Three tests for childcare policy

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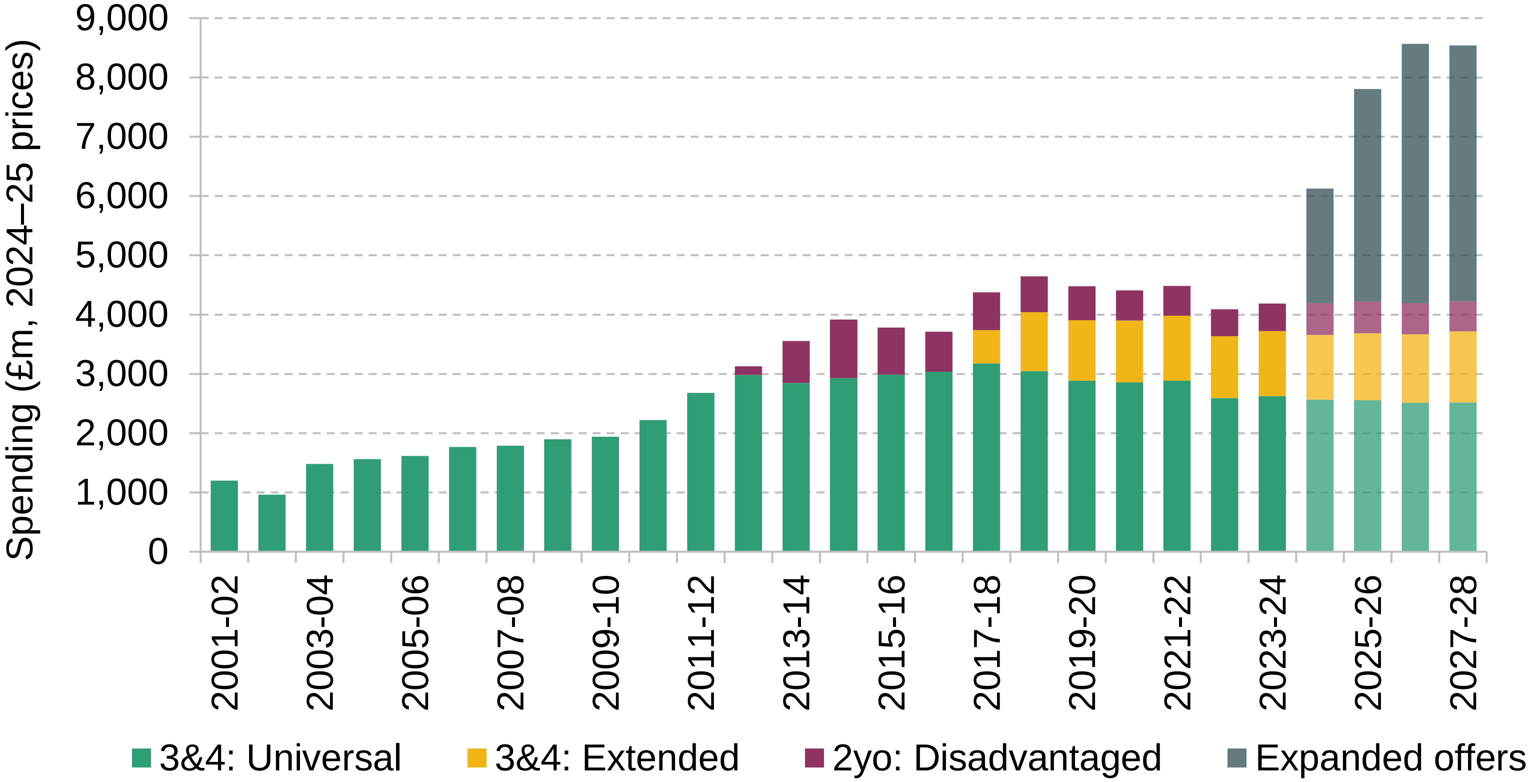
@TheIFS

Economic
and Social
Research Council

Huge growth in early years spending in England

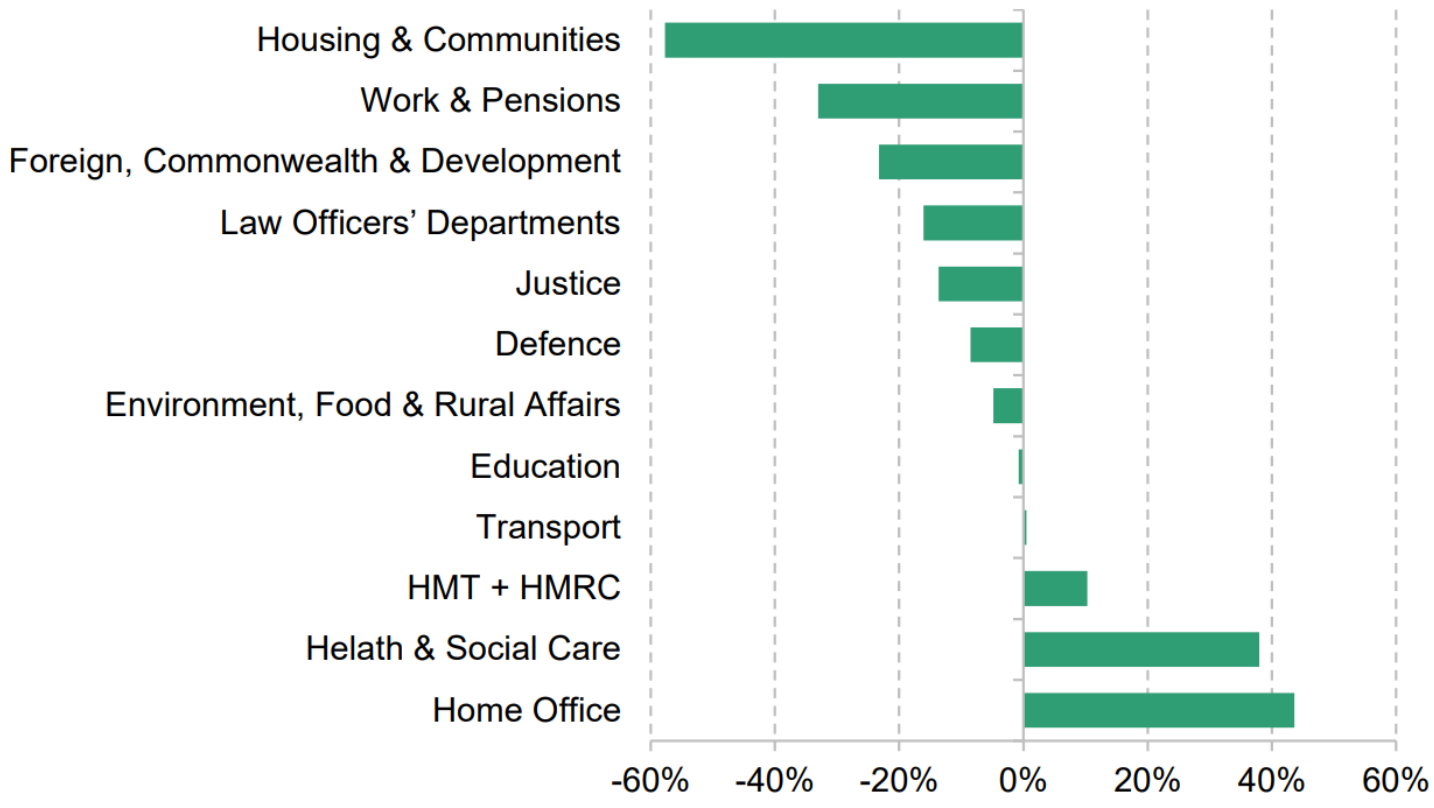
Total real-terms spending on free entitlement hours in England



Source: Figure 2.1, Drayton et al. (2025).

This is not a universal experience!

Real-terms % change in day-to-day spending, 2009-10 to 2023-24



Source: Figure 3.18, Boileau, Warner and Zaranko (2024).

The government's gambles

- Huge expansion of funded childcare hours
- When fully rolled out, 80% of pre-school childcare in England will be delivered through free entitlements

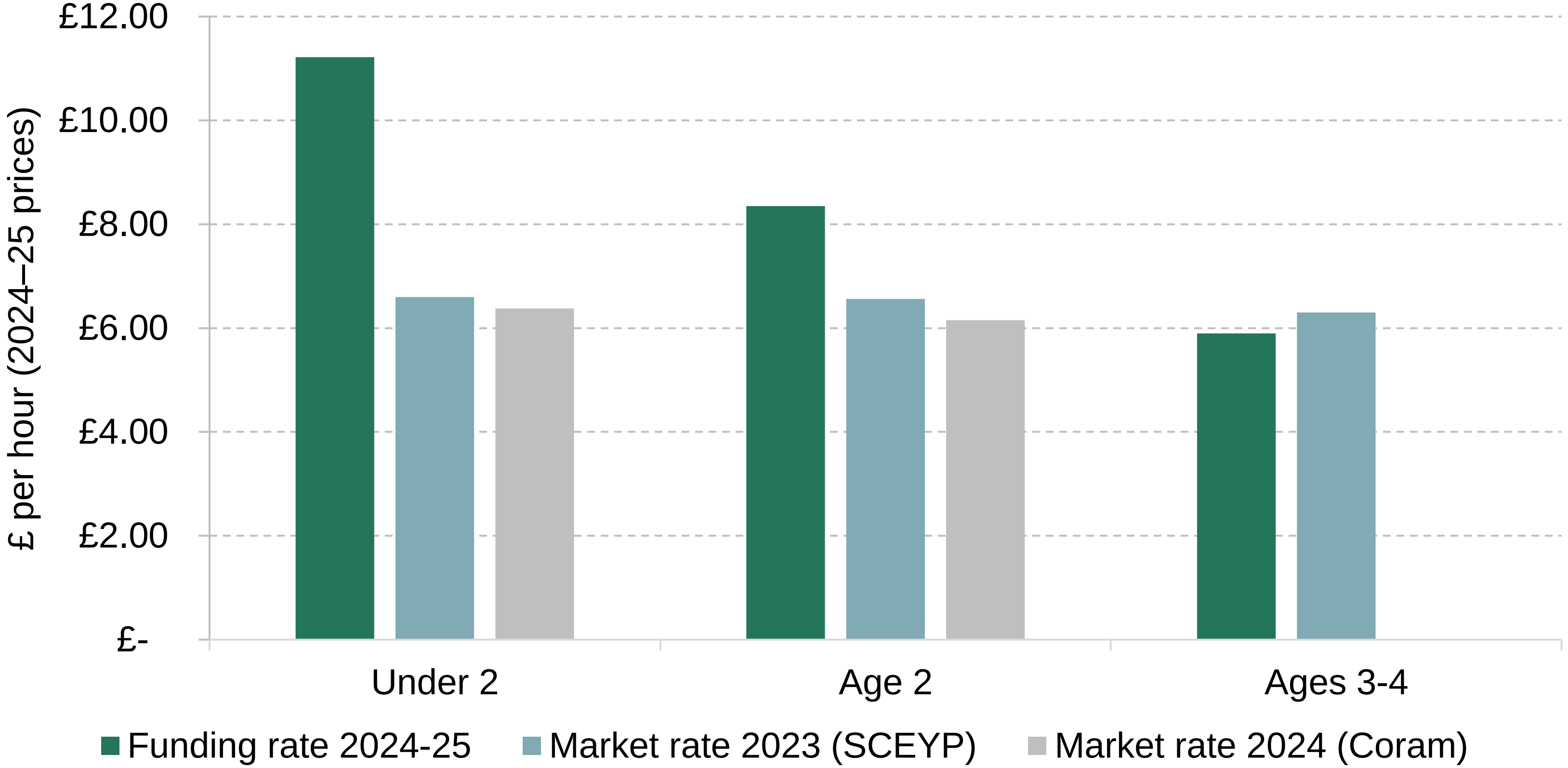
- The government is making three gambles for this policy:

1. If you fund it, providers will come
2. If you provide it, parents will use it
3. If parents use it, children will benefit

If you fund it, providers will come

Generous funding for young kids

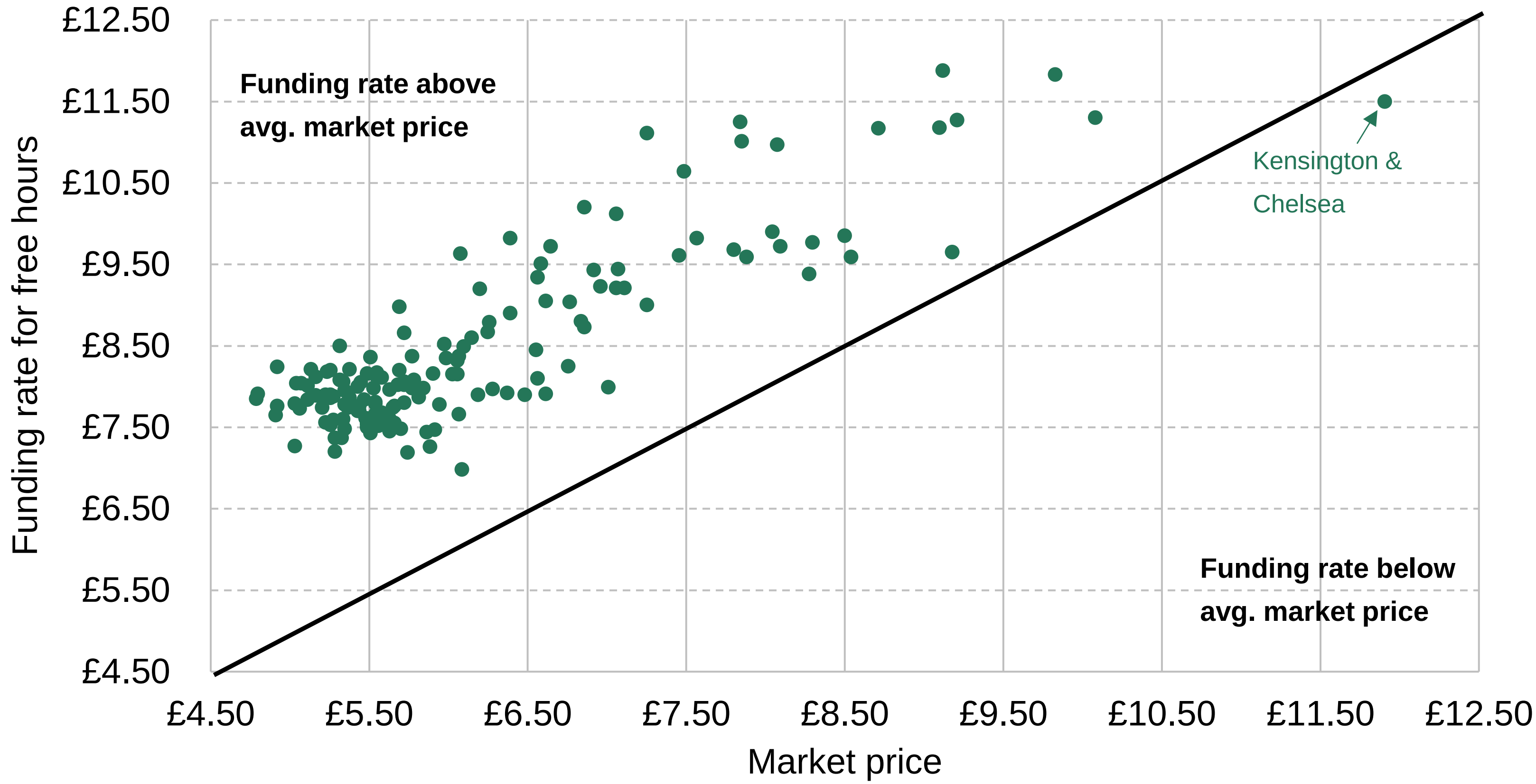
Total real-terms spending on free entitlement hours in England



Source: Based on Figure 2.3, Drayton et al. (2025). Updated to most recent data.

And this is largely true everywhere

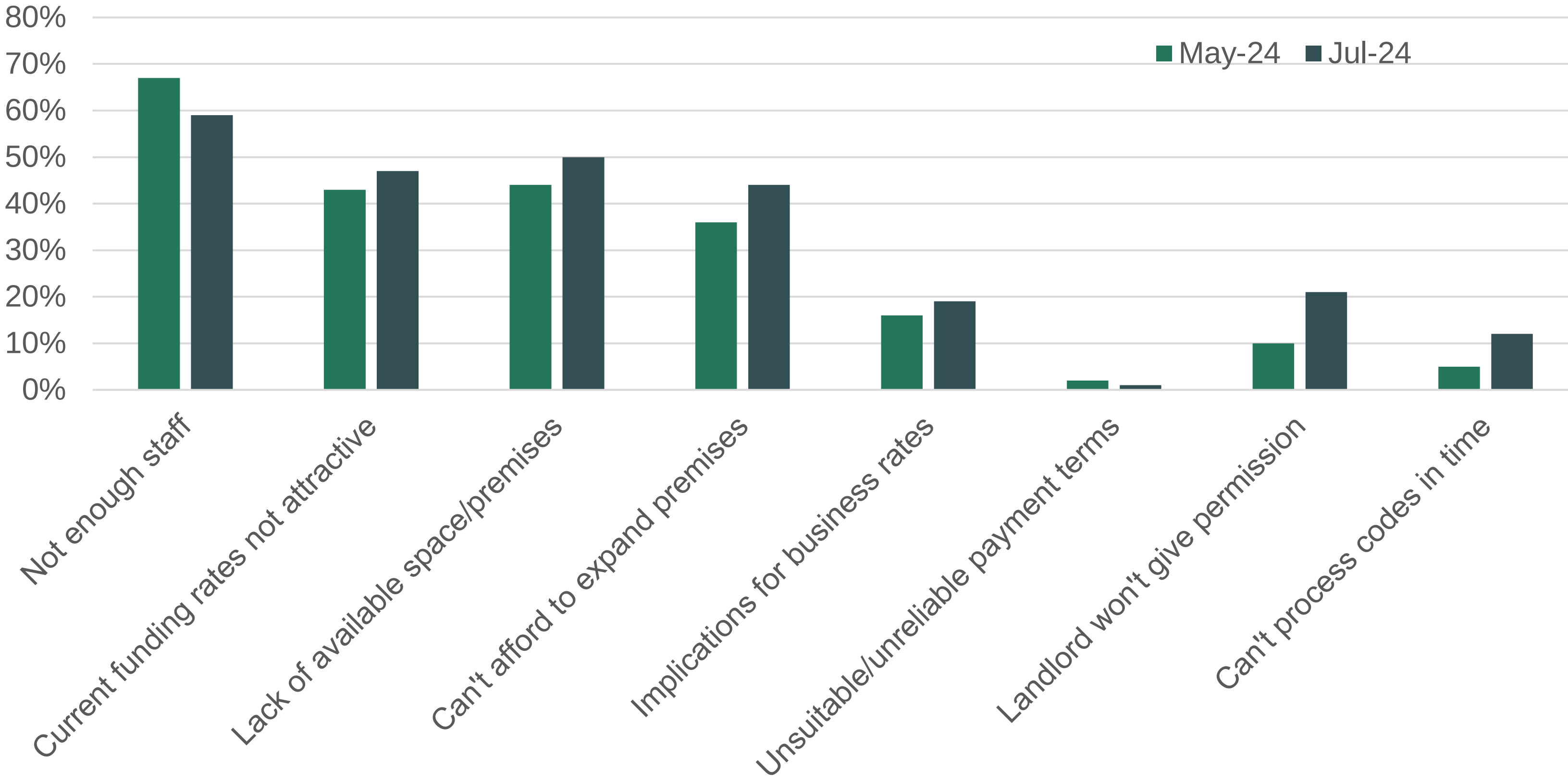
Funding rate vs. market prices for 2-year-olds, by LA



Source: Figure 3, Farquharson (2024a).

Translating funding to places is not without challenges…

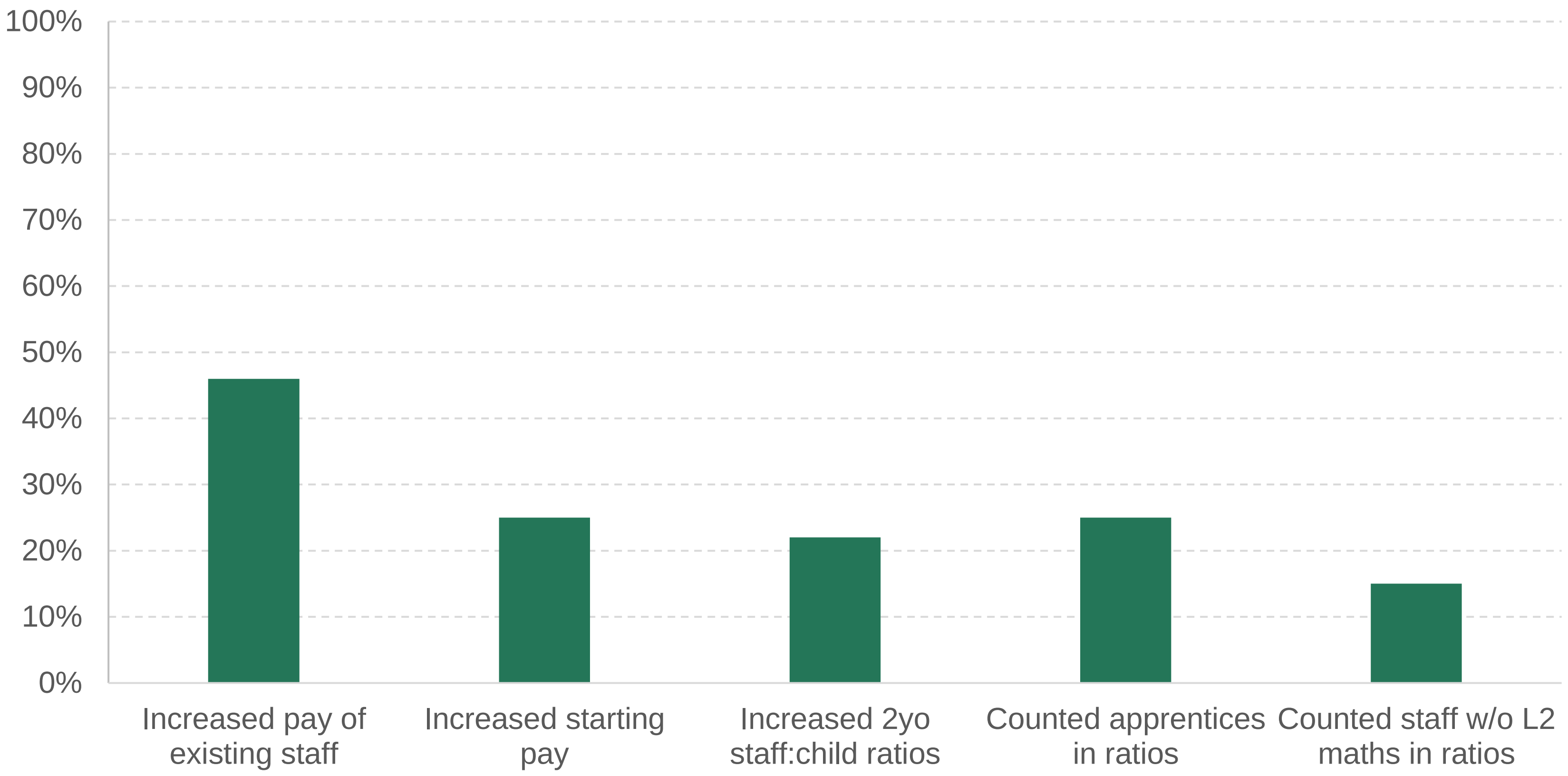
Challenges faced by group-based providers in delivering 2yo 15-hour offer (July 2024)



Source: Adapted from Figure 3, DfE (November 2024), "Pulse surveys of childcare and early years providers November 2024."

… though less than half of providers have increased pay

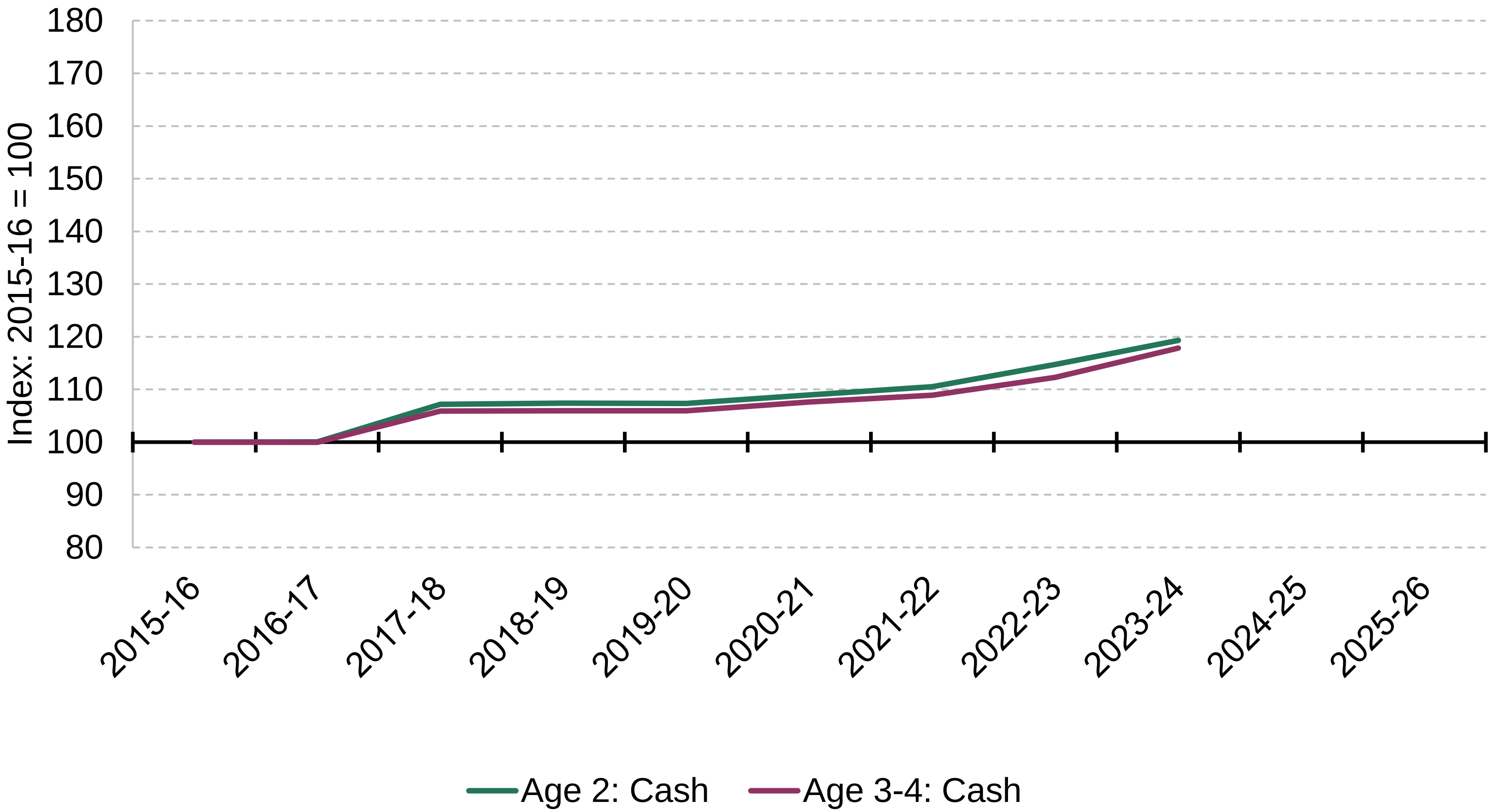
Actions that group-based providers have taken due to staffing issues (July 2024)



Source: Adapted from Figure 16, DfE (November 2024), "Pulse surveys of childcare and early years providers November 2024."

Core funding increased over time…

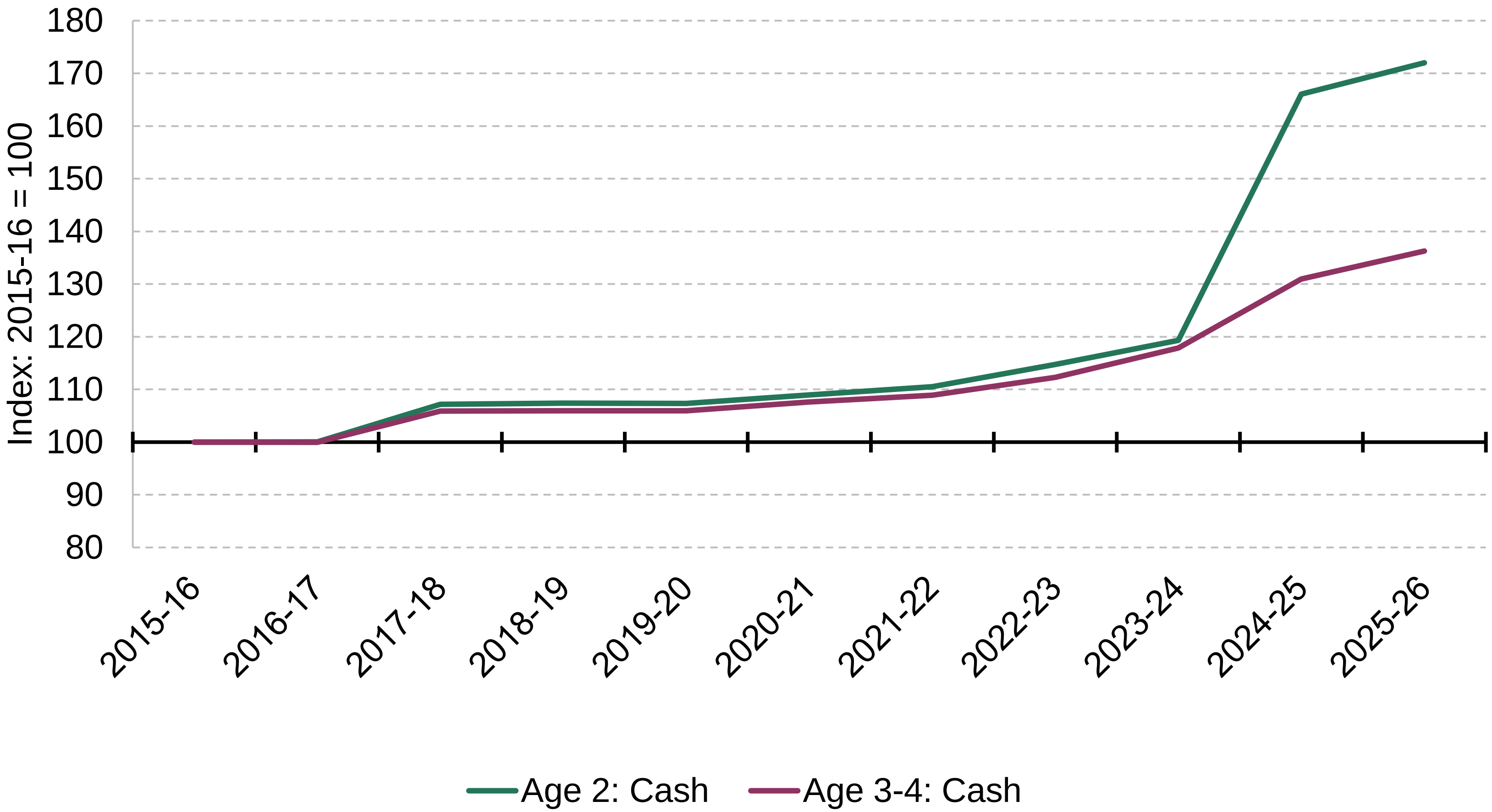
Core per-hour childcare funding over time



Source: Based on core funding rates from the Dedicated Schools Grant, ONS GDP deflators, and the IFS childcare provider cost index (Drayton et al., 2025).

… with a big jump up this year

Core per-hour childcare funding over time



Source: Based on core funding rates from the Dedicated Schools Grant, ONS GDP deflators, and the IFS childcare provider cost index (Drayton et al., 2025).

After inflation, 3/4yos no better funded than a decade ago

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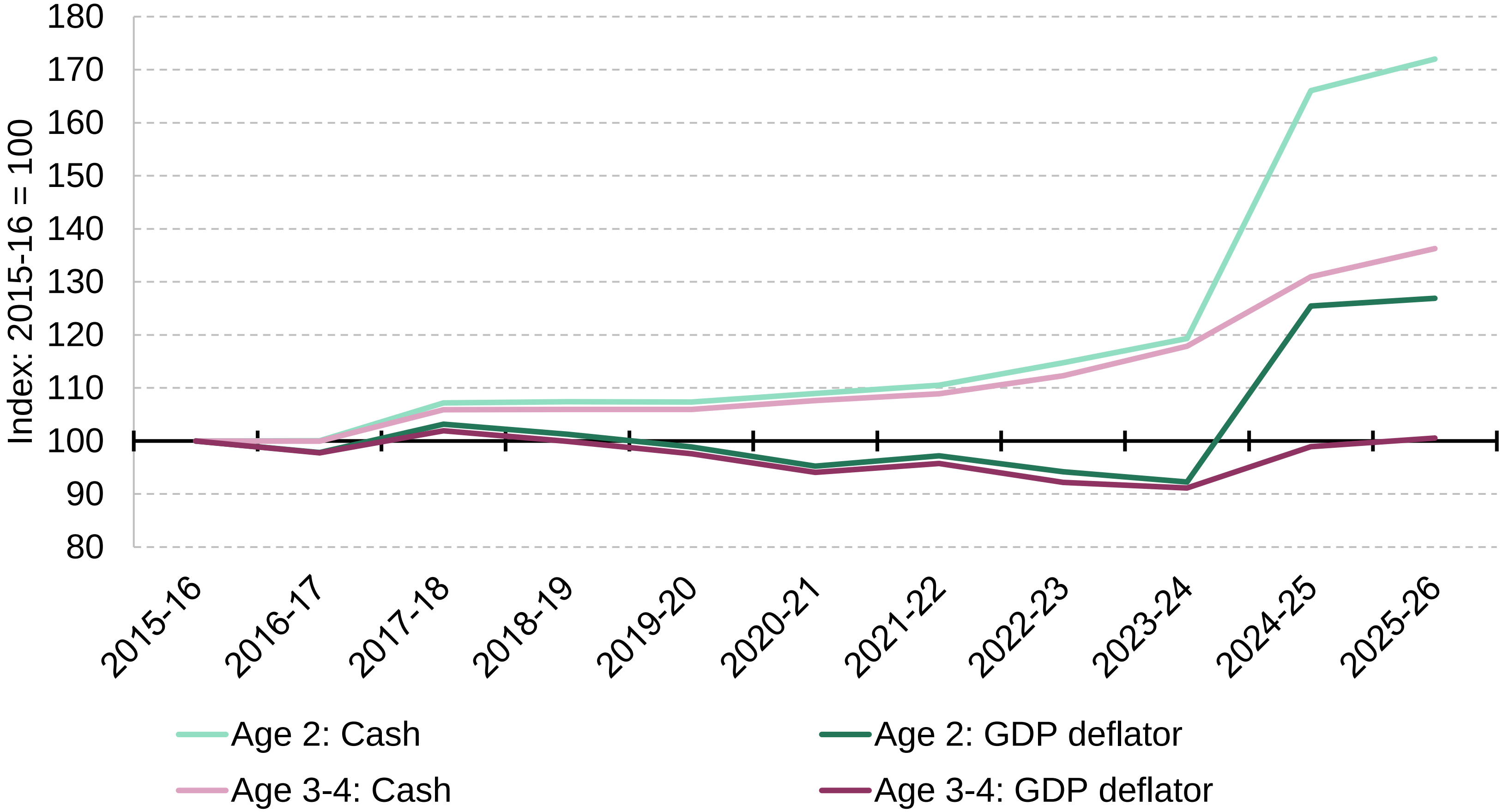
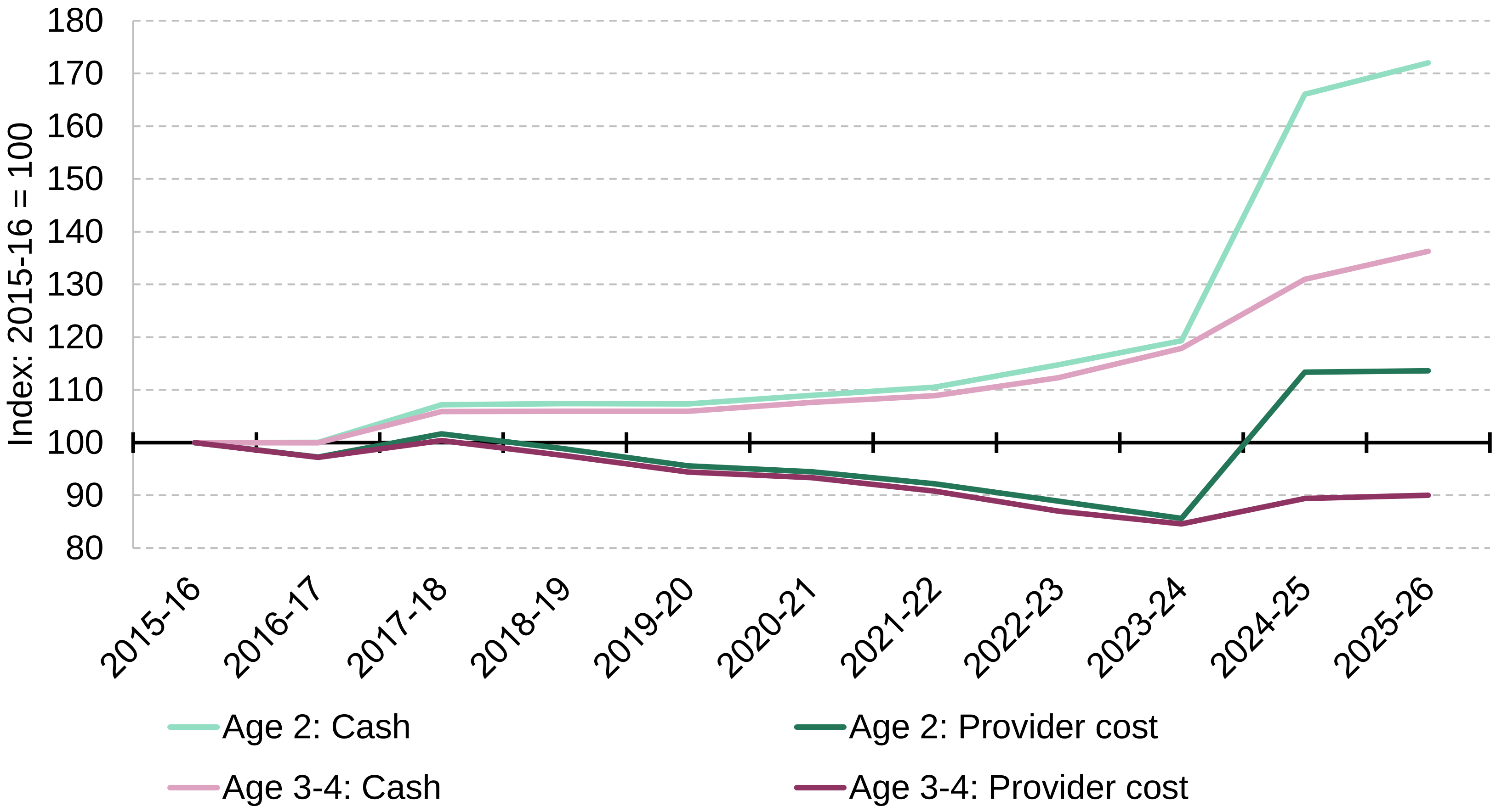
Core per-hour childcare funding over time



Source: Based on core funding rates from the Dedicated Schools Grant, ONS GDP deflators, and the IFS childcare provider cost index ([Drayton et al., 2025]).

And provider cost rises have been even higher than general inflation

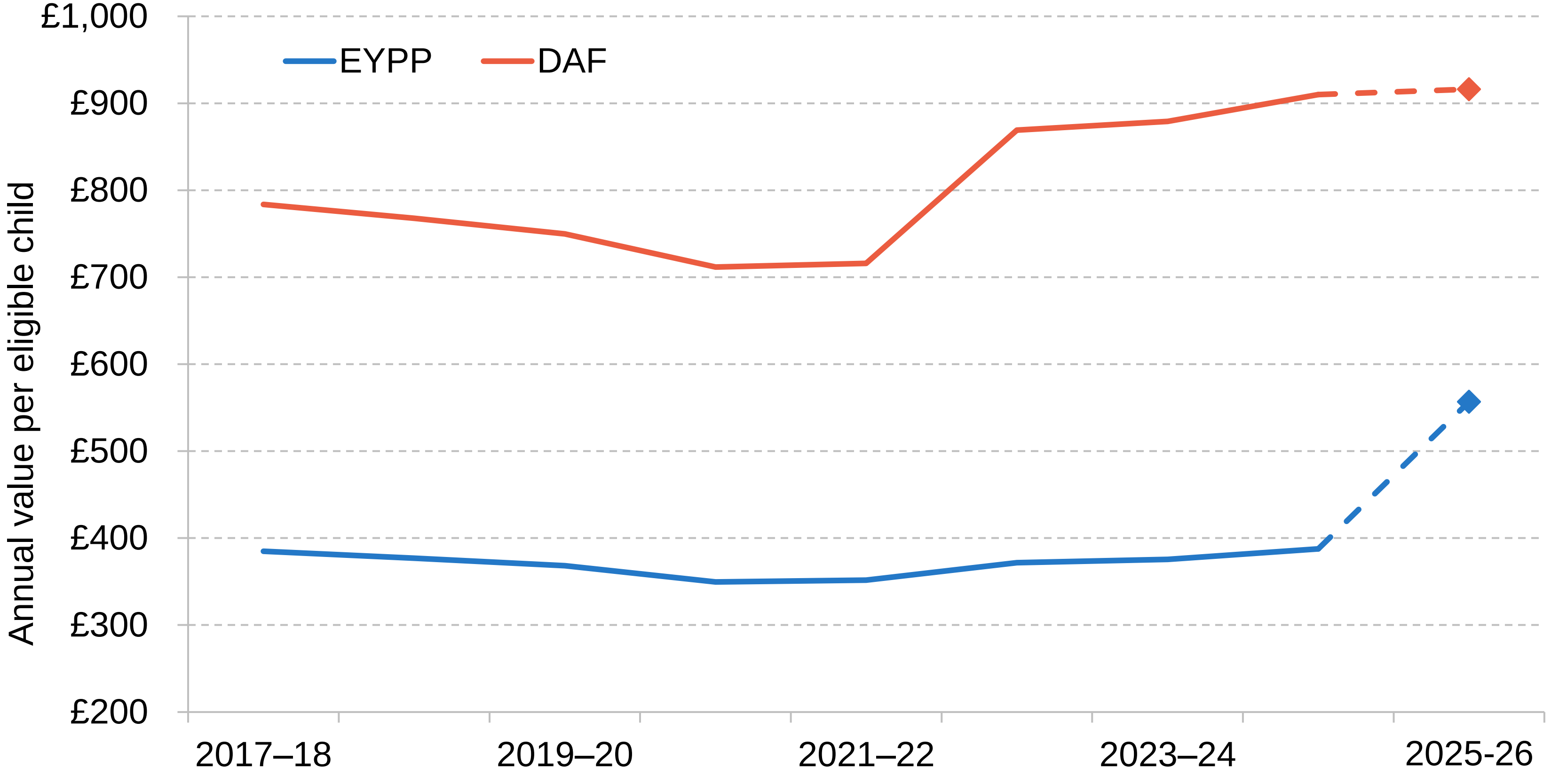
Core per-hour childcare funding over time



Source: Based on core funding rates from the Dedicated Schools Grant, ONS GDP deflators, and the IFS childcare provider cost index (Drayton et al., 2025).

Recent years prioritise national supplements

Real-terms funding for the early years pupil premium and disability access fund



Source: Figure 2.8, Drayton et al. (2025).

If you provide it, parents will use it

Who benefits from the new entitlements?

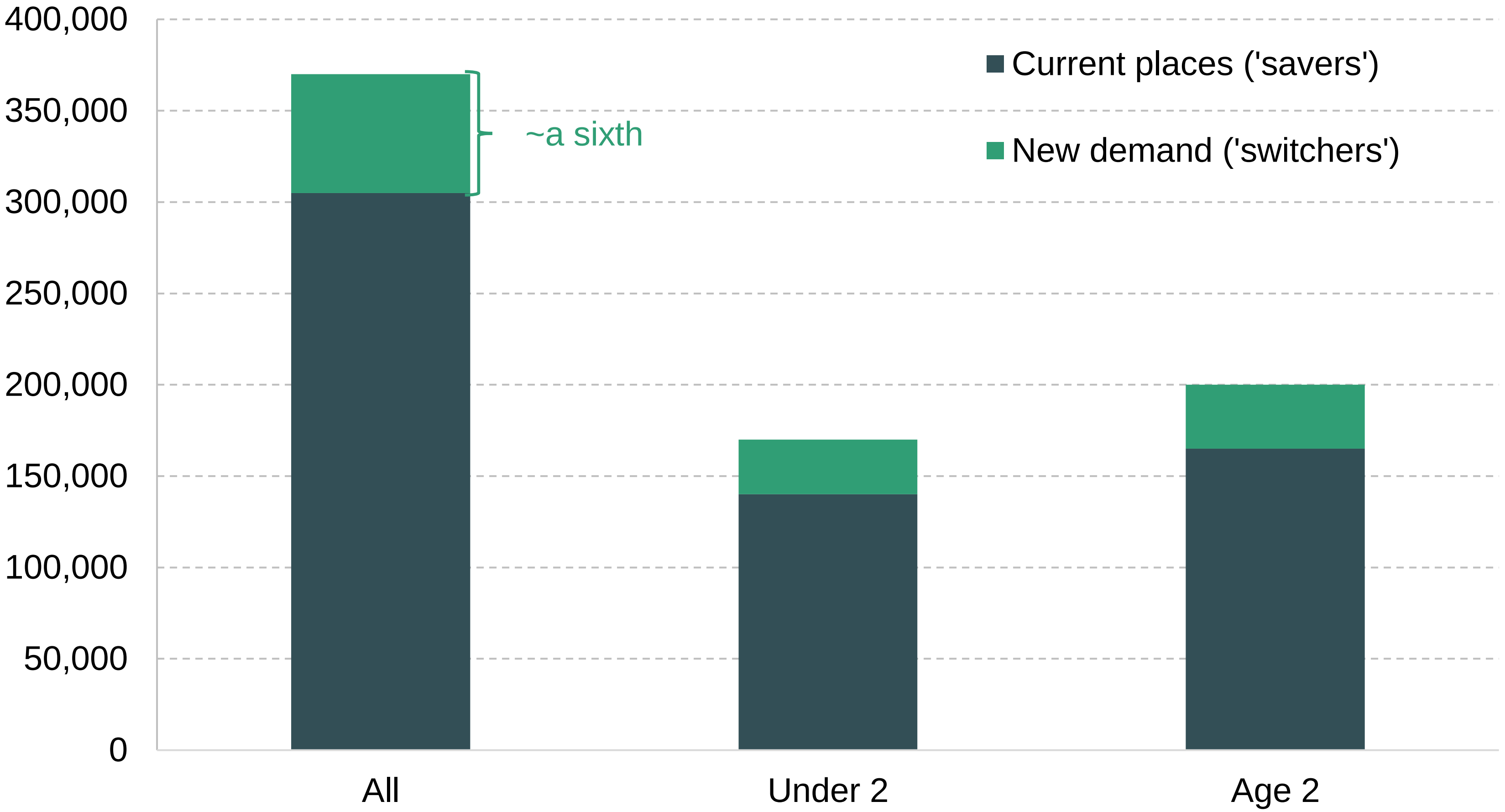
Eligible for new entitlements?

Would have used childcare anyway?

	Yes, eligible	No, not eligible
Yes, would have used childcare	**Savers** Families benefit financially from saving some (or all) of their childcare costs	**Indirectly affected** Families do not use new entitlements, but might be affected by changes in the childcare market
No, would not have used childcare	**Switchers** Families change their behaviour and use (more) formal childcare	**Unaffected**

Most entitlement hours will benefit ‘savers’

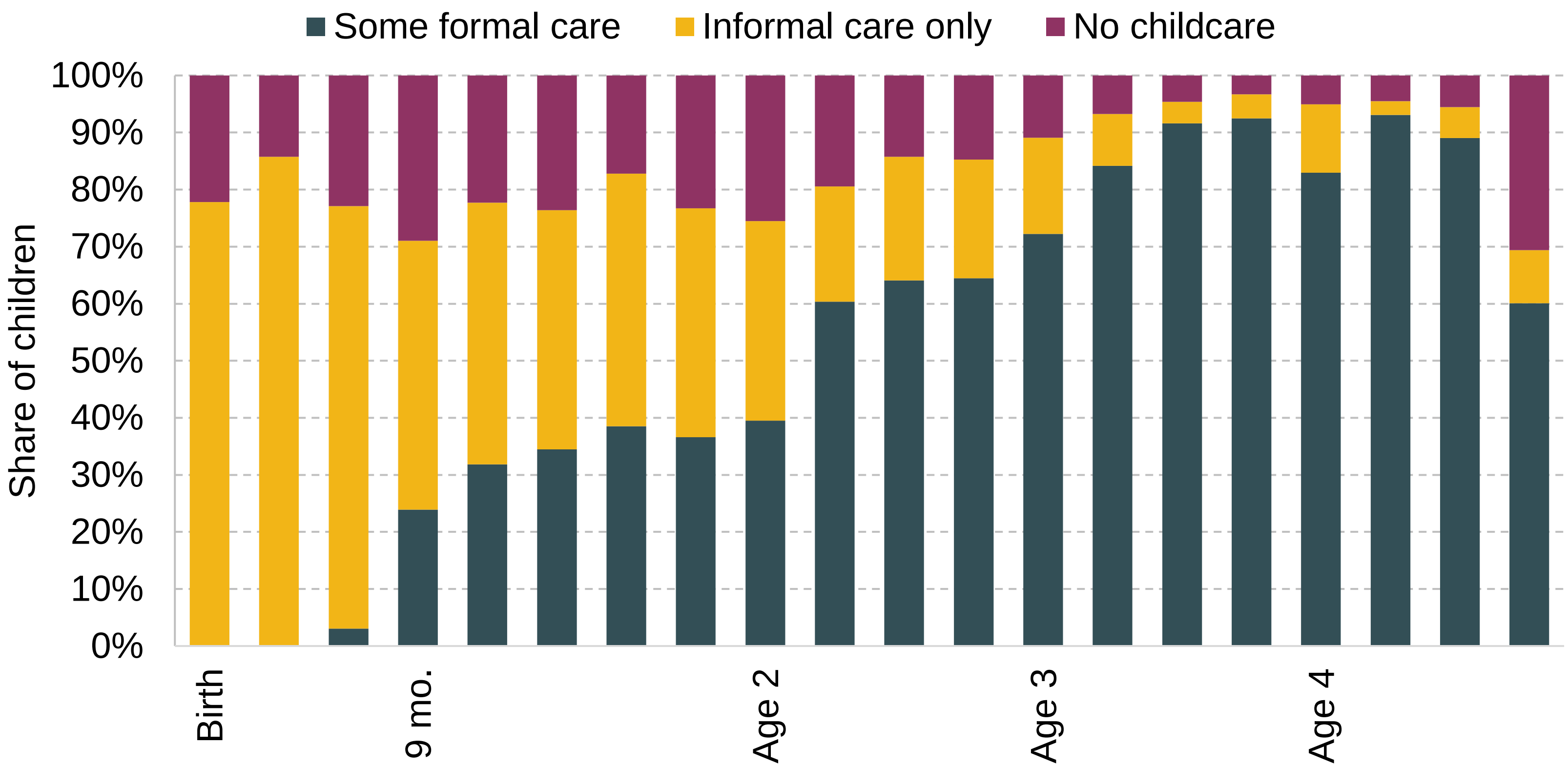
Estimated funded 30-hour places in 2027



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.

Under-3s are much less likely to use childcare…

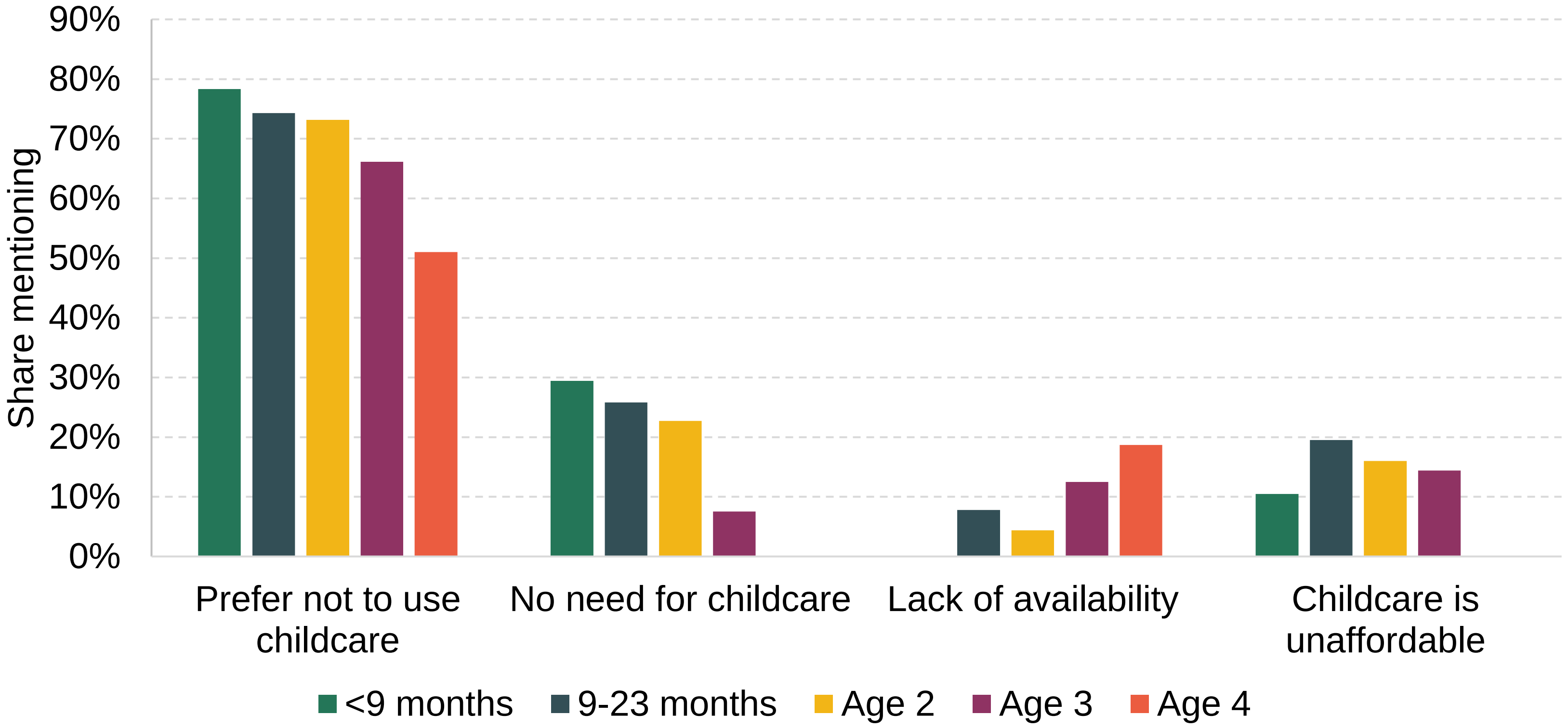
Childcare arrangements by child age (2019)



Source: Figure 2, Farquharson (2024b).

… But main reasons are around preferences

Reasons for not using any childcare (2019)

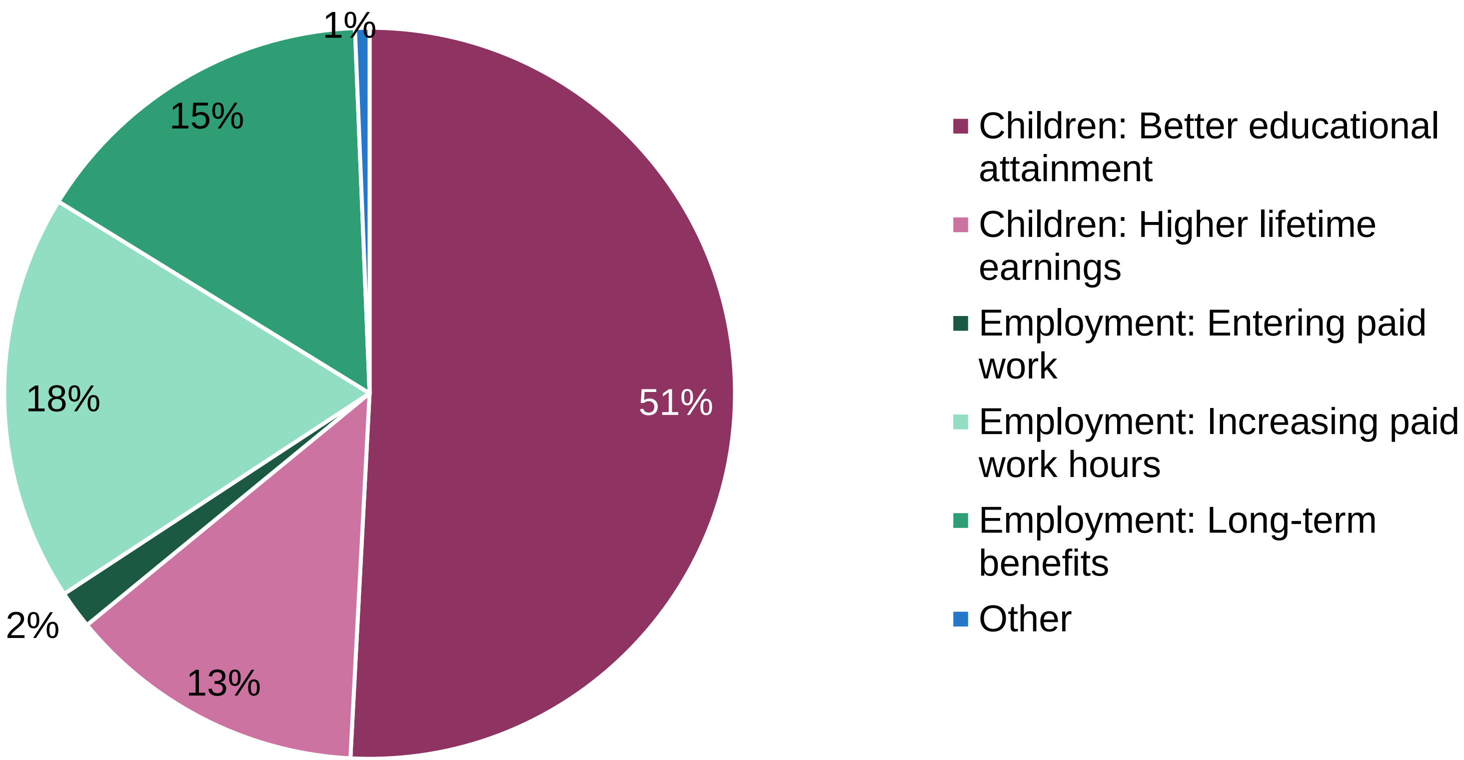


Source: Figure 4, Farquharson (2024b).

If parents use it, children will benefit

Government business case rests on children's outcomes…

Financial benefits of new entitlements



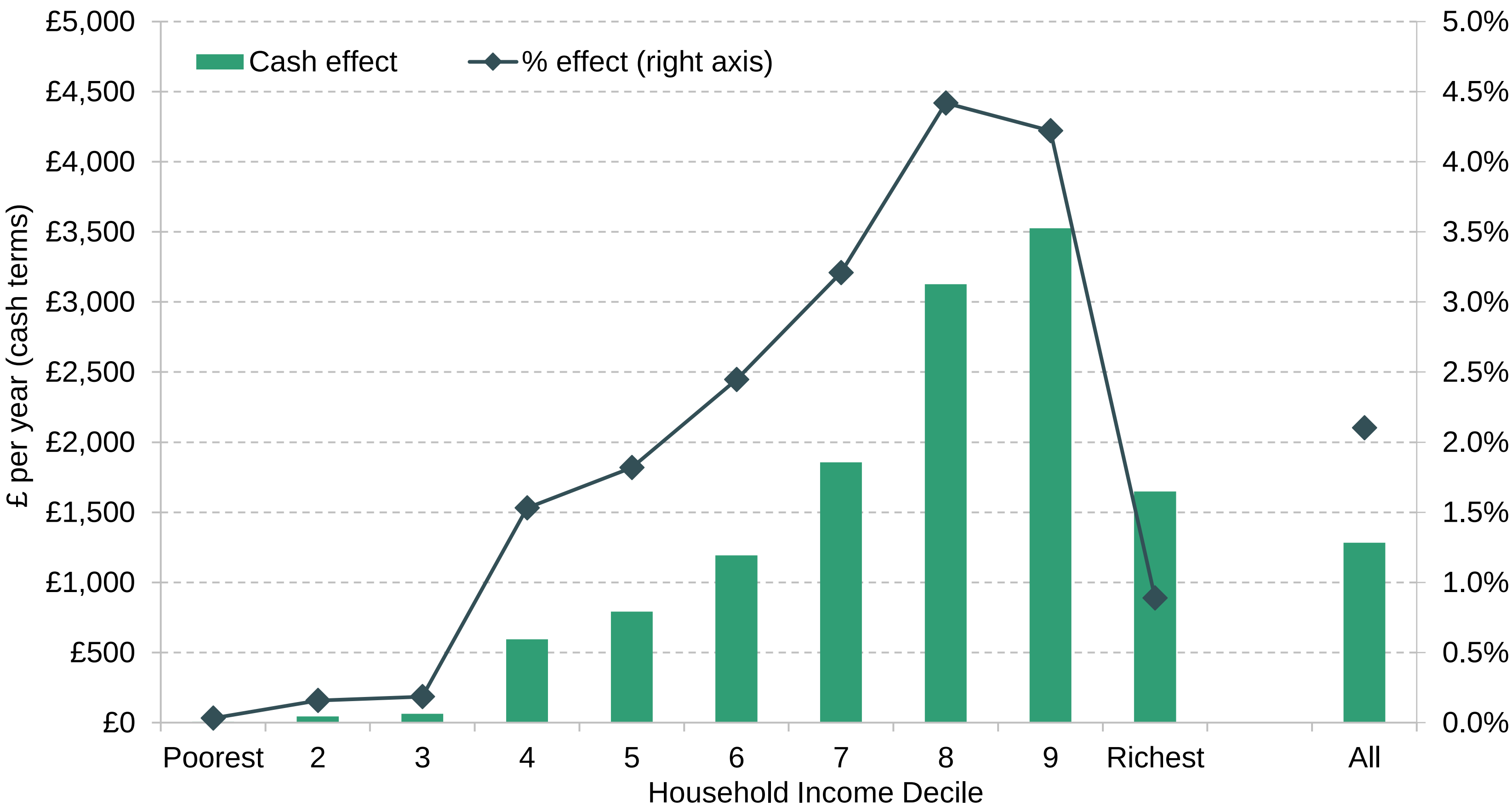
Source: DfE's central estimates for financial benefits of extensions to early years education, as at March 2024. Taken from Figure 14, National Audit Office (2024).

… But the policy design is all about employment

- Eligibility restricted to families in paid work – the most **disadvantaged children won't benefit directly**

Targeting to workers means largely benefitting richer families

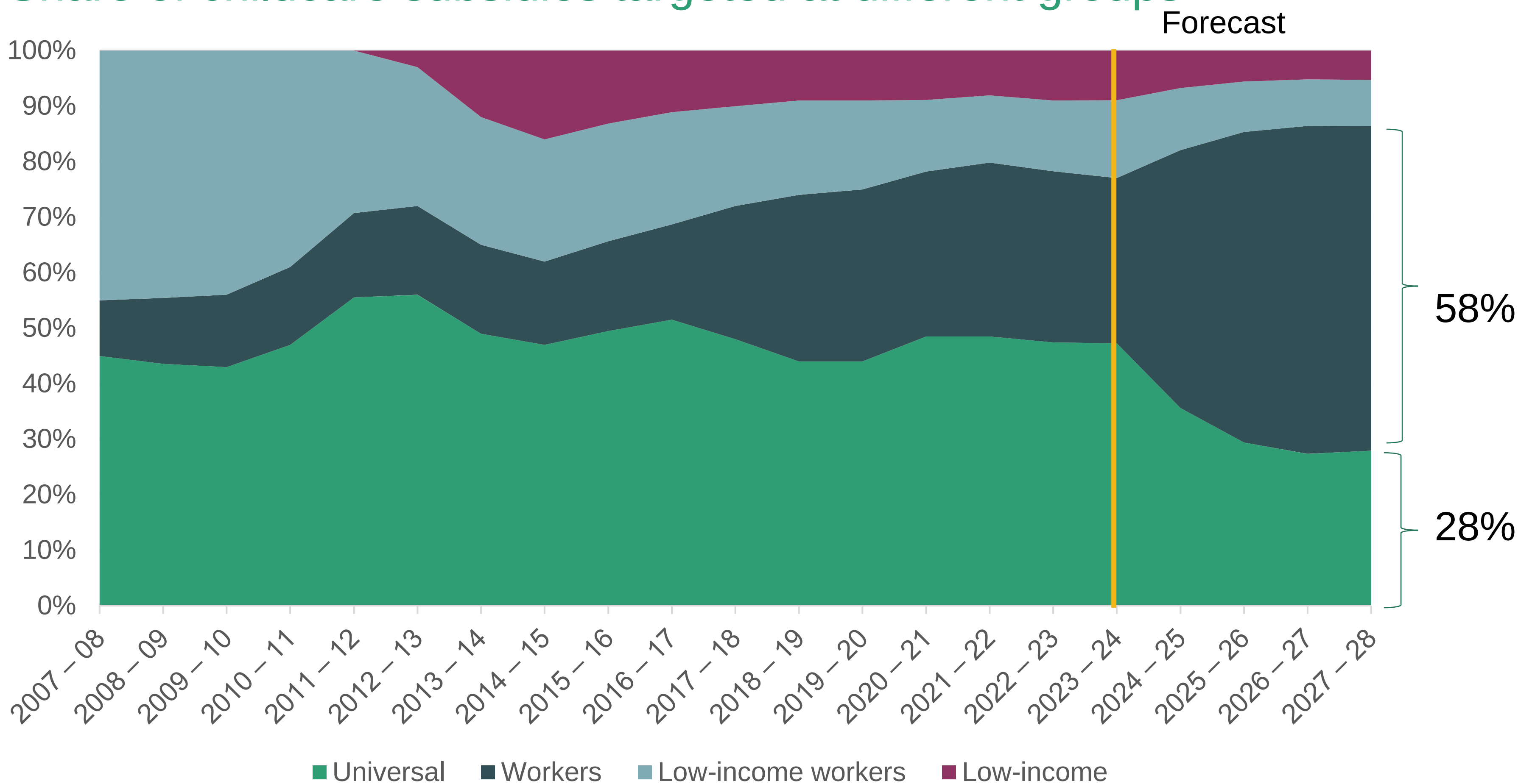
Distributional impact of free entitlement expansions



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.

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”.

… But the policy design is all about employment

- Eligibility restricted to families in paid work – the most **disadvantaged children won’t benefit directly**
- Most of the new entitlement hours will **replace formal childcare** that would have happened anyway (‘savers’)
- **Very long hours in formal care** may not be the best way to support the youngest children’s development

So will the gambles pay off?

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- Too early to know for sure!
  - But there will be high-quality evaluation happening over the next 2-3 years.

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- Too early to know for sure!

1. **If you fund it, will providers come?**

- Last two years have reversed long-run squeeze for 3/4yos
- Funding rates for *new* entitlements look (very) generous
- Should increase incentives for providers to sign up to new offers

2. **If you provide it, will parents use it?**
3. **If parents use it, will children benefit?**

So will the gambles pay off?

- Too early to know for sure!

1. **If you fund it, will providers come?**
2. **If you provide it, will parents use it?**

- Most of the funding will go to parents who otherwise would have paid for formal childcare (not ‘new’ hours or places)
- But some families will ‘switch’ their behaviour
- Constraints on childcare use aren’t just about cost or availability – preferences matter too

3. **If parents use it, will children benefit?**

So will the gambles pay off?

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- Too early to know for sure!

1. **If you fund it, will providers come?**
2. **If you provide it, will parents use it?**
3. **If parents use it, will children benefit?**

- This is a policy that's clearly focused on parents' employment (and childcare costs), not child development
- Some children in 'switcher' families may well benefit
- But the most disadvantaged – who would typically benefit most – are not eligible
- So showing substantial benefits to parents will be key

So will the gambles pay off?

- Too early to know for sure!

1. **If you fund it, will providers come?**
2. **If you provide it, will parents use it?**
3. **If parents use it, will children benefit?**

- The early years sector has seen a big investment – bucking the trend of most other public services
- Making this policy work well – for children, parents and providers – will be vital for the 'newest branch of the welfare state'

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