare, depending on the provider’s circumstances.

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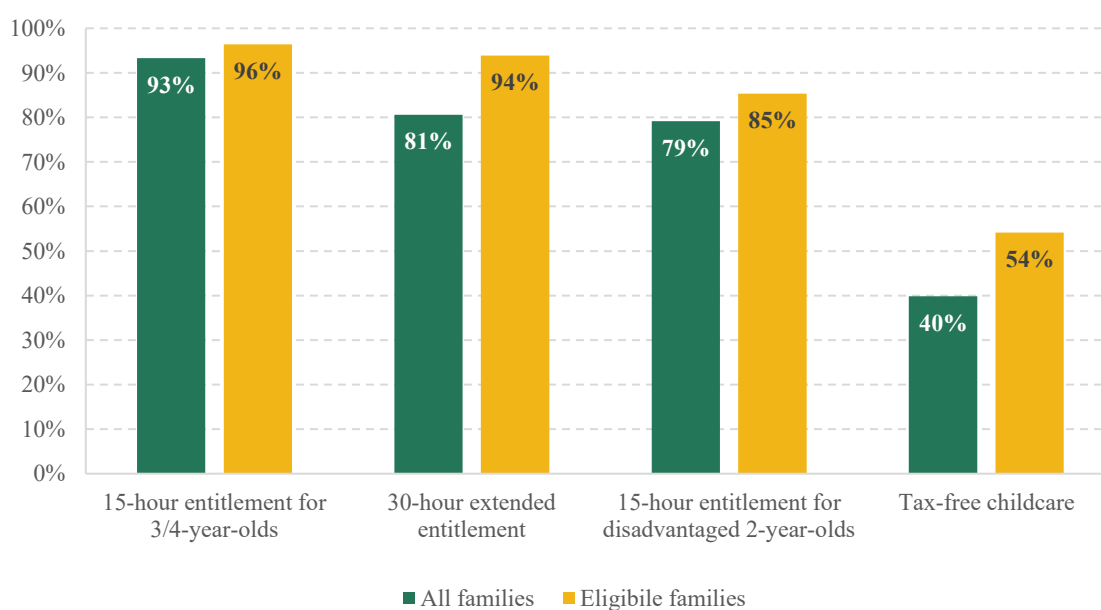
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The complexity of the early years landscape in England, as well as recent changes to support through the tax and benefits systems, makes it challenging for parents to navigate the system and understand all of the support they’re entitled to.

There are some successes within the early years system – awareness and take-up of the core 15-hour entitlement is nearly universal, as is eligible families’ awareness of the 30-hour entitlement. The 2-year-old offer is somewhat less known, with around five in six eligible families aware of it (see Figure 1).

However, the other parts of England’s early years system are much less well known. Extraordinarily, in 2019, just four in ten families with pre-school children had heard of tax-free childcare.<sup>1</sup> Even among families predicted to be eligible for tax-free childcare, more than a third did not intend to apply for the programme; another 12% were unsure about applying. There was no one reason for this: families’ perceptions of their needs, confusion about eligibility criteria, and perceived hassle all played a role (Farquharson and Olorenshaw, 2022).

**Figure 1. Awareness of the main programmes of government support for childcare (2019)**



Note: For 2-year-old entitlement, the figure shows the share of parents of 2-year-olds aware of the programme (rather than the share of all parents of a 0- to 4-year-old). See Box 3.1, Farquharson and Olorenshaw (2022) for details on identifying eligible families.

Source: Figure 3.1, Farquharson and Olorenshaw (2022). Authors’ calculations using data from the Childcare and Early Years Survey of Parents, 2019.

<sup>1</sup> By 2021, the Department for Education reported that 44% of families with a child aged under 12 were aware of tax-free childcare, up from 27% in 2018. Individual-level data for the 2021 survey is not yet available, so it’s not possible to provide an updated figure for pre-school aged children.

## Affordability depends on age

The large number of overlapping programmes creates a complicated landscape for parents to navigate, as well as particular 'pinch points' where relatively high childcare prices and relatively low levels of government support combine to reduce childcare affordability. Challenges with expensive childcare are particularly acute among 1- and 2-year-olds. Compared to 3- and 4-year-olds, families with younger children face a 'double whammy' of higher prices and substantially less government support.

Childcare prices are highest at the youngest ages, in part because staff-to-child ratios are much tighter (in a nursery in England, for example, one adult can look after three children under two; four two-year-olds; or between eight and 13 3- and 4-year-olds).

The current age profile of government support has particularly strong implications for affordability at different ages. Affordability depends both on the overall price of childcare and on the extent of government support to families. Since childcare prices fall as children get older, and government support increases, families with the youngest children face the highest costs with the least support.

This means that, among families using formal childcare, average weekly costs are nearly 20 times higher for families with a 1-year-old as for families with a 3- or 4-year-old (Figure 2). In 2019, half of families using formal childcare for their 1-year-old paid more than £90 a week. For formal childcare use for 2-year-olds, median weekly out-of-pocket spending was around £45; for families with a 3- or 4-year-old, it is less than £5.

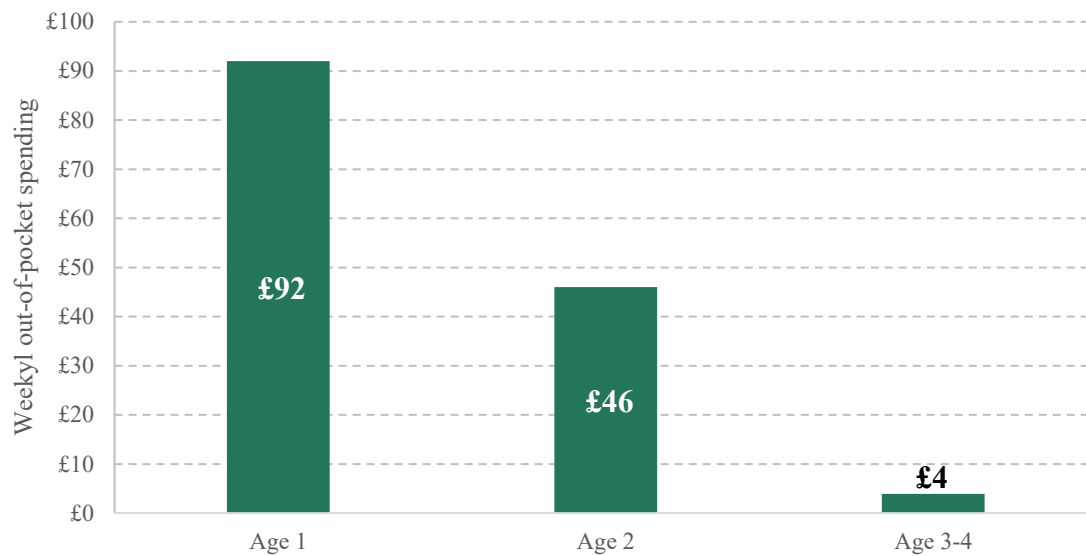
This is reflected in parents' assessment of how difficult it is to meet (existing) childcare costs. According to the Department for Education's 2019 Childcare and Early Years Survey of Parents, around a quarter of families using formal childcare for their 1- or 2-year-old found it 'difficult' or 'very difficult' to afford their childcare costs (Figure 3).<sup>2</sup> For families using formal childcare for a 3- or 4-year-old, 13% found it 'difficult' or 'very difficult'.

These statistics tell us about how much pressure childcare costs are placing on families' current budgets, based on how much childcare they have chosen to use. But there is another dimension to affordability: the extent to which high prices are putting parents off from using more childcare.

<sup>2</sup> Interestingly, around three in ten families using formal care for their 1- and 2-year-olds report paying nothing out of pocket. This is due to a combination of government support (e.g. the 2-year-old offer), employer support (e.g. on-site childcare) and support from family and friends (e.g. grandparents paying for childcare).

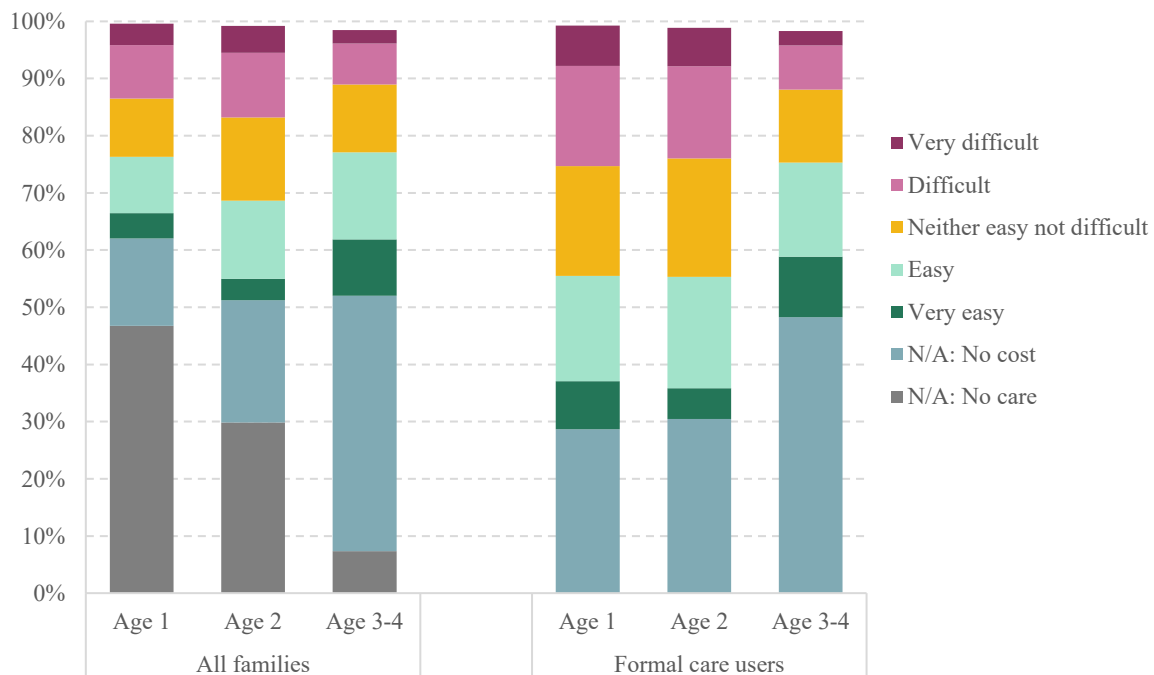
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**Figure 2. Median weekly cost of formal childcare, by age group (2019, cash terms)**



Source: Adapted from Figure 2.3, Farquharson and Olorenshaw (2022). Based on authors' calculations using Childcare and Early Years Survey of Parents, 2019.

**Figure 3. Self-reported difficulty in paying for childcare, among formal childcare users (2019)**



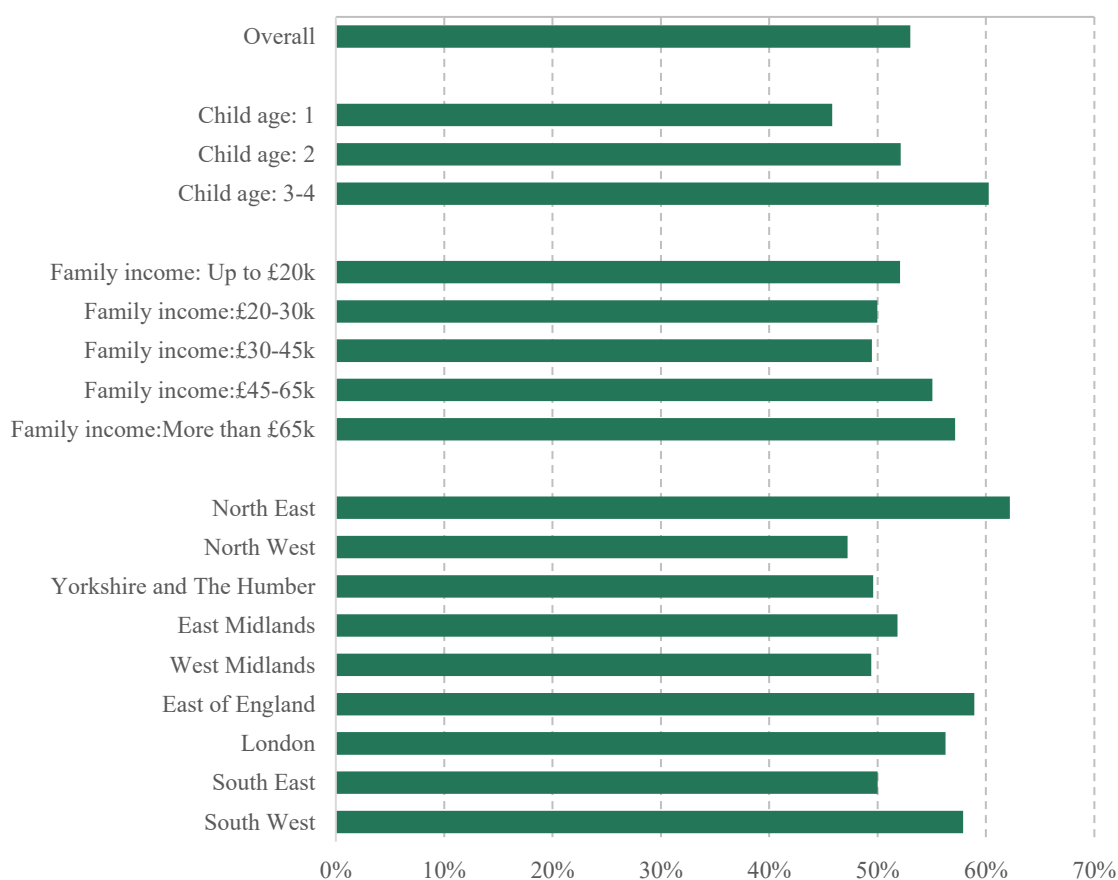
Note: Sample of formal care users is all families with a child aged 0–4 who use formal childcare (for any child in the household). Families were asked about their difficulty in affording their total childcare costs for all children in the household. Columns do not total 100% because of non-response.

Source: Authors' calculations using Childcare and Early Years Survey of Parents, 2019.

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Here, data is somewhat patchier. According to the 2019 DfE survey, just over half of pre-school parents who had an opinion felt that childcare in their local area was 'very' or 'fairly' affordable. As Figure 4 shows, there is a significant age gradient: while 60% of parents with 3- and 4-year-olds felt their local childcare options were affordable, just 46% of parents of 1-year-olds felt the same. There is also considerable variation around the country, with more than 60% of parents in the North East reporting that childcare is affordable, compared to fewer than half of families in the North West, West Midlands, and Yorkshire.

**Figure 4. Share of parents reporting that childcare in their local area is 'very' or 'fairly' affordable (2019)**



Note: The share is calculated among parents with an opinion, i.e. excluding the fifth of parents who report they are "not sure" and refuse to answer.

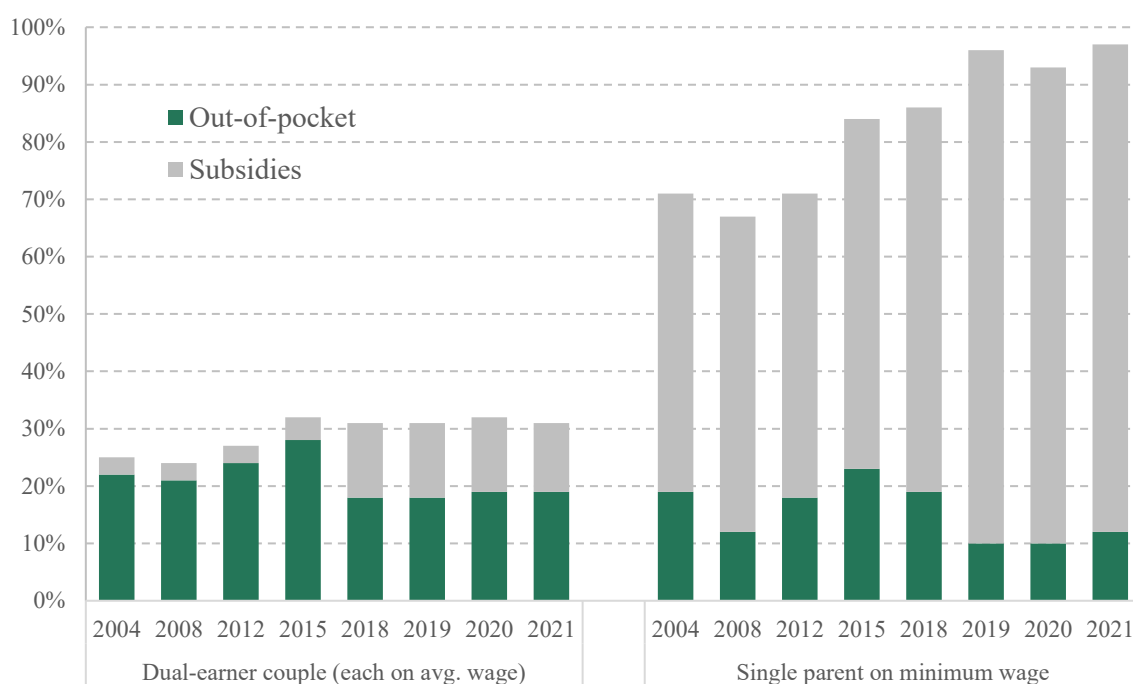
Source: Authors' calculations using Childcare and Early Years Survey of Parents, 2019.

The data from DfE's survey offer glimpses of how childcare costs might shape parents' decisions, but these are only partially informative. For example, among the 10% of pre-school families who have not used any childcare (formal or informal) in the last year, around a fifth cited affordability as one factor in their choice not to use childcare. Nearly three quarters of these parents cited their preference to look after children themselves, and a quarter of families said they had no need for childcare.

## Affordability: Trends and international comparisons

Affordability depends on both the overall price of childcare, and how it is shared between parents and government. Figure 5 illustrates significant changes in both factors over time, for two example families (drawn from OECD statistics).

**Figure 5. Childcare costs as a share of net household income, for two example families (2020)**



Note: Both families assumed to have a 2-year-old and a 3-year-old and to use formal childcare during all working hours. Subsidies are calculated as the difference between (modelled) gross childcare costs and out-of-pocket costs. Note that years are based on availability of OECD data and are not evenly spaced.

Source: OECD, '[Net childcare costs for parents using childcare facilities](#)', series 'Net childcare fees'. Authors' calculations.

A dual-earner couple (where each parent earns the average wage) raising a 2- and 3-year-old and using formal childcare during all working hours would expect total expenses to reach around 30% of their after-tax household income in 2021. The government would cover just under 40% of their childcare costs (through free entitlement hours and tax-free childcare), meaning that this family spent 19% of its post-tax income on childcare costs. The impact of the 30-hour extended entitlement is obvious here: before 2017, when the new entitlement was brought in, out-of-pocket childcare spending reached 28% of post-tax family income.



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A single parent earning minimum wage faces overall childcare prices that are much larger as a share of post-tax income. However, as a low-income single parent, this household also receives more support with childcare costs: more than 85% of their 2021 childcare costs are picked up by the government. The end result is that the single parent would spend around 12% of their post-tax income on out-of-pocket childcare costs – significantly less as a share of household income than the dual-earner couple.

International comparisons of affordability are more challenging to interpret and can be misleading.<sup>3</sup> However, it is clear that both overall and out-of-pocket childcare costs in the UK are relatively high. Overall costs for the two example families are more than twice as high in the UK as the OECD average, as are out-of-pocket costs for the dual-earner couple. The greater progressivity of the UK's childcare landscape means that the gap for the single parent on minimum wage is lower; this family would spend 12% of its post-tax income on childcare in the UK, compared with the OECD average of 9%.

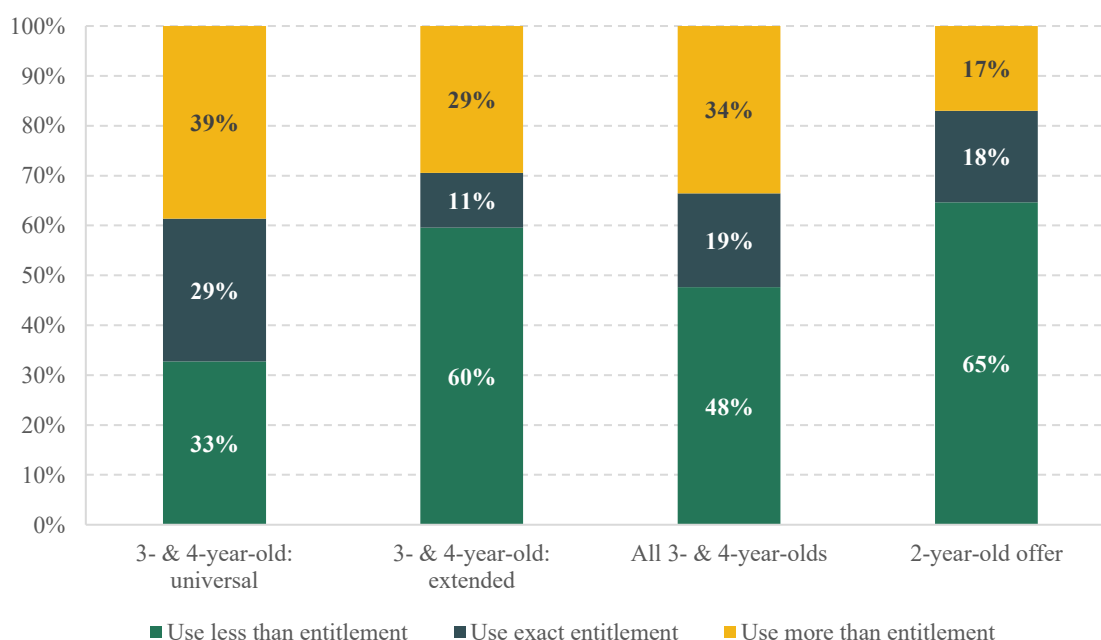
<sup>3</sup> For example, OECD figures compare prices from very different years without adjusting for inflation.

## 2. Sufficiency and work incentives

One way to consider the sufficiency of the existing free entitlements is to compare them to the amount of (formal) childcare that parents are actually using. As Figure 6 shows, the free entitlement programmes seem to shape families' choices about how much childcare to use. Nearly 30% of families whose 3- or 4-year-old is eligible only for the 15-hour universal entitlement use precisely 15 hours of formal childcare each week.

Figure 6 also shows that a large share of families – 60% of those eligible for the extended entitlement and 65% of those eligible for the 2-year-old offer – do not take up their full entitlements. This suggests that these families may not be significantly struggling with 'insufficient' childcare entitlements, and that policies expanding the entitlements of these groups would not immediately benefit these families' budgets.

**Figure 6. Hours spent in formal childcare in comparison with free entitlement**



Note: Among children eligible for each entitlement. 'Universal' bar includes 3- and 4-year-olds only entitled to the universal offer.

Source: Figure 3.2, Farquharson and Olorenshaw (2022). Authors' calculations using Childcare and Early Years Survey of Parents, 2019.

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By contrast, most under-threes are not covered by the free entitlement system. This means that the third of parents of 1-year-olds using formal childcare, and two-thirds of parents 2-year-olds, are paying for these hours out of pocket.

These statistics tell us how existing entitlements compare to families' actual use of childcare. However, this does not straightforwardly translate into sufficiency: even a family using 50 hours of childcare per week would benefit from a 30-hour entitlement, and so even a high hourly price on their paid hours might still be 'affordable'.

Put another way, the UK is relatively unusual in its 'all or nothing' approach to its main programme of childcare subsidies: childcare hours are either free, or full-price. Other countries – as well as programmes like tax-free childcare and subsidies through the benefits system – more explicitly split childcare costs between families and government.

### 3. Impact of the free entitlement on parents and children

There is a large international evidence base exploring the impact that early education and childcare provision has on children's development and on parents' (particularly mothers') work decisions and career patterns. The results are decidedly mixed, and childcare systems that deliver good outcomes on one measure often look unimpressive on the other metric.

For example, while the Norwegian system of subsidised childcare improved children's educational attainment, it had virtually no impact on mothers' working decisions (Havnes and Mogstad, 2011a; 2011b). By contrast, a \$7 a day cap on childcare fees in Quebec, Canada helped many mothers to (re)join the workforce, but had little benefit for children's outcomes (and may have slightly hampered some children's emotional and behavioural development, with long-run impacts on crime, health and life satisfaction) (Baker, Gruber and Milligan, 2008, 2019; Lefebvre and Merrigan, 2008).

In England, researchers evaluating the 15-hour universal entitlement found no impact on parents' working decisions (Brewer et al., 2022). Entering school (and so receiving full-time care) did significantly increase the labour force participation of mothers whose youngest child was affected. Another evaluation found that the universal entitlement had small benefits for attainment at age five, but these disappeared as children progressed through the school system (Blanden et al., 2016).

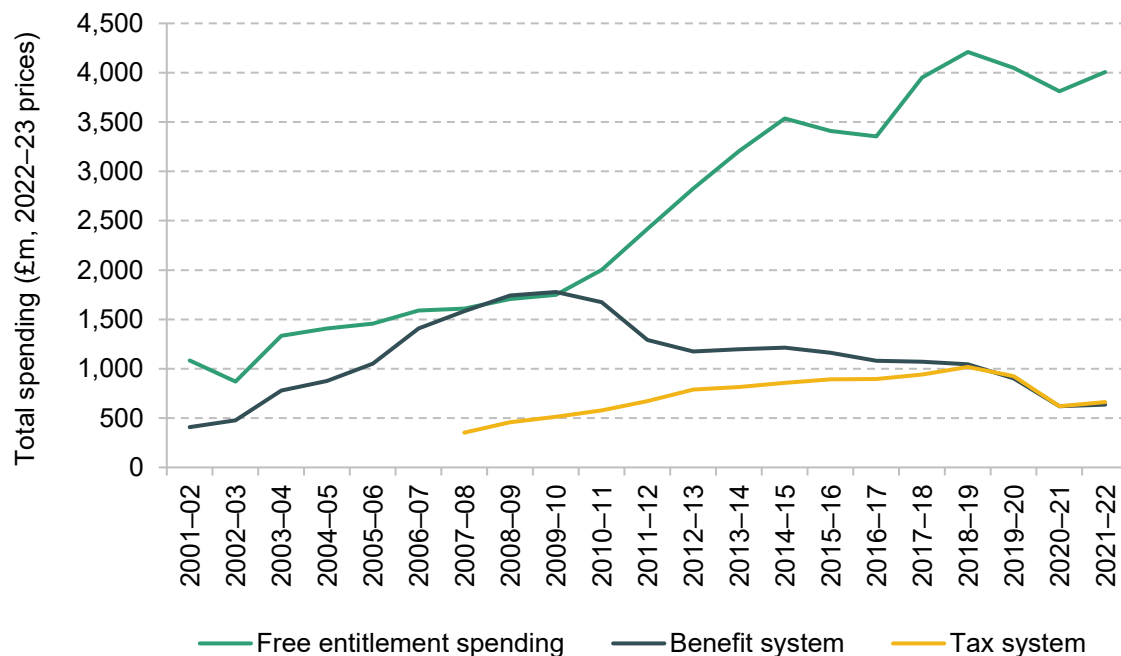
In all of these studies, there is an important distinction between the impact of *using childcare* and the impact of *subsidising it through the free entitlement*. Both of the English studies evaluating the free entitlement found that many families were already using (and paying for) childcare even before the entitlements were brought in. For these families, this means that the free entitlement functioned as a transfer (saving them money they would otherwise have spent on childcare fees), but did not necessarily substantially change their childcare decisions – and so it may not be surprising to find that the entitlement itself did not have major effects on parents' or children's outcomes.

## 4. Tax-free childcare and support through the benefits system

### The shift away from support through the tax and benefit systems

Over the last decade, early years spending has repeatedly been prioritised towards the free entitlement, at the cost of spending through the benefits system and through tax-relief programmes. Figure 7 shows how patterns of spending have changed over time. In 2009-10, spending through the benefits system roughly equalled free entitlement spending. A decade later, free entitlement spending was four times as high as spending through the benefits system.

Figure 7. Total real-terms spending on different types of early education and childcare support in England



Notes and source: Figure 1, Drayton and Farquharson (2022).

This shift has had profound distributional consequences: while around 45% of early years support was ringfenced for low-income working families in 2007, by 2020 just 21% of support was explicitly targeted to low-income families (working and not). By contrast, support targeted at workers further up the income distribution has grown from a tenth of the overall pot to a third (IFS Education Spending [microsite](#)).

These changes have also had a substantial effect on access to support for different age groups. Support through the benefits system and tax-free childcare are the main programmes of government support for people whose children are too young for the free entitlement, or who need wrap-around and holiday care for school-aged children, or who need to use more childcare than the free entitlement offers.

## Challenges with support through the benefits system and tax-free childcare

These systems are not working as effectively as they could be – problems include (very) low awareness and take-up (discussed above), long-lasting cash-terms freezes eroding support, and design flaws making the systems difficult for families to navigate.

Both tax-free childcare and support through the benefits system depend on a number of thresholds that are set in cash terms. These include eligibility criteria (e.g. the £100,000 earnings cap for tax-free childcare) and maximum support (e.g. the cap on reimbursable childcare expenses through Universal Credit, or the cap on spending through tax-free childcare accounts). None of these parameters have been updated since they were set.

Indeed, support through Universal Credit inherited a set of cash-terms limits from the legacy benefits system – meaning that the cap on reimbursable childcare expenses has stood at £175 per week for one child or £300 for multiple children since 2005–06. Had they increased in line with inflation, the caps would now be over £270 and £460 respectively.

In addition to the increasingly less generous caps on childcare support through the benefit system, there are signs that families are struggling to access the support they are entitled to. In February 2022, only 25% of working families on universal credit with a child under 5 took up the childcare component (Department for Work and Pensions, 2022). Importantly, though, it is not clear what full take-up would look like, since not all these families will be using formal childcare.

## 5. Sure Start and Family Hubs

Having access to Sure Start children's centres significantly benefitted children's health. For the very youngest children (1-year-olds), greater access to Sure Start increased hospitalisations, driven by an increase in infections and in 'primary-care preventable' conditions like asthma or vaccinal illnesses (Figure 8). However, these early increases in hospitalisations were more than outweighed by significant long-term reductions in hospitalisations. Peak levels of Sure Start provision during childhood prevented over 13,150 hospitalisations of 11- to 15-year-olds each year, an 8% reduction on pre-Sure-Start hospitalisation rates (Cattan et al., 2022).

**Figure 8. Effect of an increase in Sure Start coverage on probability of any hospitalisation in the neighbourhood**



Note: Effect sizes are constructed by rescaling the estimates by the pre-Sure Start baseline probability of a hospitalisation at each age. Vertical bars indicate 90% confidence intervals.

Source: Figure 3, Cattan et al. (2022). See paper for full details on methodology and data sources.

Notably, greater access to Sure Start during the first five years of life significantly reduced the probability of being hospitalised for a mental health condition as a teenager. And even within families, a child with greater early exposure to Sure Start had 30% better mental health scores as teenagers than their siblings who had grown up with less access to Sure Start. These results were

particularly strong for boys and for children in the most disadvantaged neighbourhoods, suggesting that access to Sure Start reduces inequalities.

While available data does not let us conclusively say which services underpinned Sure Start's success, there is strong suggestive evidence for several channels: increased parental awareness about children's health and healthcare; stronger immune systems through vaccination and earlier exposure to peers; and better behavioural and emotional development as a result of parenting support services and information on safe home environments.

This evidence suggests that *integrating* early years services can be a powerful policy tool for shaping children's outcomes and recognising the links between physical health, mental health, cognitive development and later outcomes like crime or social care use.

The government's commitment to Family Hubs is a welcome step towards reversing the hollowing-out of Sure Start services, but there are still significant questions over what Family Hubs will look like on the ground, what services they will bring together, and how well resourced they will be. The 2021 Spending Review set aside roughly £500 million over three years for early help services. Compared to Sure Start, this represents considerably less funding as well as more central control over what kinds of services it will be spent on (e.g. £100 million for parental mental health). This means that it is still to be seen whether Family Hubs will be able to deliver benefits for children on the same scale as Sure Start did.



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