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Nursery World  
Business Summit

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@TheIFS

# Early years policy: Spending and design

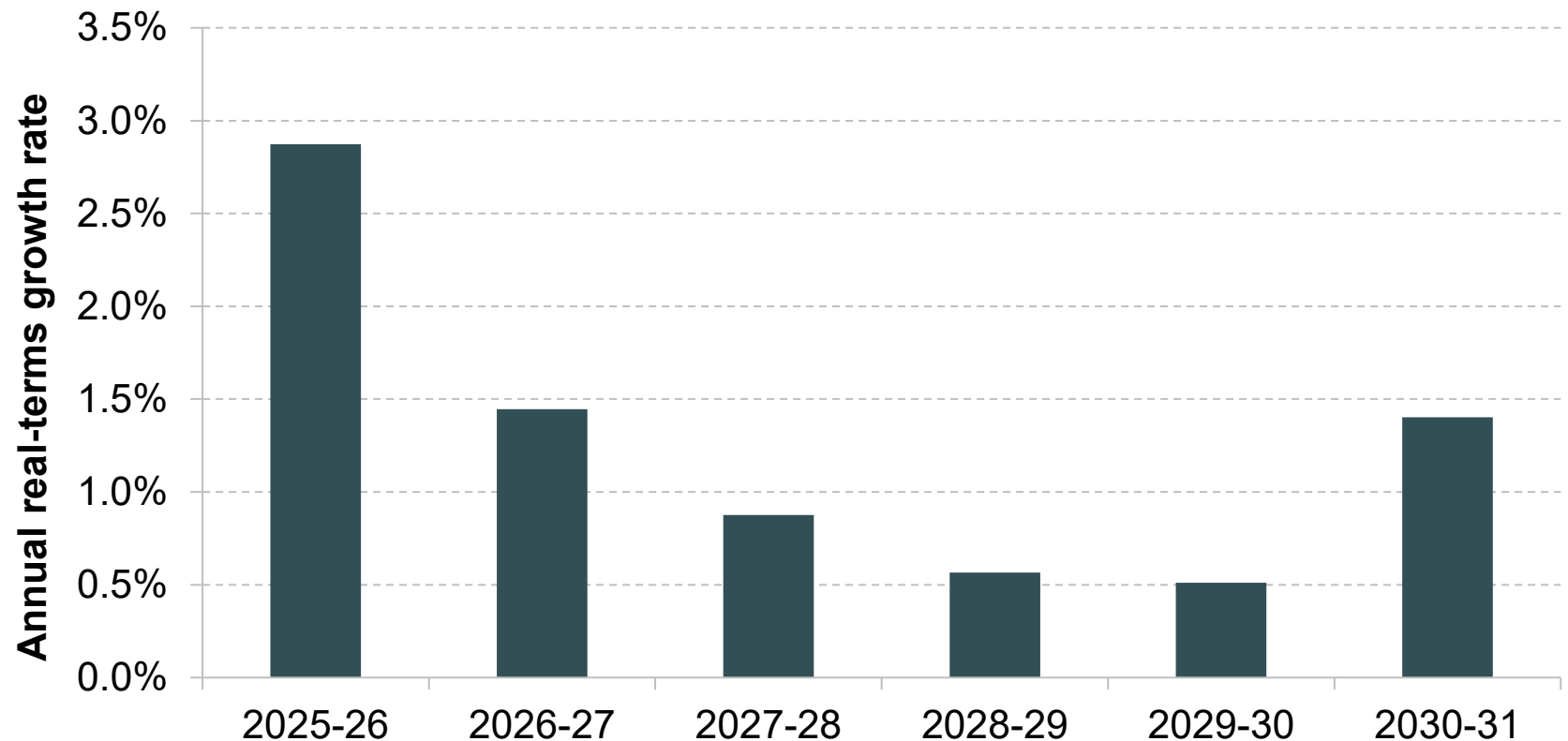


Economic  
and Social  
Research Council

# Big picture: Spending growth to slow



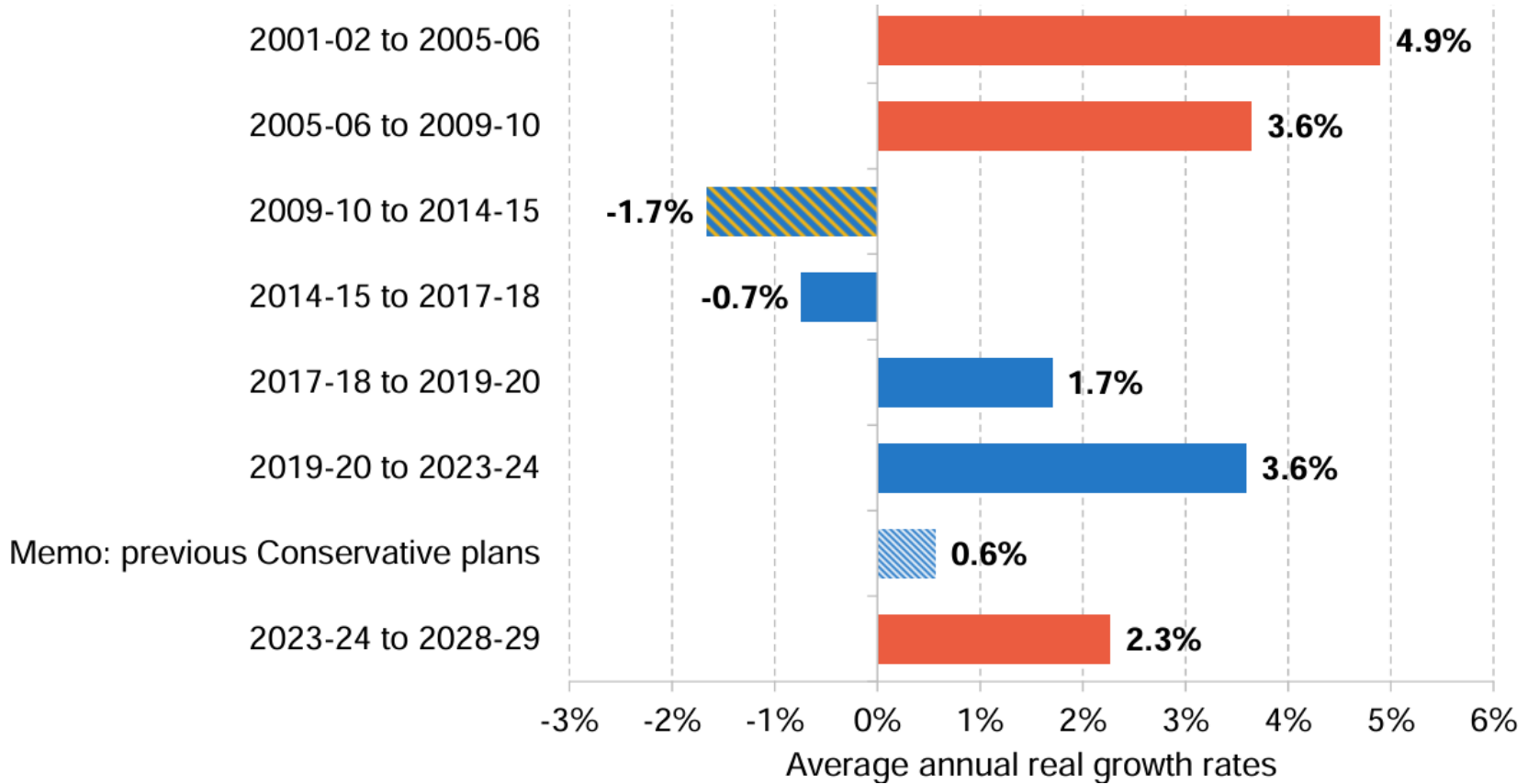
Planned day-to-day departmental spending growth (Budget 2025)



Source: RDEL plans as at Autumn 2025 Budget.

# Longer-term context: Lower spending growth

Average annual real-terms growth in total departmental spending



Source: Boileau (2025), "[Spending Review analysis: Big picture choices](#)".



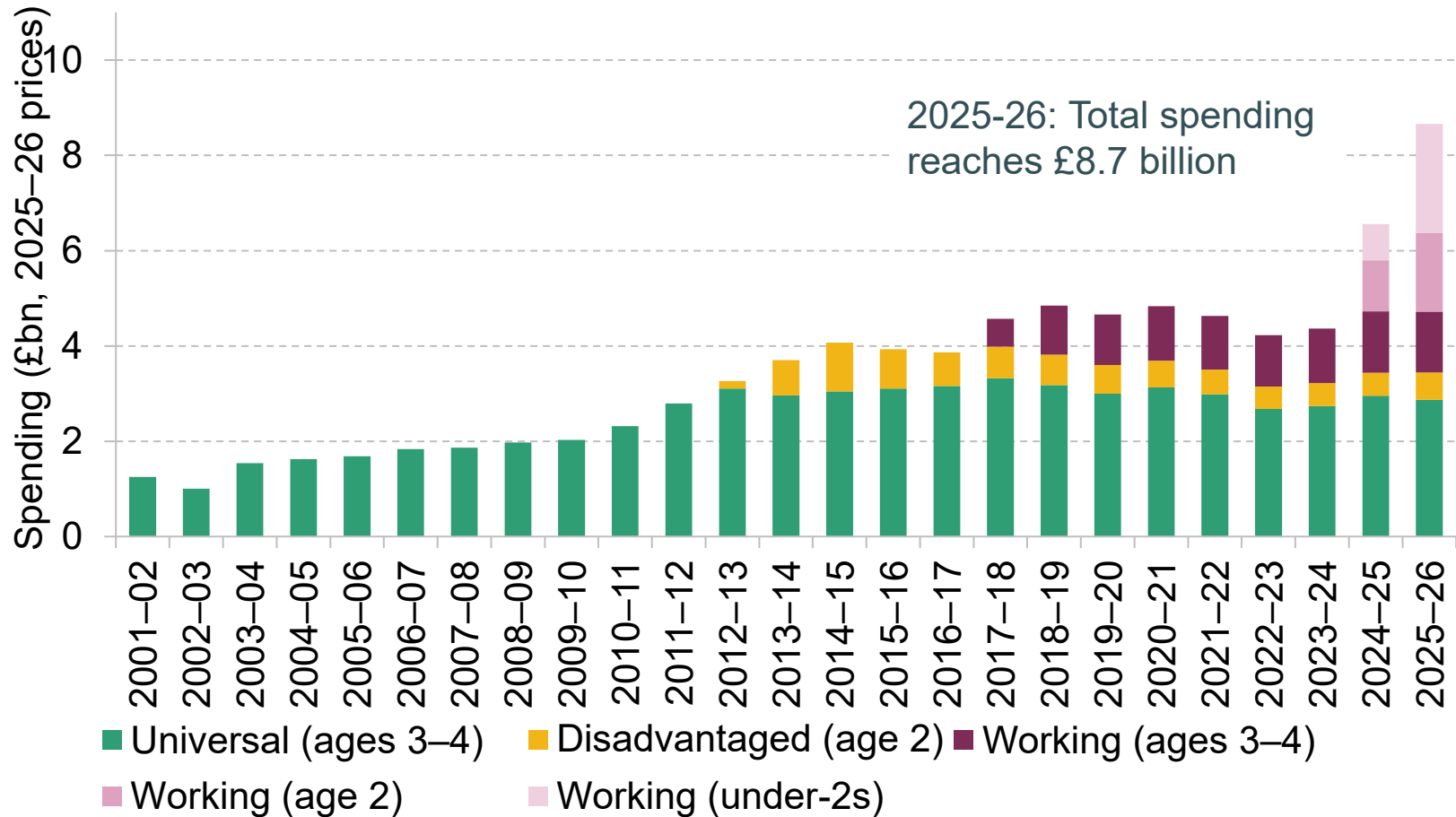
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# Changing scale of early years in England

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# Rescaling the early years system

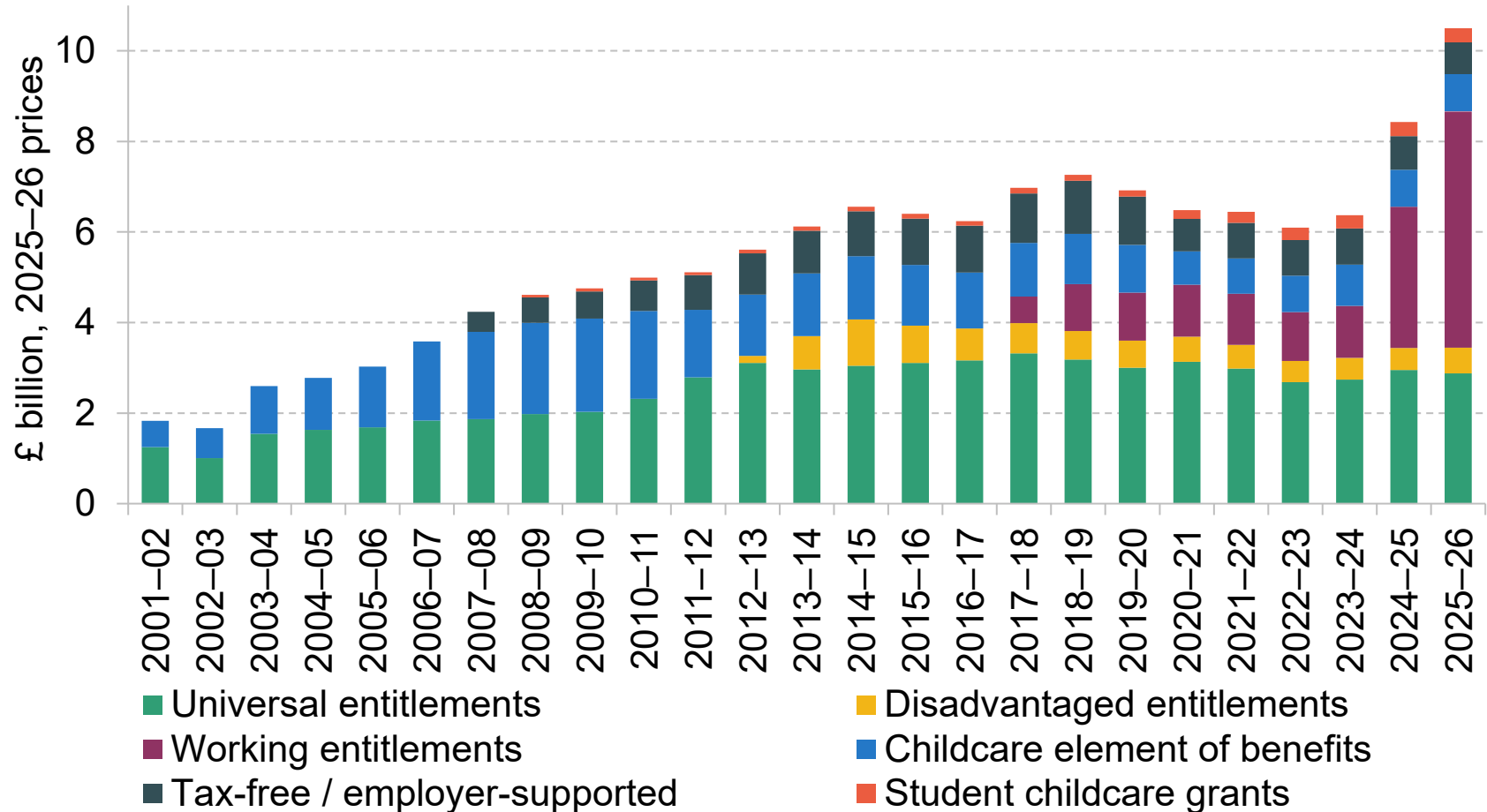
Total spending on the 'free entitlement' to a funded childcare place (£bn, 2025-26 prices)



Source: Figure 2.1, [Farquharson et al. \(2026\)](#).

# Rescaling the early years system

Total public childcare spending, by funding system (£bn, 2025-26 prices)



Source: Figure 2.10, [Farquharson et al. \(2026\)](#).

# Last year's talk: 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



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# Funding formulas

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# Funding formula: Set for change?

To make sure that the early years funding system is hardwired to benefit those children and parts of the country that have higher levels of additional need, **we will review early years funding [...] by summer 2026.**



We will consult on changes to how early years funding is allocated and distributed to ensure funding is matched to need and **promotes workforce stability and quality provision.**

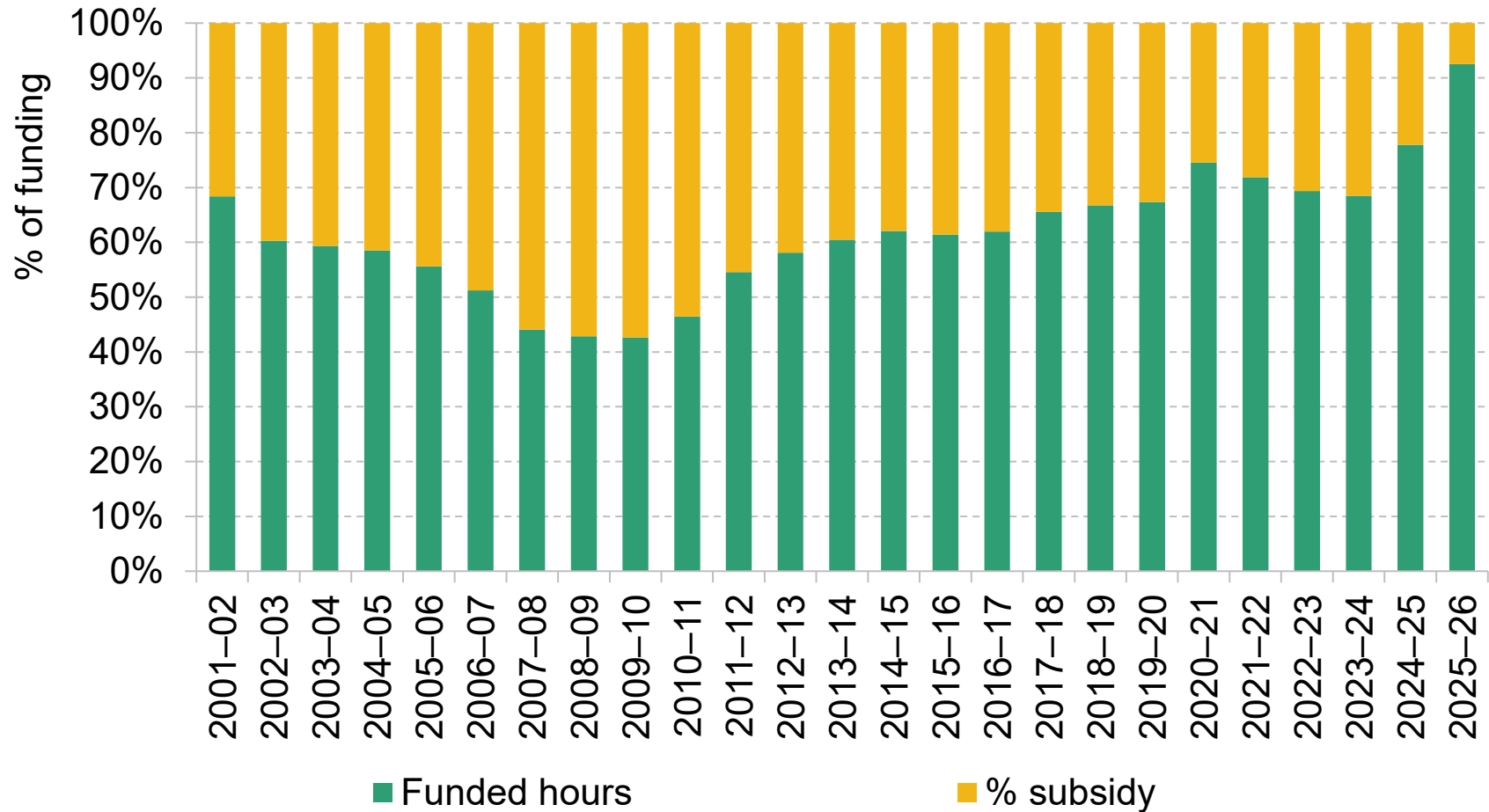
# How is funding allocated now?



- Two main “types” of funding in England today:
  - **Funded hours** (free entitlement): government sets the price and (in theory) pays 100% of it
  - **Subsidised hours** (benefits, tax-free childcare, students): government reimburses a set proportion of families’ childcare spending
- “Funded hours” are increasingly important

# Reshaping EY funding: Design

Share of public childcare support allocated through different funding mechanisms



Source: Adapted from Figure 2.10, [Farquharson et al. \(2026\)](#).

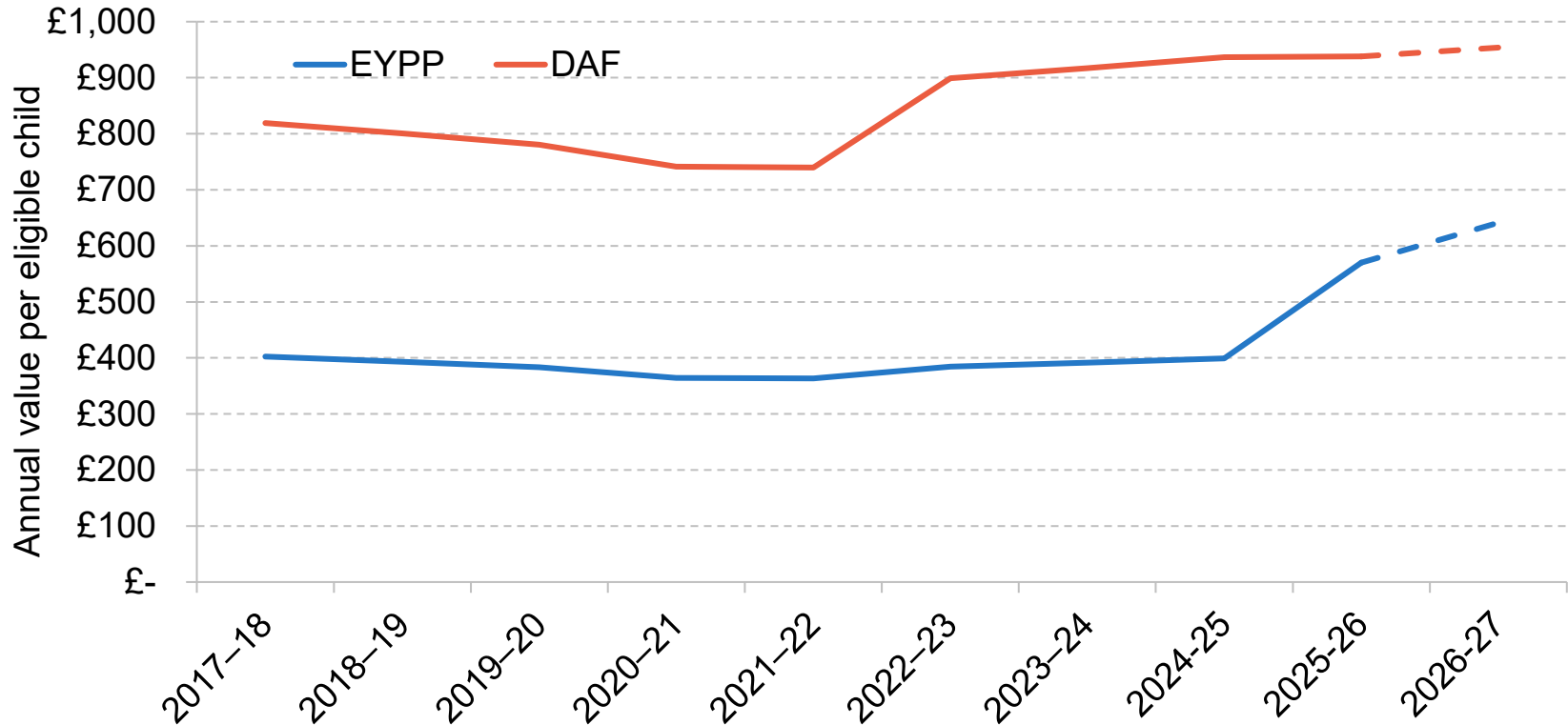
# How is free entitlement funding allocated now?



- **Early Years National Funding Formula:** Determines how free entitlement funding is allocated across local authorities. It sets:
  - Core funding rates for under-2s, 2yos, and 3- and 4-yos
  - Funding supplements:
    - Early Years Pupil Premium
    - Disability Access Funding
    - Supplementary funding for Maintained Nursery Schools

# Supplements have grown over time...

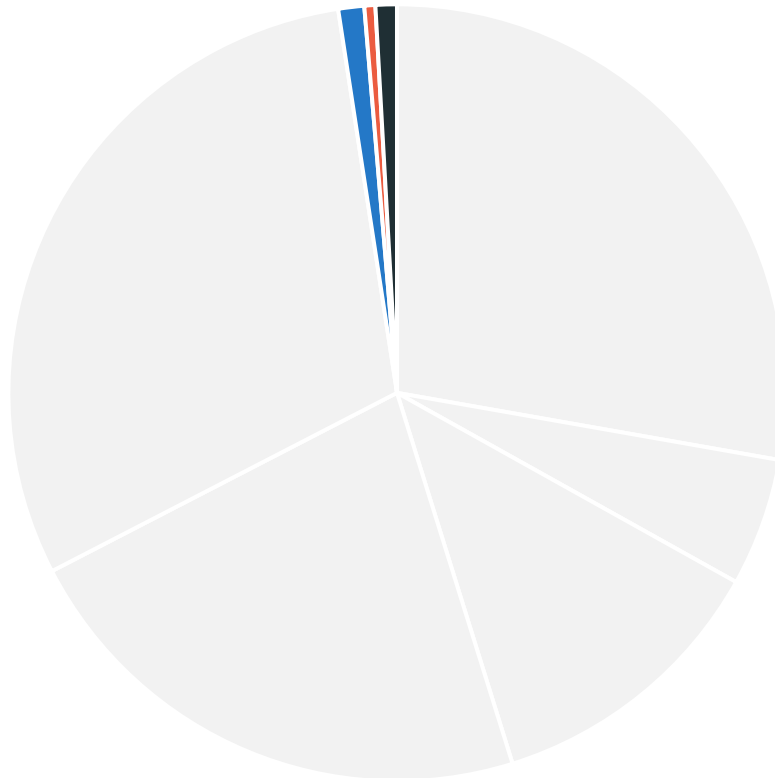
Real-terms funding for the Early Years Pupil Premium and Disability Access Fund (2025-26 prices)



Source: Adapted from Figure 2.8, [Drayton et al. \(2025\)](#). Updated with 2026-27 Dedicated Schools Grant.

# ... But the vast majority of funding is allocated through core rates

Share of funding allocated in 2026-27 Dedicated Schools Grant

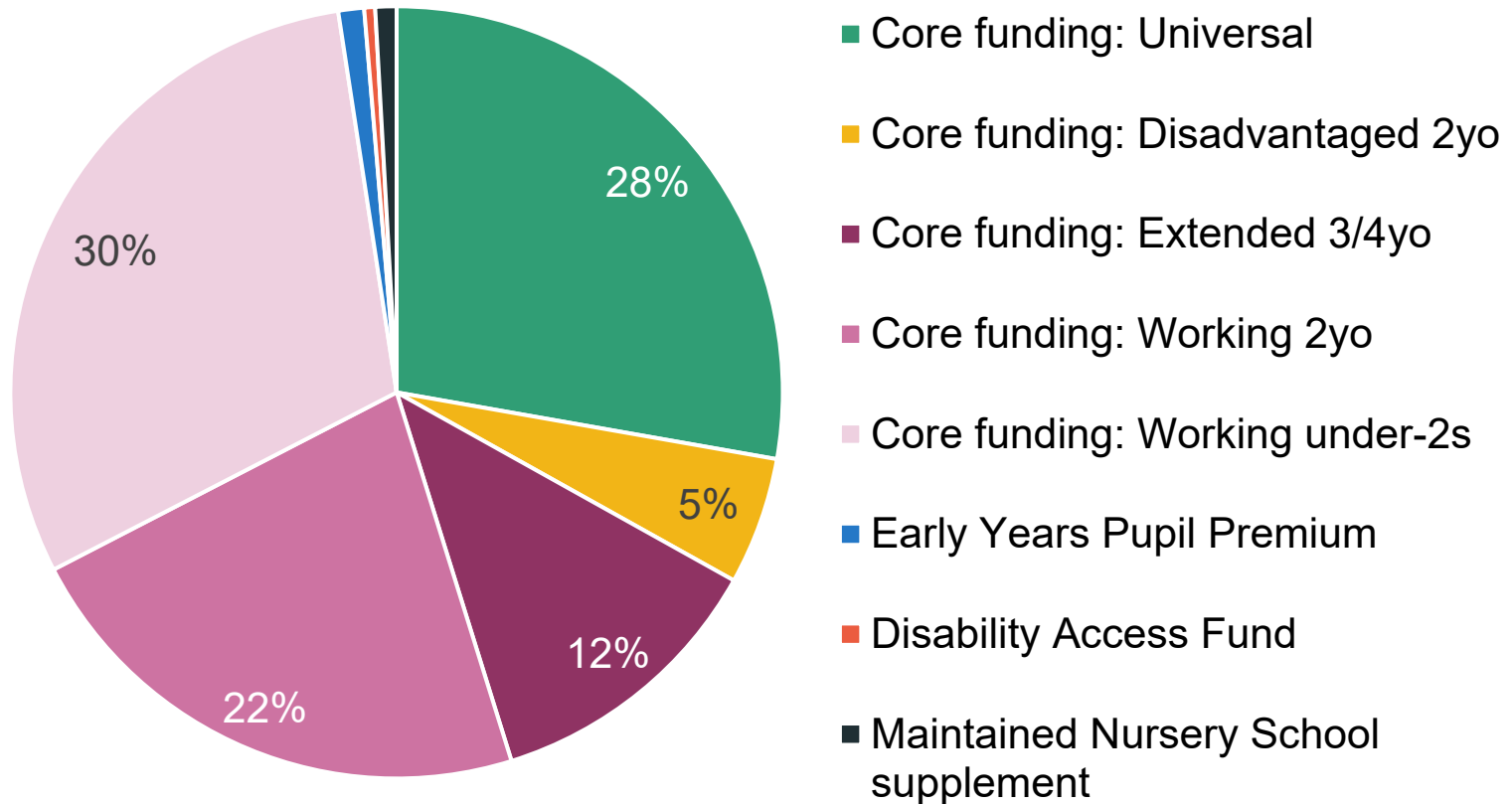


- Core funding: Universal
- Core funding: Disadvantaged 2yo
- Core funding: Extended 3/4yo
- Core funding: Working 2yo
- Core funding: Working under-2s
- Early Years Pupil Premium
- Disability Access Fund
- Maintained Nursery School supplement

Source: DfE, "[Dedicated Schools Grant: 2026-27](#)" (initial allocations from December 2025).

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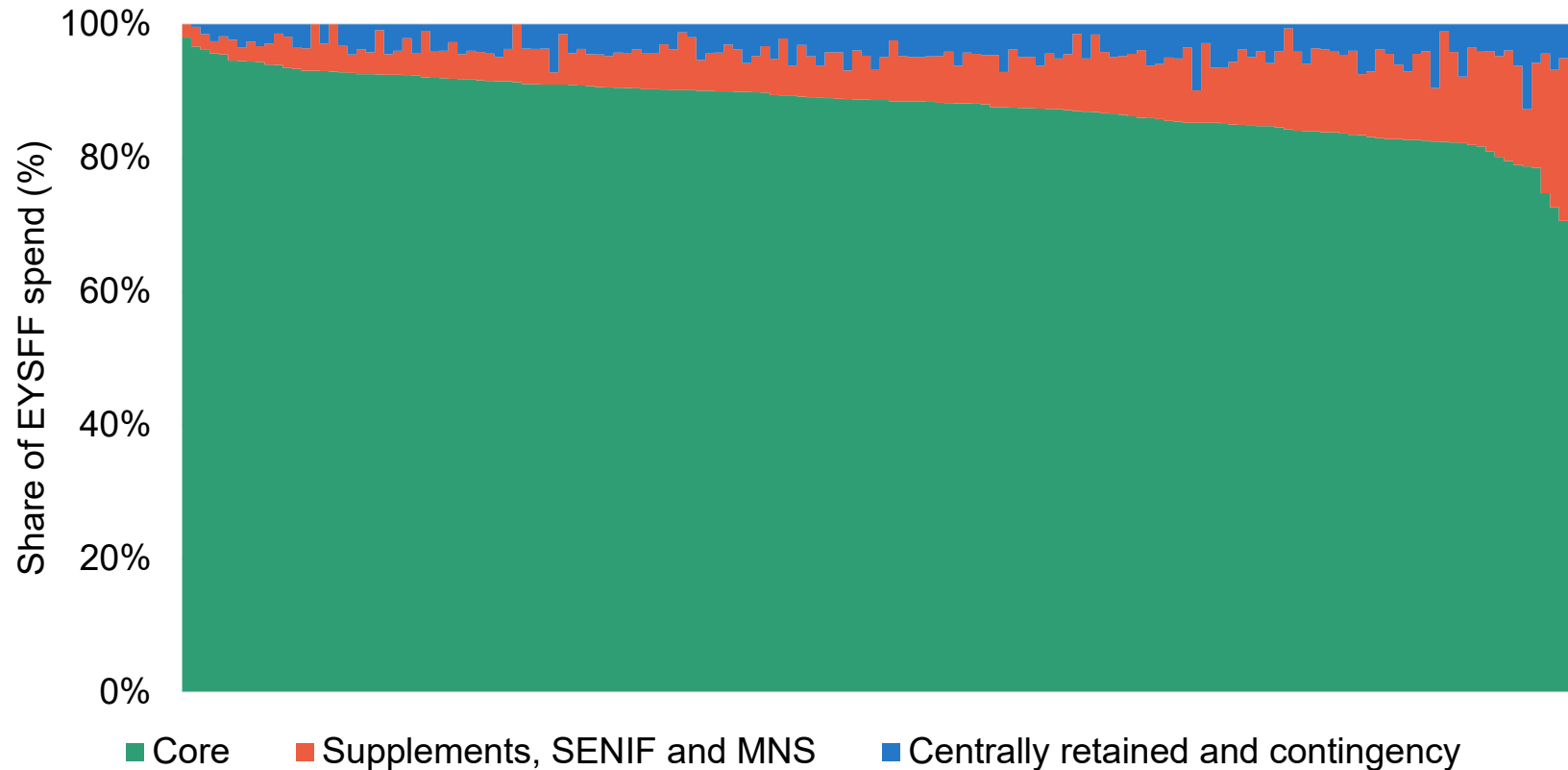
# How is free entitlement funding allocated now?



- **Early Years National Funding Formula:** Determines how free entitlement funding is allocated across local authorities
- **Early Years Single Funding Formula(s):** Local authorities each set their own funding formula, covering:
  - Core funding rates: Same for all providers (except MNS)
  - Mandatory: Deprivation supplement for 3- and 4-year-olds
  - Optional: Supplements for quality, rurality, flexibility, EAL
  - Local authorities should pass through 96% of DfE funding to providers (rising to 97% next year)

# LAs vary a lot in use of supplements

## Composition of spending under EYSFF, by LA (2023-24)



Source: Figure 2.5, Drayton et al. (2025).

→ Core funding rates set in the DSG matter a lot.



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# Funding rates

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# Funding rates



- The vast majority of early years spending is initially allocated through core funding rates in the Dedicated Schools Grant.
  - Smaller bits of funding ‘follow the child’ directly (EYPP, DAF)
- These funding rates:
  - Don’t vary by provider type (except maintained nursery schools)
  - Vary a lot more by child age than provider fees do

# Funding much more tightly linked to age of child

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.

# Funding rates

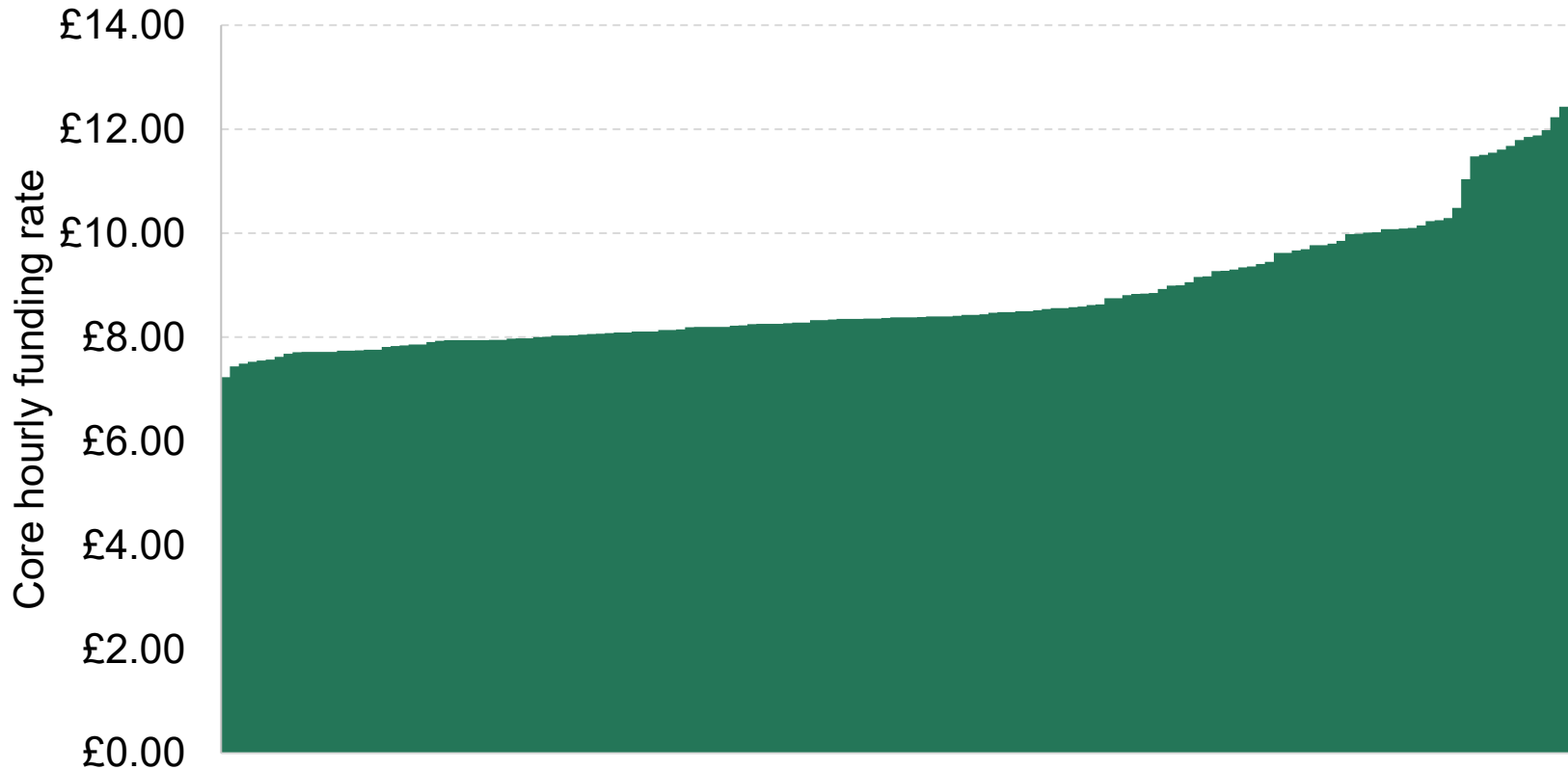


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  - Vary a fair bit by local authority – but not much within LA

# Funding rates vary a lot across LAs



## Core DSG LA funding rates for 2-year-olds, 2025-26



Source: DfE, "Dedicated Schools Grant: 2025-26" (January 2026 version).

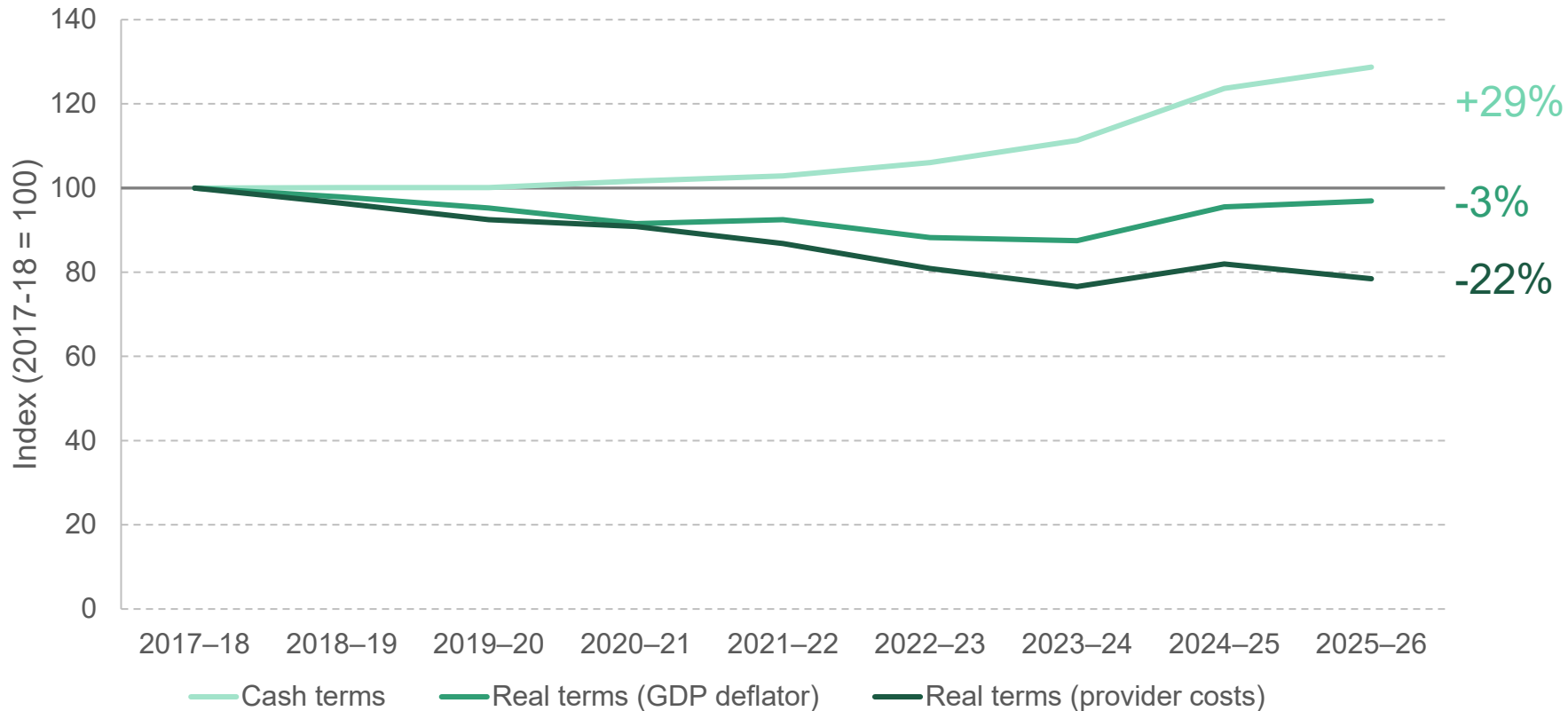
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- These funding rates:
  - Don’t vary by provider type (except maintained nursery schools)
  - Vary a lot more by child age than provider fees do
  - Vary a fair bit by local authority – but not much within LA
  - Don’t automatically rise with inflation (or provider costs)

# Funding rates over time

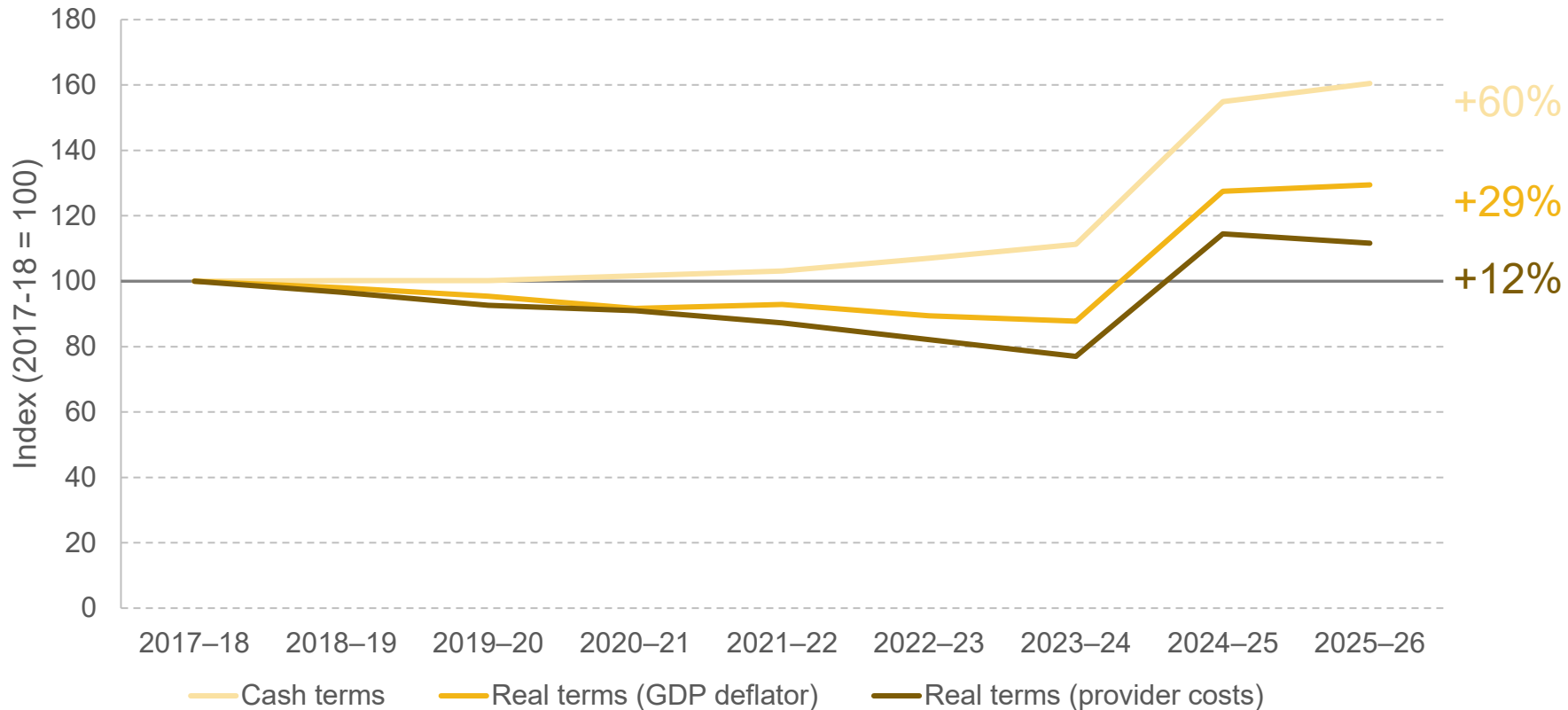
Core funding per hour for 3- and 4-year-olds (relative to 2017-18)



Source: Adapted from Figure 2.8, [Farquharson et al. \(2026\)](#) and the Dedicated Schools Grant (various years).

# Funding rates over time

Core funding per hour for 2-year-olds (relative to 2017-18)



Source: Adapted from Figure 2.8, [Farquharson et al. \(2026\)](#) and the Dedicated Schools Grant (various years).



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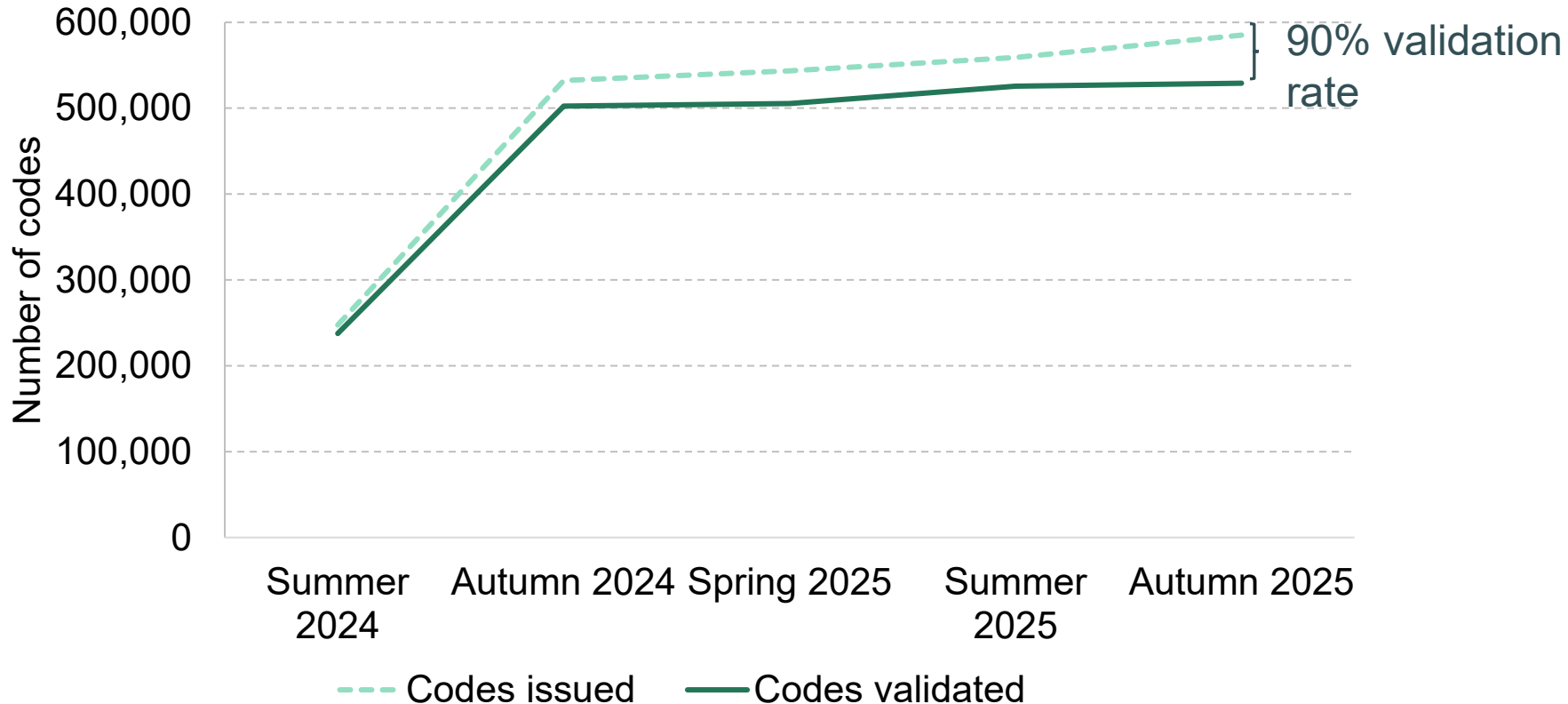
**If you fund it, will they  
come?**

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# Half a million children using new entitlements



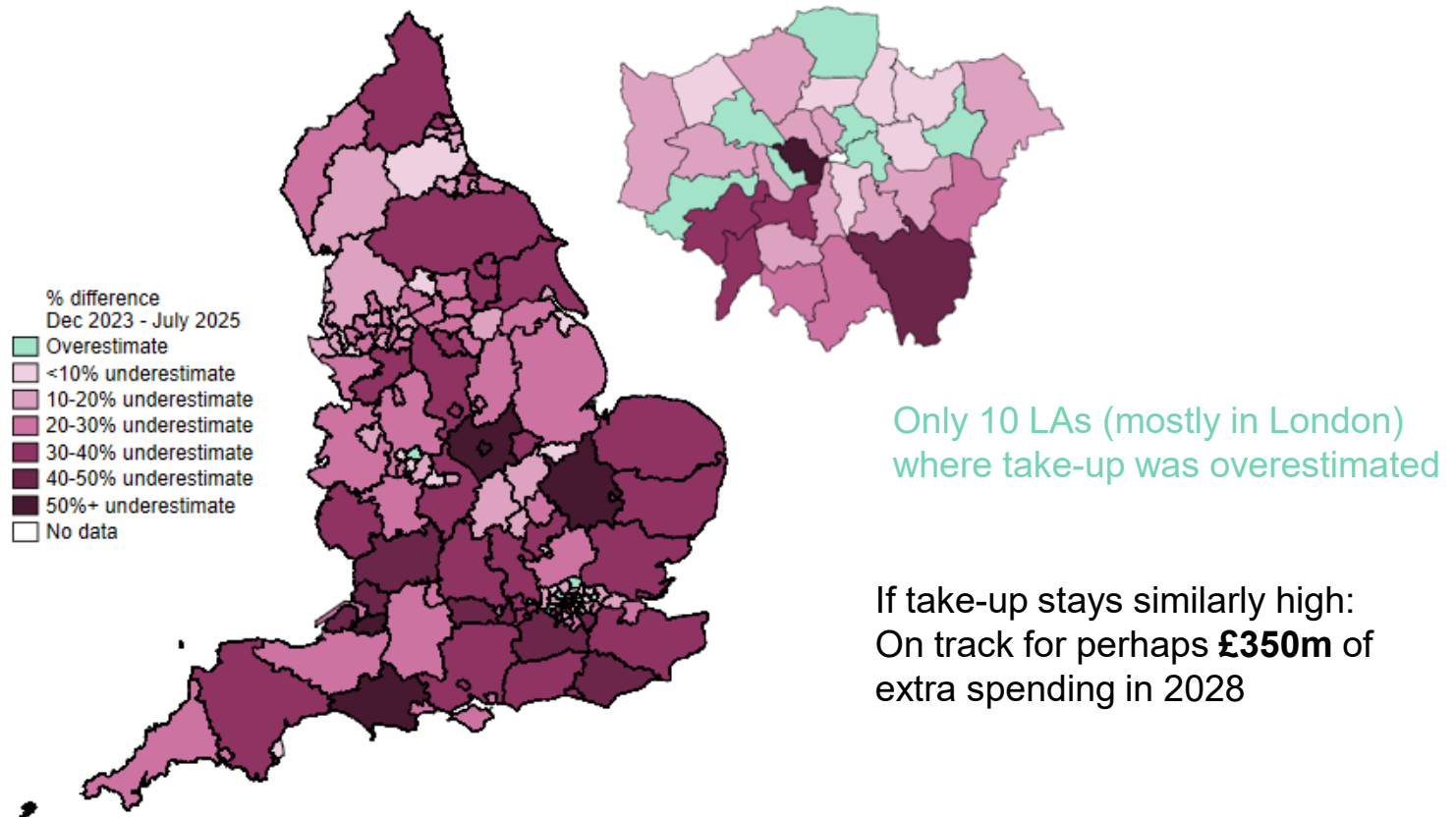
## Eligibility codes issued and validated



Source: DfE [“Expansion to early childcare entitlements: eligibility codes issued and validated”](#) (various releases).

# New entitlements: Take-up higher than expected

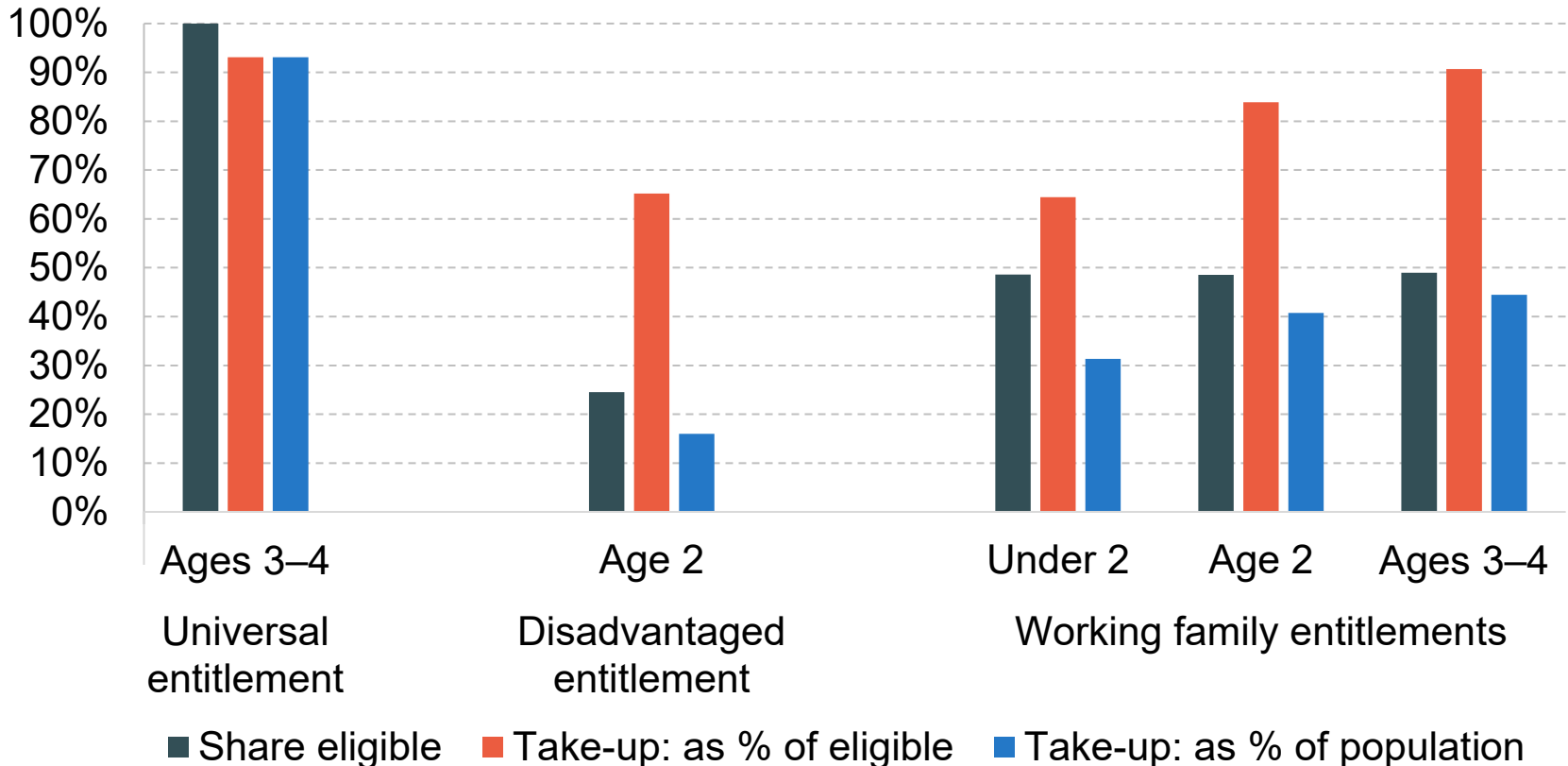
Percentage change in predicted take-up of the new entitlements in 2024-25, from first publication (December 2023) to July 2025



Source: Figure 2.3, [Farquharson et al. \(2026\)](#).

# A third of under-3s now claiming working parent funded hours

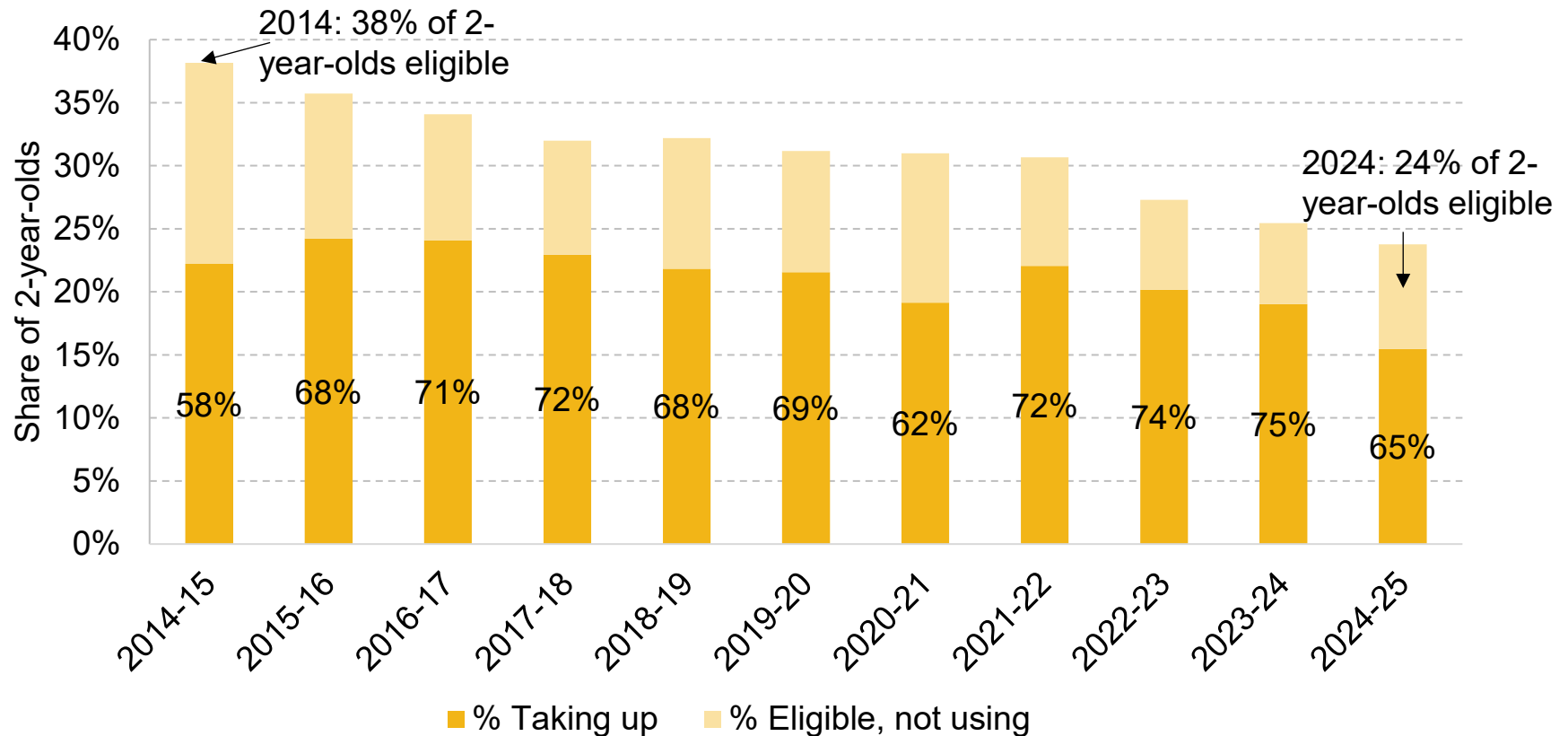
Eligibility and take-up for different elements of the free entitlement, 2025



Source: Figure 2.2, Drayton et al. (2026).

# Disadvantaged offer: Ever tighter eligibility criteria

Share of 2-year-olds eligible for and using disadvantaged offer



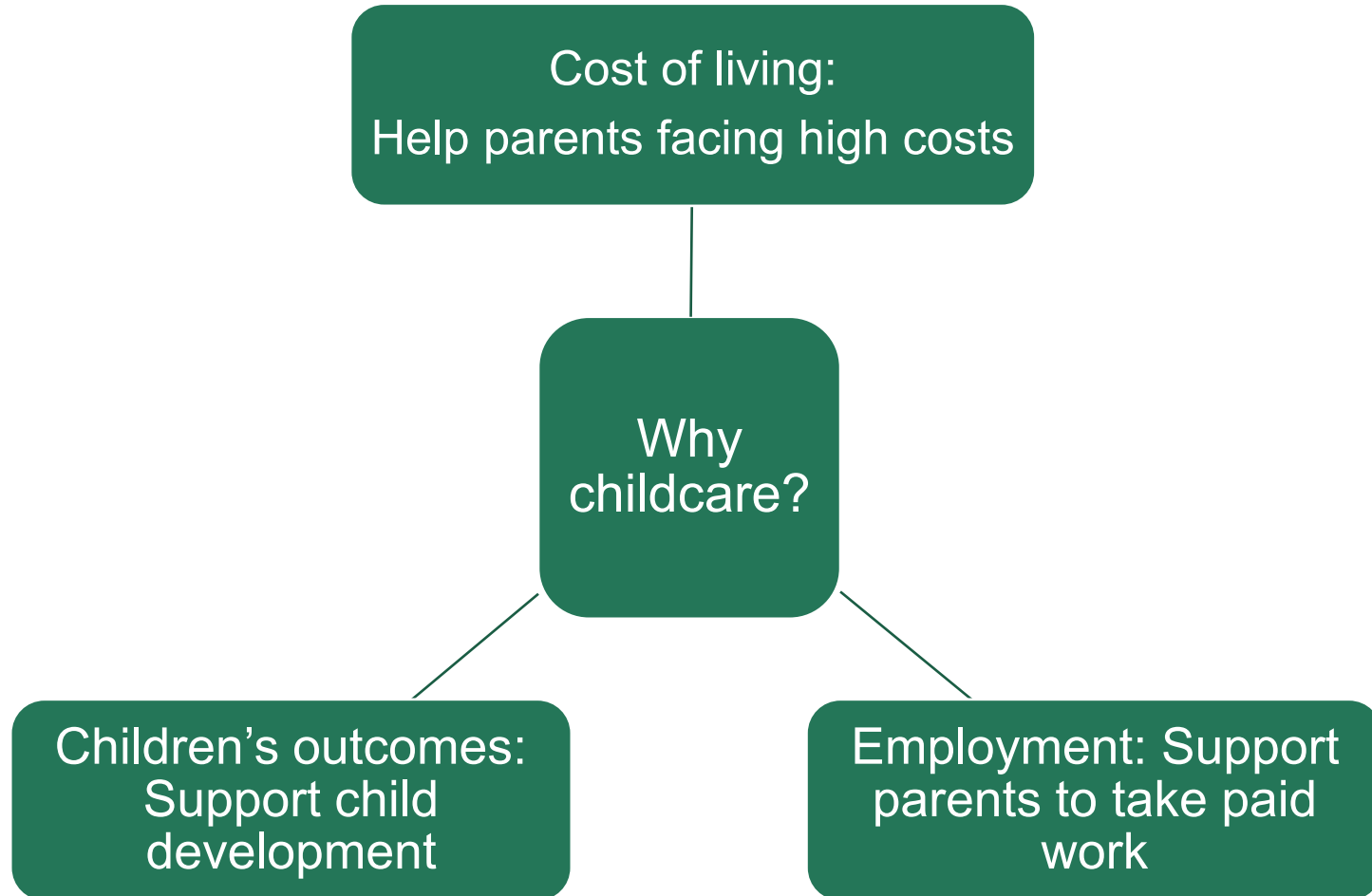
Source: Figure 2.7, [Farquharson et al. \(2026\)](#).



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# Outcomes from the free entitlement

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# Reshaping EY funding: Targeting

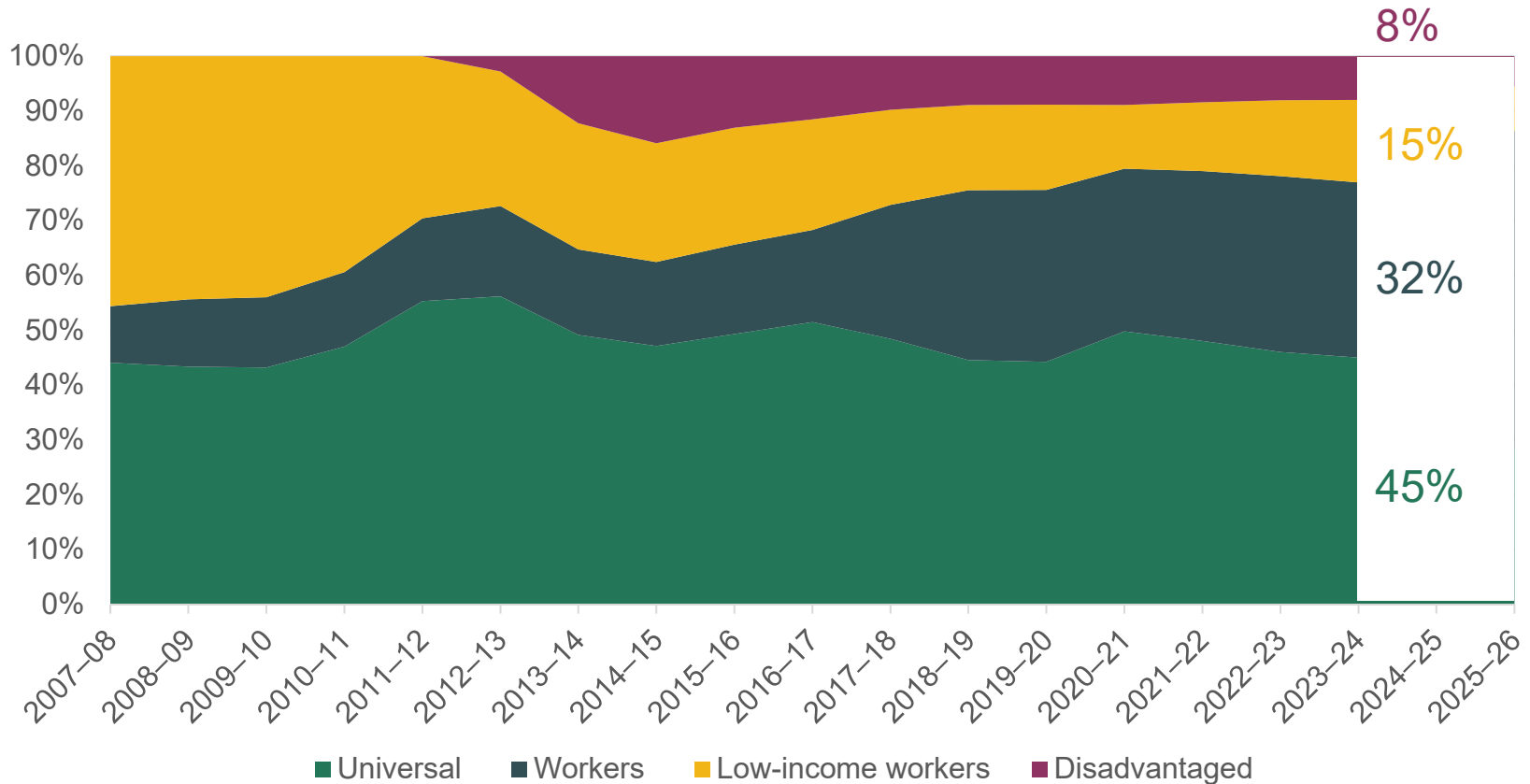
## Share of childcare subsidies targeted at different groups



Note: Includes spending on all free entitlement programmes, as well as spending on childcare subsidies through the benefits system and through tax-free childcare and childcare vouchers. Source: Figure 2.11, [Farquharson et al. \(2026\)](#).

# Reshaping EY funding: Targeting

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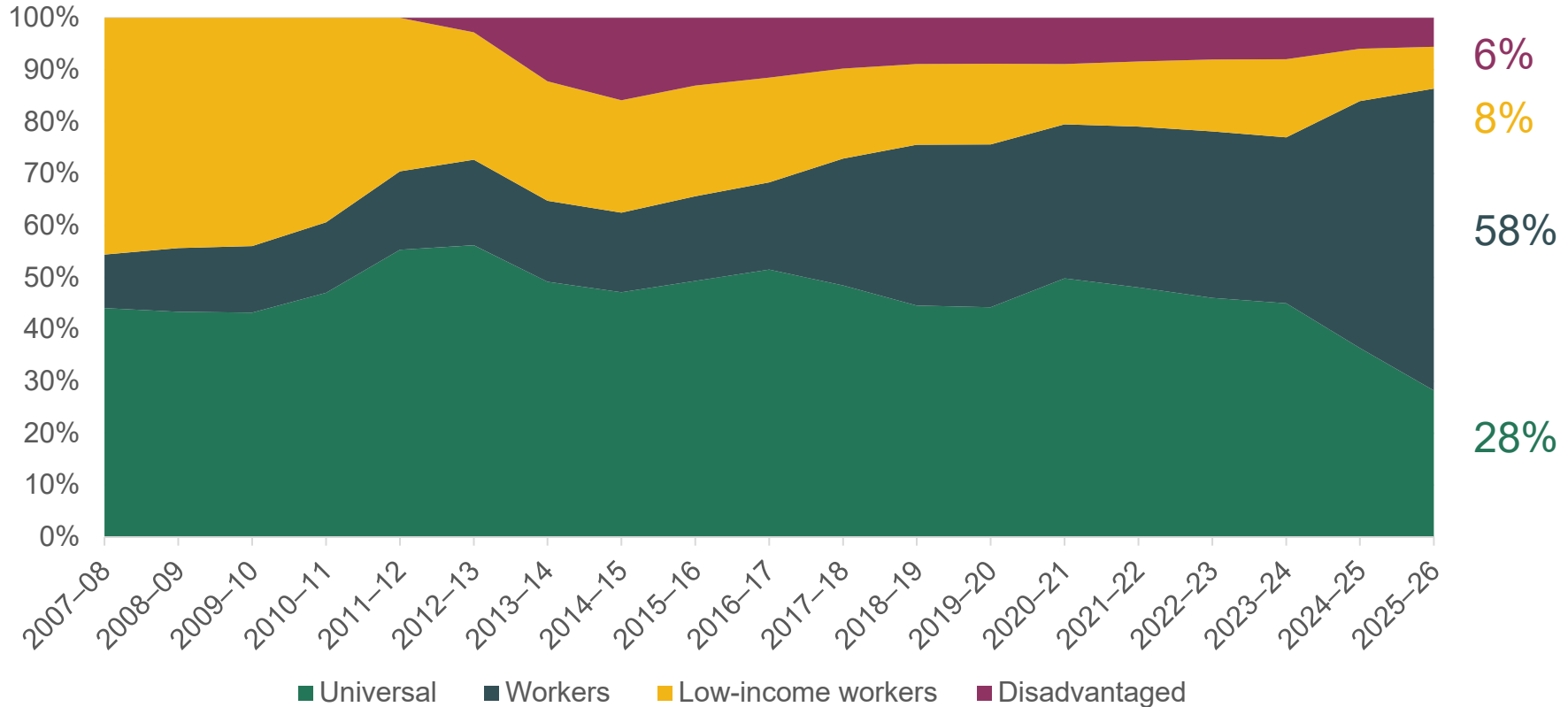


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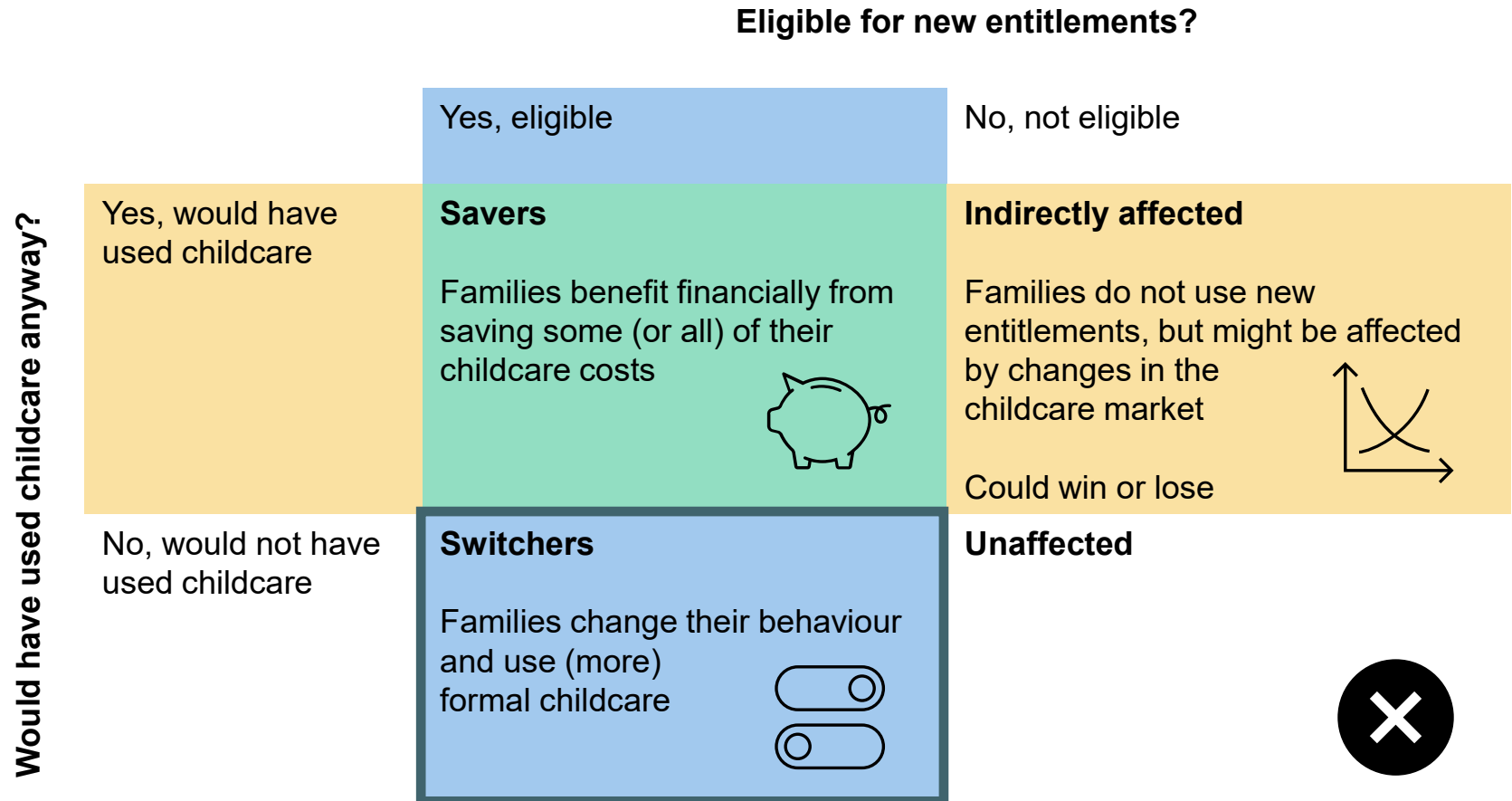


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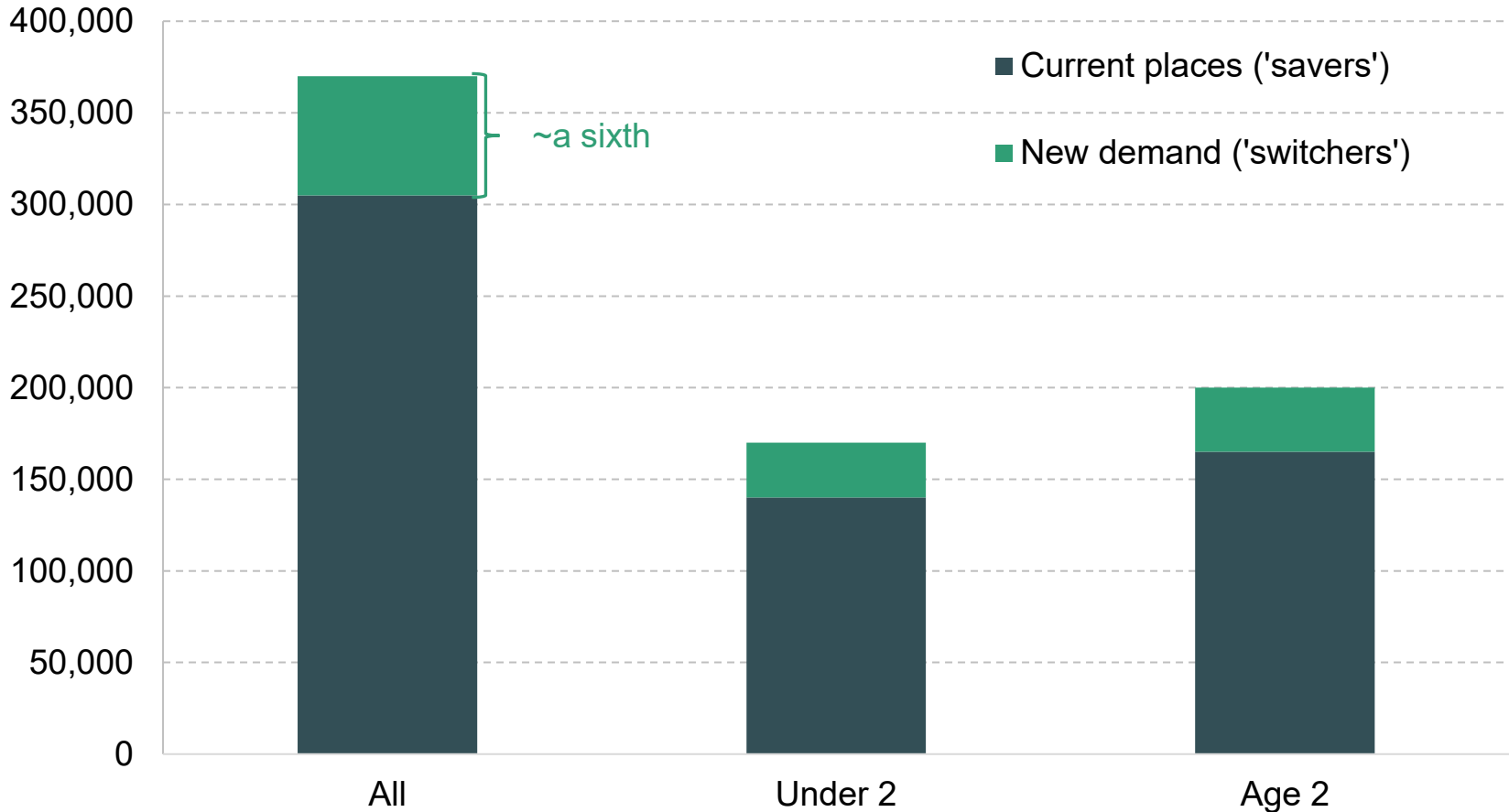
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# Who benefits from the new entitlements?



# Most new entitlement hours will benefit 'savers'

## Estimated funded 30-hour places in 2027

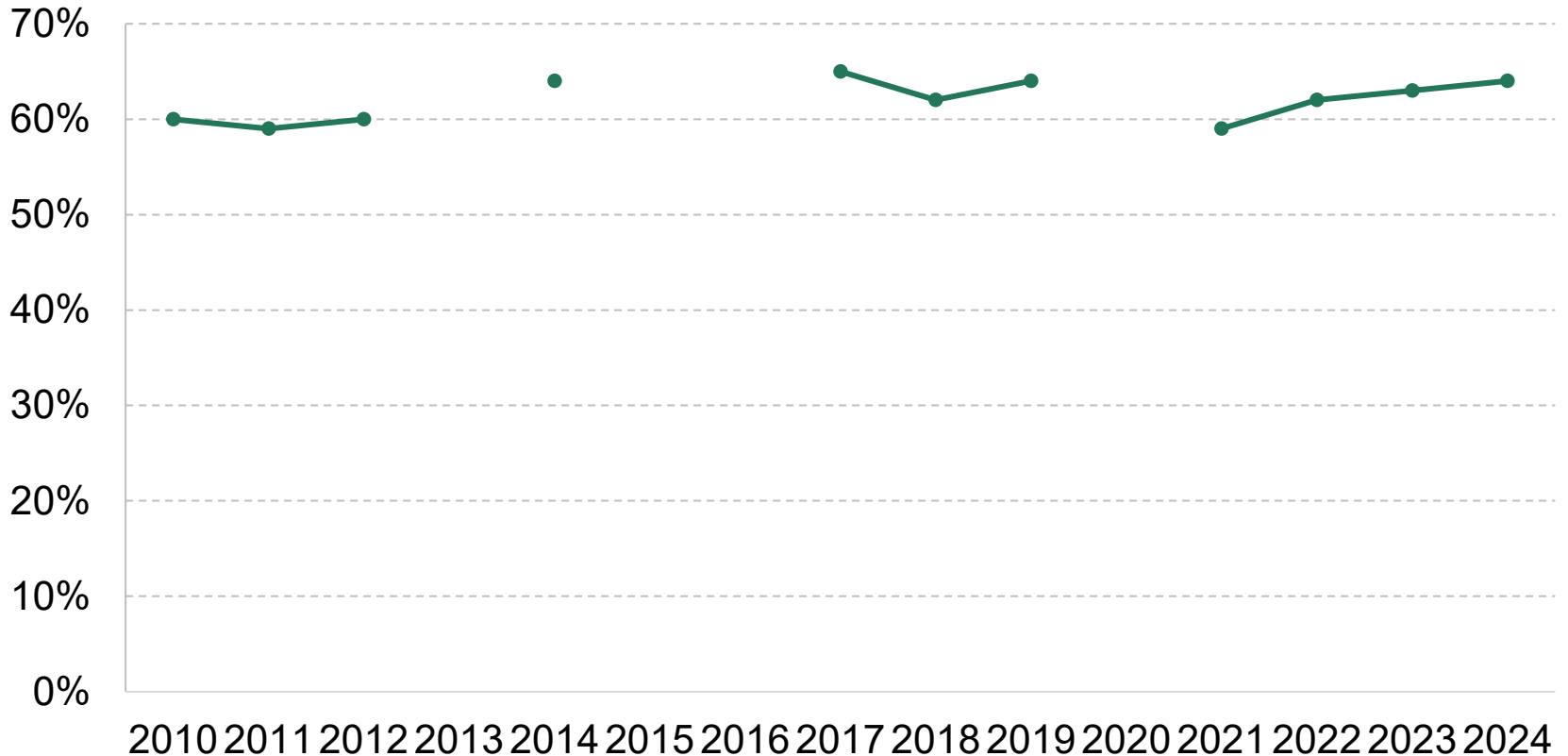


Note: Estimated scenario based on analysis of patterns of childcare take-up among under-2s (Childcare and Early Years Survey of Parents microdata, 2019; ONS population-by-age estimates for 2027) as well as demand implied by labour supply responses reported in the 2023 Budget. 'Under 2' includes children aged 9-23 months.

# Not seeing big increases in childcare use (yet)



% of 0- to 4-year-olds using formal childcare



Source: DfE, [“Childcare and Early Years Survey of Parents”](#), various years.



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# Summing up

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# Summing up



- Huge growth in spending on ECEC over the last 25 years – and the largest-ever increase the last 2 years
  - Not a universal experience for public services!
- The age profile of per-hour funding rates has changed a lot
  - For under-3s: Average DSG rates still (much) higher than provider fees
  - But rising provider costs put pressure on funding
- New entitlements have proved popular!
  - But eligibility and take-up of 2yo disadvantaged offer has fallen
  - → Big changes in who benefits from the current system

# So will the gambles pay off?



- Last year: three tests for childcare policy
  1. If you fund it, will providers come? → **Yes** (at least for now)
  2. If you provide it, will parents use it? → **Yes** (more than you expect!)
  3. If parents use it, will children benefit? → Too early to tell

**Ultimately:** The early years are now a core part of the welfare state.

But questions of who benefits, how much, and how are far from settled.

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