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@TheIFS

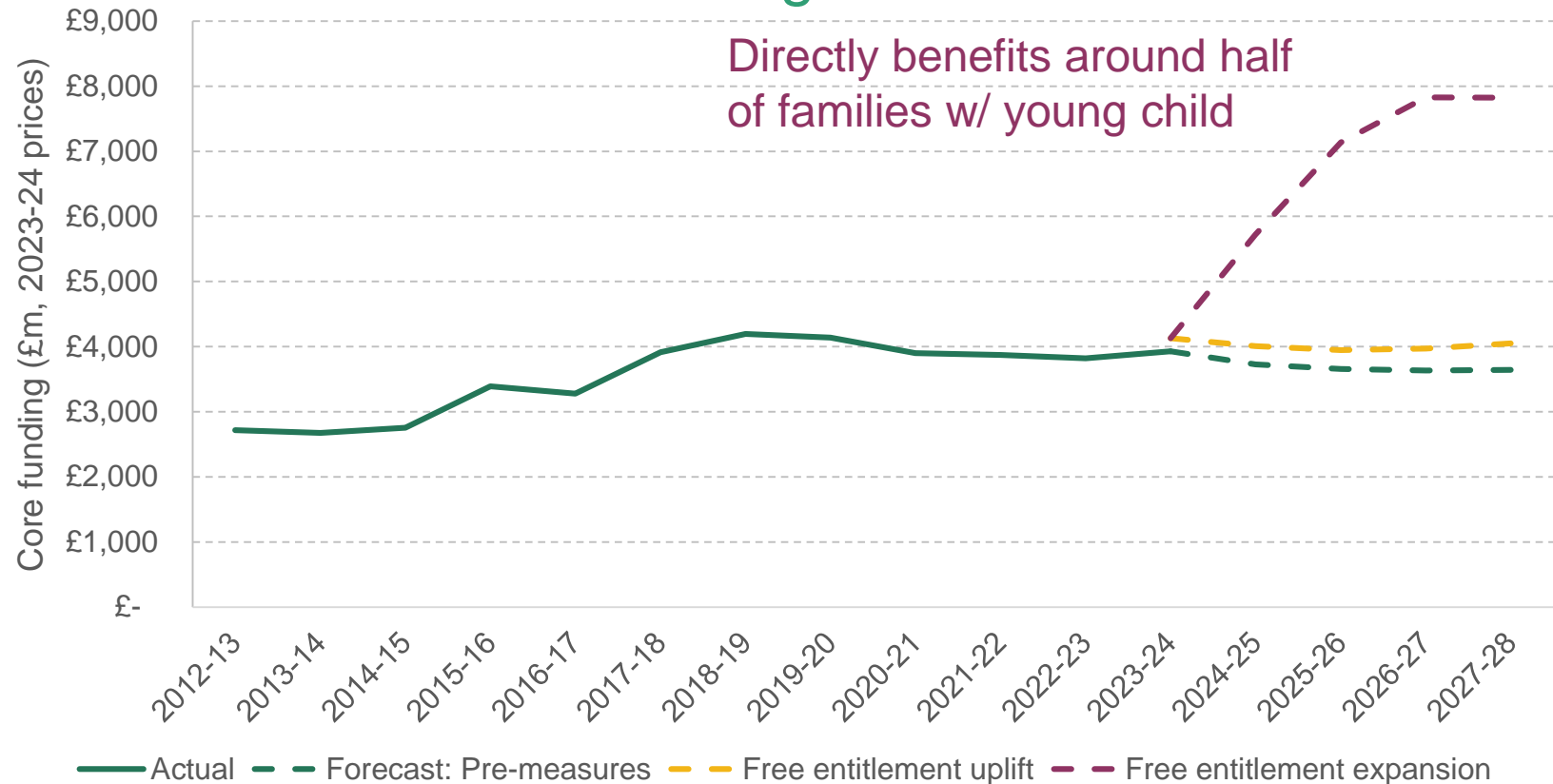
Changes and challenges in childcare



Economic
and Social
Research Council

Spending on free childcare will double by 2027-28

Core free entitlement funding

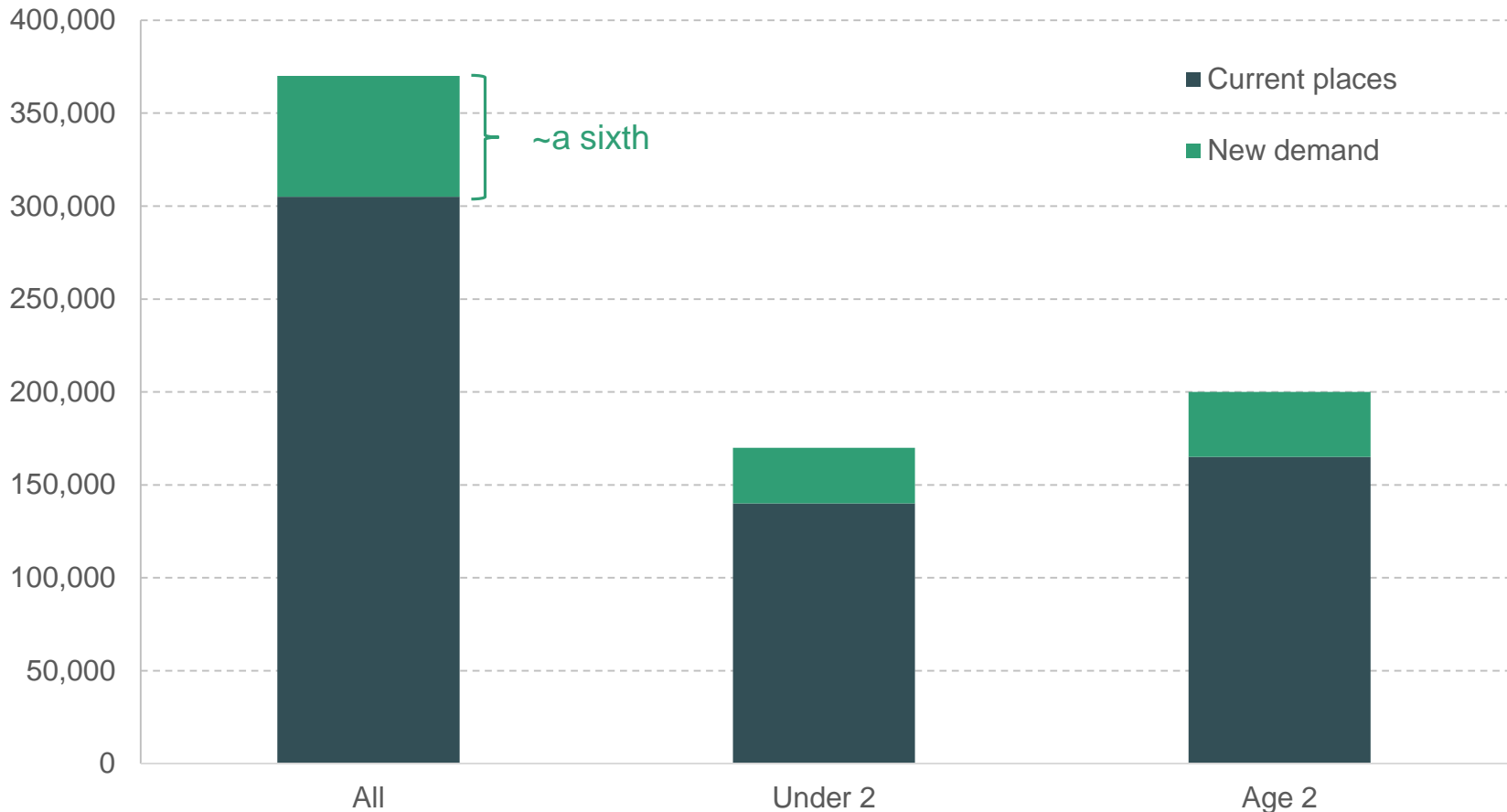


Note: IFS forecast based on a real-terms freeze in per-hour DSG funding rates and forecast demand based on ONS population estimates. Post-Budget spending excludes Barnett consequential and assumes uplift for existing hours remains flat in real terms over the forecast horizon.

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

Even with significant labour supply rise, new hours are mostly a transfer

Estimated funded 30-hour places in 2027



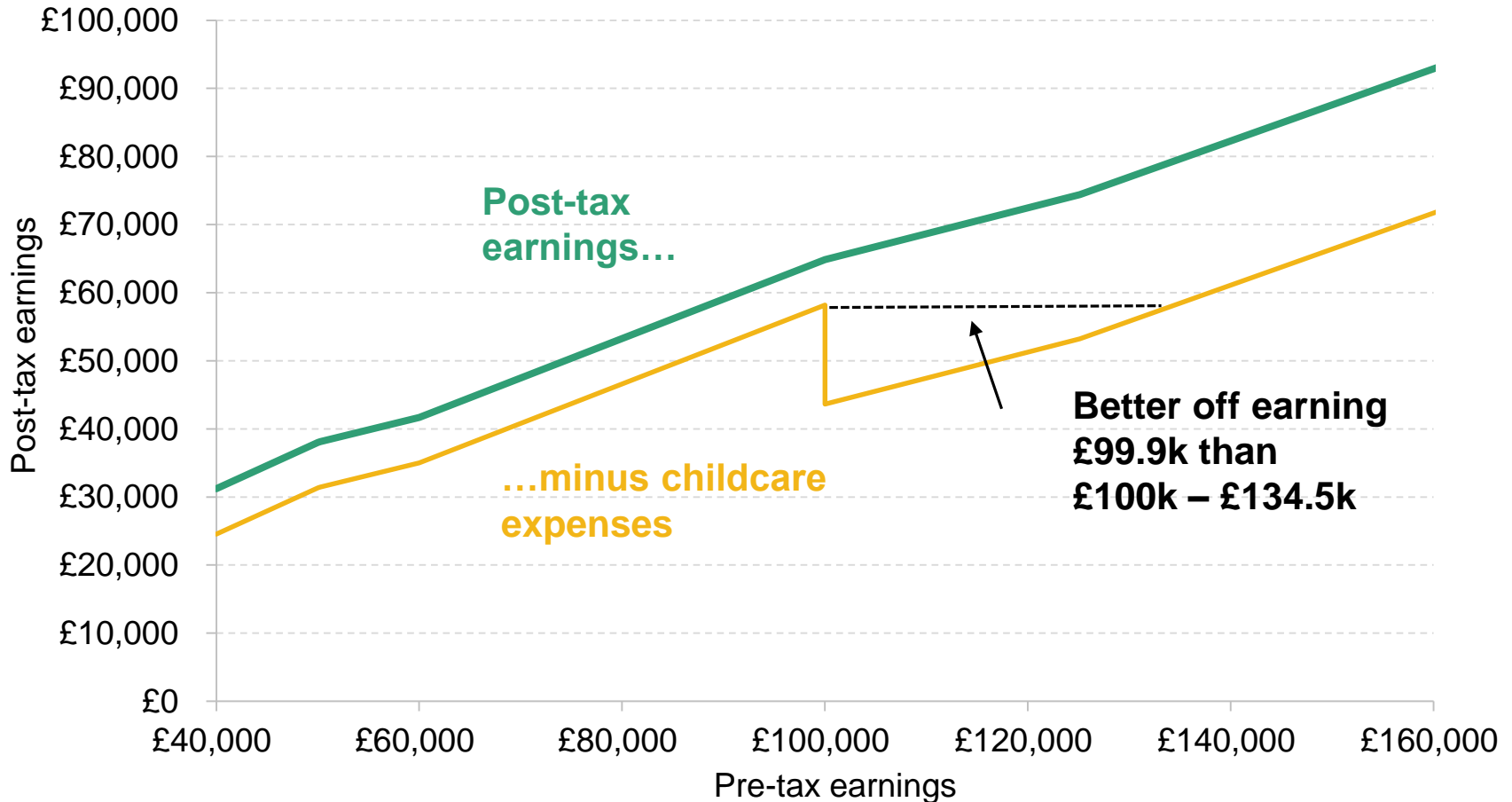
Note: Estimated scenario based on analysis of current patterns of childcare take-up among under-2s (Childcare and Early Years Survey of Parents microdata, 2019; ONS population-by-age estimates for 2027) as well as demand implied by labour supply responses reported in the Budget. 'Under 2' includes children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

And policy design sits oddly with labour supply focus

- New entitlements will cover 30 hours x 38 weeks → 22 hours a week if spread over the year
- Entitlements will only cover families where all parents are working
 - No support for people in education, training or looking for work
- Could mean families get little childcare support in their first months of work
 - Current 30h offer: Apply 4-10 weeks before term starts
 - Sits oddly against reforms in UC to ease up-front barriers
- Very high earners will see a huge hit to work incentives over £100k

Huge incentives for high-earning parents to keep taxable income below £100,000

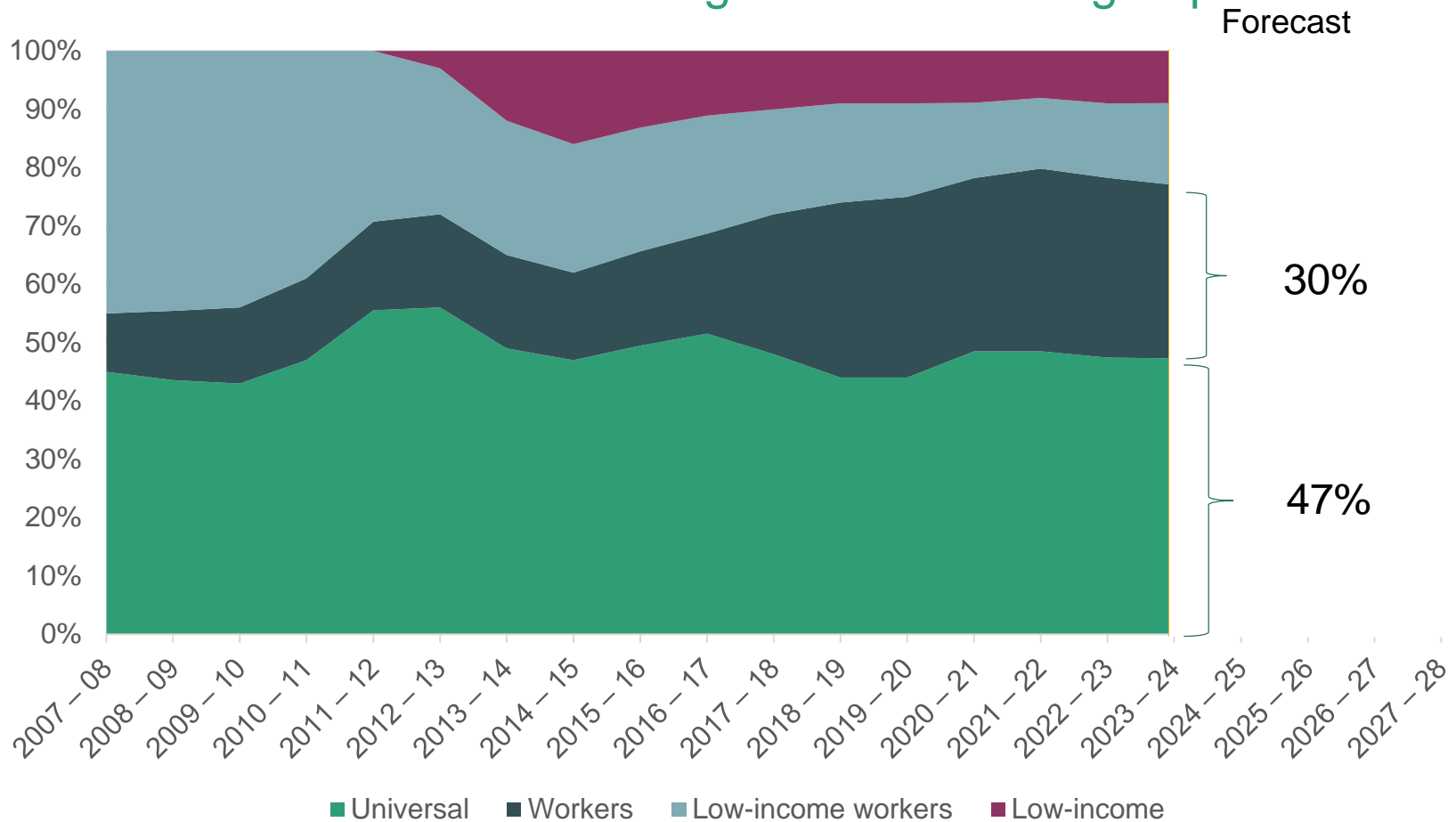
Average post-tax earnings: parents with two young children, 40 hours of childcare



Note: Example is for family with two children under 3. Assumes mean hourly childcare prices from the Childcare early years and providers survey 2022 ([Childcare and early years provider survey, Reporting year 2022 – Explore education statistics – GOV.UK \(explore-education-statistics.service.gov.uk\)](https://www.gov.uk/explore-education-statistics)).

Childcare support is ever-more targeted at working families

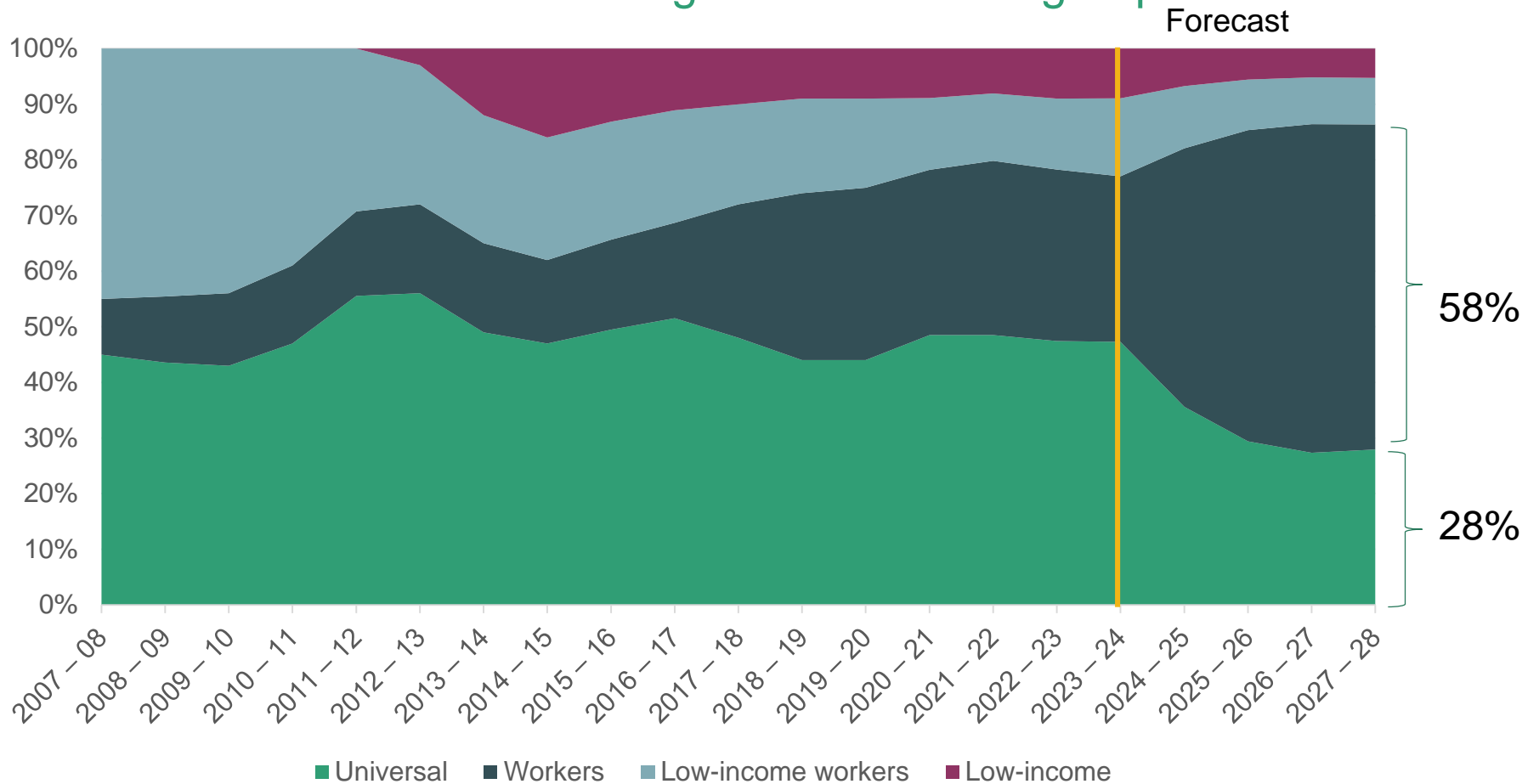
Share of childcare subsidies targeted at different groups



Source: Adapted from Figure 5, IFS Education Spending microsite – “Early years”.

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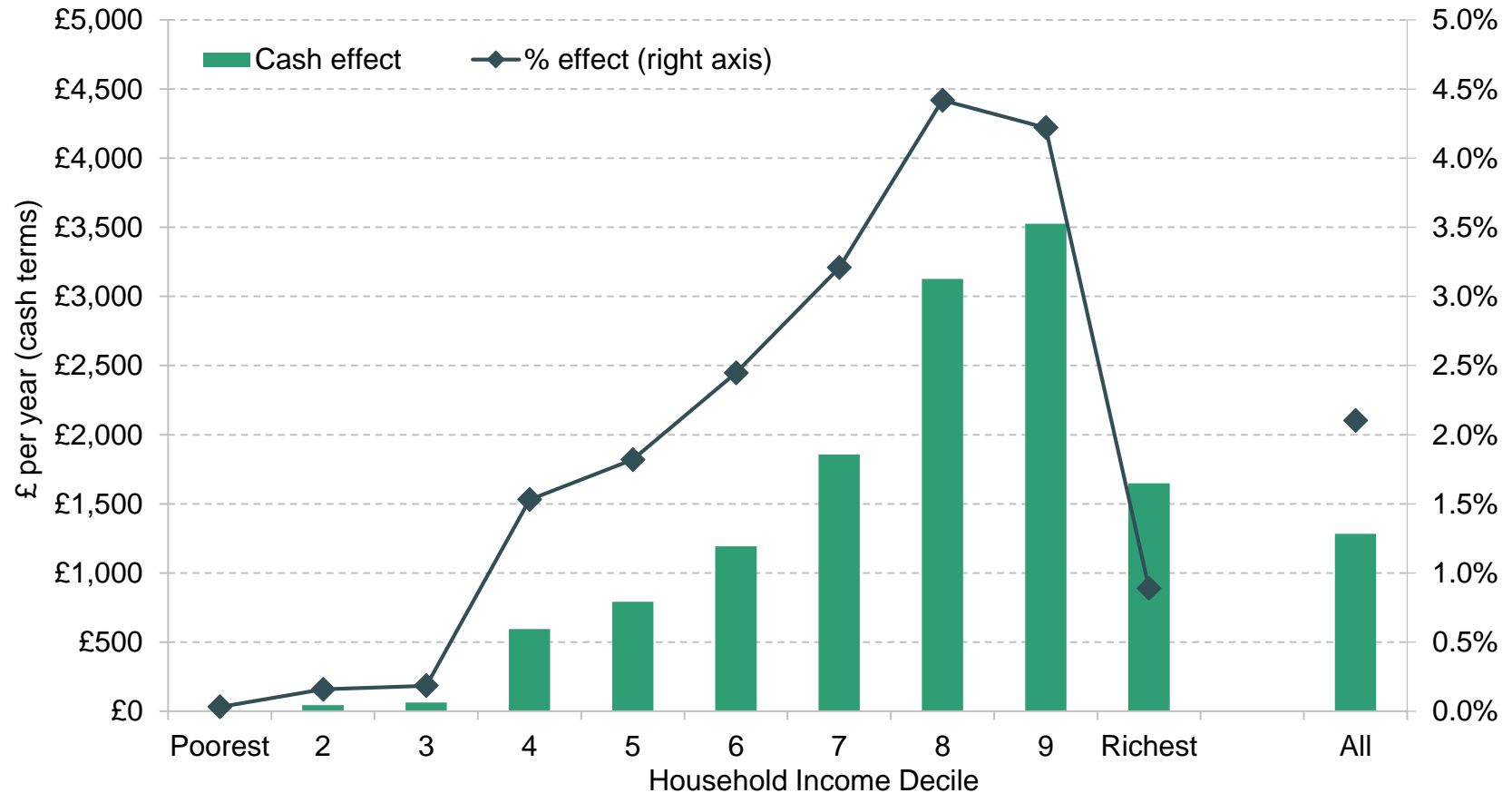
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Source: Adapted from Figure 5, IFS Education Spending microsite – “Early years”.

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.

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 envelope looks to be enough to significantly raise rates for 2s, and introduce a higher rate for under-2s
 - Next year: 30% uplift in 2yo rate → ~£7.80/hr
 - If protected in real terms, worth £8.25 cash by 2027
 - We estimate that could allow for an under-2 rate of just under £11 (cash terms, 2027)

Free entitlement expansion takes the pressure off UC

- Expanded free entitlement will mean much less demand for UC subsidies among the youngest (44% of take-up)
- Changing the timing of UC childcare subsidies will help parents with initial barriers to working (more)
 - Now, families can be ~1/3 worse off in their first month of work
- But risks over-payments and fraud

- Raising the caps on childcare expenses by 50% nearly restores their real-terms value after an 18-year freeze
 - But has limited impact on claimants: the average payout was only half the value of the old cap

Summary

- New childcare support has effectively established a new arm of the welfare state
- Severe consequences from getting the funding rate wrong
 - But total budget does seem to allow for significantly higher rates, at least for the youngest
- Along with big changes in the shape of early years spending – we are explicitly focusing on supporting work
 - And moving away from a model of ‘early education’

