



Christine Farquharson
@ckfarquharson

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@TheIFS

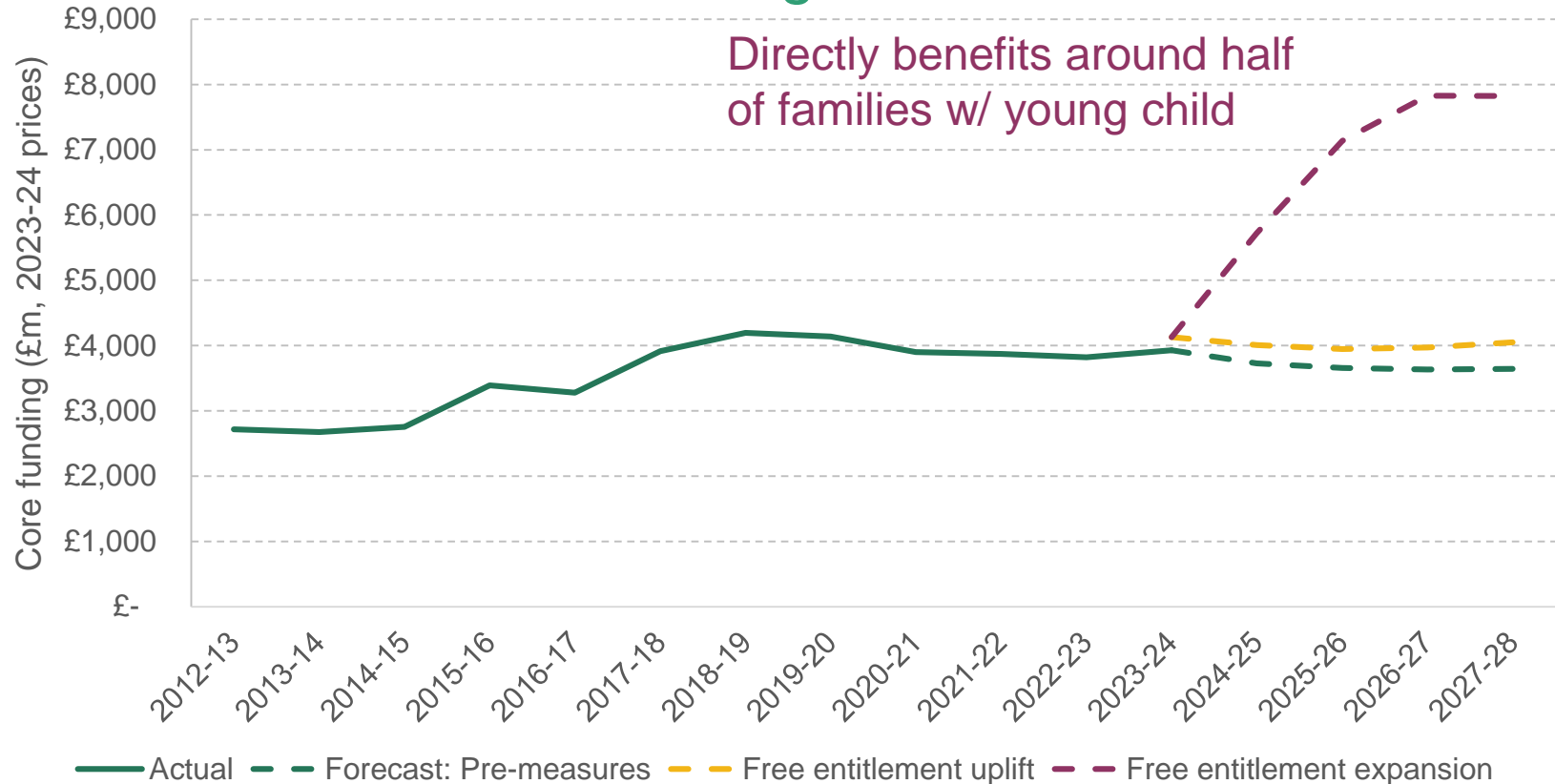
Childcare: The newest branch of the welfare state



Economic
and Social
Research Council

Childcare funding is set to double by 2027-28

Core free entitlement funding

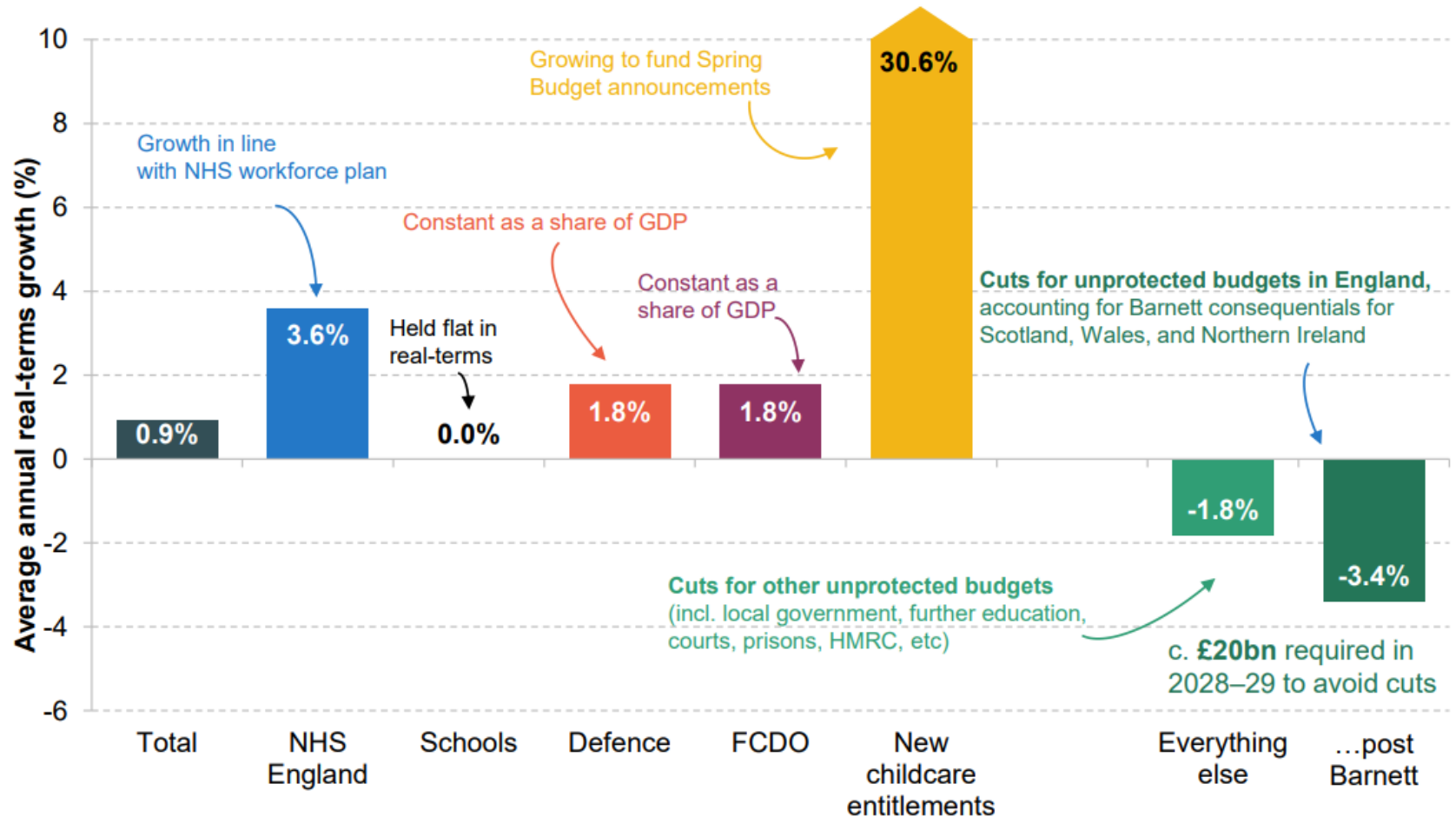


Note: IFS forecast based on a real-terms freeze in per-hour DSG funding rates and forecast demand based on ONS population estimates. Post-Budget spending excludes Barnett consequential and assumes uplift for existing hours remains flat in real terms over the forecast horizon.

Source: Actual spending from Early Years Block of Dedicated Schools Grant, various years.

Early years is a major outlier

Illustrative change in day-to-day funding implied by latest plans, 2024–25 to 2028–29



Source: Boileau, B. (2023), [“Public service spending: an even bigger squeeze.”](#)



Budget 2023 and beyond

The three 'C's of childcare



The screenshot shows the IFS website header with navigation links: Topics, Research and analysis, Podcasts, explainers and calculators, Events, About, and a search icon. On the right, there are links for Join us, Newsletters, and Our sites. Below the header is a featured section with a row of topic tags: Pensions Review, Living standards, poverty and inequality in the UK, Budget analysis, Election analysis, Mirrlees Review, Green budgets, and Inequality: The IFS Deaton Review. The main article is titled 'Complicated, costly and constantly changing: The childcare system in England' and is categorized as a 'Comment'. The author is Christine Farquharson, and it was published on 13 September 2021. The background image of the article shows a child's hands playing with colorful wooden number blocks (3, 2, 4) on a table.

The three ~~C's~~ 'D's of childcare



The screenshot shows the IFS website header with navigation links: Topics, Research and analysis, Podcasts, explainers and calculators, Events, About, and a search icon. On the right, there are links for Join us, Newsletters, and Our sites. Below the header is a 'Featured' section with several topic tags: Pensions Review, Living standards, poverty and inequality in the UK, Budget analysis, Election analysis, Mirlees Review, Green budgets, and Inequality: The IFS Deaton Review.

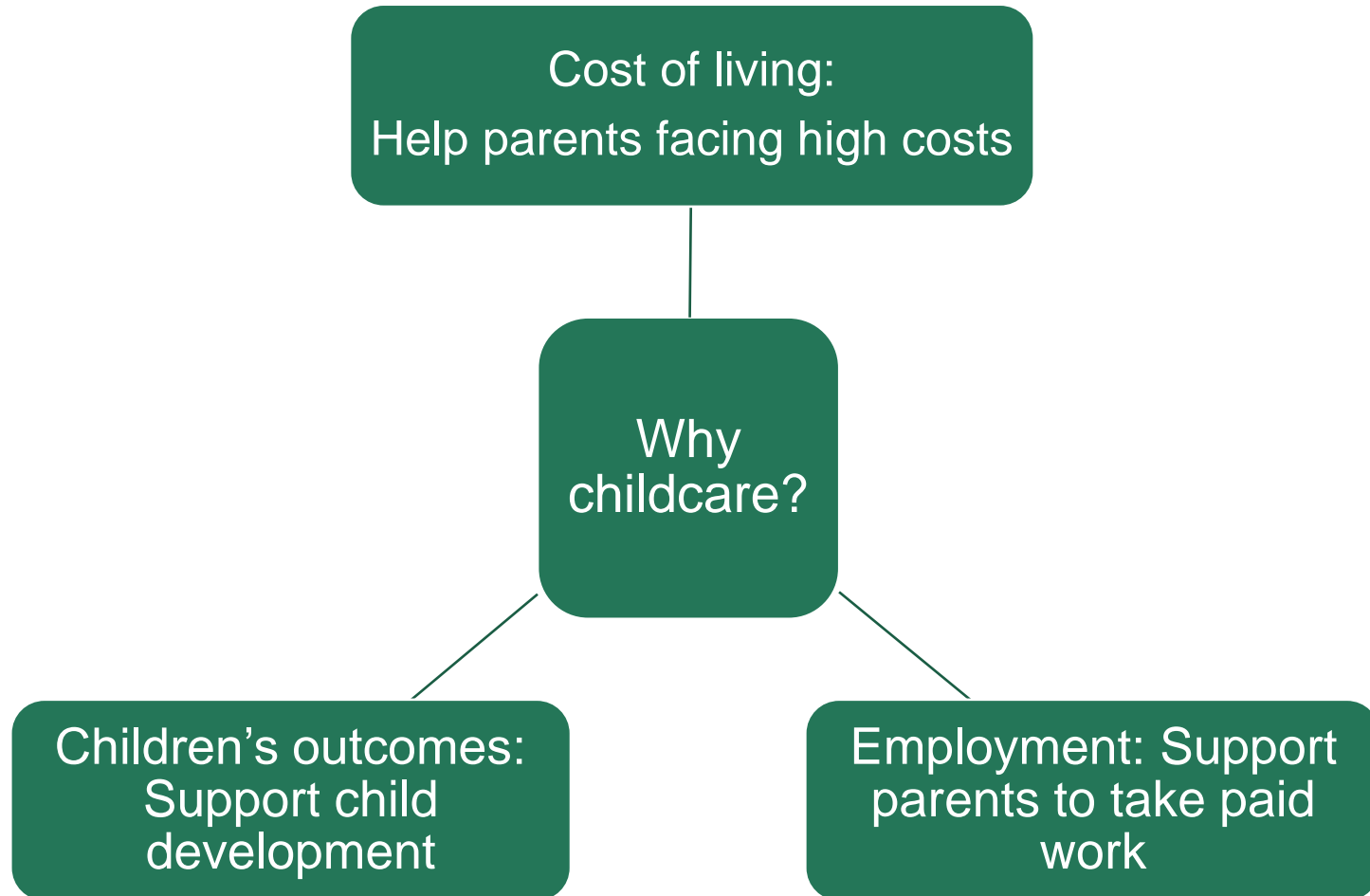
The main article is titled 'Complicated, costly and constantly changing: The childcare system in England' by Christine Farquharson, published on 13 September 2021. A green diagonal line is drawn across the title. To the right of the title is a list of three items:

- Design
- Distribution
- Deliverability

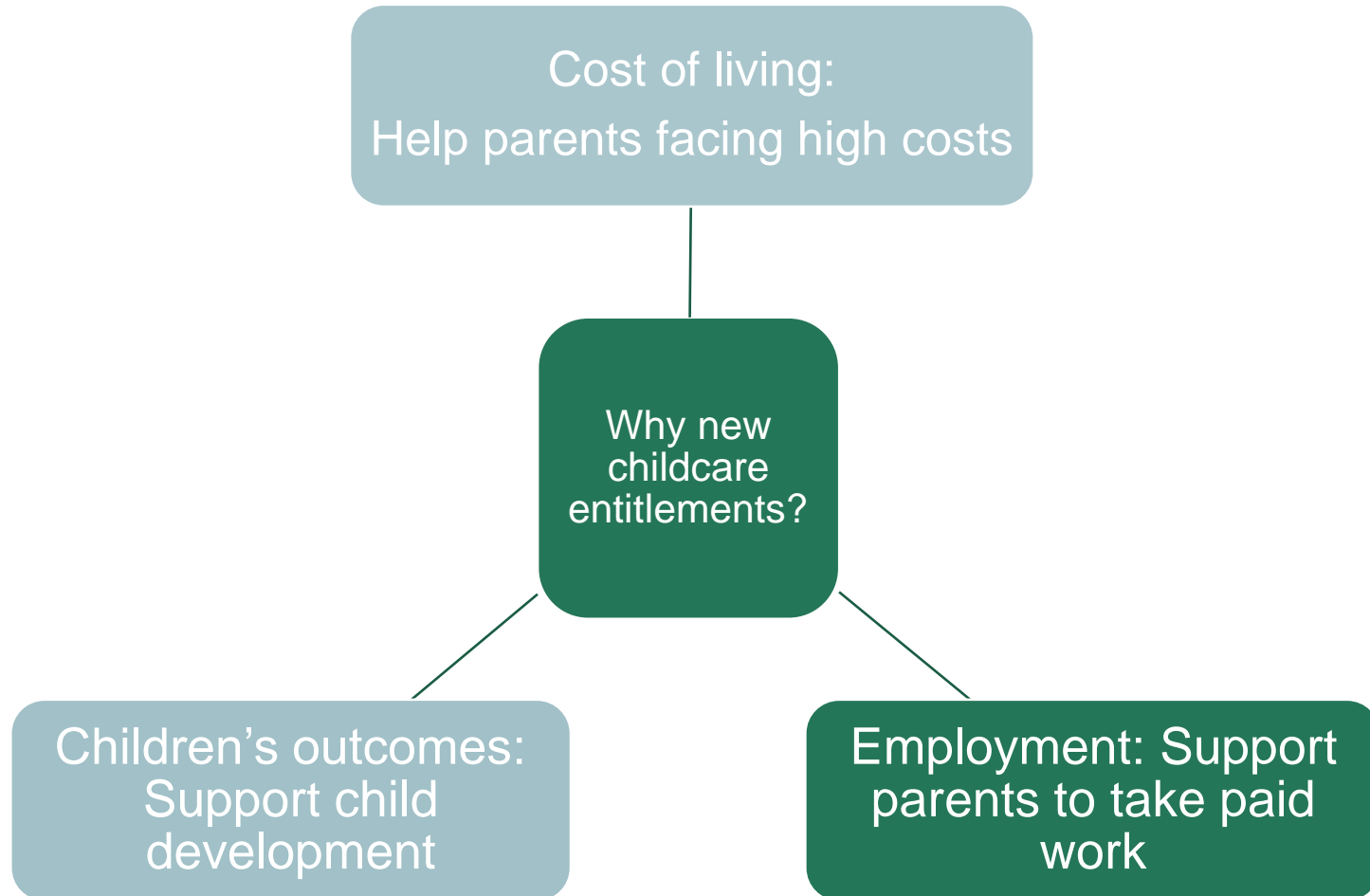
The background of the article header features a grayscale image of large wooden numbers (3, 2, 4) on wheels, with a person's hands visible in the background.



Design: Will the new entitlements help parents work?

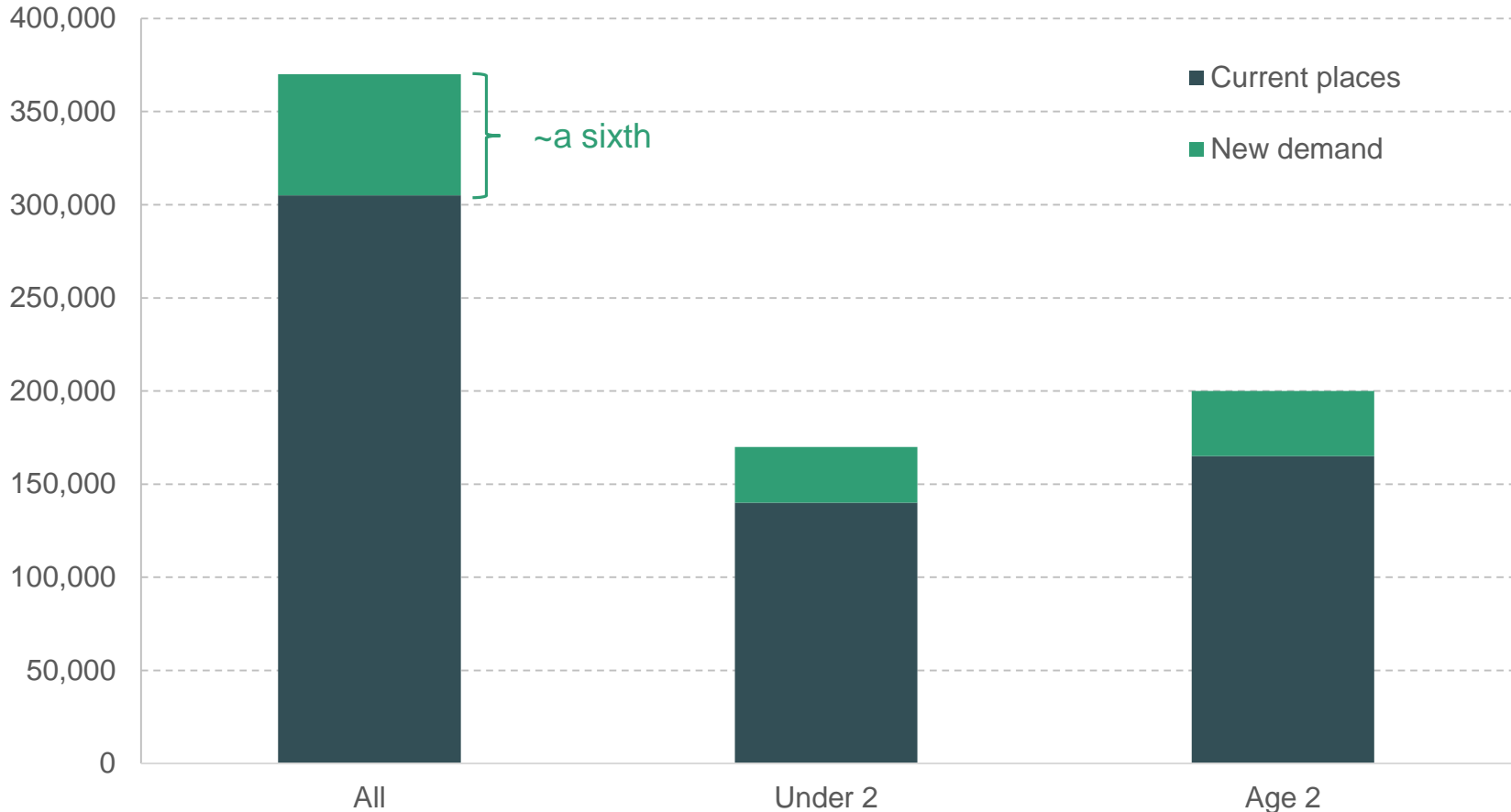


Rationale: Gov't argues employment...



... But most of the hours will replace parent-paid childcare

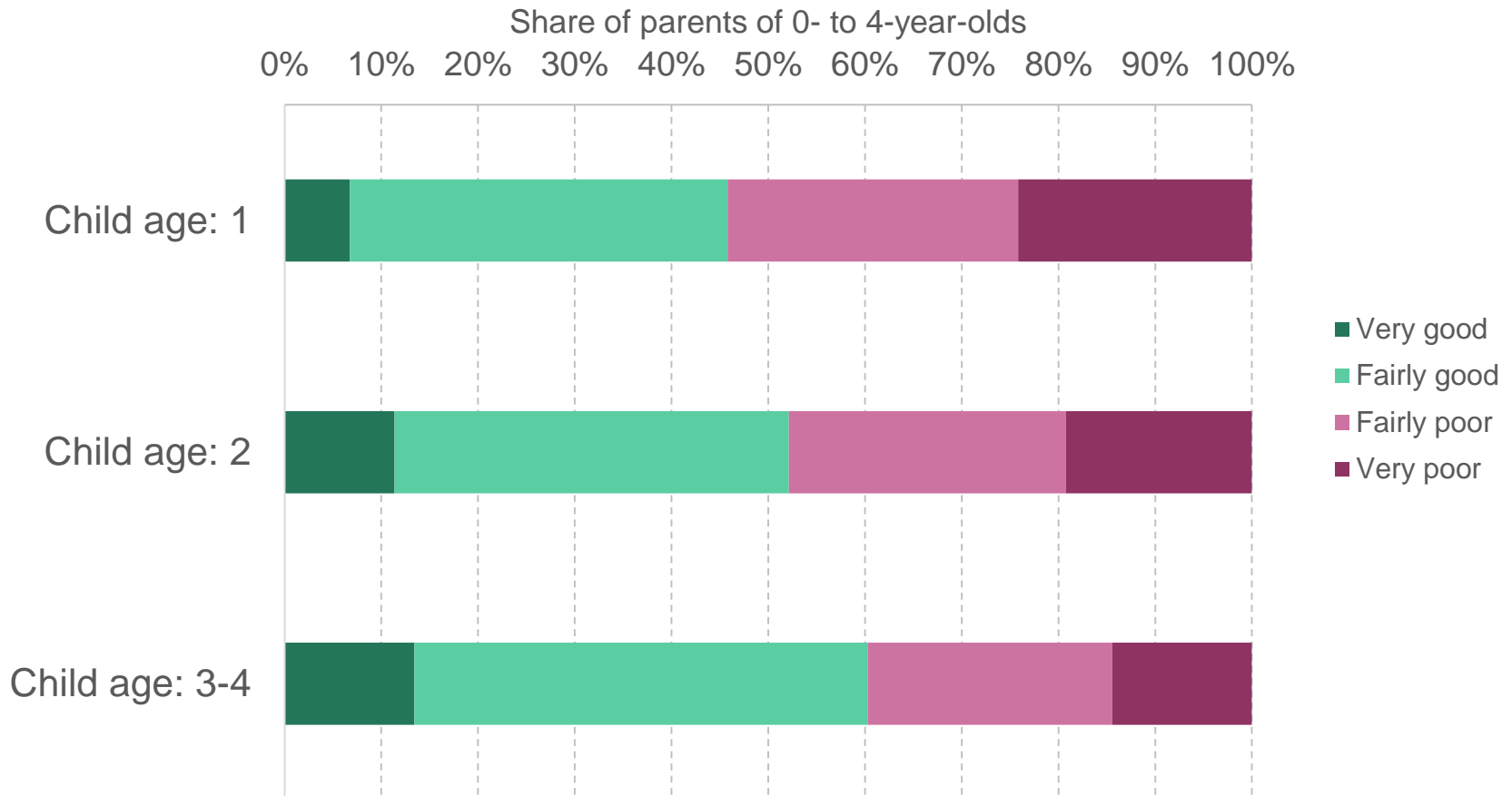
Estimated funded 30-hour places in 2027



Note: Estimated scenario based on analysis of current patterns of childcare take-up among under-2s (Childcare and Early Years Survey of Parents microdata, 2019; ONS population-by-age estimates for 2027) as well as demand implied by labour supply responses reported in the Budget. 'Under 2' includes children aged 9-23 months.

And are less likely to think care is 'affordable'

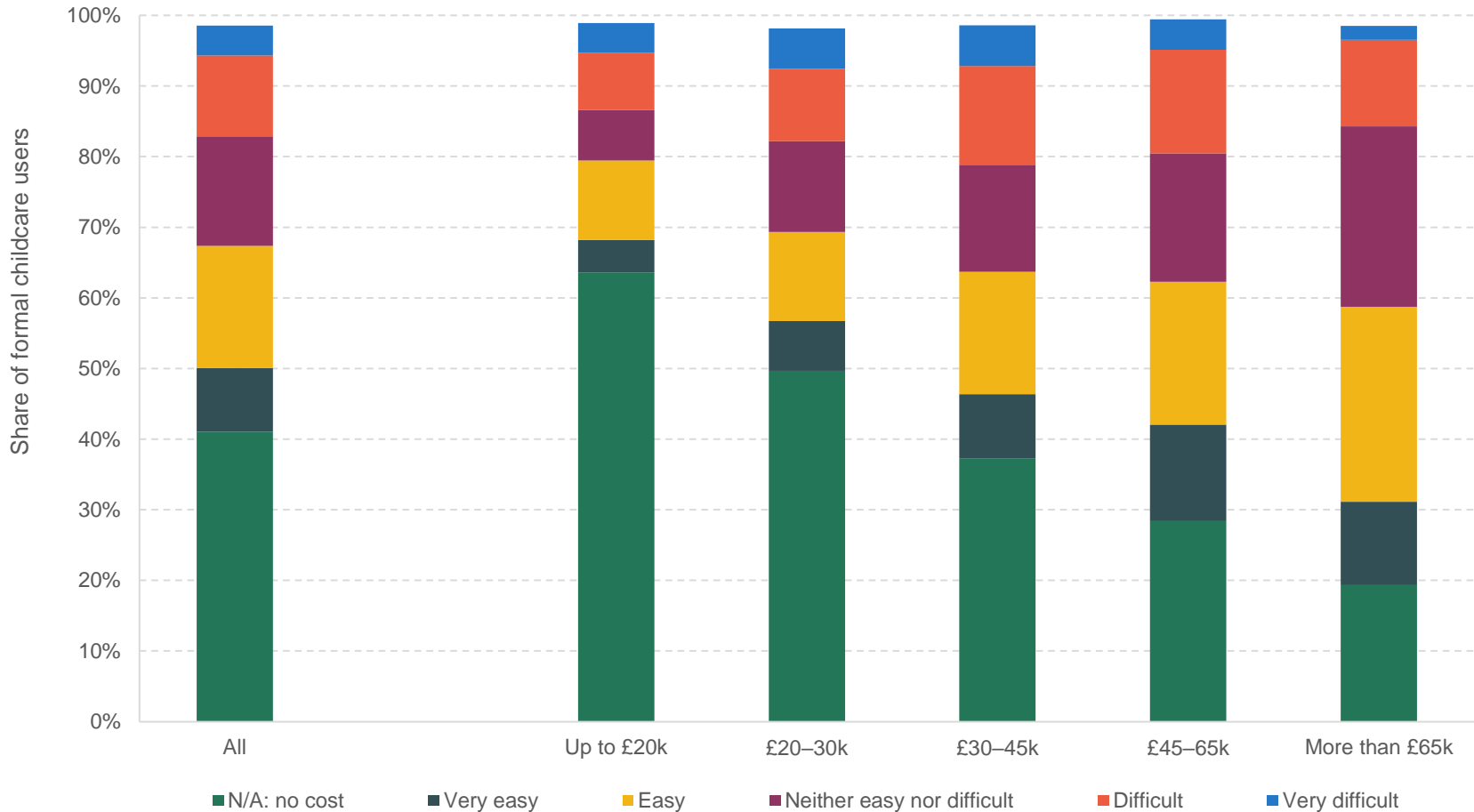
Perceived childcare affordability (2019)



Source: Author's analysis of DfE's Childcare and Early Years Survey of Parents, 2019.

Cost difficulties bite hardest at middle incomes

Self-reported difficulty in meeting childcare costs, among formal childcare users



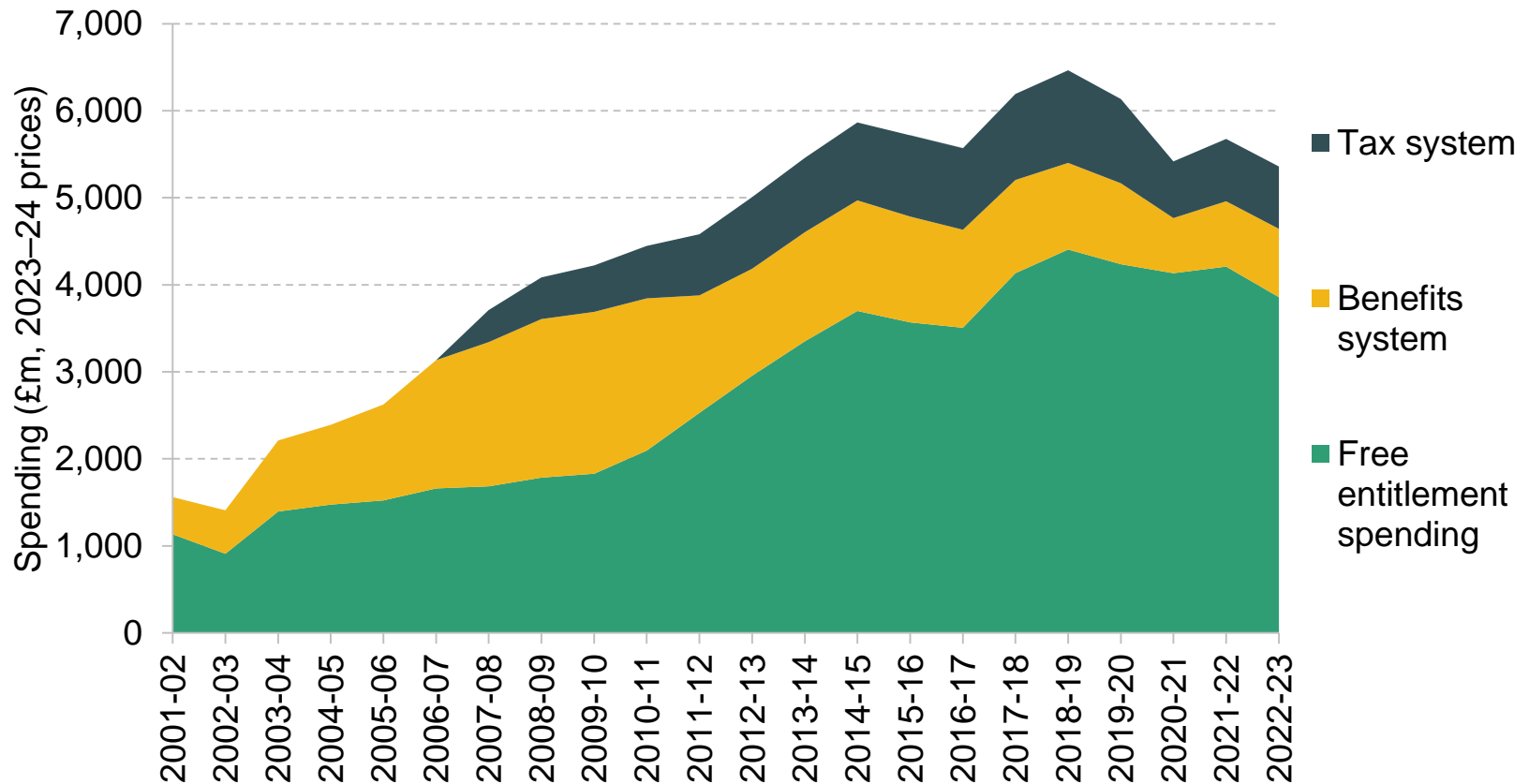
Source: Figure 2.6, [Farquharson and Olorenshaw \(2022\)](#).



Distribution

'Early years' increasingly dominated by the free entitlement

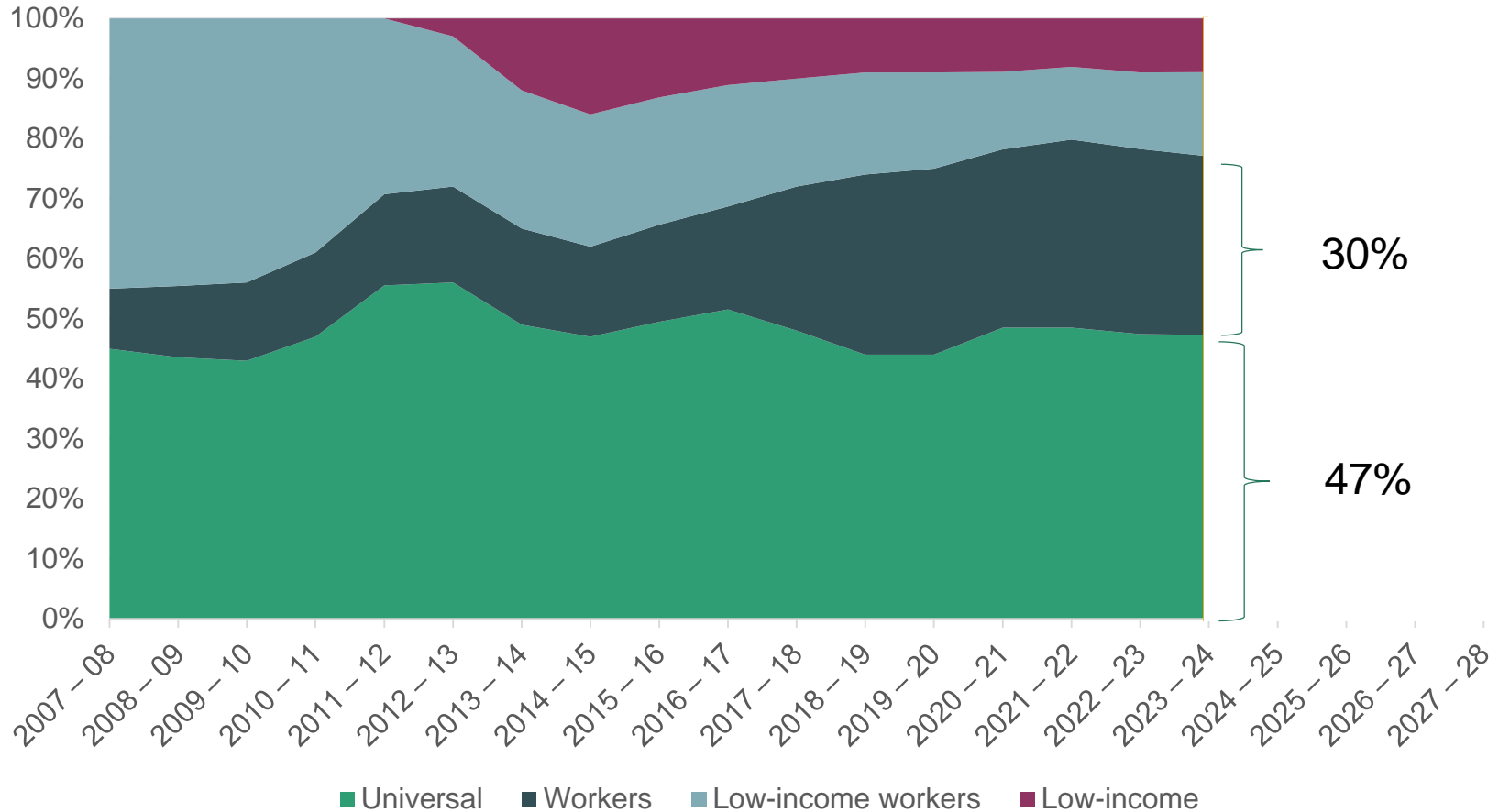
Total spending on support for early education and childcare



Source: Figure 1, [Drayton and Farquharson \(2023\)](#).

Childcare support is ever-more targeted at working families

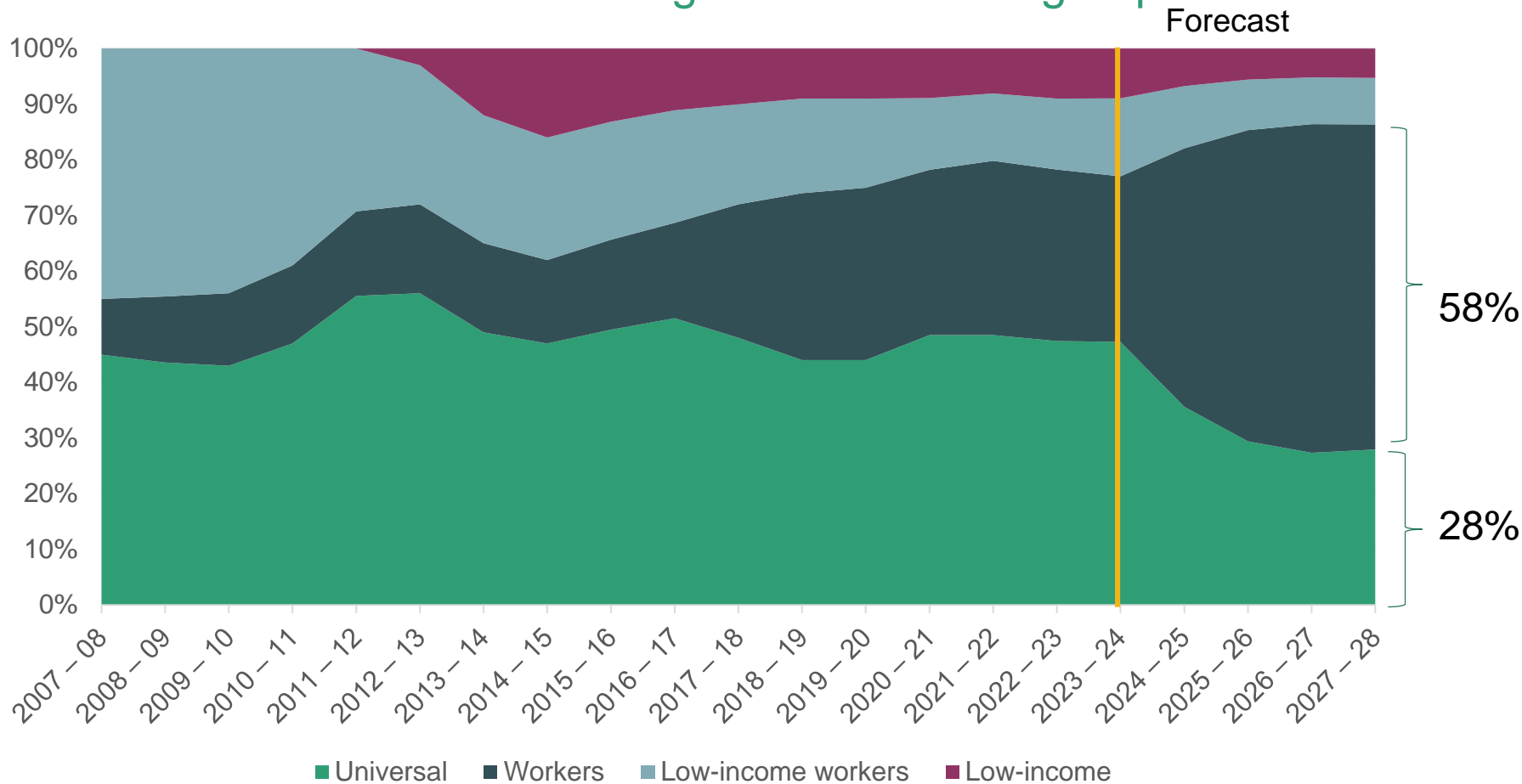
Share of childcare subsidies targeted at different groups



Source: Adapted from Figure 4, IFS Education Spending microsite – “Early years”.

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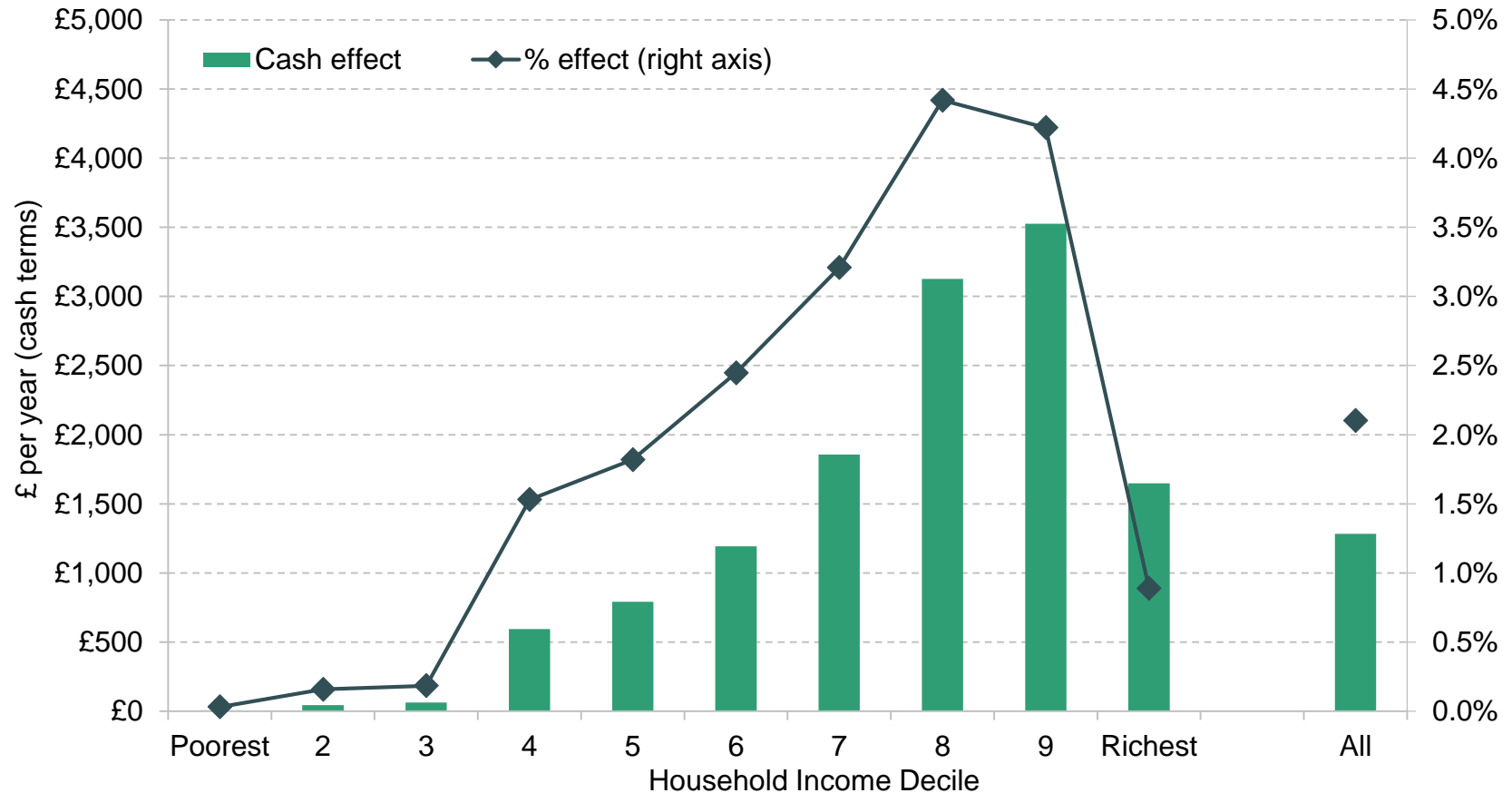
Share of childcare subsidies targeted at different groups



Source: Adapted from Figure 4, IFS Education Spending microsite – “Early years”.

Targeting to workers means largely benefitting richer families

Distributional impact of free entitlement expansions



Note: Sample is households with a child aged 9-35 months. % effect is as a share of pre-policy net household income.
Source: Calculations using TAXBEN, based on the Family Resources Survey 2017-2019.

And existing disadvantage-based entitlements becoming smaller

Change in places for 2yo entitlement, 2015-2023



Source: Figure 5, Drayton and Farquharson (2023).



Deliverability

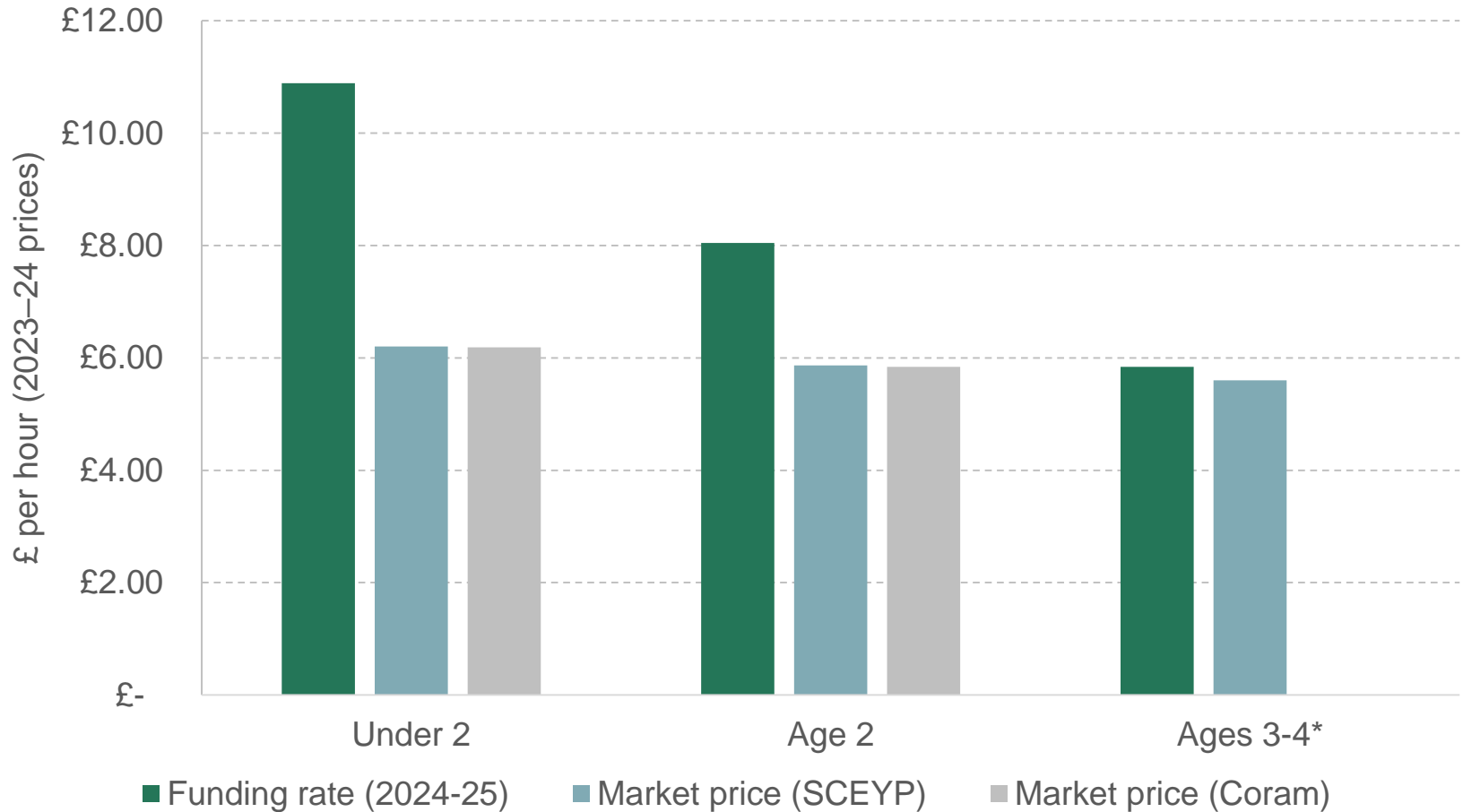
The core uncertainty – and risk – is around the funding rates



- Even before behaviour change, government will now set the price for 80% of pre-school childcare hours (up from 50%)
 - → risks to inappropriate funding are much larger

Funding levels for *new entitlements* much higher than market prices

Proposed free entitlement funding rates in comparison to market prices (2023–24 prices)



Source: Figure 10, [Drayton and Farquharson \(2023\)](#).

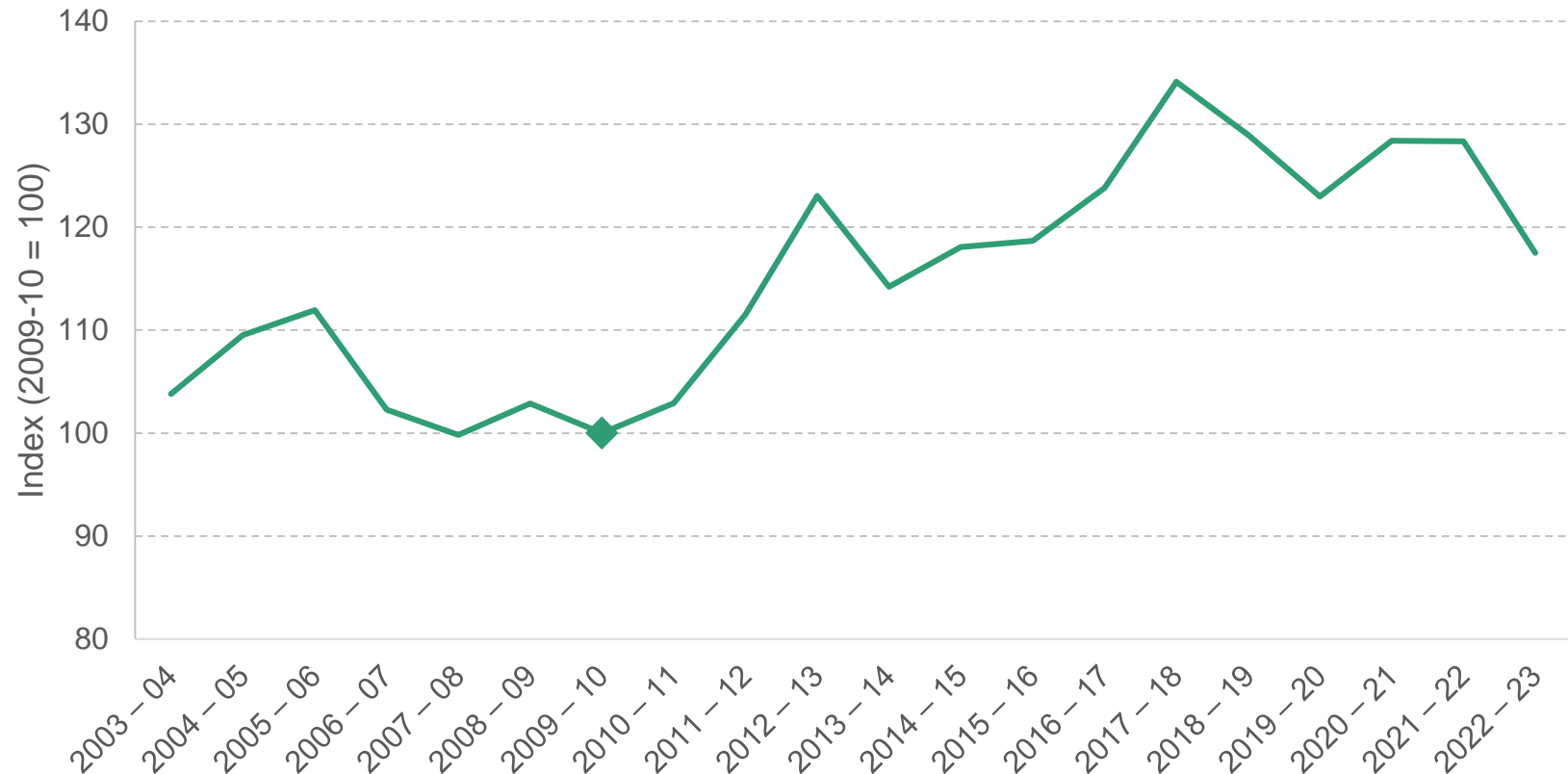
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- History of funding settlements does not inspire great confidence

Historically chaotic spending choices

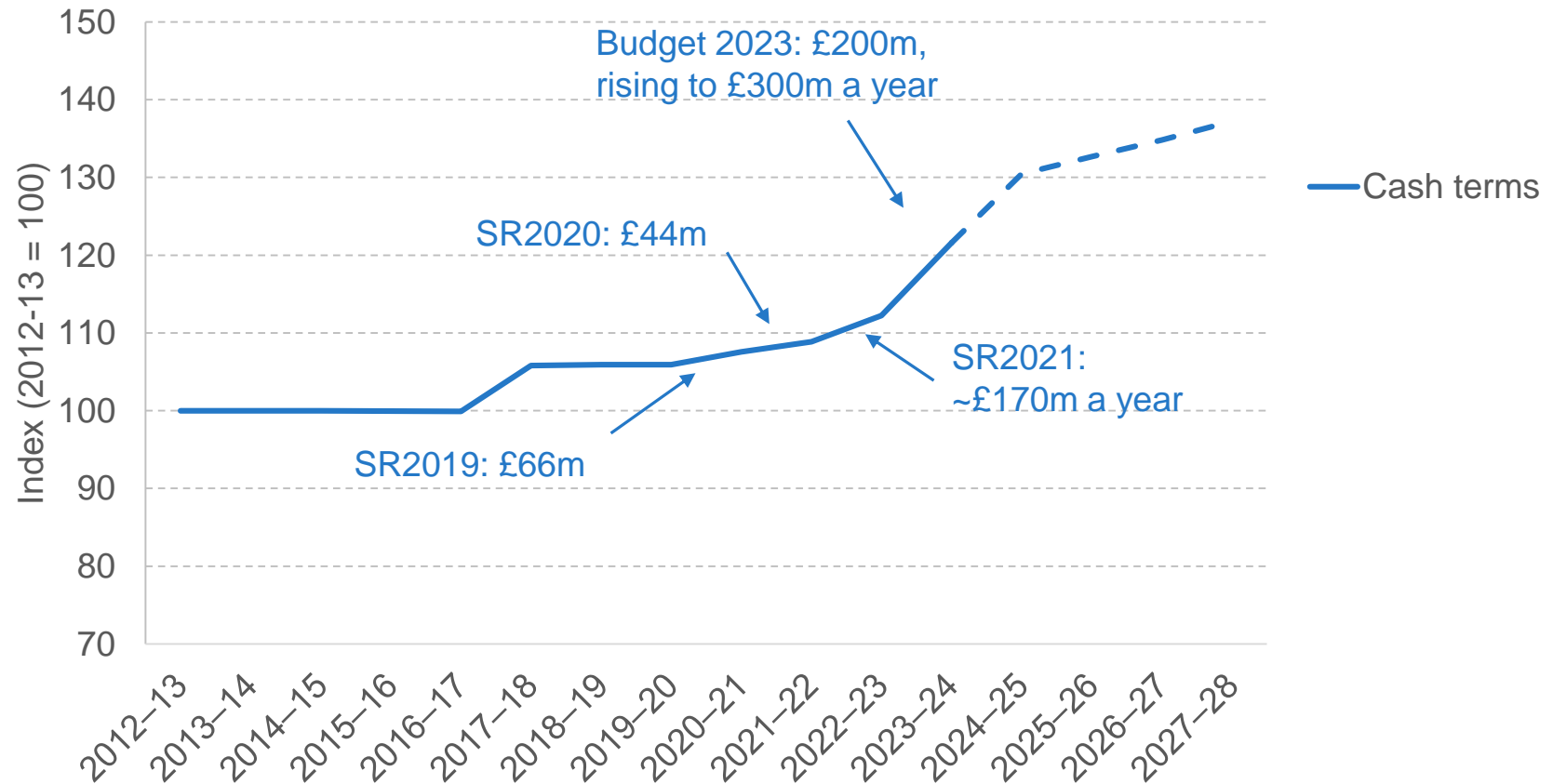
Real-terms spending per hour on 3/4yo entitlements



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

Cost rises outstrip funding growth

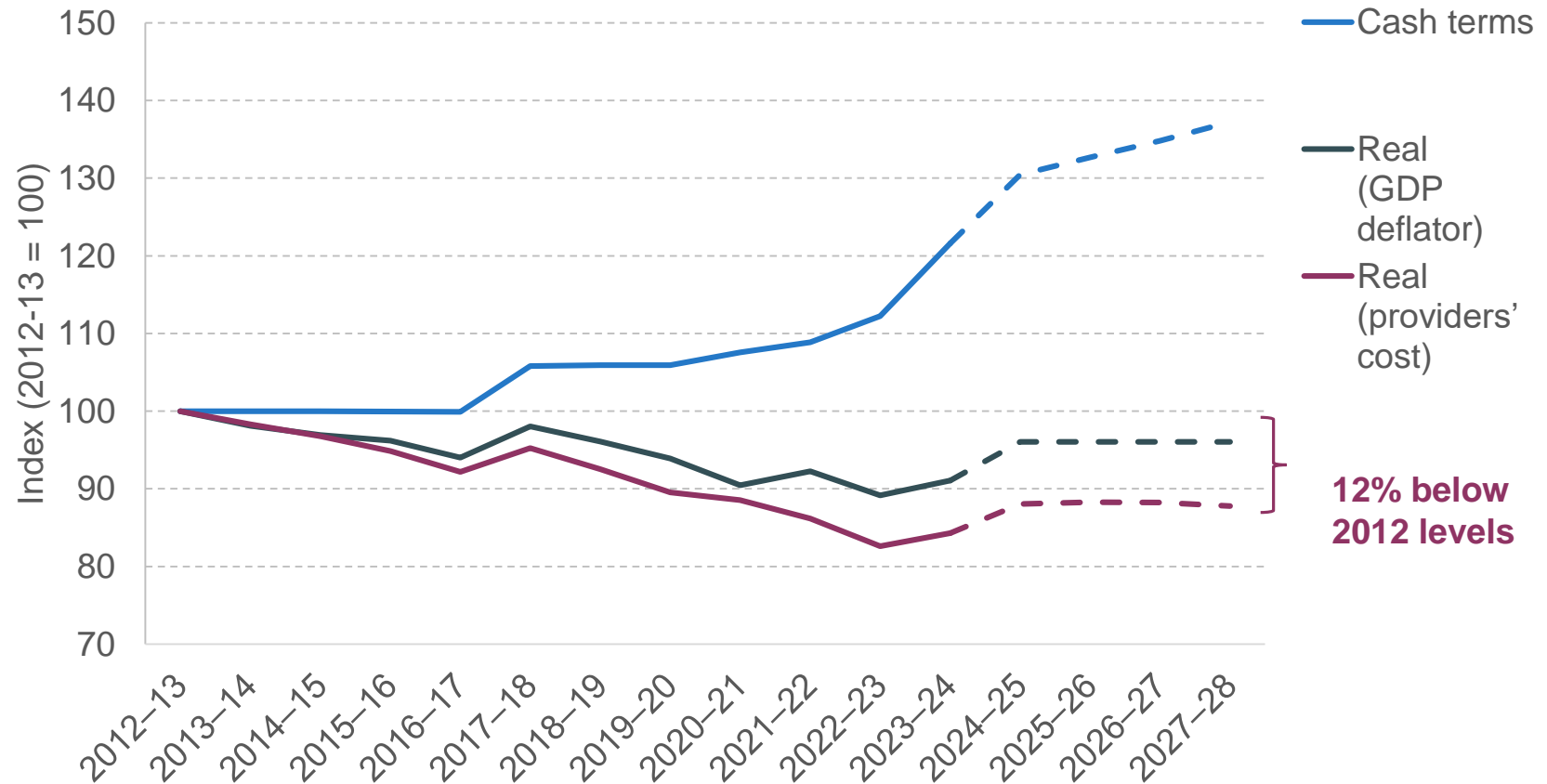
Core per-hour funding for 3/4yo entitlements (indexed)



Note: Funding rates up to 2022-23 are drawn from the Early Years block of the Dedicated Schools Grant. In 2023-24, funding rates mid-way through the financial year, in September; the chart presents weighted averages of the April-August and September-March rates. For 2-year-olds, the funding rate for 2024-25 has been announced as £8.17 in cash terms. We combine this with information on populations and predicted part-time equivalent places to estimate the funding rate for 3- and 4-year-olds, based on the total budget uplift announced at the March 2023 Budget. For 2025-26 onwards, we use estimates of the total free entitlement budget for each stage combined with estimated part-time equivalent places to model how core funding could evolve. Source: Figure 2.5, Drayton et al. (2023).

Cost rises outstrip funding growth

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



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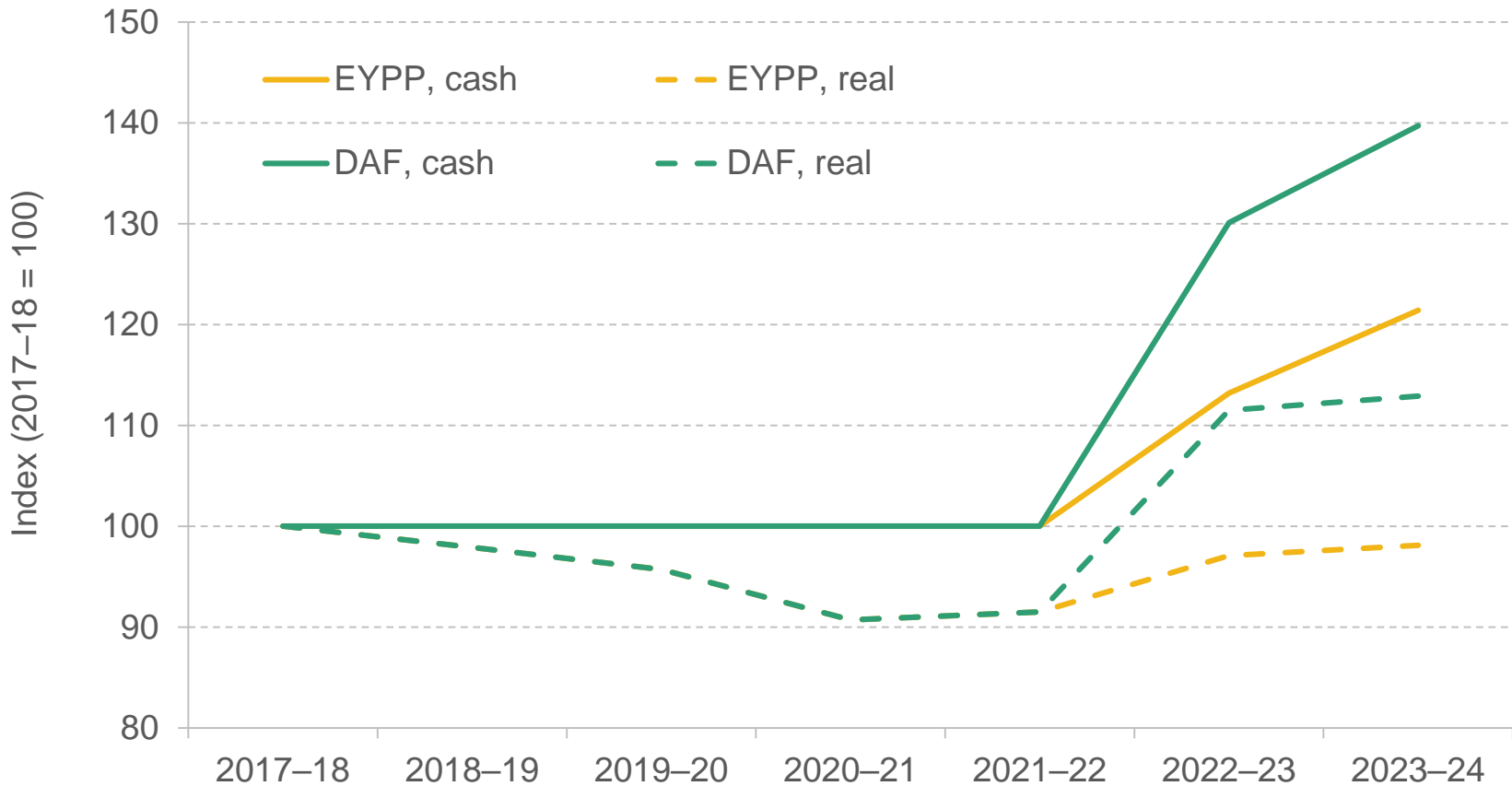
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 - Ad-hoc settlements for core funding rate
 - Even less attention paid to funding uplifts

Targeted uplifts often ignored

Cash- and real-terms funding for Early Years Pupil Premium and Disability Access Fund



Source: Figure 2.10, Drayton et al. (2023).

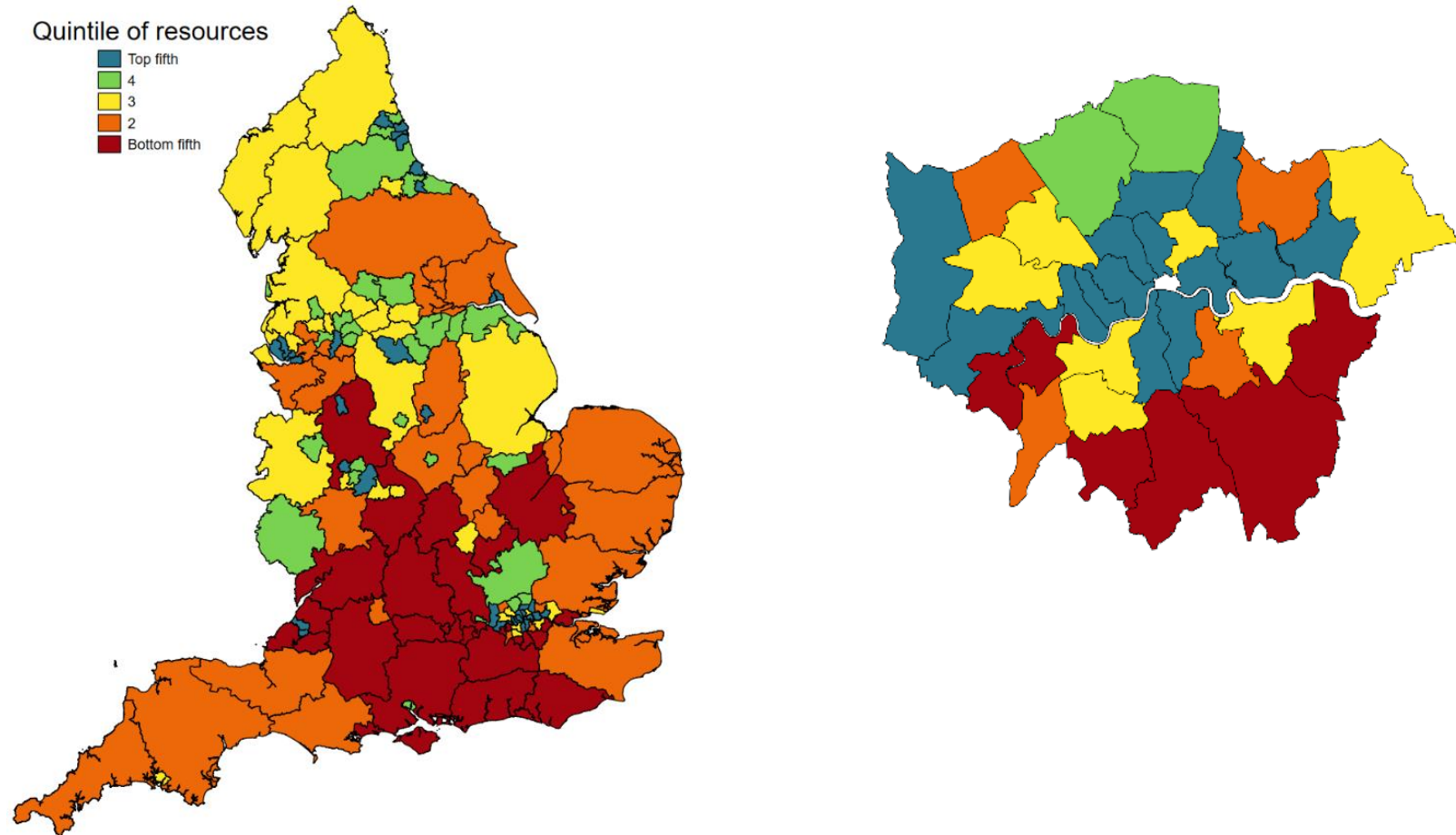
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 - Inconsistent use of funding formula means local rates don't always track needs

Local variation exceeds cost differences

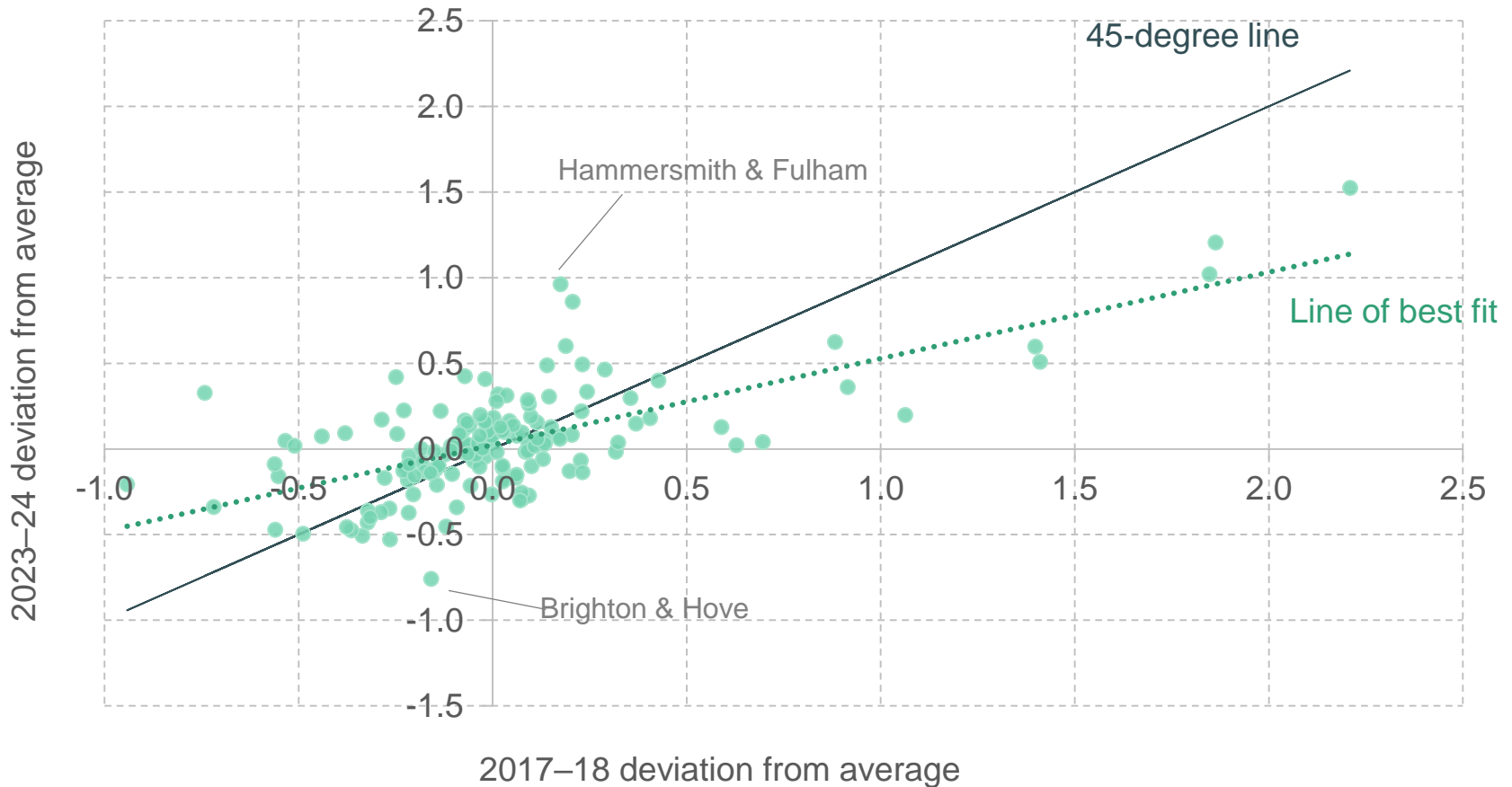
Geographic distribution of cost-adjusted funding for 3- and 4-year-olds, 2023–24



Source: Figure 2.6, Drayton et al. (2023).

Targeted uplifts often ignored

Cost-adjusted real-terms funding rate for 3- and 4-year-olds relative to average, 2017–18 and 2023–24



Source: Figure 2.8, Drayton et al. (2023).

Where next for early years?



Early years has been a major focus of public service spending for the last 25 years

- Budget entitlements will double spending, yet again

Three challenges for the new entitlements:

1. Design: Most of the money will subsidise parents who would have paid anyway
2. Distribution: Programme is intentionally regressive – focus is employment, not child development
3. Deliverability: New funding rates look reasonable – but backdrop of a squeeze for 3/4yo funding, and a chaotic history of setting and revising rates

Coming general election means exceptionally tough choices nationally – more uncertainty around public finances and spending to come



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