



Christine Farquharson, Institute for Fiscal Studies

Early years: Public spending and public policy

@ckfarquharson
@TheIFS

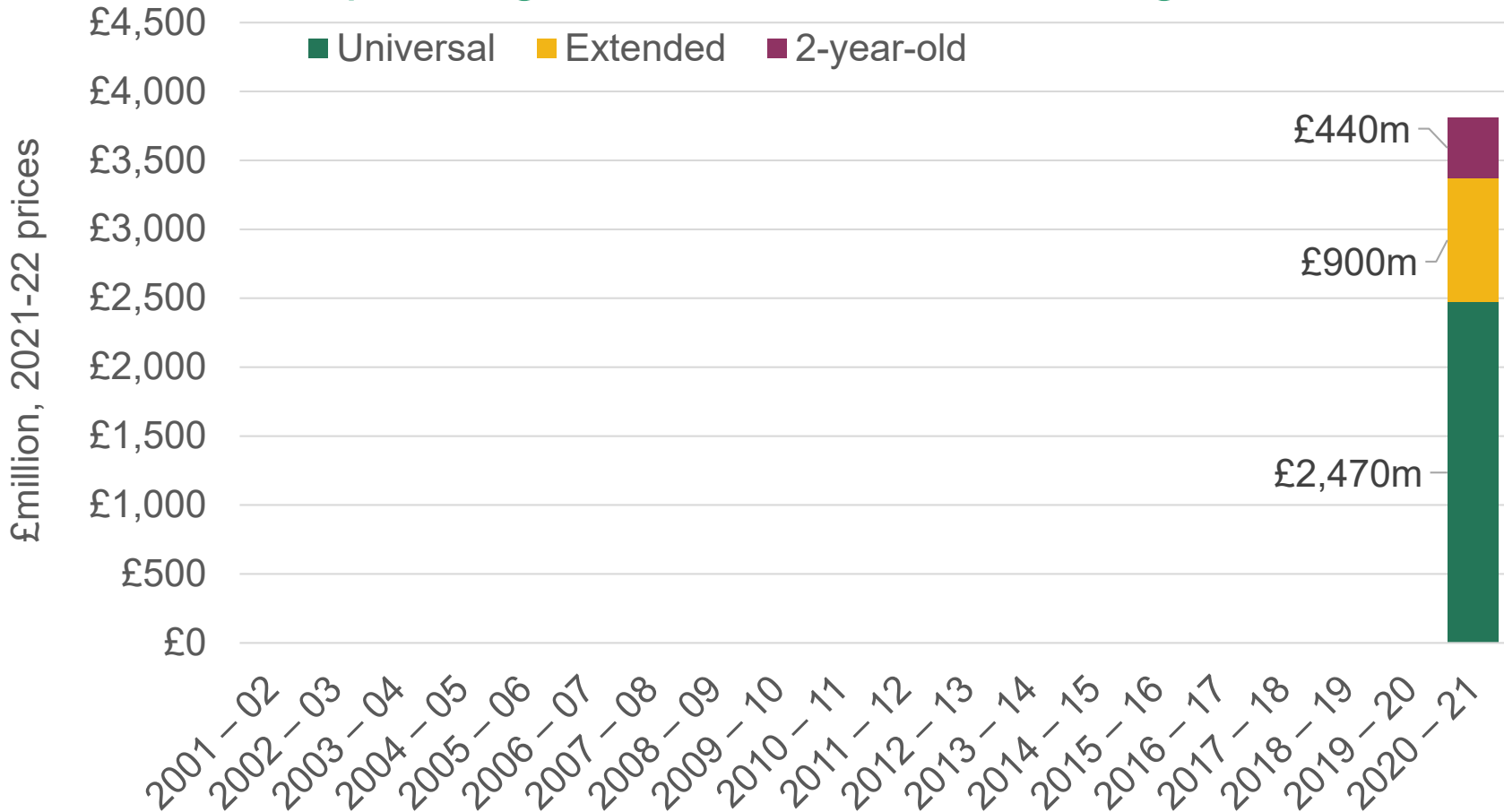




The early years landscape

Early years boom over the last 20 years

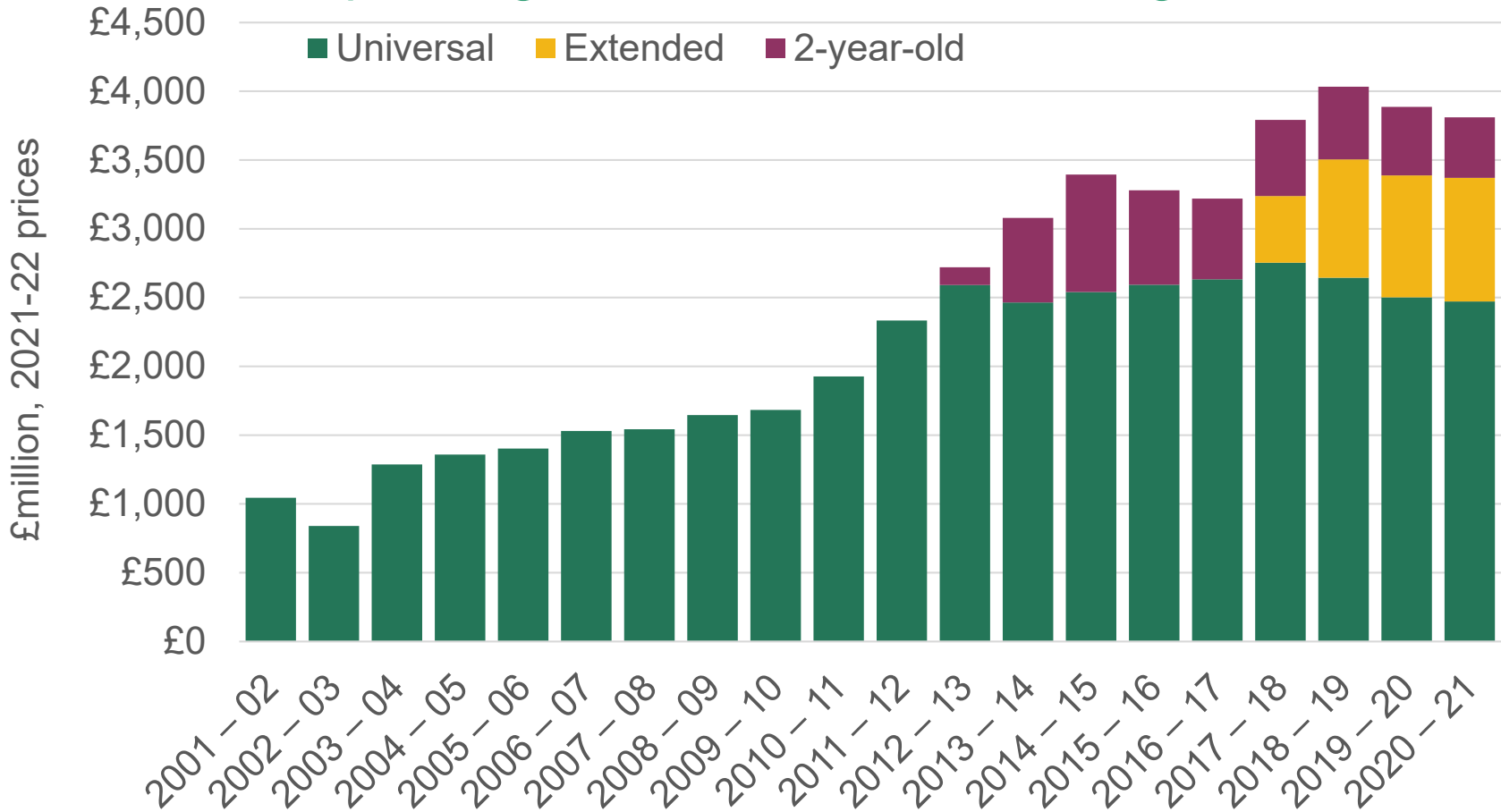
Real-terms spending on free entitlement in England



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

Early years boom over the last 20 years

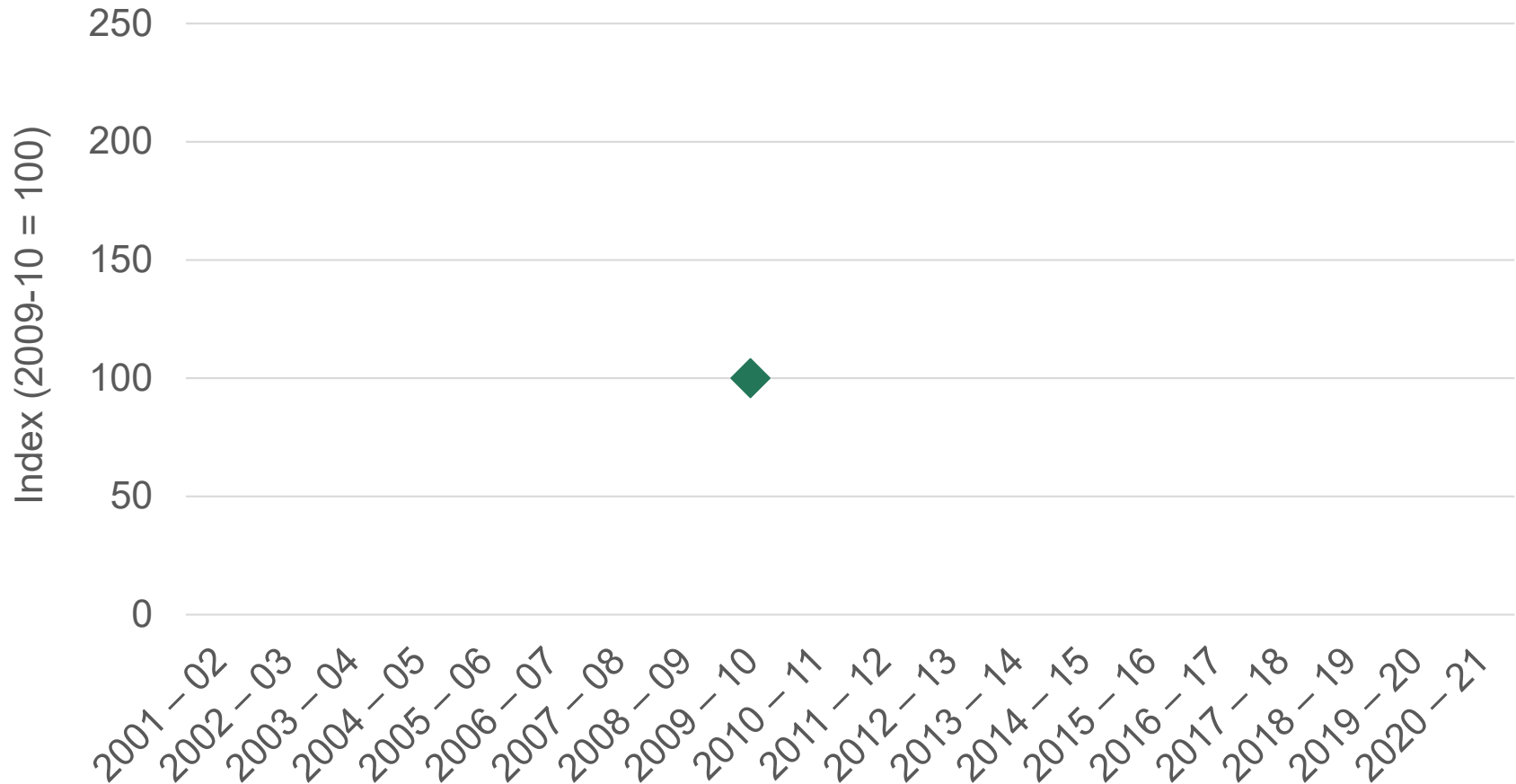
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More hours, more children, more spending

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

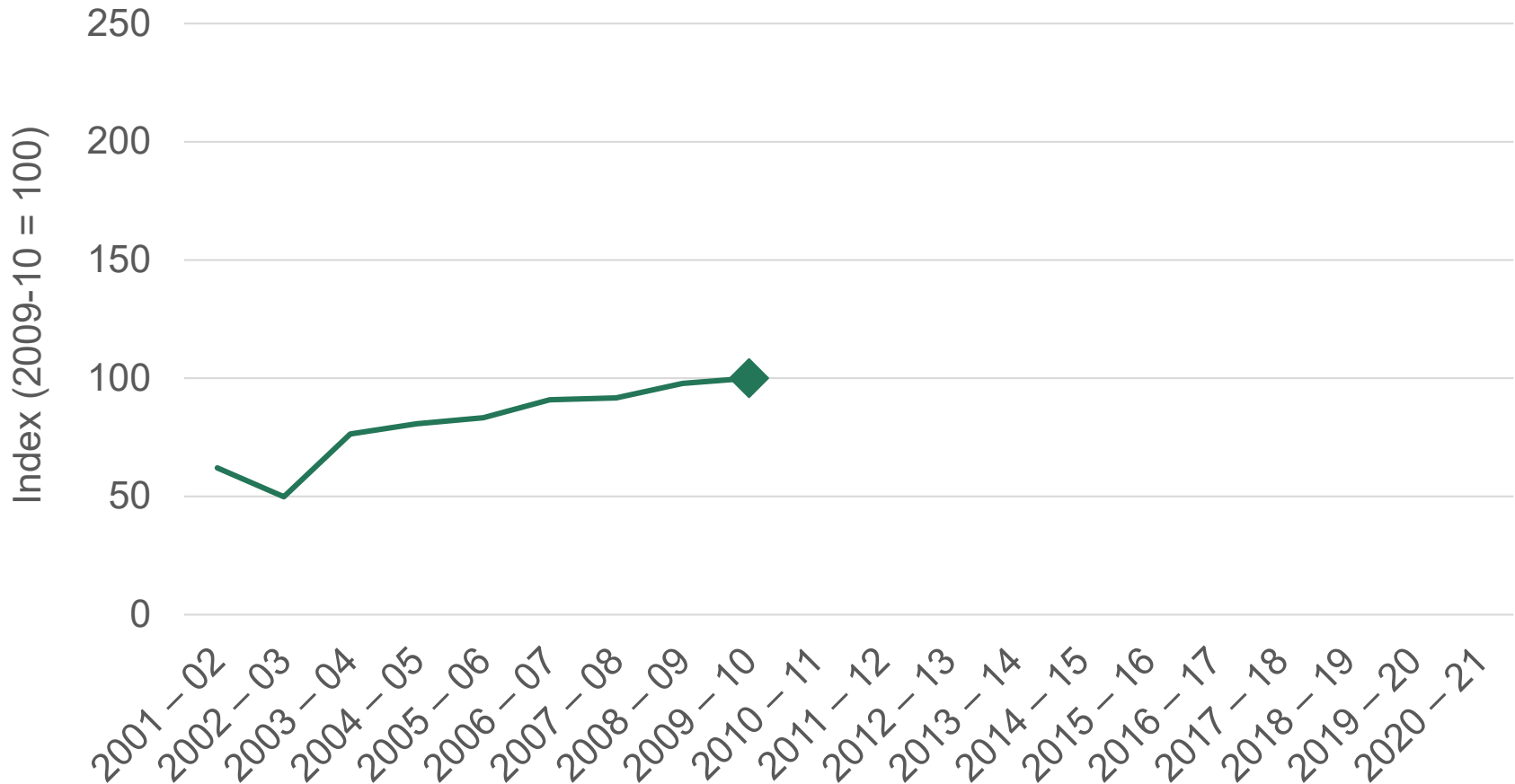


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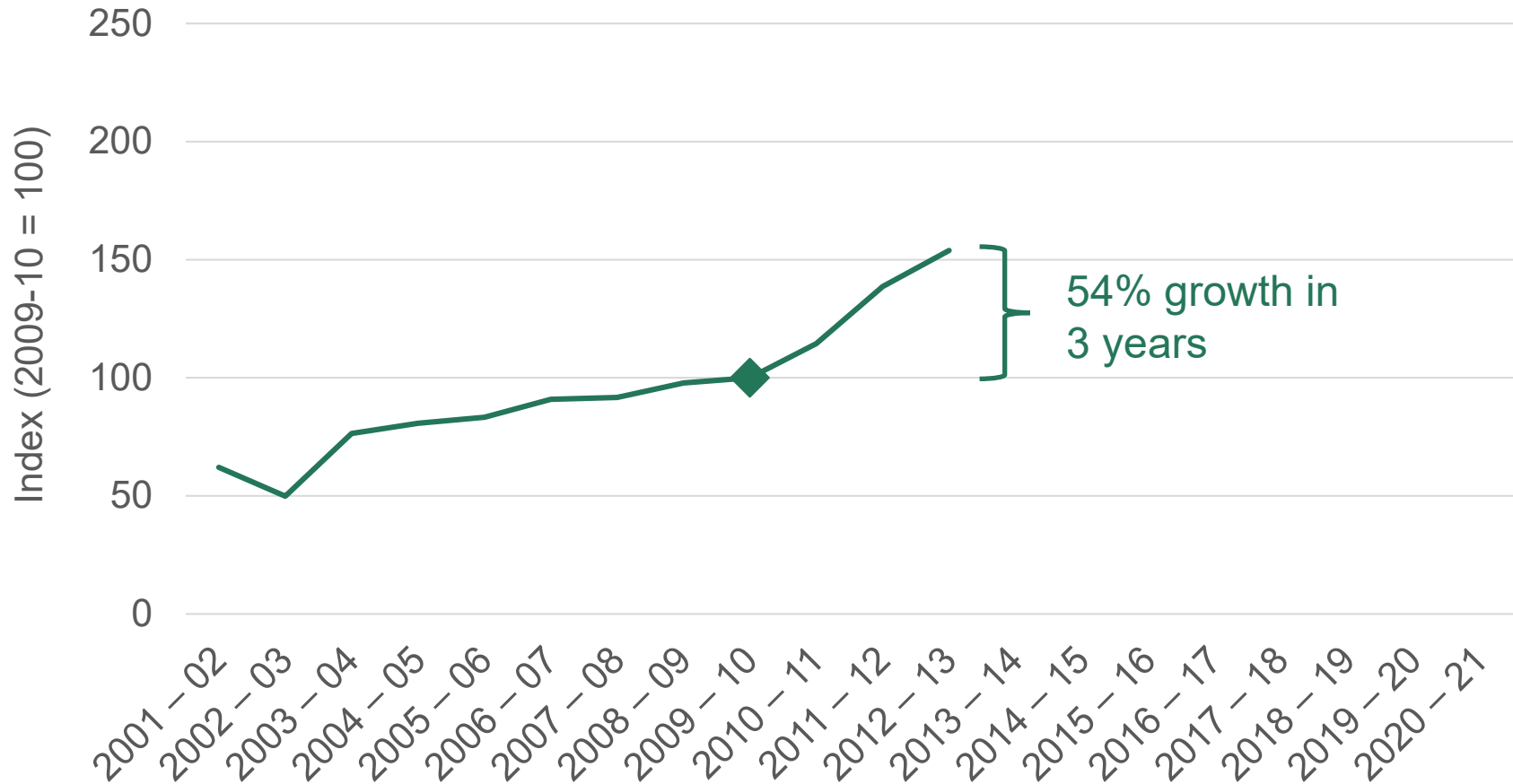


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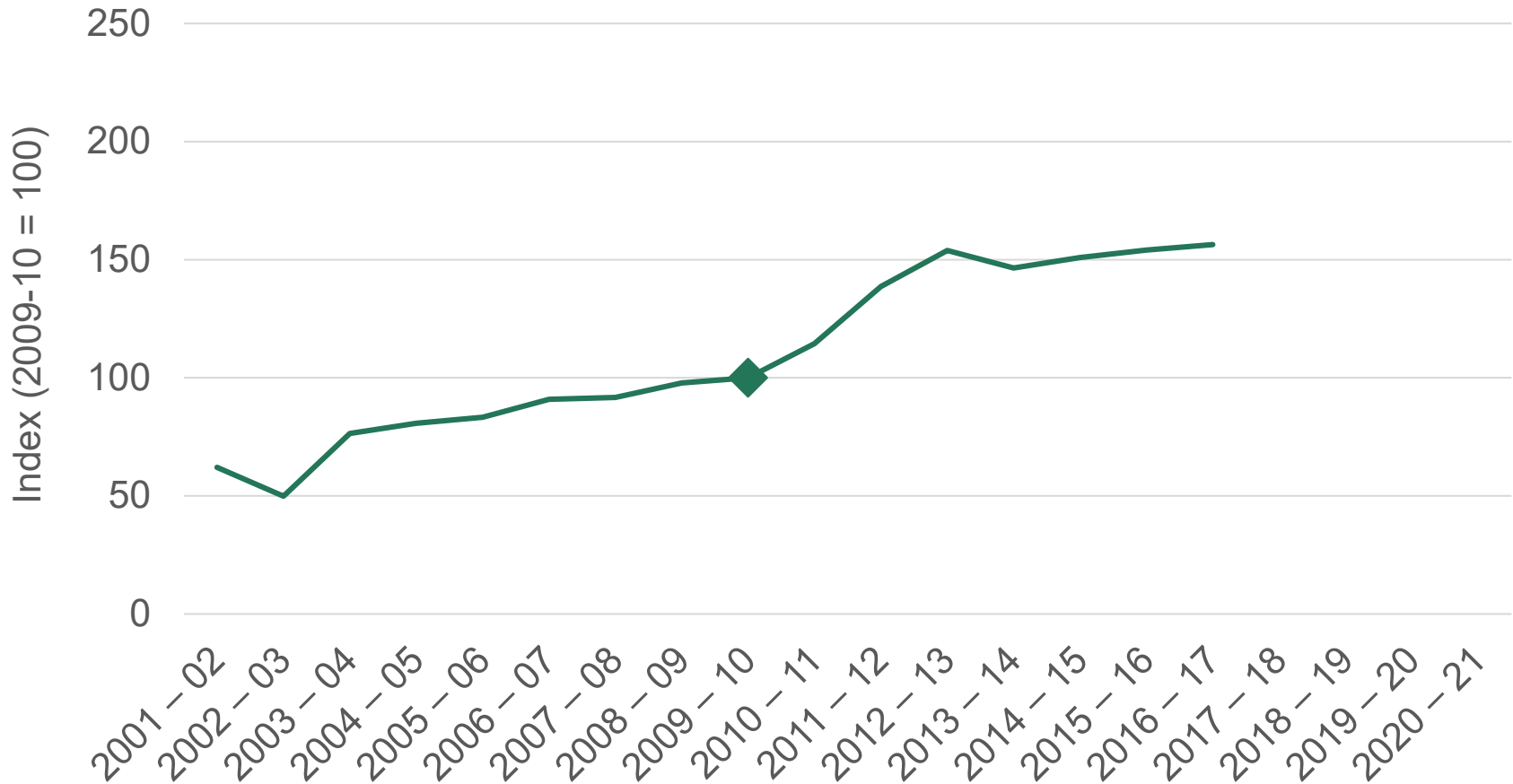


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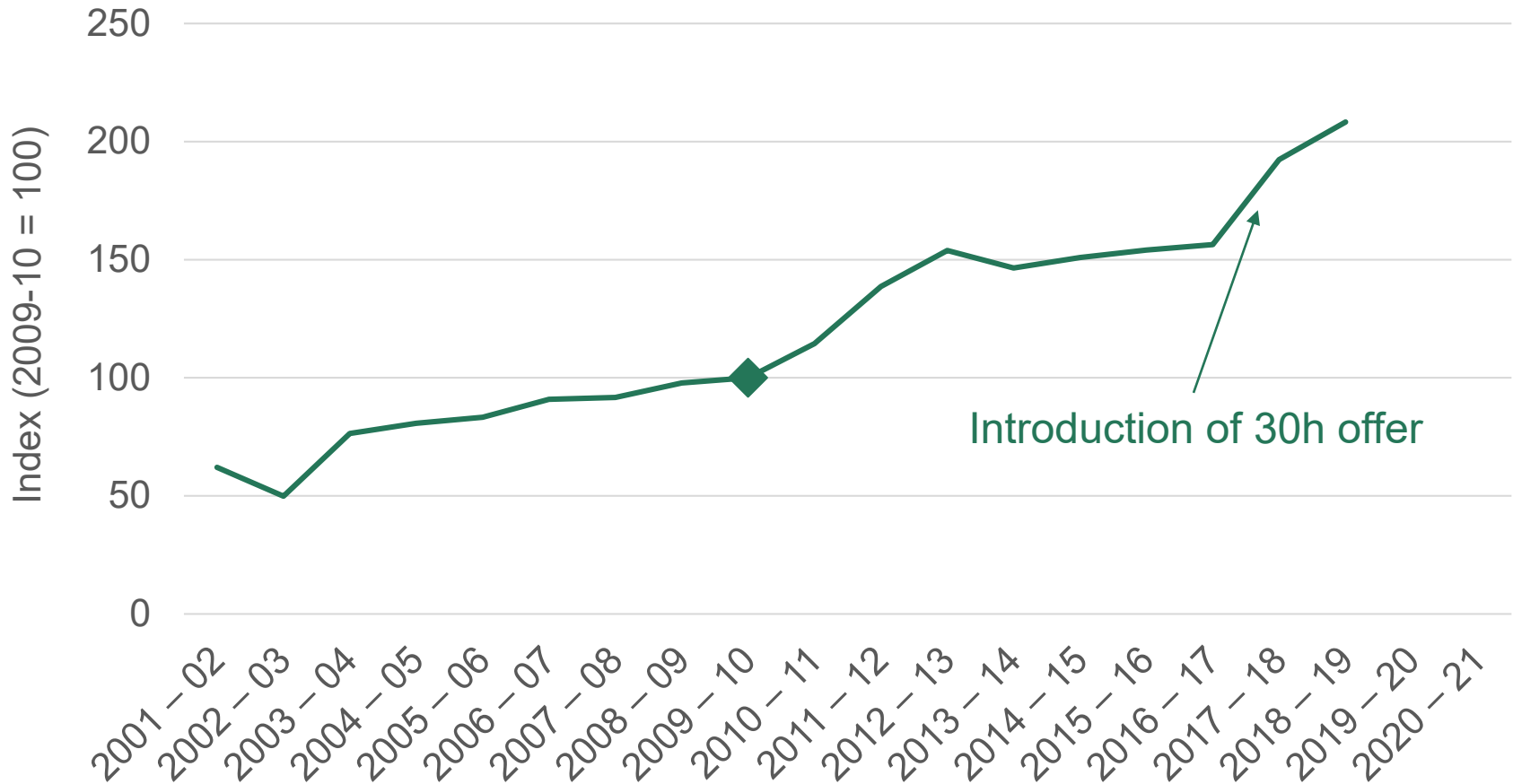


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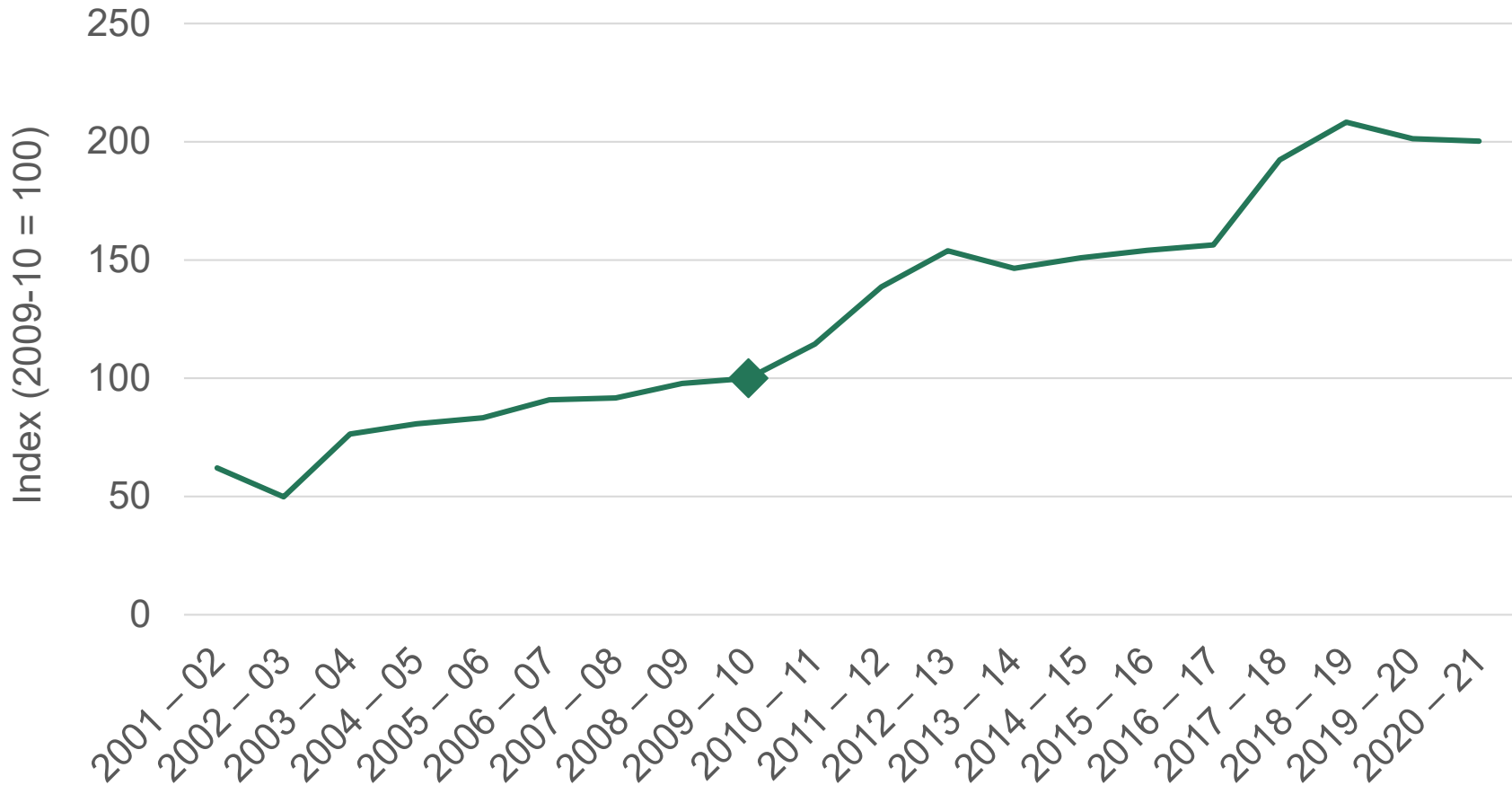


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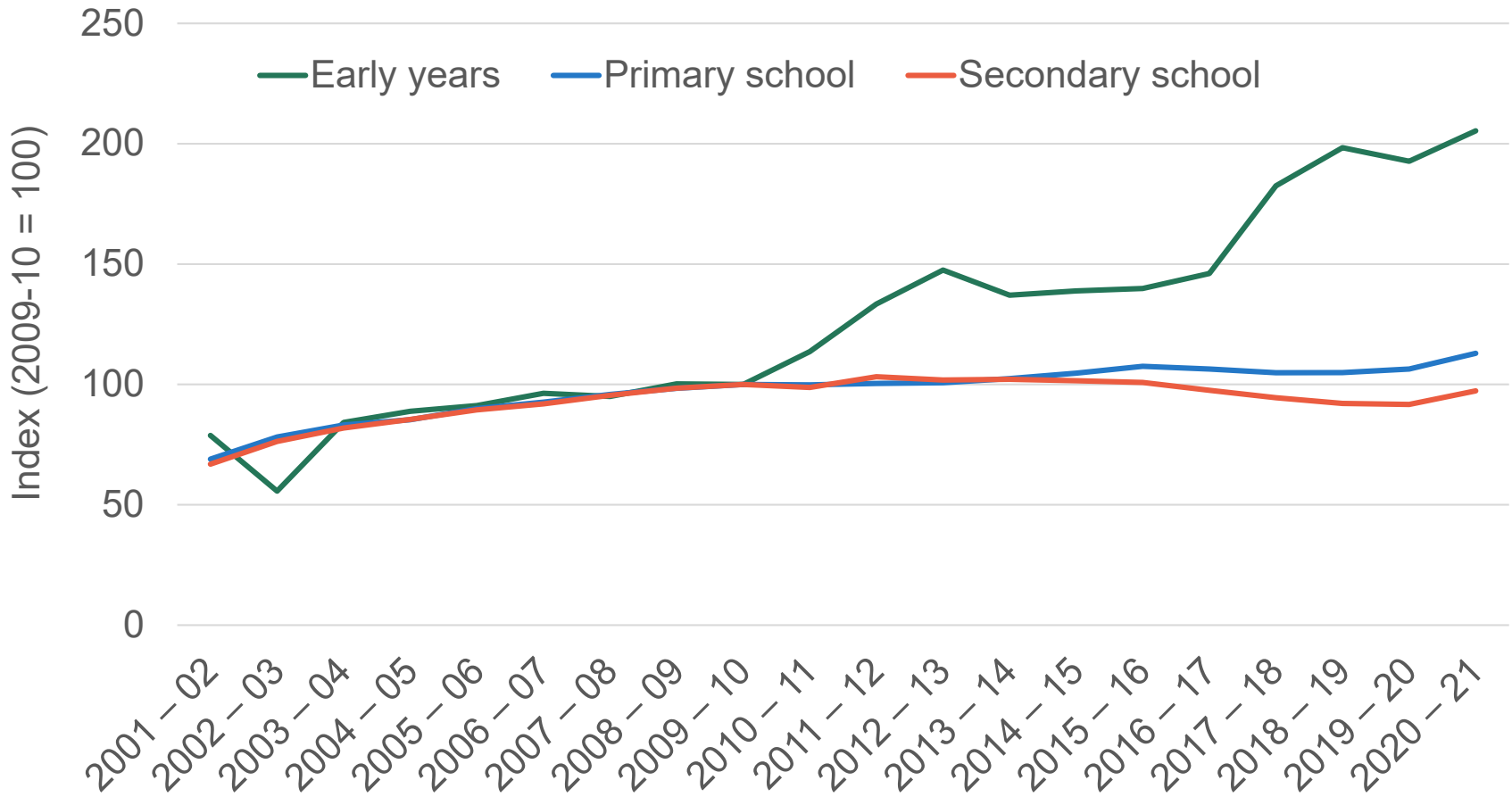


Source: IFS education spending microsite – [“Early Years”](#).

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Early years spending growth has outstripped schools

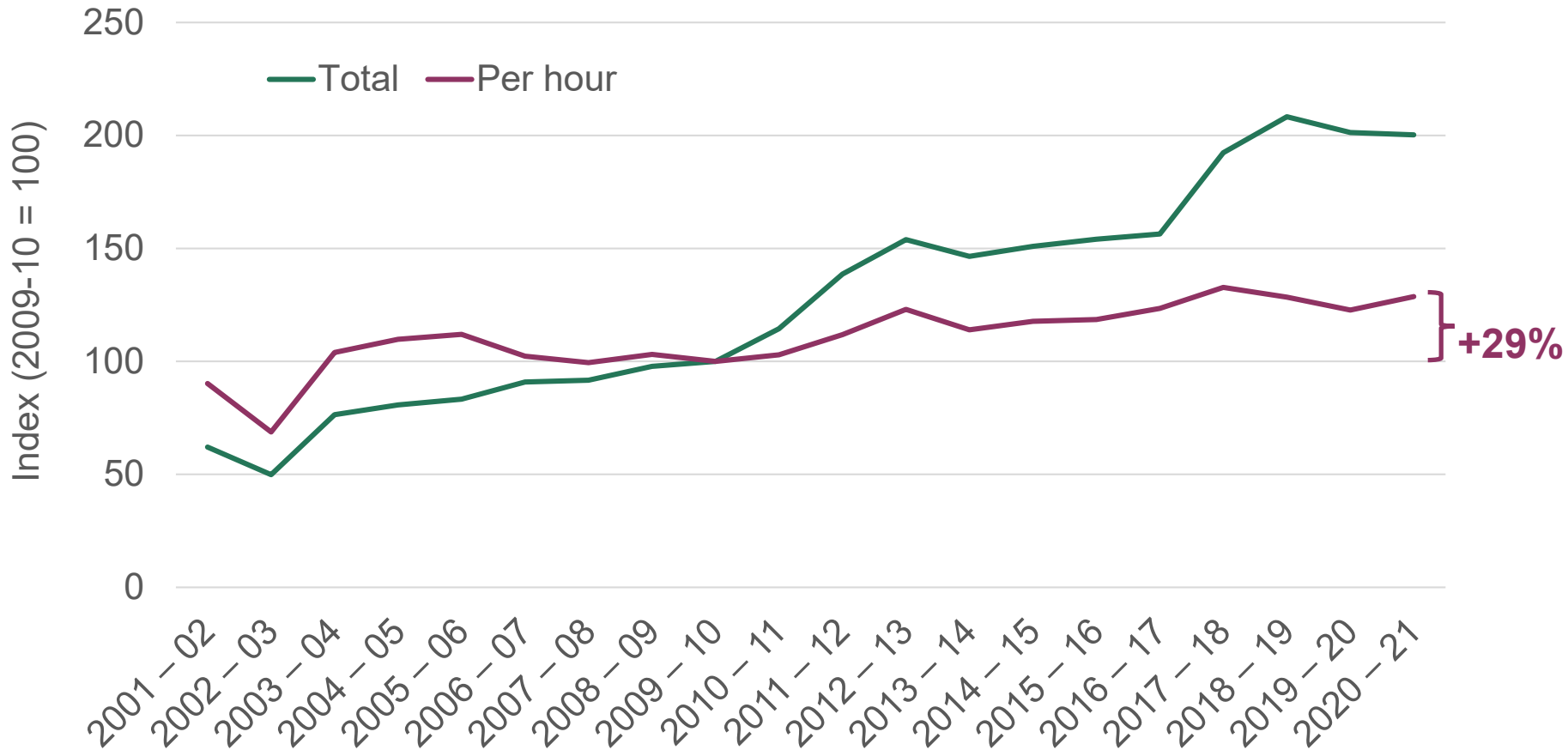
Real-terms per-pupil education spending, by stage



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



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

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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

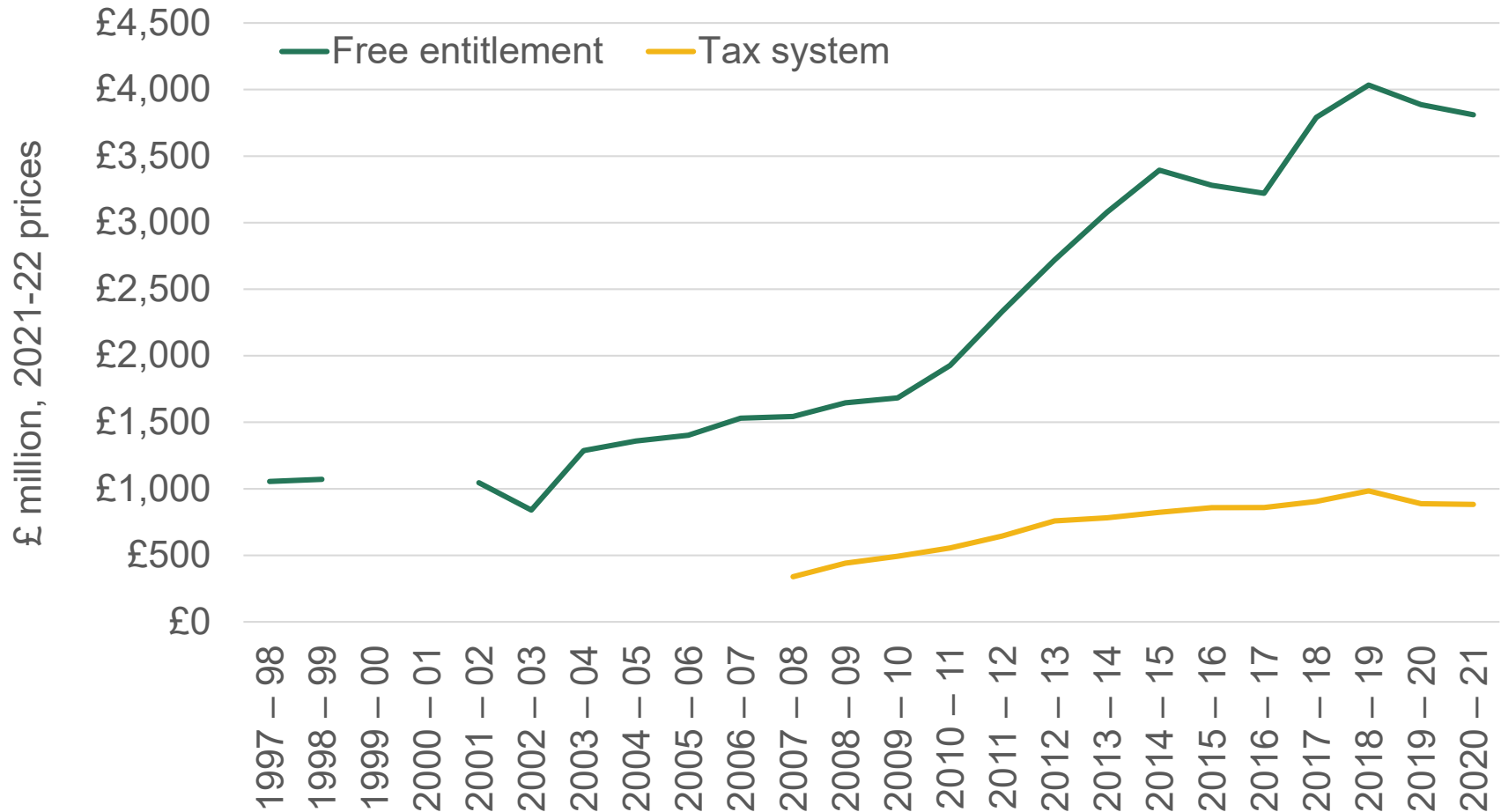
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Relief through the tax system

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*

Tax relief small but growing...

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.

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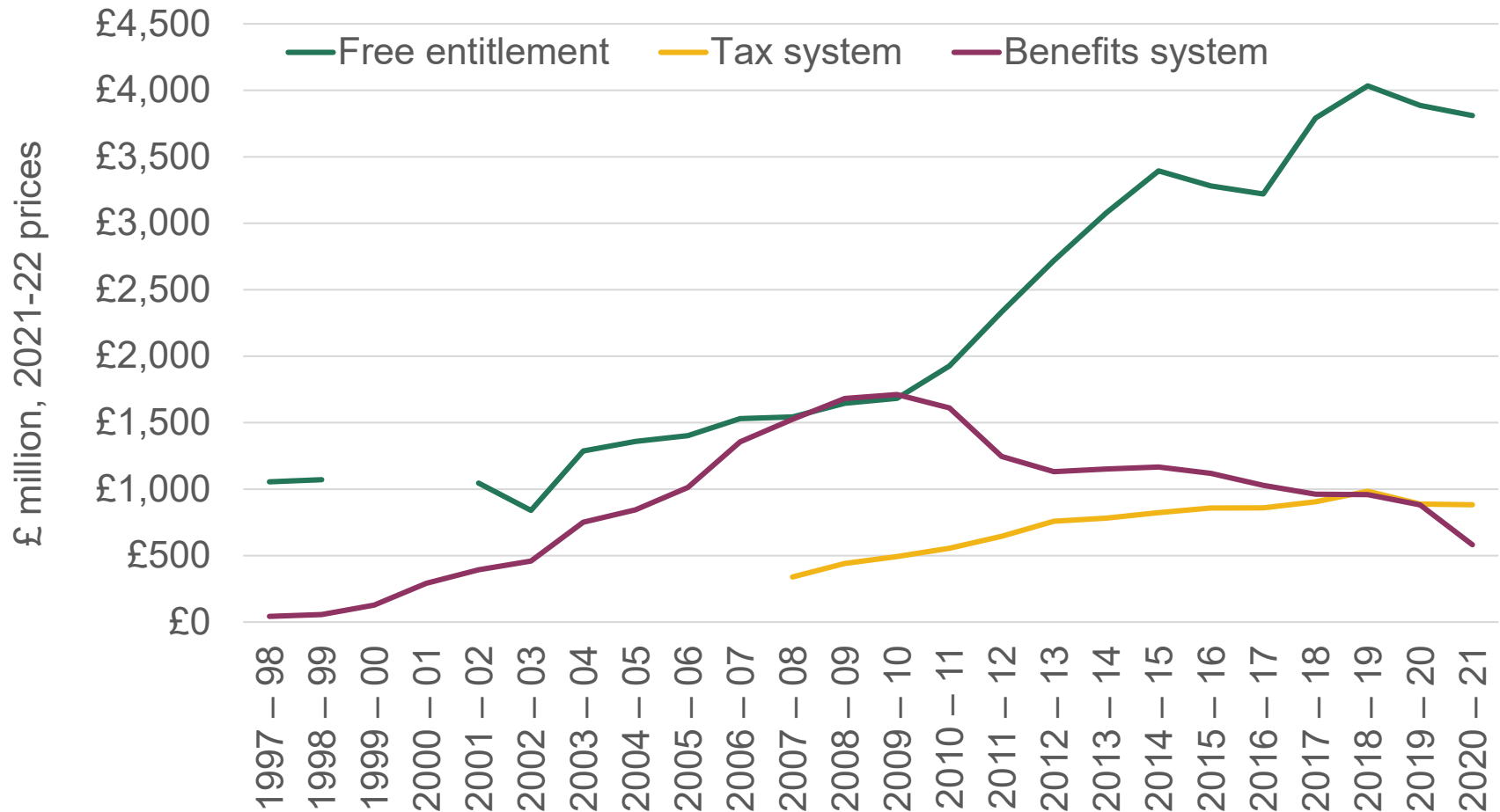
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Childcare subsidies through the working-age benefit system

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

... But benefits are being cut

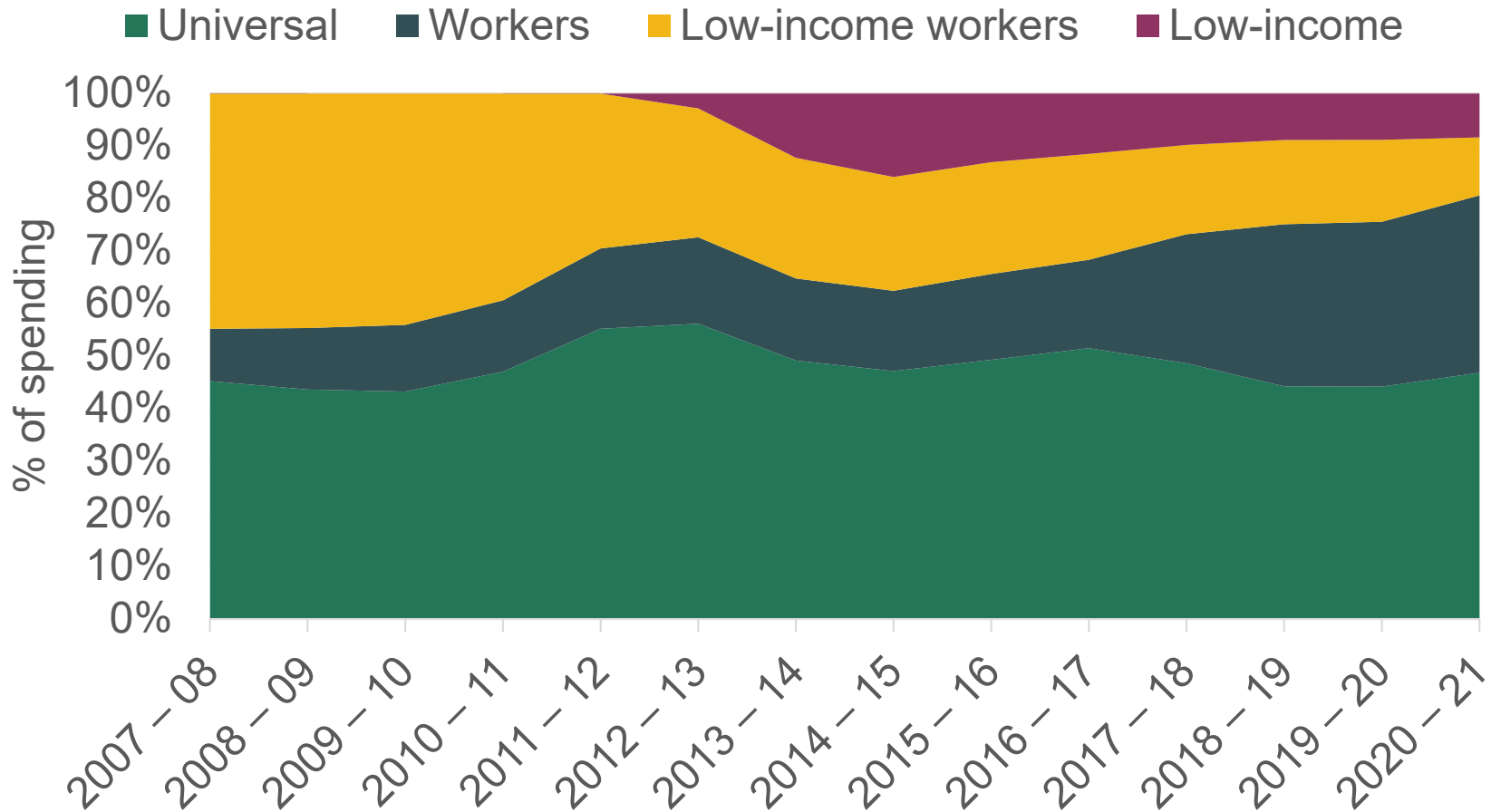
Real-terms spending on childcare support programmes



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With consequences for who gets support

Share of childcare spending targeted at different groups



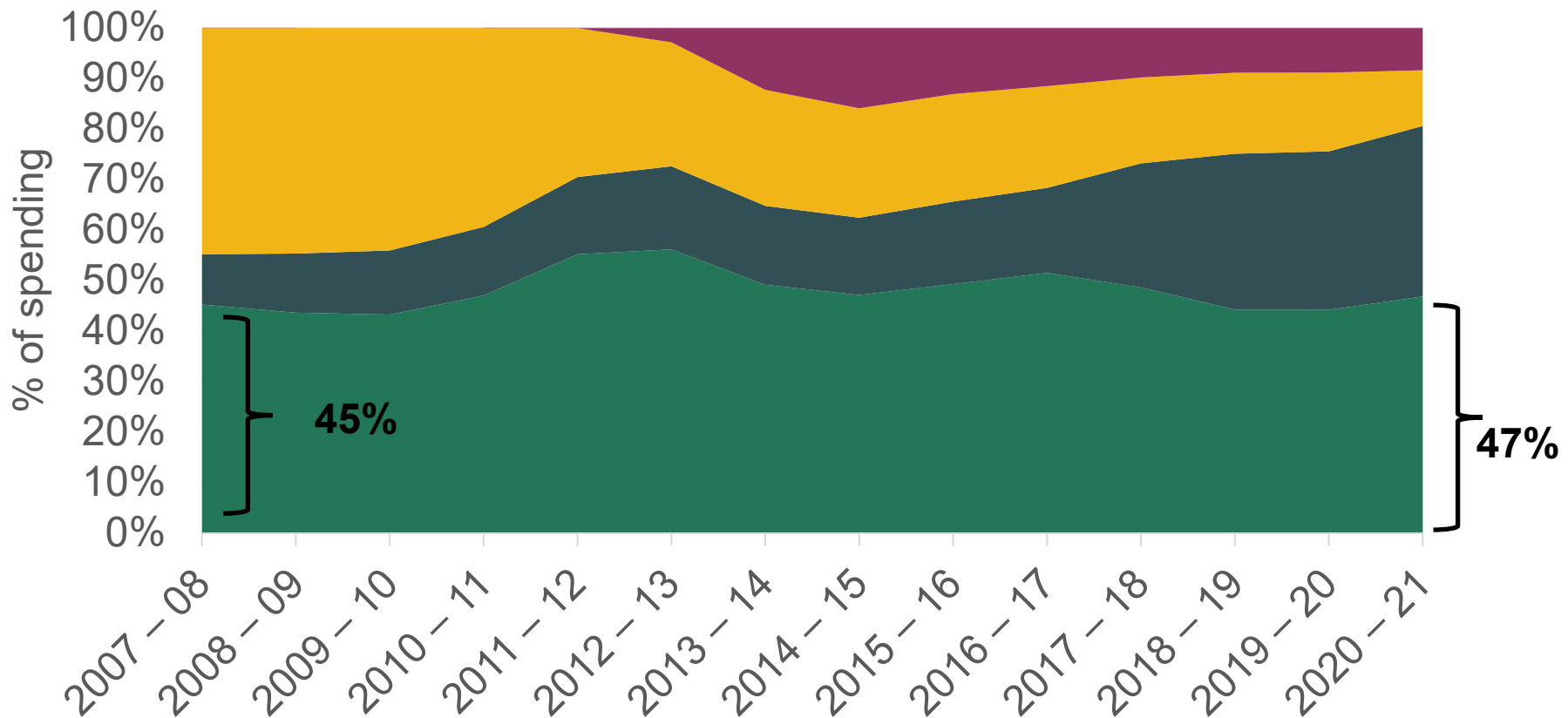
Source: IFS education spending microsite – [“Early Years”](#).

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With consequences for who gets support

Share of childcare spending targeted at different groups

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



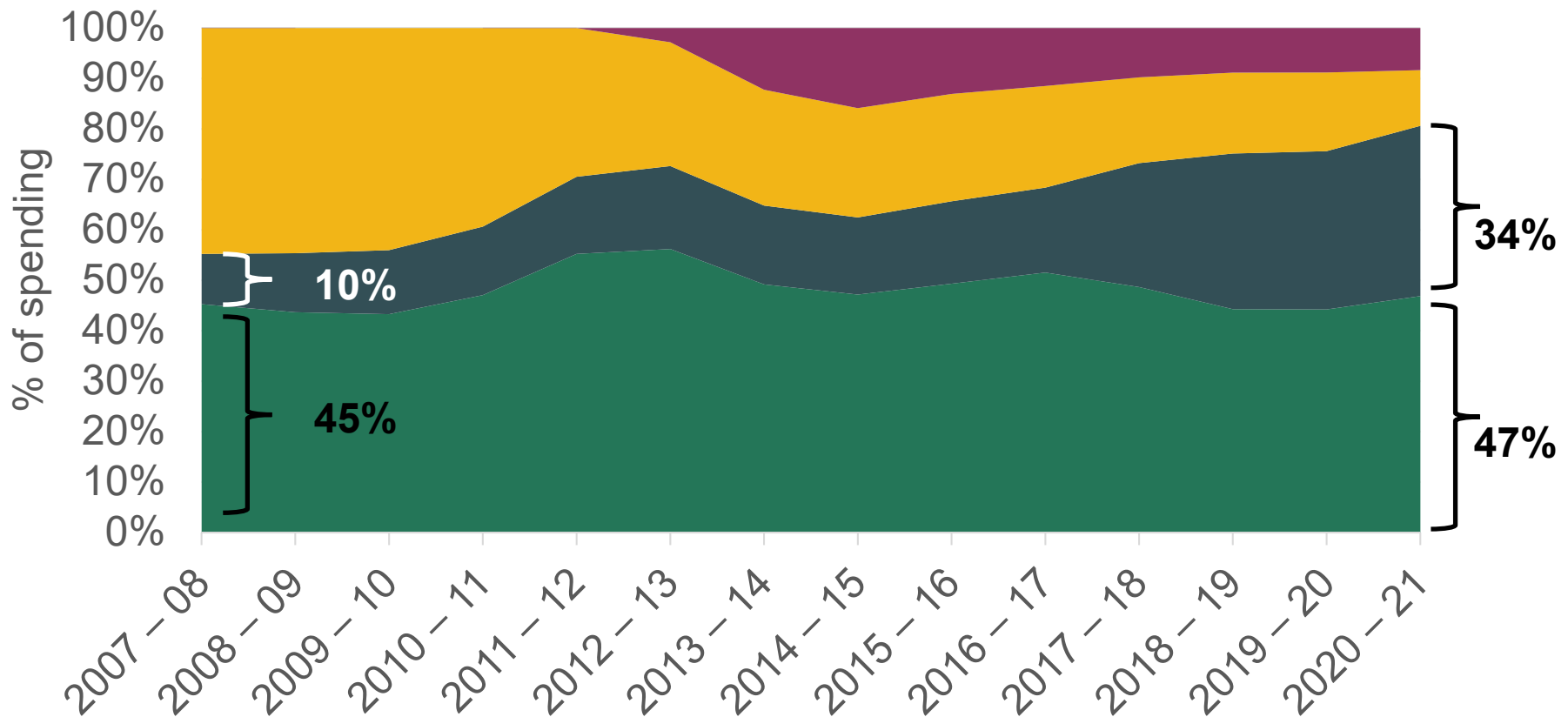
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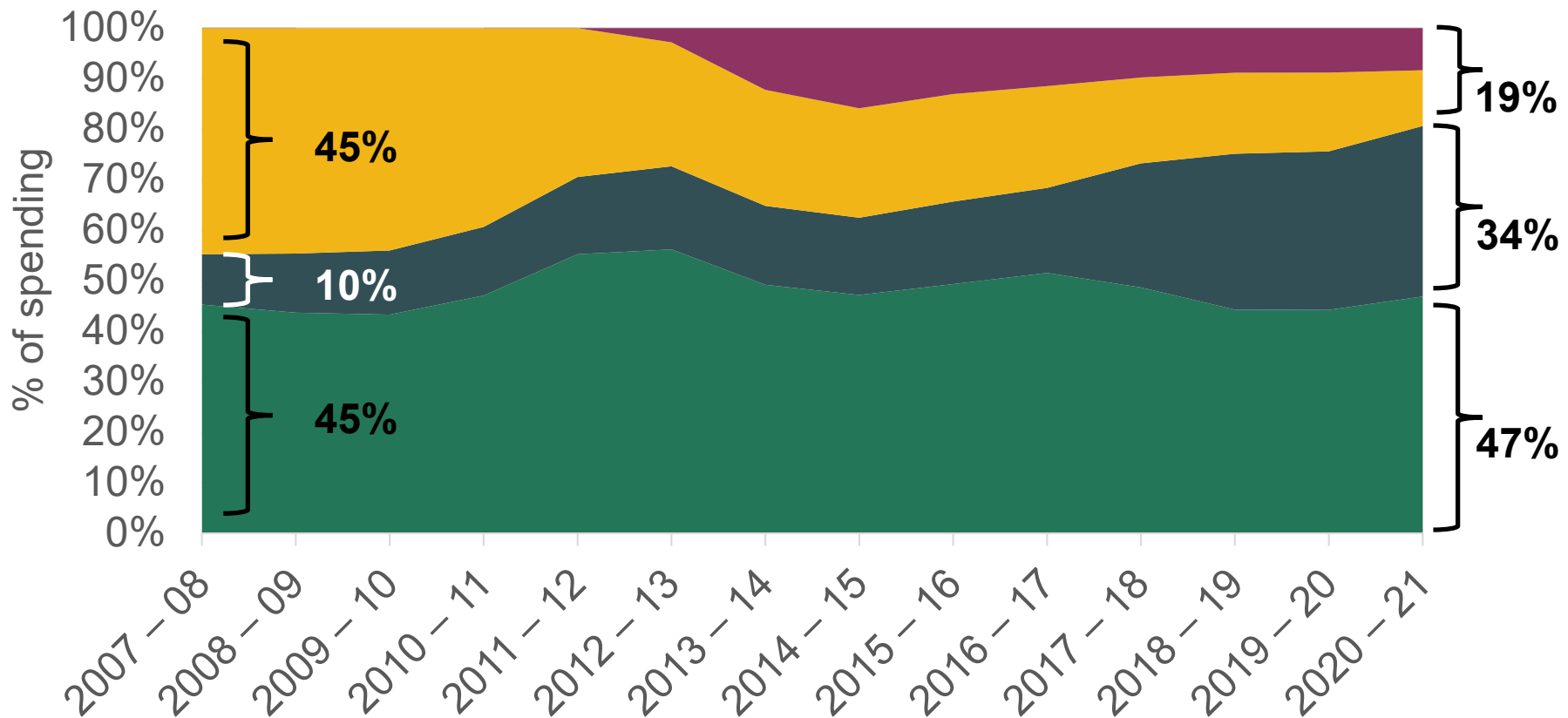
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Source: IFS education spending microsite – [“Early Years”](#).

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Summing up the last 20 years



- Substantial growth in government spending on early years
 - Early years has been prioritised over other stages of education
 - And over other public services – especially since 2010
- But spending per hour has grown much more slowly
- And support outside of the free entitlement – especially through the benefits system – has been cut back significantly



Challenges facing the childcare sector

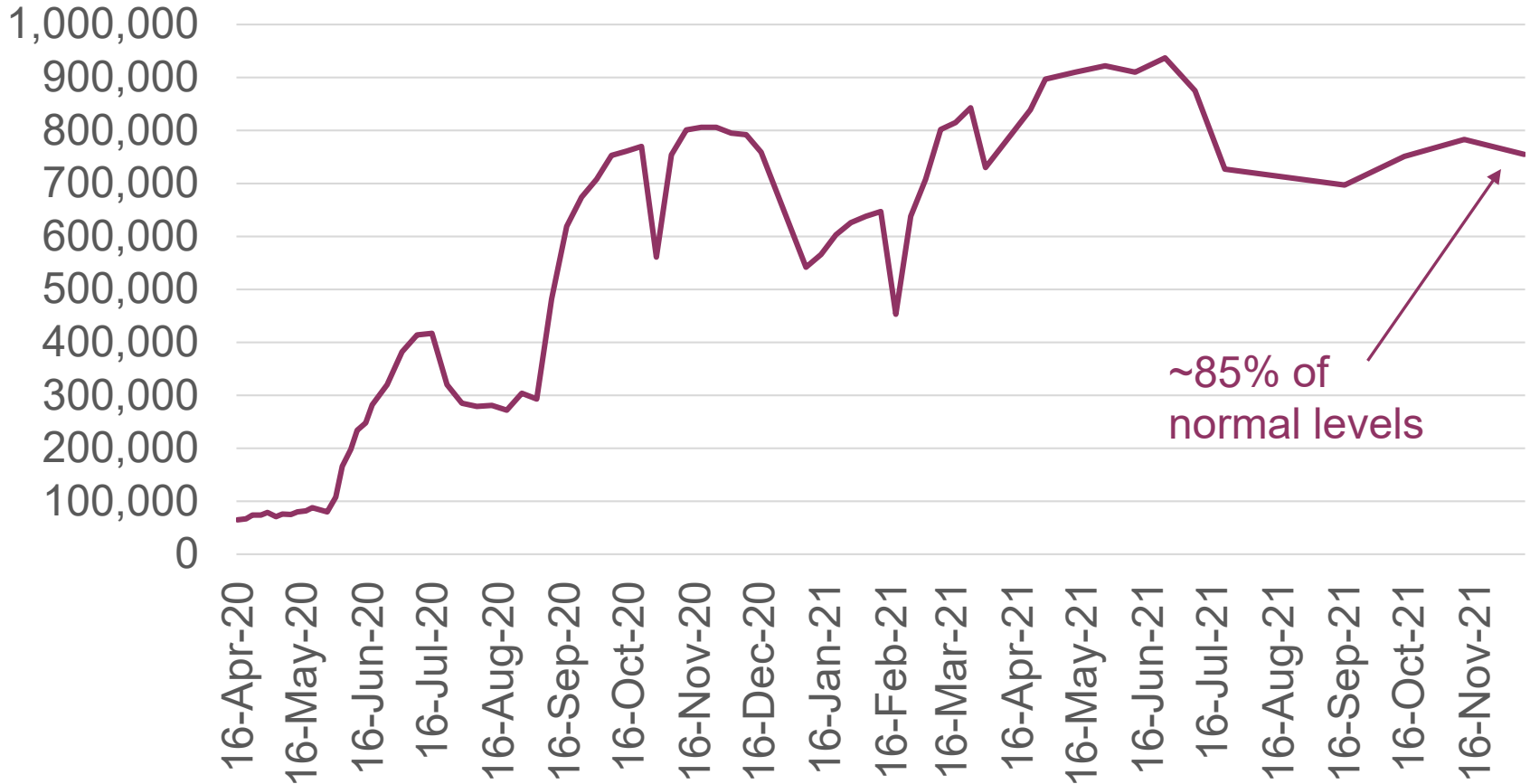


Challenge #1: Changing demand

COVID impact fading (but not gone)



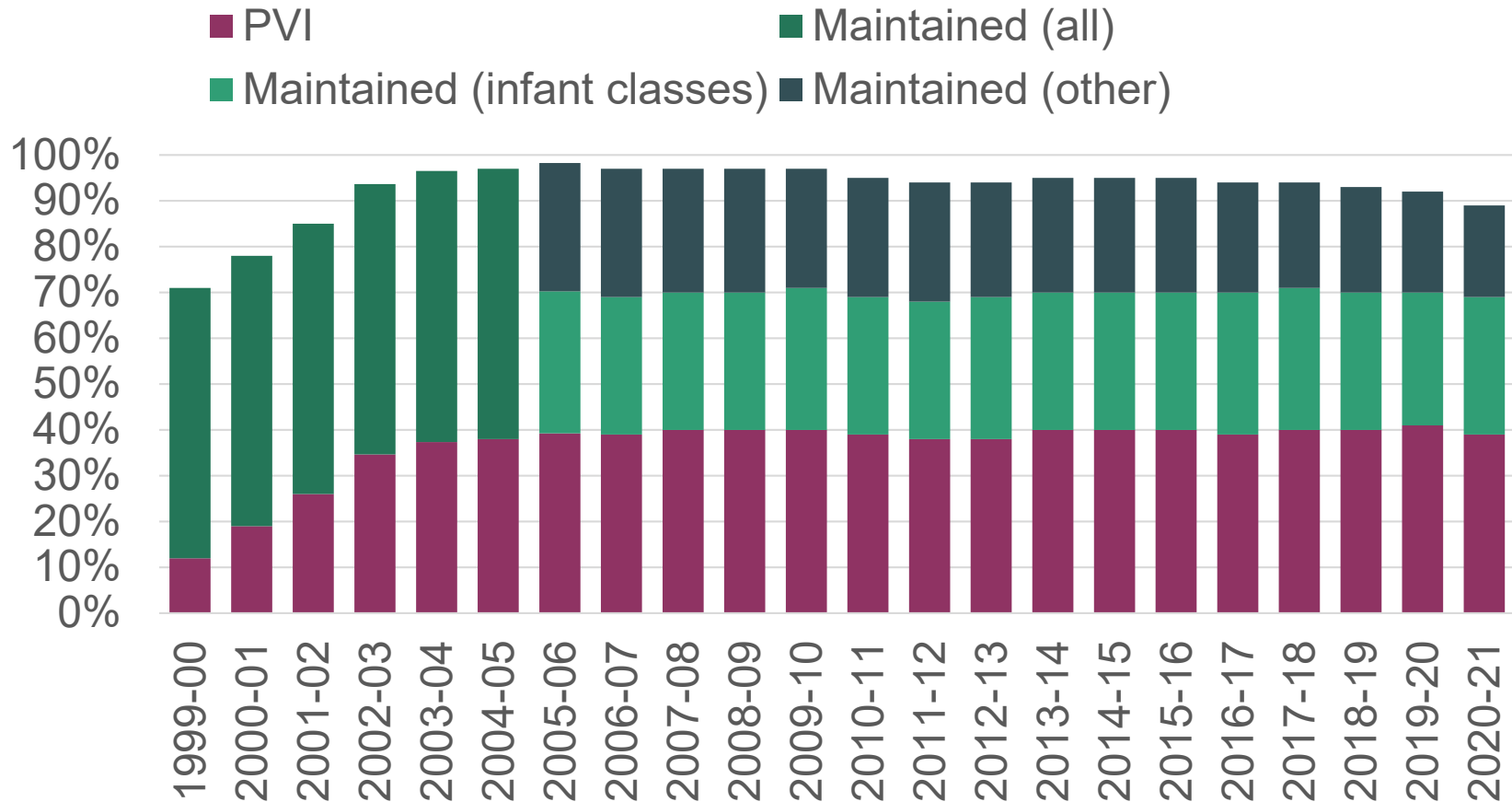
Children attending early years settings during pandemic



Source: Department for Education, "[Attendance in education and early years settings during the coronavirus \(COVID-19\) pandemic](#)", 22 Feb 2022.

But high take-up rates are falling

Take-up of universal free entitlement (3/4yos)

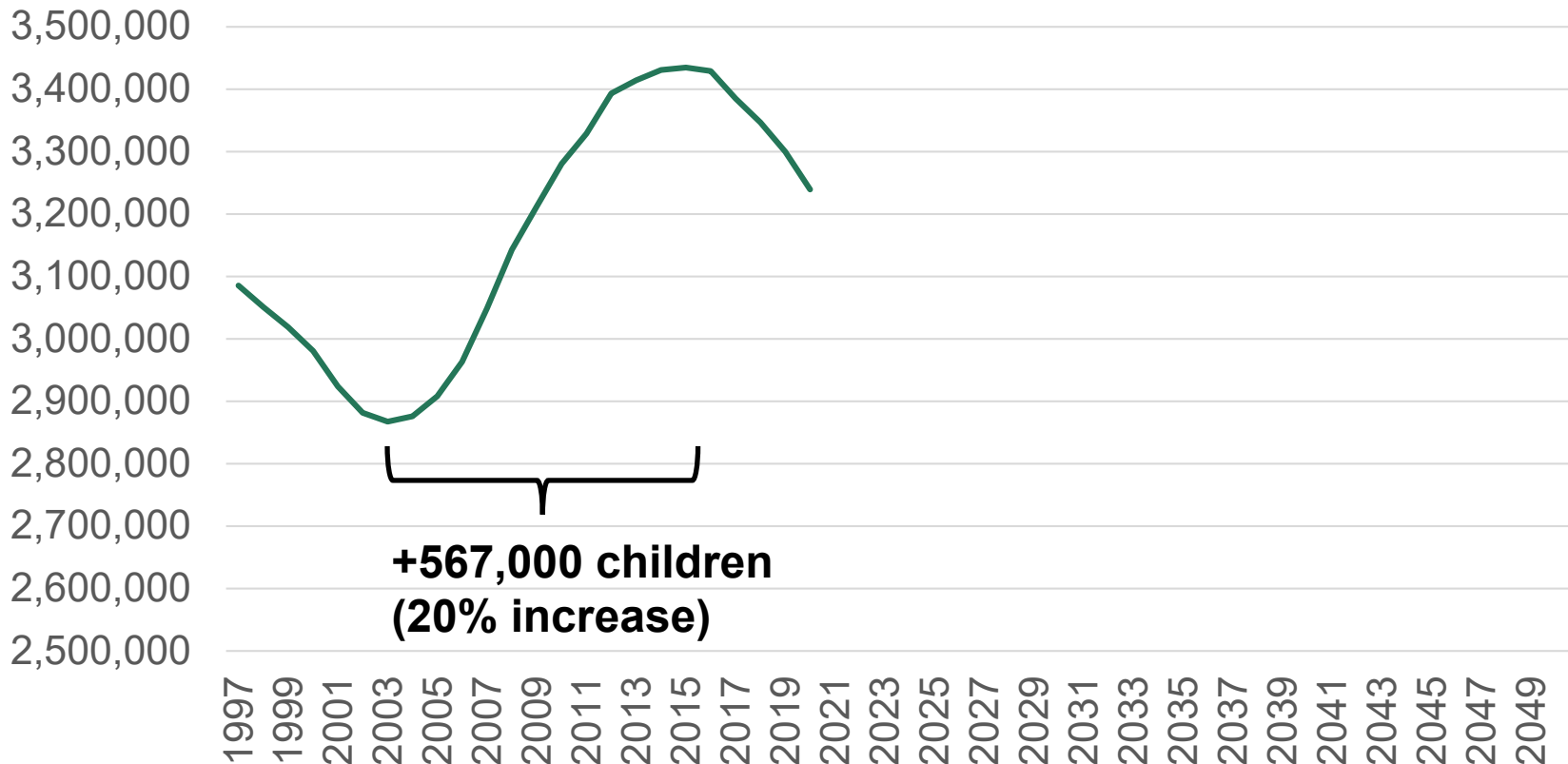


Source: IFS education spending microsite – [“Early Years”](#).

Population boom has just ended...



Population aged 0-4 (England)

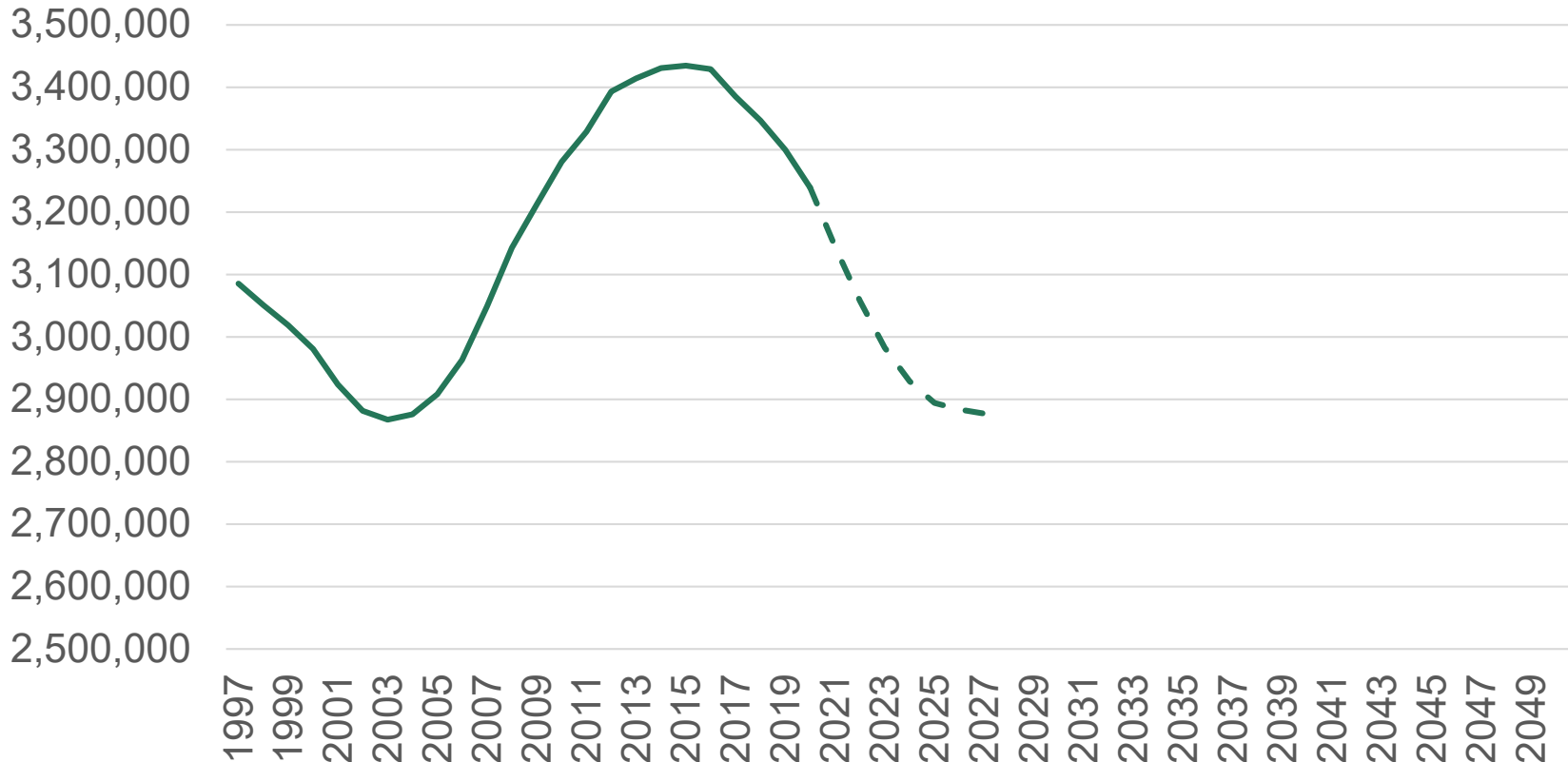


Source: ONS, "Mid-year population estimates", various years; ONS, "[2020-based interim national population projections](#)", 12 Jan 2022.

Population boom has just ended...



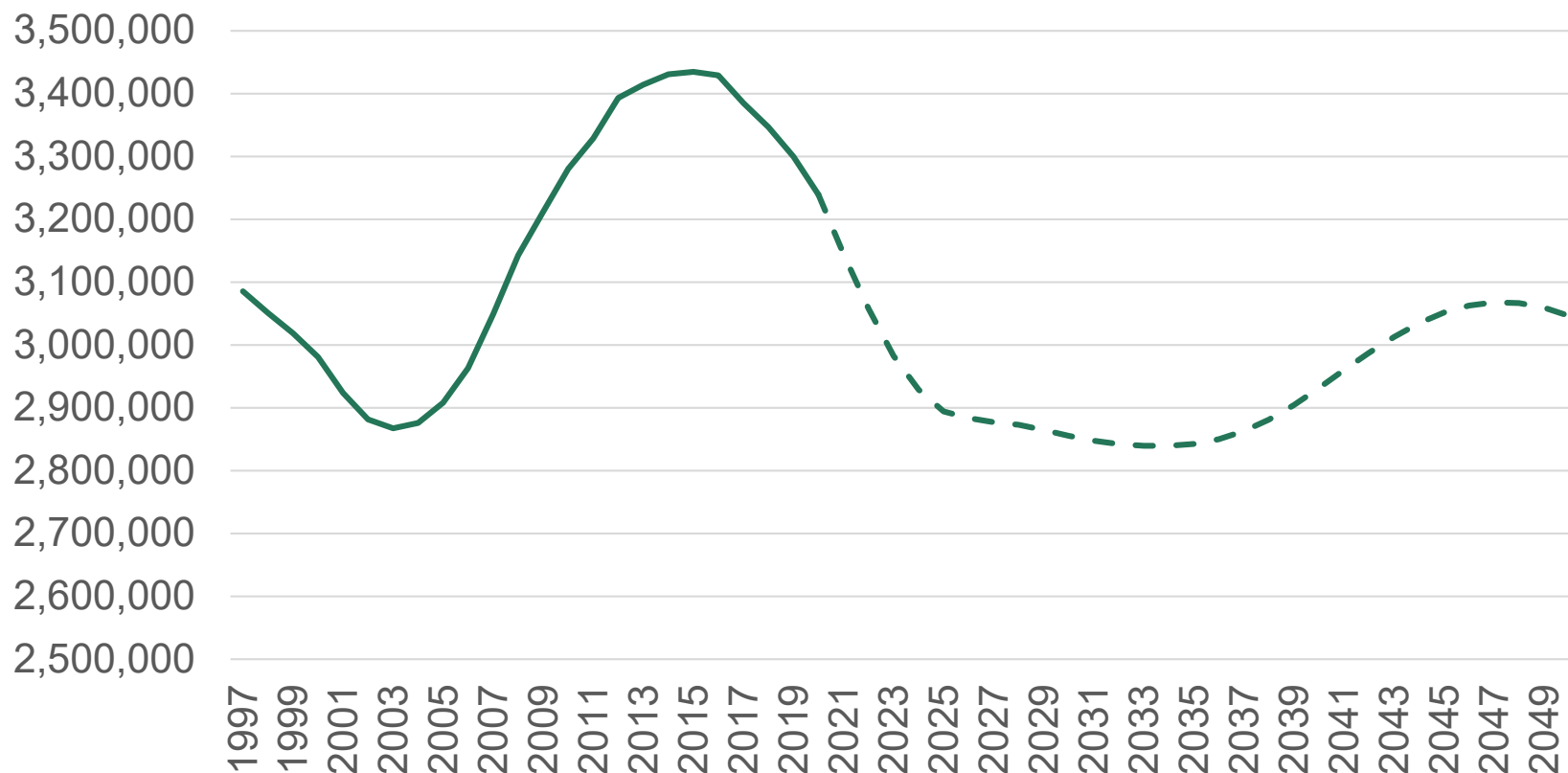
Population aged 0-4 (England)



Source: ONS, "Mid-year population estimates", various years; ONS, "[2020-based interim national population projections](#)", 12 Jan 2022.

... and is unlikely to repeat

Population aged 0-4 (England)



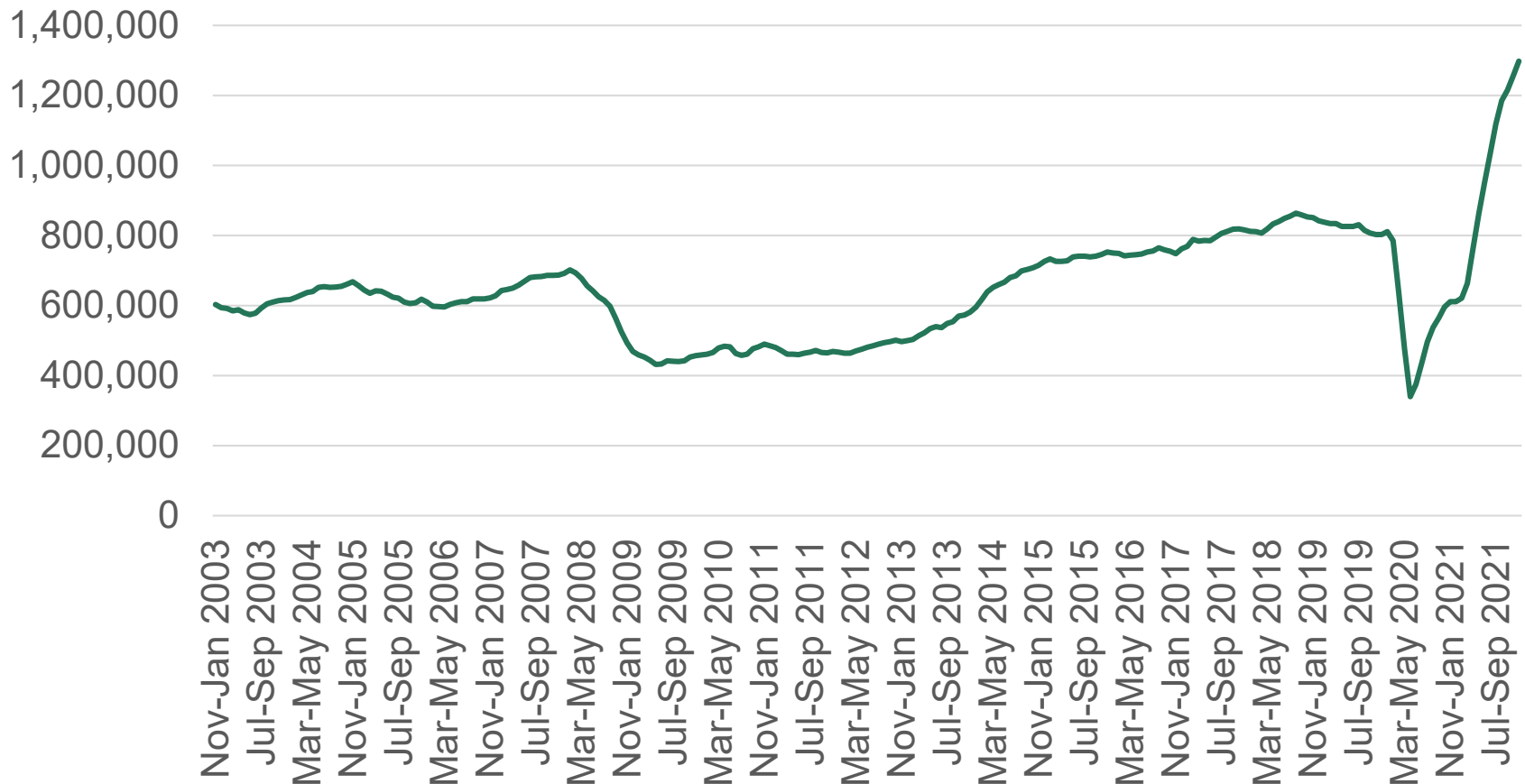
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Challenge #2: Staffing pressures

Huge rise in job vacancies

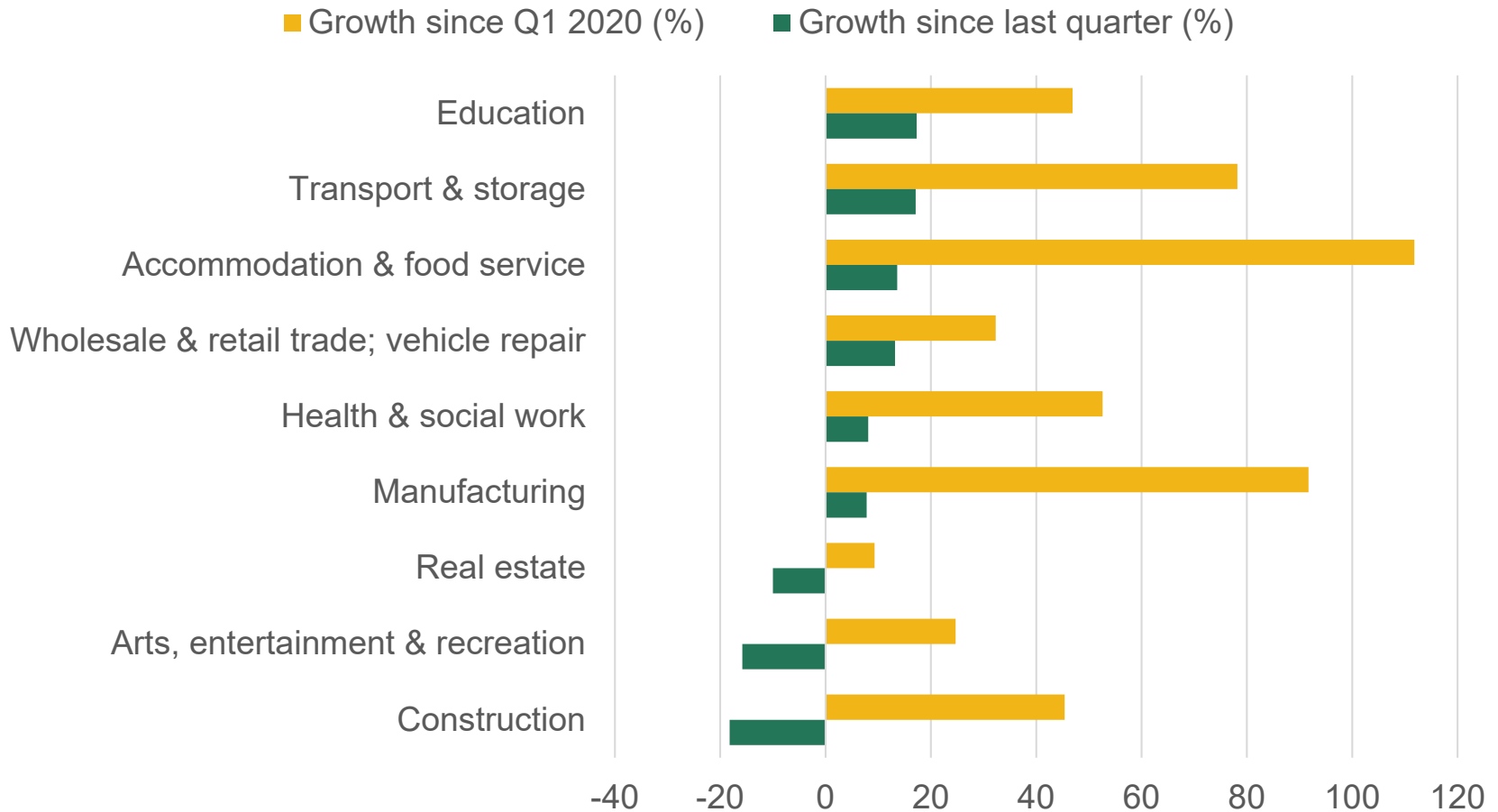
Quarterly job vacancies, seasonally adjusted



Source: ONS, "[Vacancies and jobs in the UK: February 2022](#)", 15 Feb 2022.

... especially in education

Change in vacancy rate (UK)



Source: ONS, "[Vacancies and jobs in the UK: February 2022](#)", 15 Feb 2022.

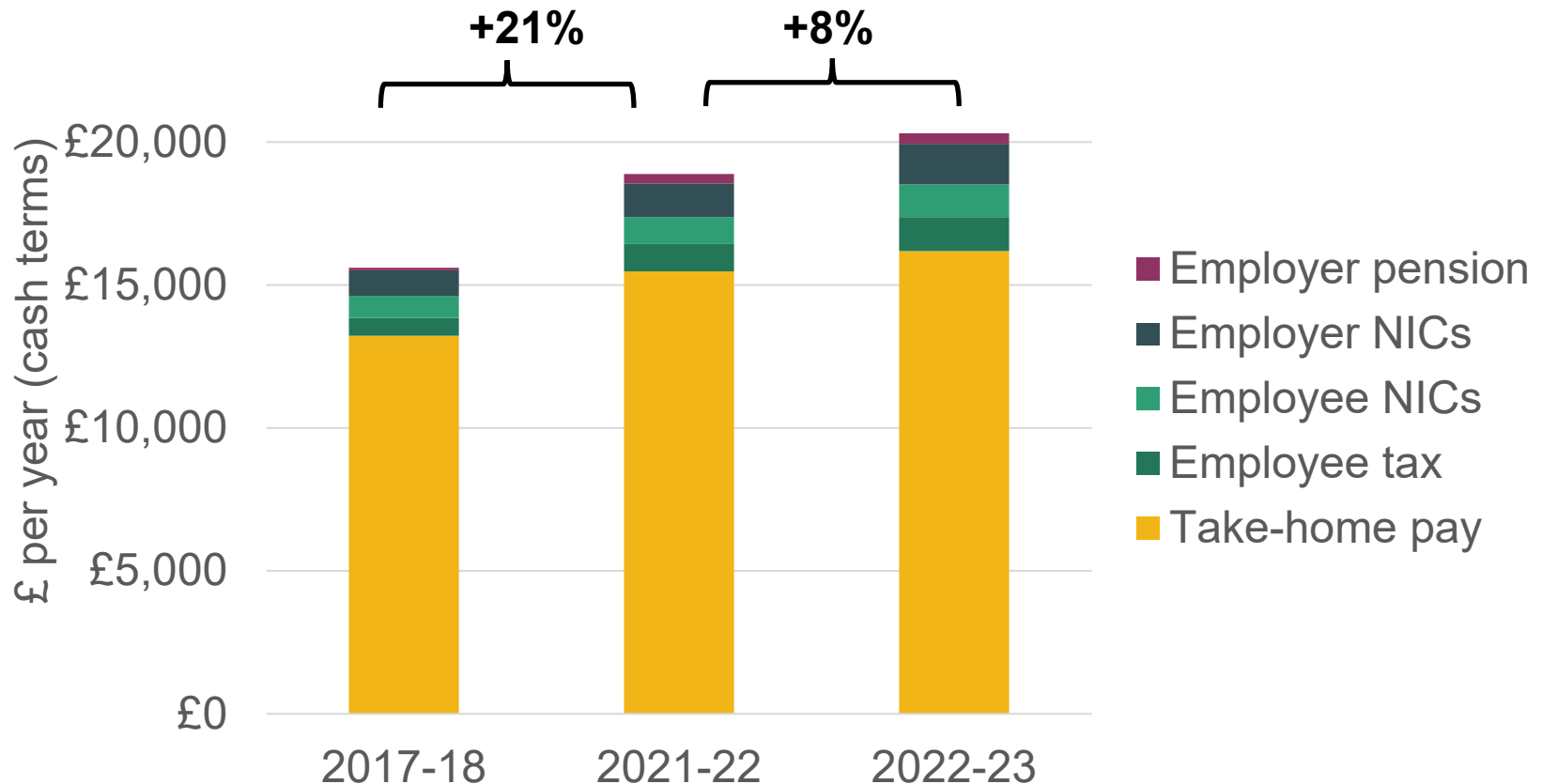
Staffing pressure leads to cost pressure



- Over 70% of providers' costs go on staffing
- Huge pressures from a rising minimum wage
 - £7.50 in 2017; now £8.91; £9.50 from April
- Rise in employer and employee NICs in April will add to the challenge facing childcare providers

Jump in staffing costs from April

Cost of a full-time, minimum wage employee (cash terms)



Note: Assumes a full-time worker employed at the adult minimum wage with no additional tax deductions. Employer makes minimum pension contributions through auto-enrolment.

Source: Author's calculations.

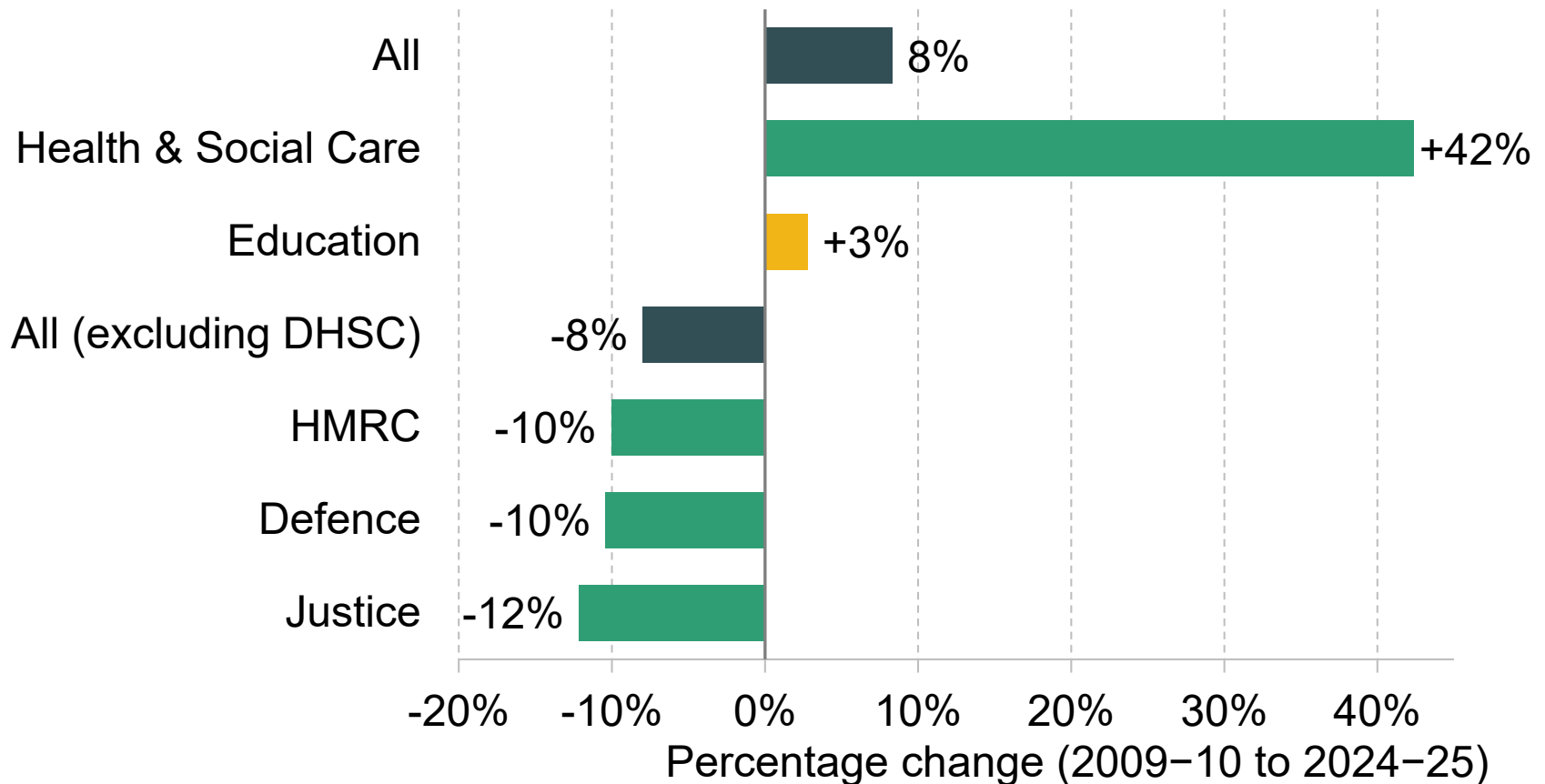
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Challenge #3: Public funding squeeze

Education has done relatively well

Total real % change in day-to-day budgets, 2009-10 to 2024-25

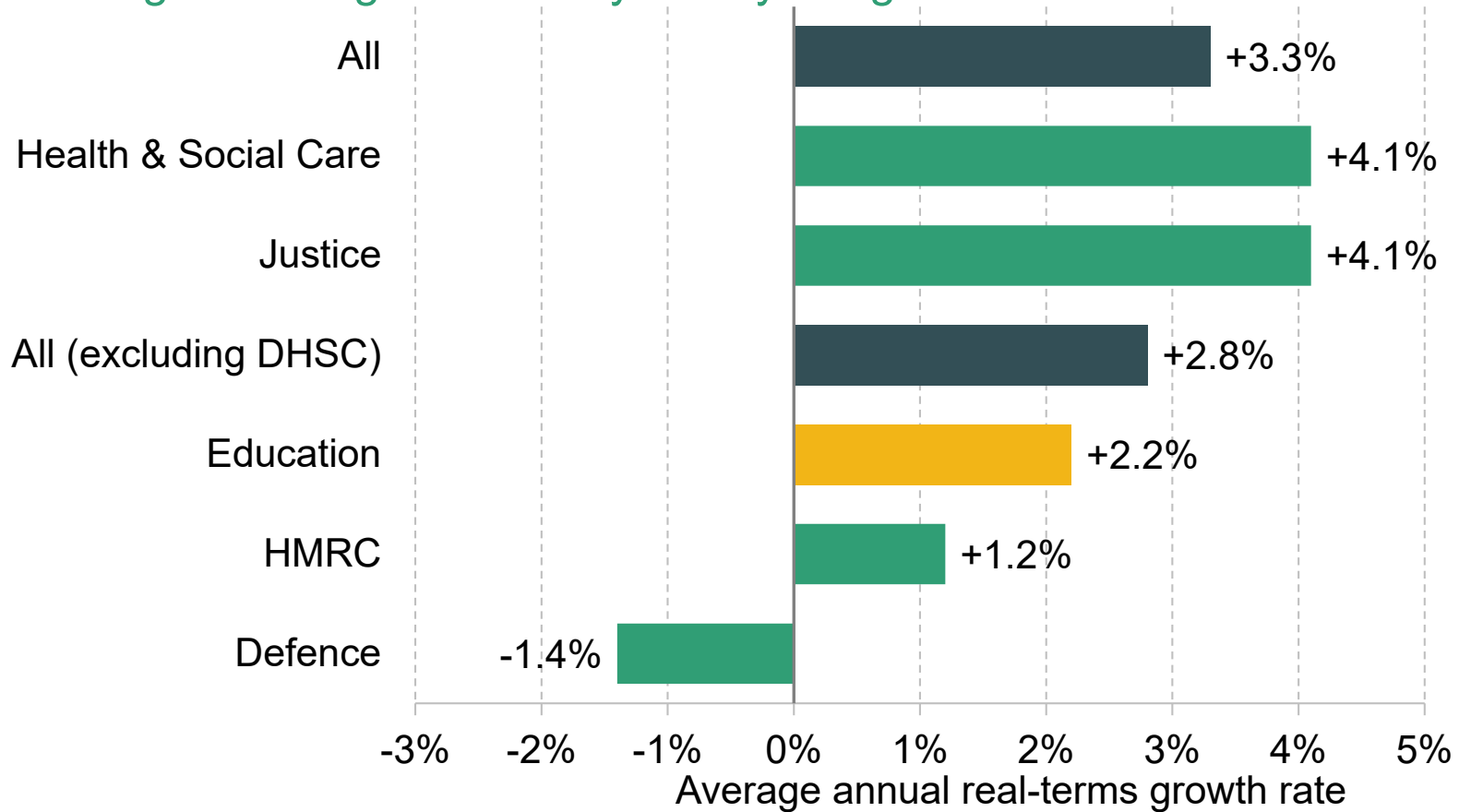


Note: Resource DEL refers to resource departmental expenditure limits, which can be thought of as day-to-day funding for public services. Overall Resource DEL refers is adjusted by the OBR for historical discontinuities and classification changes, and is additionally adjusted for spending changes related to employer pension and NICs.

Source: IFS calculations using OBR October 2021 EFO, HM Treasury Spending Review 2021 and PESA (various).

But will now see slightly lower growth rates

Average real % growth in day-to-day budgets over SR 2021



Note: Resource DEL refers to resource departmental expenditure limits, which can be thought of as day-to-day funding for public services.

Source: IFS calculations using HM Treasury, Spending Review 2021 (Table E.3).

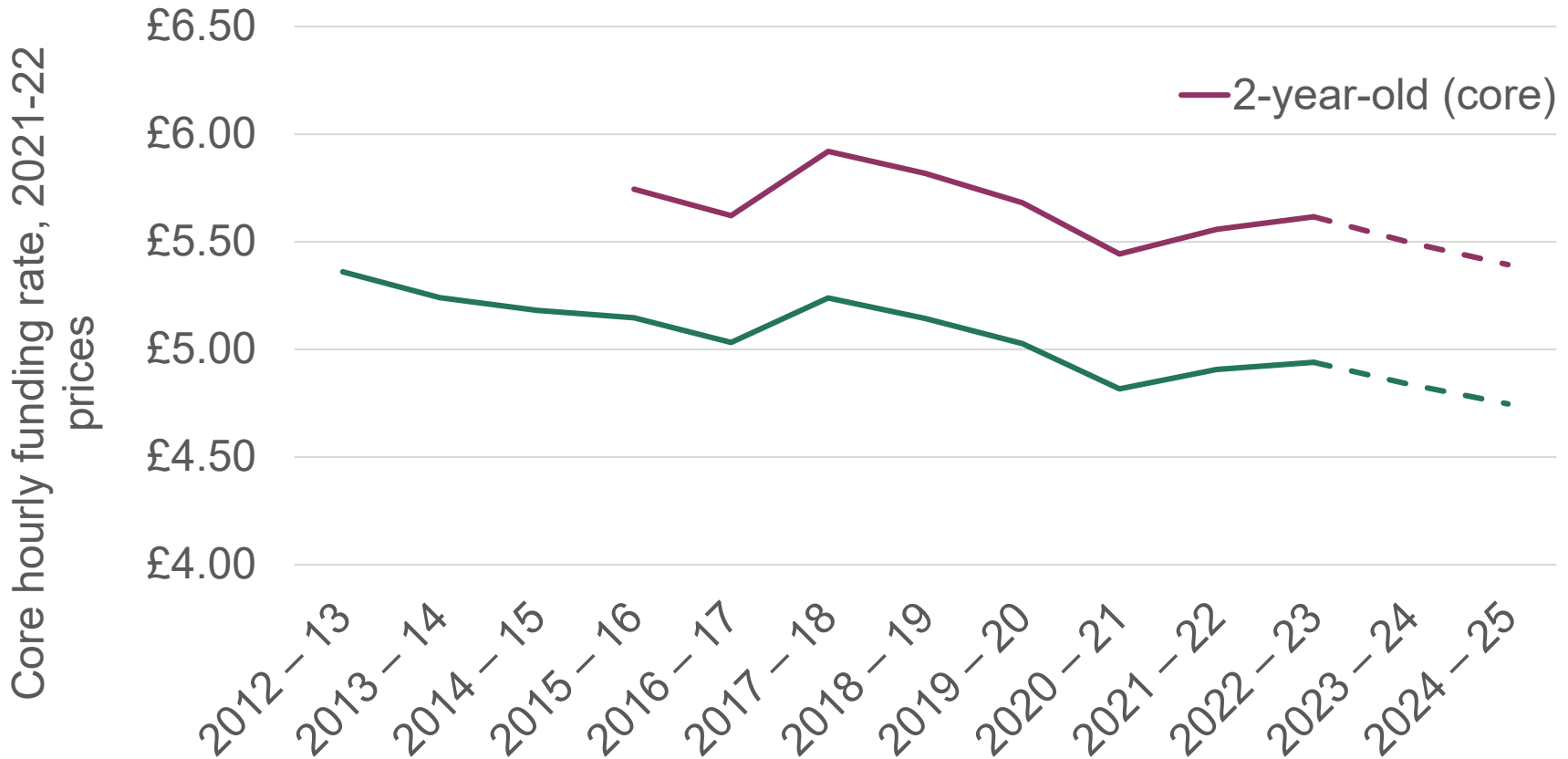
Spending Review 2021



- Significant new money for the early years
 - Around £500 million (over 3 years) for early intervention
 - Another £510 million (over 3 years) for the free entitlement
- In most LAs, free entitlement rate (and minimum funding floor) will rise 17p an hour for 3- and 4-year-olds in cash terms

Even with a boost, inflation could eat away at funding rate

Real-terms core hourly funding rates, historical and projected



Note: Projection assumes funding rate remains frozen in cash terms beyond 2022-23 (later rates have not yet been set).
Source: IFS education spending microsite – [“Early Years”](#). ONS, [“GDP deflators at market prices, and money GDP”](#), 6 Jan 2022.

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- Unlike previous years, quite a bit of the money goes on targeted supplements in the funding formula
 - A (welcome and overdue) uplift for the EYPP, from 53p to 60p
 - Big increase in the Disability Access Fund (from £615 to £800 a year)

Spending Review 2021



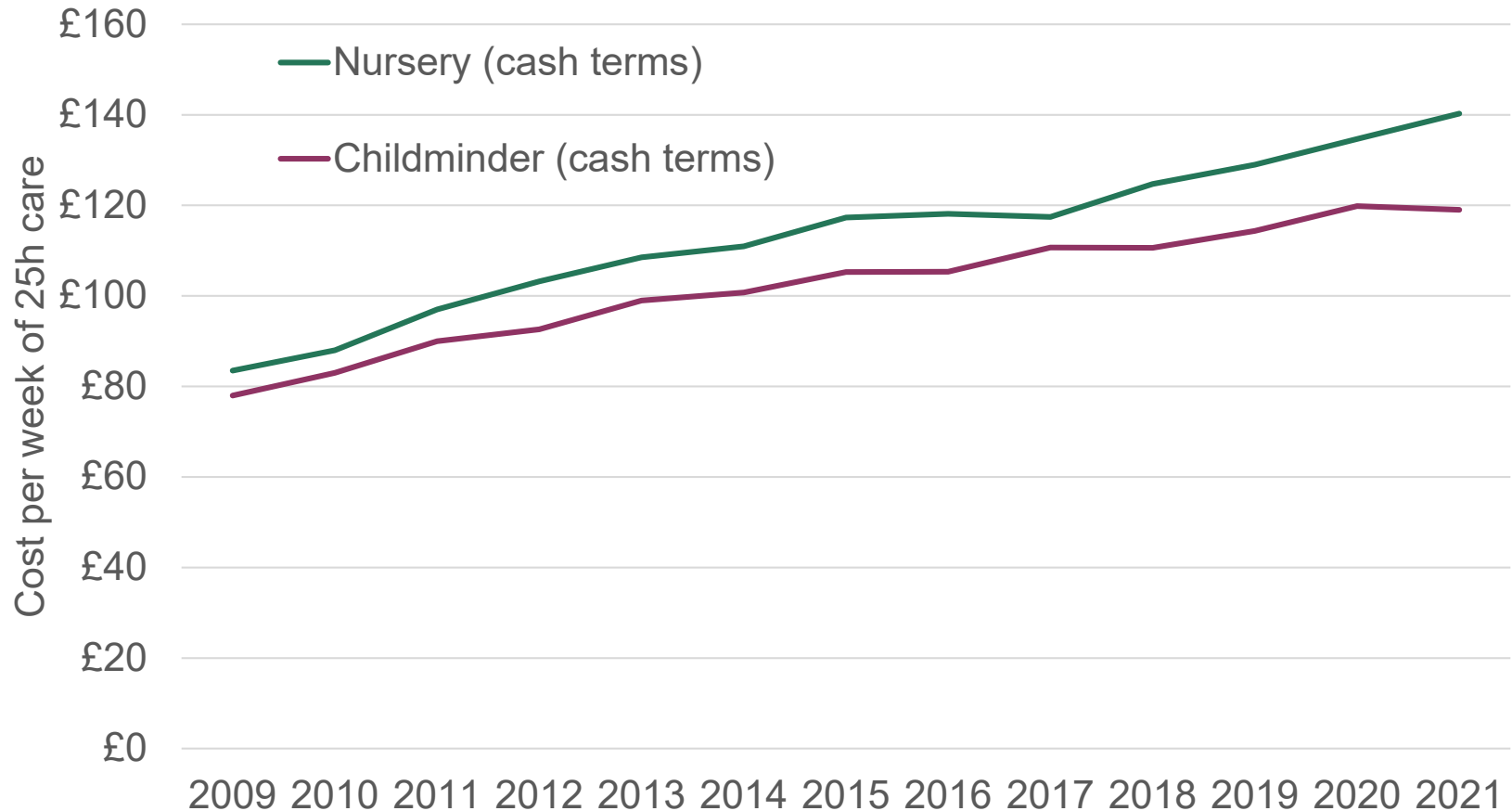
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 - A (welcome and overdue) uplift for the EYPP, from 53p to 60p
 - Big increase in the Disability Access Fund (from £615 to £800 a year)
- But budget is fixed in cash terms for the next 3 years – all inflation risk is with the Department for Education



Challenge #4: Pressures on families

Childcare prices have risen 67% since 2009

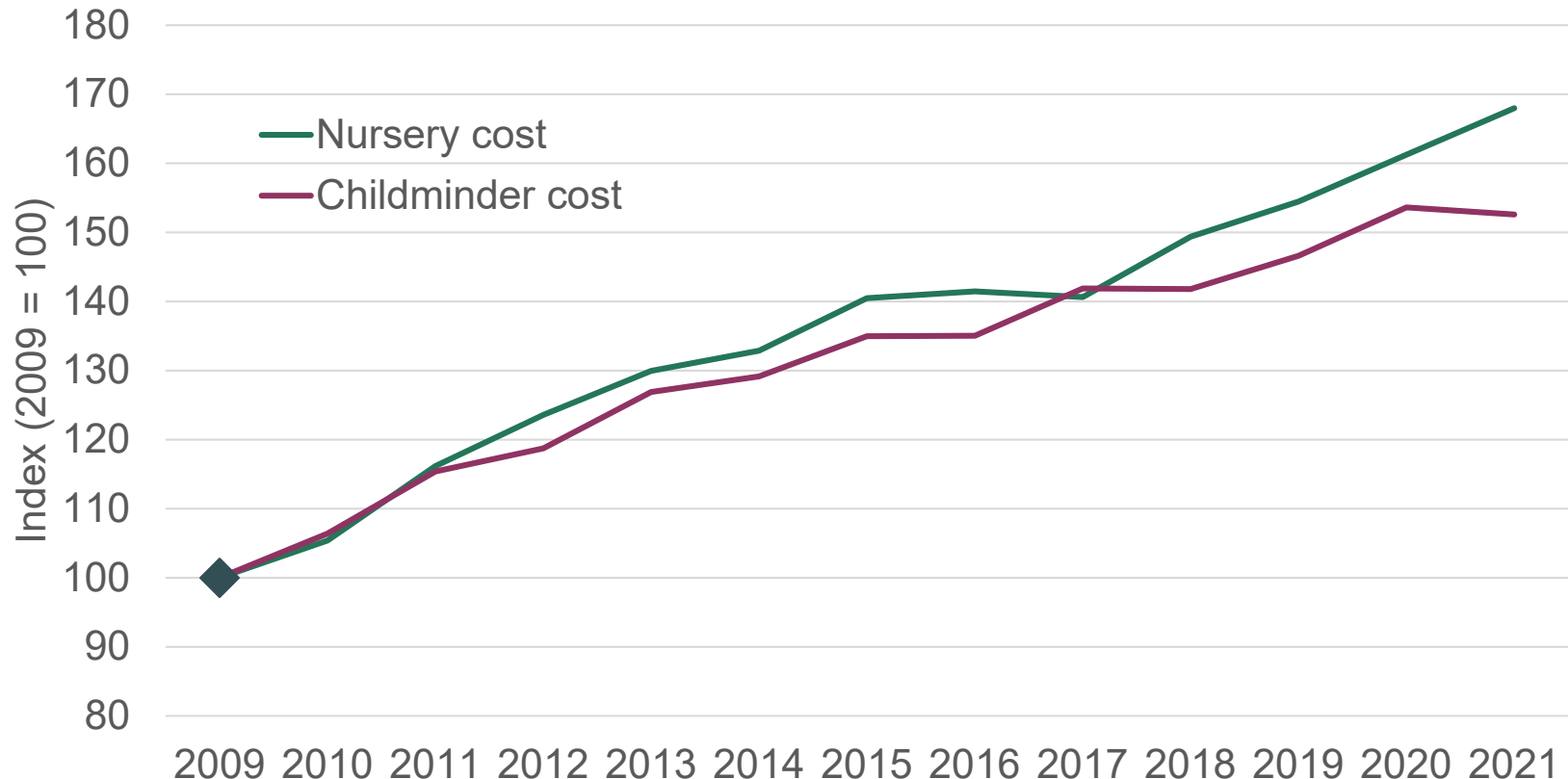
Part-time childcare prices in England (cash terms)



Source: Coram Family and Childcare, "[Childcare survey](#)" (various years).

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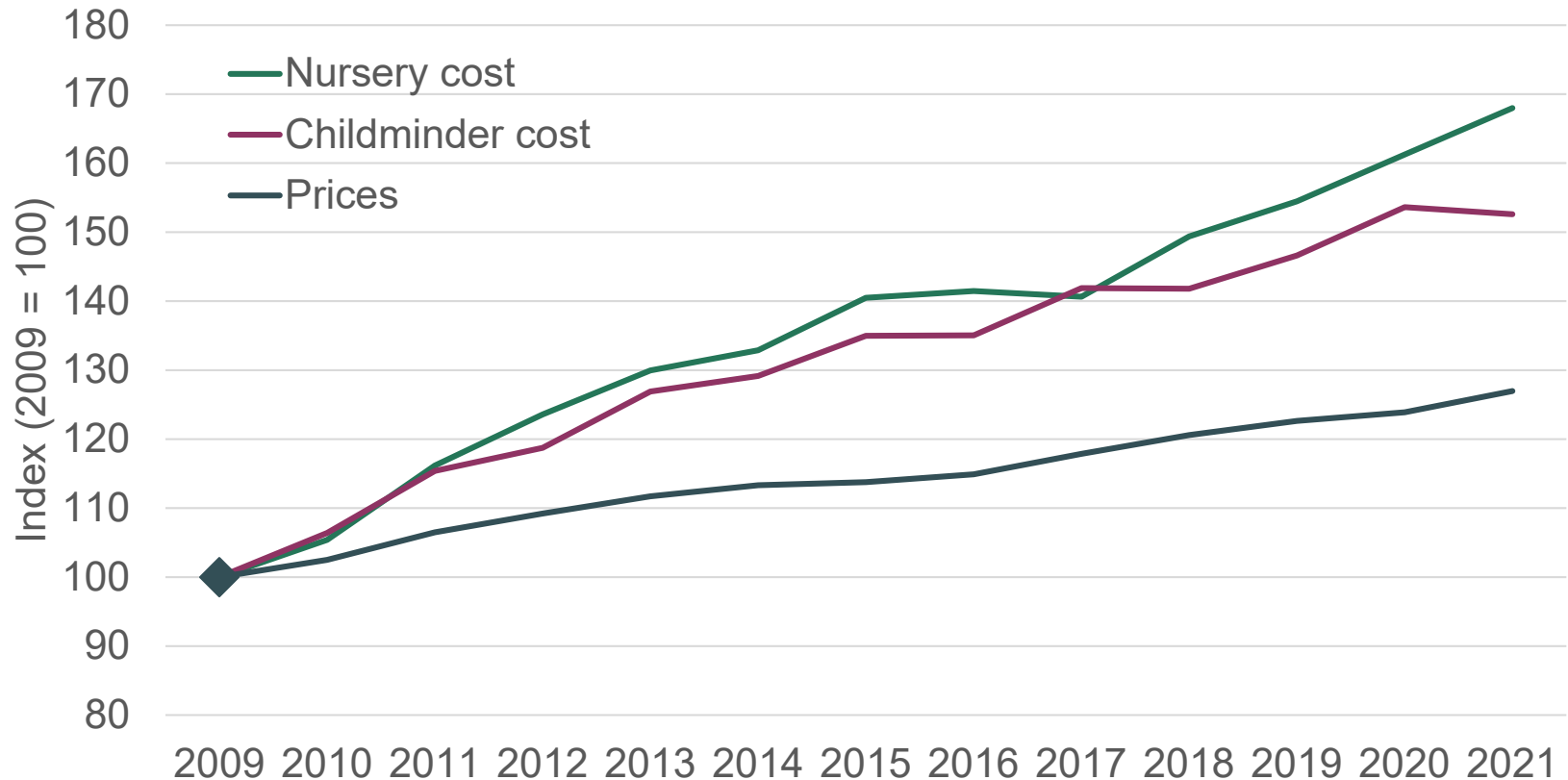
Prices, earnings and childcare costs (Index: 2009=100)



Source: Coram Family and Childcare, "[Childcare survey](#)" (various years). ONS, "[CPIH index 00: All items](#)", 16 Feb 2022. ONS, "[Average weekly earnings: Whole economy seasonally adjusted total pay excluding arrears](#)", 15 Feb 2022.

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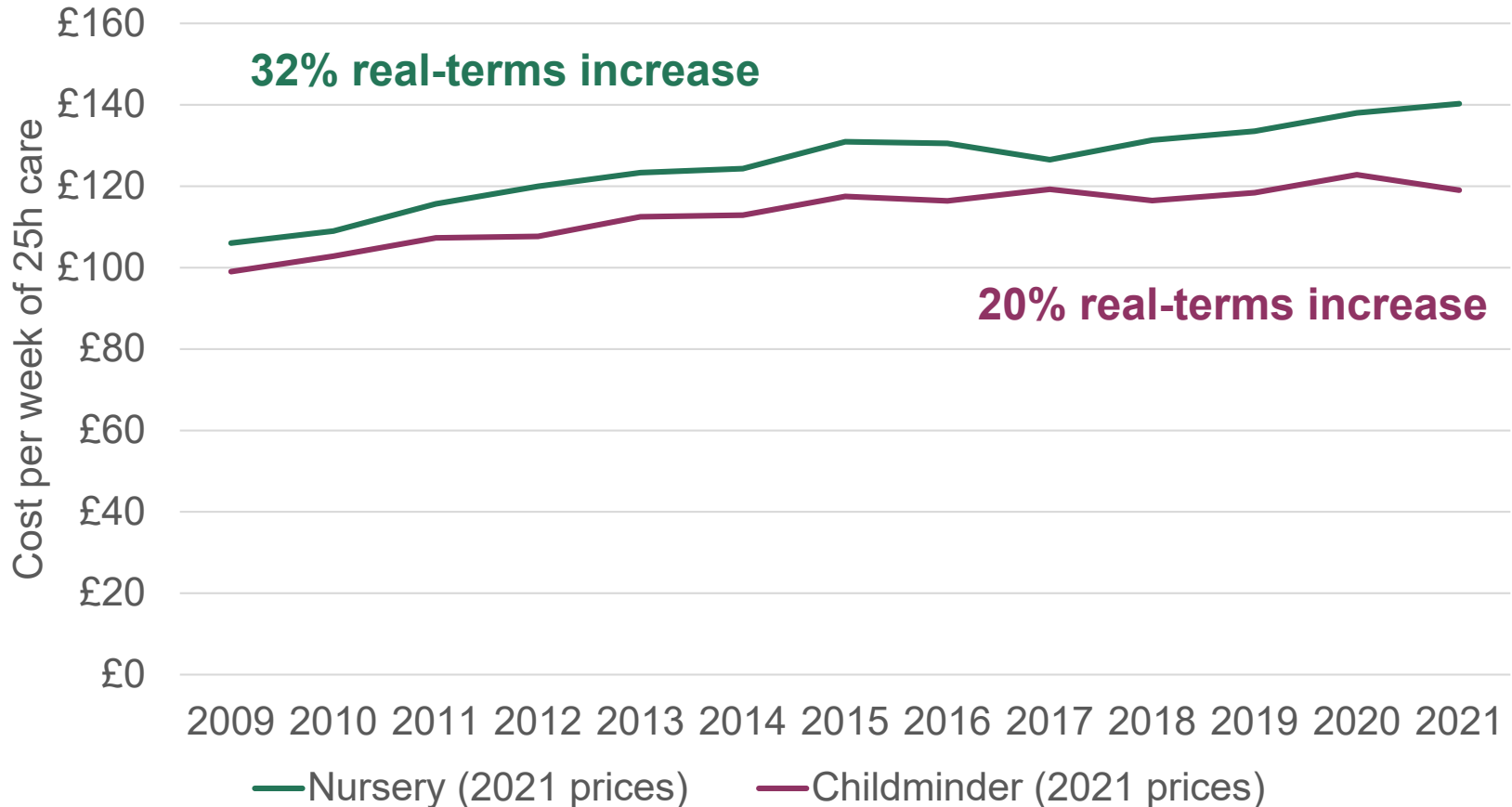
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With real-terms growth of nearly a third

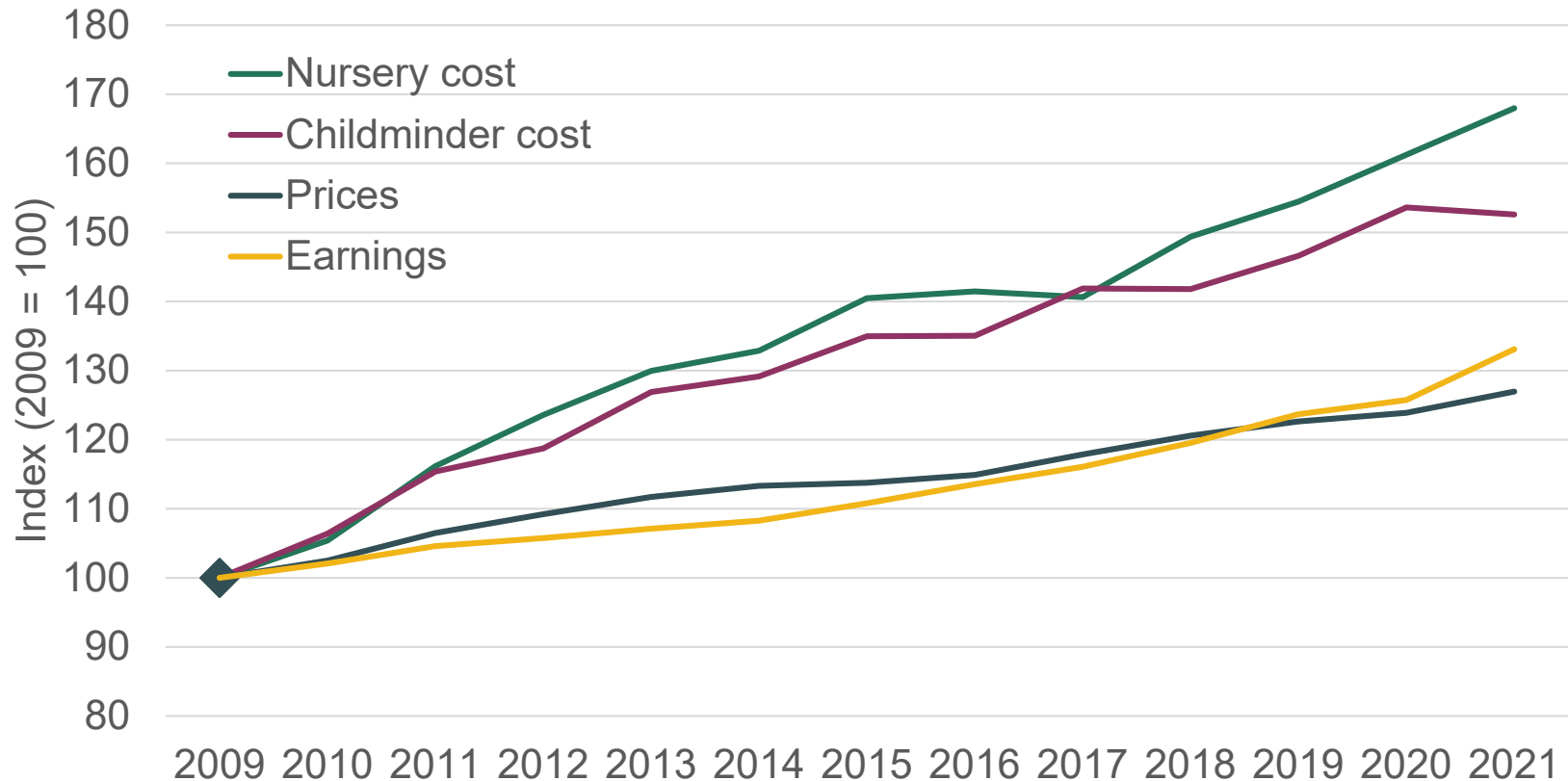
Part-time childcare prices in England (2021 prices)



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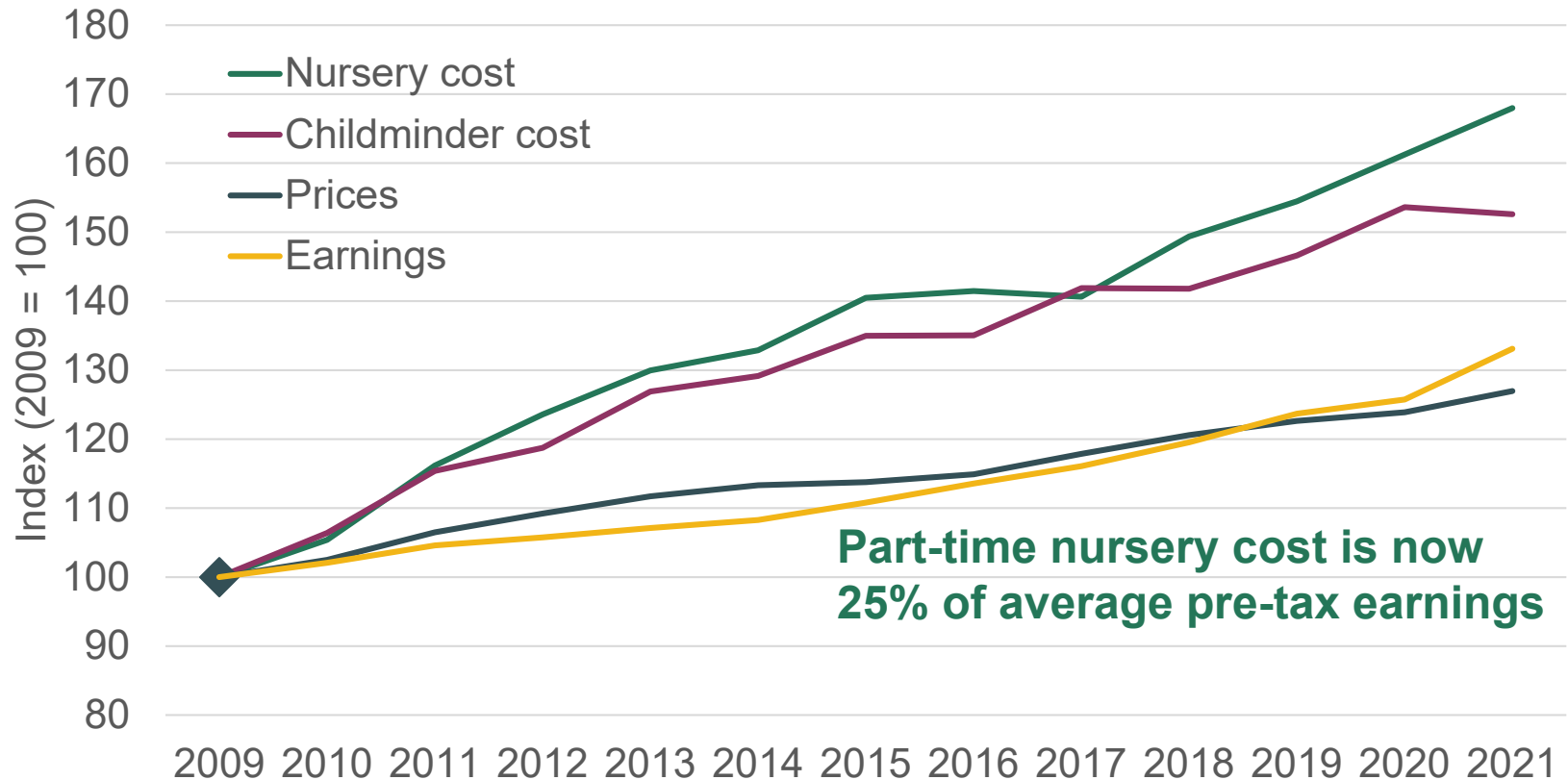
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Childcare prices have risen 67% since 2009

Prices, earnings and childcare costs (Index: 2009=100)



Part-time nursery cost is now 25% of average pre-tax earnings

Source: Coram Family and Childcare, "[Childcare survey](#)" (various years). ONS, "[CPIH index 00: All items](#)", 16 Feb 2022. ONS, "[Average weekly earnings: Whole economy seasonally adjusted total pay excluding arrears](#)", 15 Feb 2022.



Summing up

Four challenges ahead



- The last two decades have seen huge growth in the early years offer (though much slower growth in hourly funding)
- But the next decade could be a challenging one for the sector

1. **Changing demand for childcare**

- Free entitlement take-up is falling
- Meaningful decline in population ahead

Four challenges ahead



- The last two decades have seen huge growth in the early years offer (though much slower growth in hourly funding)
 - But the next decade could be a challenging one for the sector
- 1. Changing demand for childcare**
 - 2. Staffing pressures**
 - A tight labour market coupled with higher wages and taxes will squeeze staffing budgets

Four challenges ahead



- The last two decades have seen huge growth in the early years offer (though much slower growth in hourly funding)
 - But the next decade could be a challenging one for the sector
- 1. Changing demand for childcare**
 - 2. Staffing pressures**
 - 3. Public funding squeeze**
 - Even a relatively generous Spending Review settlement could be largely eroded by inflation

Four challenges ahead



- The last two decades have seen huge growth in the early years offer (though much slower growth in hourly funding)
 - But the next decade could be a challenging one for the sector
- 1. Changing demand for childcare**
 - 2. Staffing pressures**
 - 3. Public funding squeeze**
 - 4. Cost of living crisis & pressures on families**
 - Substantial growth in childcare costs means families are feeling the pinch

But some opportunities too



- Greater awareness of the importance of childcare in supporting parents to work
- Tackling the cost of living crisis might push policymakers into action to reform the sector
- And concern about learning loss and regional inequalities could see more emphasis on early years

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“Potential is shaped from the very beginning of our lives, and all children and families need to be able to access high quality early years education, schools and support.”

-- Levelling Up White Paper



Christine Farquharson, Institute for Fiscal Studies

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