Early education and childcare spending

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Christine Farquharson

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Copy-edited by Judith Payne

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Executive summary

Early education and childcare has become an increasingly important part of the education spending landscape. Between 2009–10 and 2018–19, annual spending on free childcare for 3- and 4-year-olds rose by almost £1,900 per child (in today's prices) and we spent £3.3 billion last year on providing these free places. Adding in spending on free childcare for disadvantaged 2-year-olds, childcare subsidies for low-income working families through the benefit system, and the cost to the exchequer of tax relief on childcare vouchers and tax-free childcare, total public spending on childcare stood at around £5.4 billion.

This briefing note first sets out the structure of England's system of support for early education and childcare, which includes the education, tax and benefit systems. It then outlines how spending in each of these programmes has changed over time, before analysing what this can tell us about policymakers' priorities in these areas. It then gives a quick overview of spending on Sure Start, another important early years services, before providing costings for some indicative policies in the early years and childcare area.

Key findings

- **Spending on free childcare has risen quickly since 2009–10, even as other stages of education have seen cuts. Spending on free childcare rose from almost nothing in the 1990s to £1.6 billion in 2009–10 (in 2019–20 prices). Since then, it has increased by more than 130% and now stands at £3.7 billion.**

- **But spending per hour of free childcare has grown much more slowly. Since 2004, total spending on free childcare for 3- and 4-year-olds has more than doubled as the entitlement was extended to cover more free hours. But spending per hour – the money that childcare providers actually get to deliver the free hours – is up just 20%. Spending per hour did increase by 7% in 2017 – a third of the increase since 2004.**

- **Free childcare is popular among parents and boosts the incomes of families with young children. However, evidence suggests that it only leads to a small increase in the number of mothers in paid work, and even that only applies to mothers whose youngest child is eligible for full-time childcare in school. There is also little evidence of benefits for children's development.**

- **Looking more broadly at childcare subsidies through the tax and benefit systems along with free childcare, spending is increasingly targeted at working families, rather than low-income children. Support for low-income workers fell from 45% of total childcare spending in 2007 to just 17% ten years later, and the share of childcare spending targeted at low-income families – working or not – stood at 27%. On the other hand, support for working families – regardless of their income level – has increased from 10% of total childcare subsidies to 25%, following the introduction of 30 hours' free childcare.**

- **Spending on other early years services, such as Sure Start, has seen big cuts.** Since its peak in 2010, Sure Start spending has fallen in real terms from £1.6 billion to £600 million in 2017. Spending on childcare support through the benefit system has also lost out over the last decade, relative to other forms of childcare support.

- **Policymaking for the early years should be done with an eye not just to costs, but also to the complexity and effectiveness of the system.** Policymakers need to be clear about how their proposals fit with the existing landscape of early years services and with the twin goals of helping parents to work and supporting children to achieve their potential. It is not enough to assert that any programme will automatically meet both targets: internationally, childcare programmes rarely if ever both support parental employment and benefit children's development.

1. England's subsidies for early education and childcare

In England, there are (at least) eight different programmes, spread across three different departments, through which the government supports childcare. These are summarised in Table 1 and described in more detail below.

Free childcare

The **free entitlement**, or 'funded hours', offers families a set number of childcare hours that they can access for free, with the government paying the nursery (or other childcare provider) a set amount of funding per hour of childcare delivered. Currently, the number of funded hours that a child gets depends on his or her age and family circumstances.

Tax system

There is also public support for childcare through the **tax system**. To date, this has mostly been in the form of employer-sponsored **childcare vouchers**. Under this system, an employee reduces his or her annual salary and receives the same amount in vouchers to spend on childcare, effectively paying for childcare out of pre-tax income. This means that the exchequer forfeits the tax and National Insurance contributions that would otherwise have been due. Basic-rate taxpayers can buy up to £243 of vouchers a month through this scheme, with potential savings of £78 – a 32% subsidy.[1]

Childcare vouchers have been closed to new entrants since October 2018. Instead, the government has introduced the **tax-free childcare** programme. Parents open an account on behalf of their child. For every £8 they contribute to it, the government tops it up by £2 (a 20% subsidy), up to £167 of government contribution a month.

Benefit system

The government also offers support to low-income families with their childcare costs through the **benefit system**. The childcare element of universal credit (and its predecessors – working tax credit, working families' tax credit and family credit) offsets a share of recipient families' childcare expenses. The size of the payment depends on a family's earnings, their monthly childcare costs, and the number and ages of their children.

At the moment, most families with young children have not yet transitioned to universal credit, so they are still in the working tax credit system. The **childcare element of working tax credit** currently covers 70% of childcare expenses, with the subsidy capped at £531 a month (for families with one child) or £910 per month for households with more than one child.[2]

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1 For higher- and additional-rate taxpayers, the potential subsidy is lower, but still significant, at £52 a month.

2 In practice, the subsidy cap for working tax credit is calculated based on weekly (rather than monthly) childcare expenditures. For a one-child family, up to £175 of childcare costs per week are subsidisable, equivalent to £9,100 per year or – at a 70% subsidy rate – a cash subsidy of up to £6,370 a year. Similar calculations apply for families with more than one child, who can have up to £300 per week of childcare costs subsidised.

Table 1. Summary of programmes subsidising early education and childcare in England

Type of policy	Programme	What is it?	Who gets it?	How many benefit?	How much does it cost? (2018–19, in 2019–20 prices)
Free childcare	Universal offer	15 hours/week, 38 weeks/year of free childcare	All 3- and 4-year-olds	1,277,000 children using	£2,540m**
	Extended offer	Additional free childcare (15 hours/week)	3- and 4-year-olds whose parents work and earn ≤ £100,000	328,000 children using	£770m**
	2-year-old offer	15 hours/week, 38 weeks/year of free childcare	40% most disadvantaged 2-year-olds	149,000 children using	£490m
Subsidy through the benefit system	Childcare support: working tax credit	Reimbursement of up to 70% of childcare expenses[3]	Children aged 14 and younger in low-income working families[4]	295,000 families*	*Not yet available (£910m in 2017–18*)*
	Childcare support: universal credit	Reimbursement of up to 85% of childcare expenses[5]	Children aged 15 and younger in low-income working families[6]	30,000 families	*Not available*

[3] The amount of subsidy is capped at £122.50 per week (if the family has one child) or £210 per week (for families with two or more children).

[4] Working tax credit is being replaced by universal credit and so is closed to most new applicants. Childcare costs can be included for children until the week of 1 September after they turn 15, or 16 for young people with certain disabilities.

[5] The amount of subsidy is capped at £646 per month for one child or £1,108 per month for families with two or more children. This works out to about £149 and £256 respectively per week.

[6] Childcare costs can be claimed for a dependent child up to 31 August following the child's 16th birthday.

Tax reliefs	Employer-provided childcare vouchers (and workplace nurseries)	Salary sacrifice scheme: 32% subsidy for basic-rate taxpayers[7] Relief for workplace nurseries[8]	Children aged 15 or younger whose parents are employed by a company offering a voucher programme[9]	510,000 families* (gov't) 660,000 families* (CVPA)	£700m*
	Tax-free childcare	£2 government top-up per £8 in a designated 'childcare' account: 20% subsidy[10]	Children aged 10 and younger in working families whose parents earn ≤ £100,000[11]	~ 174,000 children using***	£100m*
VAT exemptions		Childcare is exempt from VAT; exemptions can be worth 20%	Childcare providers, depending on their characteristics and the type of care on offer	*Not available*	*Not available*

* Figures for England are estimated by rescaling totals for the whole UK by the English share of the under-15 population (85%).

** Total spending on the 3- and 4-year-old free entitlement is allocated to the universal and extended entitlements based on the notional shares in the Dedicated Schools Grant allocation.

*** Rescaled from the number of English families using in 2018–19 based on the ratio between the number of families and children using tax-free childcare in the UK in March 2019.

Source: Tables 2.1 and 2.2 of Britton, Farquharson and Sibieta (2019). See original report for detailed sources and notes on methodology.

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[7] Specifically, employees can divert some of their salary into buying childcare vouchers from their employer, but they do not pay income tax or National Insurance contributions on the money they use to buy the vouchers. Employers are also exempted from paying their side of the National Insurance contributions on these earnings.

[8] In practice, the in-kind benefit of using the workplace nursery is exempt from income tax and National Insurance contributions. Employers may also be able to deduct running costs from their taxable profits.

[9] The childcare voucher programme is not open to self-employed parents, parents whose company does not offer vouchers, or parents who are not in work. The scheme is administered on a per-parent (rather than per-child) basis, so families with a lone parent have less potential subsidy than families with two parents in employment.

[10] The subsidy is capped at £167 per month (about £38.50 a week). Parents open an account on behalf of their child, so families with more children are eligible for a greater total subsidy.

[11] Children stop being eligible on 1 September following their 11th birthday. For full details of eligibility, see https://www.gov.uk/tax-free-childcare.

Under **universal credit**, families with both adults (or the single parent) in work can claim back up to 85% of their childcare costs, to a maximum of £646 per month for one child or £1,108 per month if they have two or more children.

VAT exemptions

Finally, the government subsidises childcare providers by VAT exemptions. The precise treatment depends on the type of childcare provider, their turnover, and the specific activities involved in childcare. But these exemptions are important: for a regulated private provider, for example, the exemption is worth between 15% and 20% of the price of childcare. Unfortunately, data on total spending (or, more accurately, forgone revenue) through VAT exemptions are not available, so this dimension of childcare subsidies is not included in the estimates of spending in this briefing note.

Box 1. Differences with Scotland, Wales and Northern Ireland

Responsibility for the early years is split between Westminster and the devolved administrations. Spending on free childcare is part of the education budget and so is legislated separately in each devolved nation. By contrast, spending through the benefit system (via working tax credit or universal credit) is administered by HMRC and the Department for Work and Pensions respectively, for the entire UK. Subsidies through the tax system (childcare vouchers or tax-free childcare) also apply across the whole UK.

Scotland

Scotland offers 600 hours a year of free 'early learning and childcare' to all 3- and 4-year-olds. This works out to about 16 hours a week, 38 weeks of the year. Scotland also offers free early learning and childcare to disadvantaged 2-year-olds. Eligibility depends on whether the family receives certain benefits, and is generally less generous (and so more targeted) than in England, covering roughly the 25% most disadvantaged children.

The Scottish government has committed to almost double the entitlement to 1,140 hours – in line with the English 30-hour offer – by August 2020. It will also allow parents to access this care more flexibly, in up to 10-hour days.

Wales

The 'childcare offer' in Wales provides working parents with a mix of funded childcare and early education for 3- and 4-year-old children. Children can receive up to 30 hours a week under this scheme for up to 48 weeks a year, with at least 10 of these hours to come in the form of early education (which is typically provided through schools and is universal). Different local authorities offer different amounts of early education. Some 2-year-olds in disadvantaged 'Flying Start' areas can get free part-time childcare, which covers 2.5 hours a day for 39 weeks.

Northern Ireland

In Northern Ireland, parents of 3- and 4-year-olds can apply to receive 12.5 hours of free early education a week. This scheme is much more rigid than England's offer: the entitlement must be taken over 2.5 hours a day, five days a week during term time.

2. What do we spend on early education and childcare?

Figure 1 outlines how spending on these three different types of childcare support – free childcare provision, childcare subsidies in the benefit system, and tax relief – have changed over time.[12] This includes both historical spending back to 1997–98 and projections for how spending might change over the forecast horizon based on government policy announcements up to and including the 2019 Spending Round.

What stands out from Figure 1 is the extent to which free childcare has been prioritised over childcare subsidies in the tax system and – especially – the benefit system over the past decade. Between 2009–10 and 2017–18 (the latest year when spending data were available for all programmes), total spending on free childcare (for 2-, 3- and 4-year-olds) grew by 125%. Spending through the tax system was up 85%, while spending through the benefit system had fallen by 44%. Put another way, in 2009–10, spending on free childcare was almost equal to spending on childcare subsidies through the benefit system. By 2017–18, we spent four times as much on the former as on the latter.

However, as it stands now, spending on free childcare is set to fall in the coming years. Some of this fall is explained by population changes – there are due to be around 15,000 fewer children aged 2–4 in 2023 than this year. But the bulk of the fall in projected spending is driven by cuts to spending per hour of care.[13] After increasing in 2017, spending per hour was roughly frozen in cash terms in 2018 and 2019. The 2019 Spending Round announced additional funding for 2020–21, which will be enough to protect hourly spending in real terms in that year.[14] But current policy does not provide for real-terms protection to hourly spending thereafter.

Figure 1 also shows that spending on childcare support through the benefit system has been volatile. During the late 1990s and 2000s, it rose even more quickly than spending on free childcare, and the two programmes accounted for almost exactly the same amount of spending in the late 2000s. Since 2009–10, however, spending through the benefit system has been cut by nearly half. Projected spending is highly uncertain, since to the best of our knowledge there are no official estimates on how quickly spending through working tax credit will fade out (and spending through universal credit will rise) as families transition from the former to the latter. However, the dark green cross on Figure 1 shows that, once universal credit is fully rolled out to families, spending is set to be slightly lower than it is today.

Finally, spending on childcare through the tax system has increased from £320 million in 2007–08 (the first year for which data are available) to £800 million last year. This means that spending through the tax system is now on a par with spending through the benefit

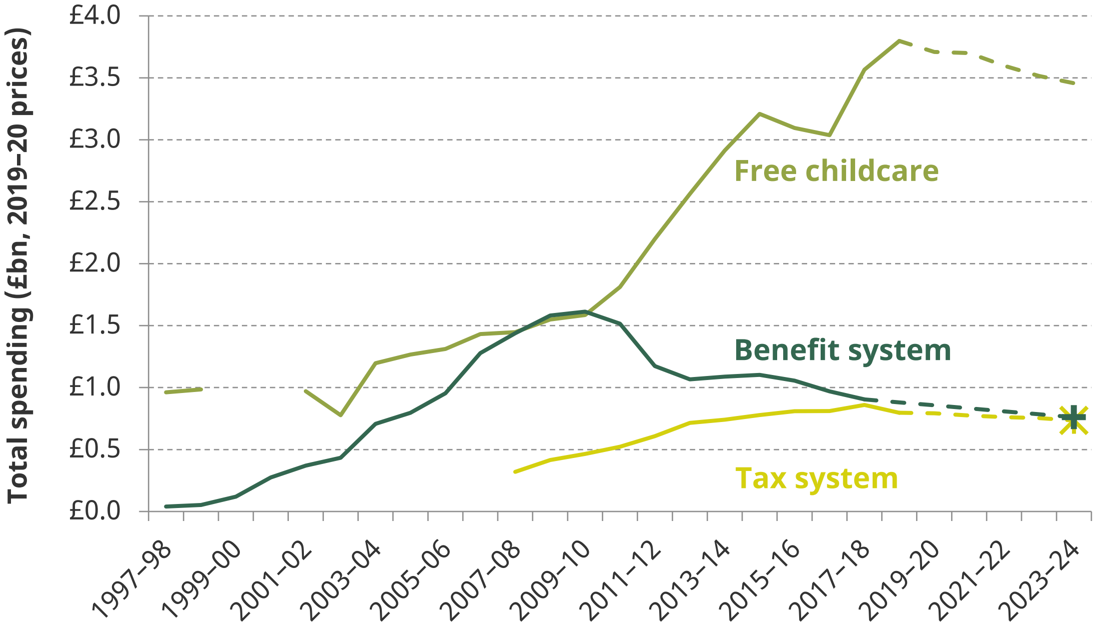
[12] We are not able to provide figures for the cost of VAT exemptions, since these data are not available.

[13] In our spending projection, we assume that take-up rates (and, for the 2-year-old offer and the extended entitlement, eligibility rates) remain constant at 2018 levels, the latest year of data that are available.

[14] The Department for Education subsequently announced its intention to provide additional funding in a press release on 31 October 2019. However, there are not yet sufficient details on the intended amount of funding to incorporate this into our model of spending. And while this announcement could well change the cash-terms level of spending in 2020–21, it does not address any longer-term funding plans or provide for real-terms protection beyond next year.

system. Our projection, indicated by the yellow cross, uses the Office for Budget Responsibility's forecasts for spending on tax-free childcare and assumes that spending on childcare vouchers will be fully phased out by 2023. In practice, this assumption is likely to understate spending somewhat; the voucher scheme was closed to new entrants in October 2018, and families can in principle remain in the system for up to 15 years. However, by 2023, the youngest children on the scheme will be in school, so we anticipate that the bulk of their childcare costs will be behind them, even before accounting for families dropping out of the scheme when parents change job.

Figure 1. Public spending on different types of early education and childcare support



Note: Forecast spending on the free entitlement accounts for population change and for the implied increase in per-hour funding in 2020–21 announced in the 2019 Spending Round. It assumes a cash-terms freeze in per-hour funding thereafter and does not incorporate the government's stated intention, announced 31 October 2019, to increase hourly funding rates further. This is because the policy announcement does not include sufficient detail to be able to assess its impact on spending. The forecast for spending through the benefit system is based on the assumption that universal credit (UC) is fully rolled out, and working tax credit (WTC) is fully rolled back, by 2023–24. We then use TAXBEN, IFS's microsimulation model, to estimate government spending on childcare subsidies through UC when it is fully rolled out, rescale these to the English population, and assume a linear phase-in from 2018–19 (when take-up of UC among families with dependent children effectively began). Similarly, we assume that spending on subsidies through WTC declines at a steady rate from reported spending in 2017–18 until the policy is fully removed in 2023–24. Projections for the tax system incorporate Department for Work and Pensions Spring Statement 2019 forecasts for spending on tax-free childcare and assume that spending on tax relief for childcare vouchers declines linearly between 2018–19 (when the scheme was closed to new entrants) and 2023–24 (when newborns enrolled in the last year of the scheme will be in school, and so likely to be past the period of maximum childcare expenditure).

Source: Figure 2.3 of Britton, Farquharson and Sibieta (2019). Department for Work and Pensions, Spring Statement 2019 Expenditure and Caseload forecasts. TAXBEN, IFS's microsimulation model.

The growth in free childcare spending during the 2010s shown in Figure 1 reflects the extent to which it has been prioritised over other types of childcare support, other areas of education spending, and many other areas of public spending as well. These big increases in spending mostly reflect big increases in the generosity of the system: as Table 2 shows, the free childcare system has been successively extended to offer more children more hours of childcare a week covering more weeks of the year.

During the late 1990s and 2000s, the focus of most of the extensions of free childcare was on a more generous universal offer for 3- and 4-year-olds. Since then, extensions have tended to be targeted – either at disadvantaged families or, most recently, at the children of working parents. For example, the September 2017 introduction of the 30-hour 'extended entitlement' for 3- and 4-year-olds in working families has been a big driver of spending increases in the last two years.

Table 2. History of national free entitlement policies

	Ages	Hours per week	Weeks per year	Hours per year	Targeting
September 1997	4	12.5	33	412.5	
April 2004	3 & 4	12.5	33	412.5	
April 2006	3 & 4	12.5	38	475	
September 2009	3 & 4	12.5 or 15	38	475 or 570	15 hours for 25% most disadvantaged
September 2010	3 & 4	15	38	570	
September 2013	2	15	38	570	2-year-old entitlement formalised: 20% most disadvantaged children
September 2014	2	15	38	570	2-year-old entitlement extended to 40% most disadvantaged children
September 2017	3 & 4	15 or 30	38	570 or 1,140	30 hours for children whose parents work, earning ≤£100K each

Note: This table shows national free childcare policies in England.

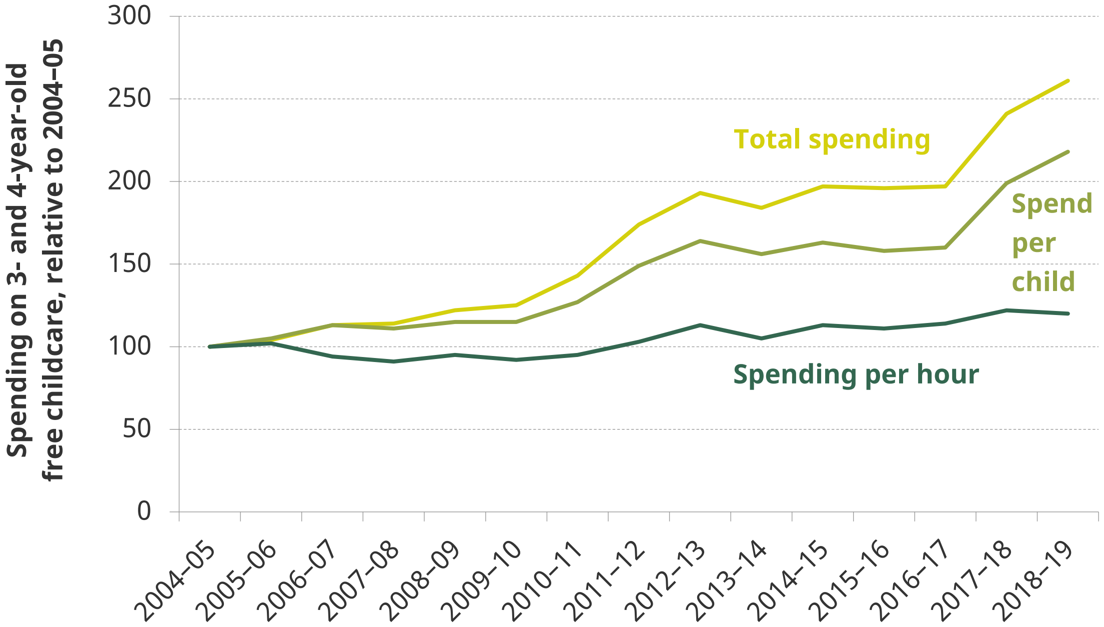
Source: Adapted from table 2.1 of Belfield, Farquharson and Sibieta (2018); West and Noden (2016).

By contrast, spending per hour on free childcare has grown much more slowly. Figure 2 shows spending on free childcare for 3- and 4-year-olds, relative to its level in 2004–05 (when the free hours were first extended to 3-year-olds). Between 2004–05 and 2018–19, total free childcare spending for this age group rose by 160%, from £1.3 billion to £3.3 billion. After accounting for inflation, spending per hour of free childcare increased by 20%.

One significant exception to this broader pattern of slow growth in per-hour spending was the 7% increase delivered in 2017. This was part of a deliberate push to increase hourly funding rates as part of an effort to encourage childcare providers to deliver the new 30-hour extended entitlement.

But, while this one-year increase accounted for about a third of the total increase in per-hour spending since 2004, without further uplifts in the future it will be eroded by inflation. The 2019 Spending Round's announcement of an extra £66 million for free childcare in 2020–21 will be enough to protect hourly spending in real terms in that year, but so far there has been no commitment to maintain this going forward.

Figure 2. Spending on free childcare for 3- and 4-year-olds, relative to 2004–05



Note: Spending is calculated in real terms and indexed to 2004–05 levels. Spending per child is based on the average number of children eligible for the universal entitlement over the year. Spending per hour is based on take-up levels and numbers of hours taken up in January of each year.

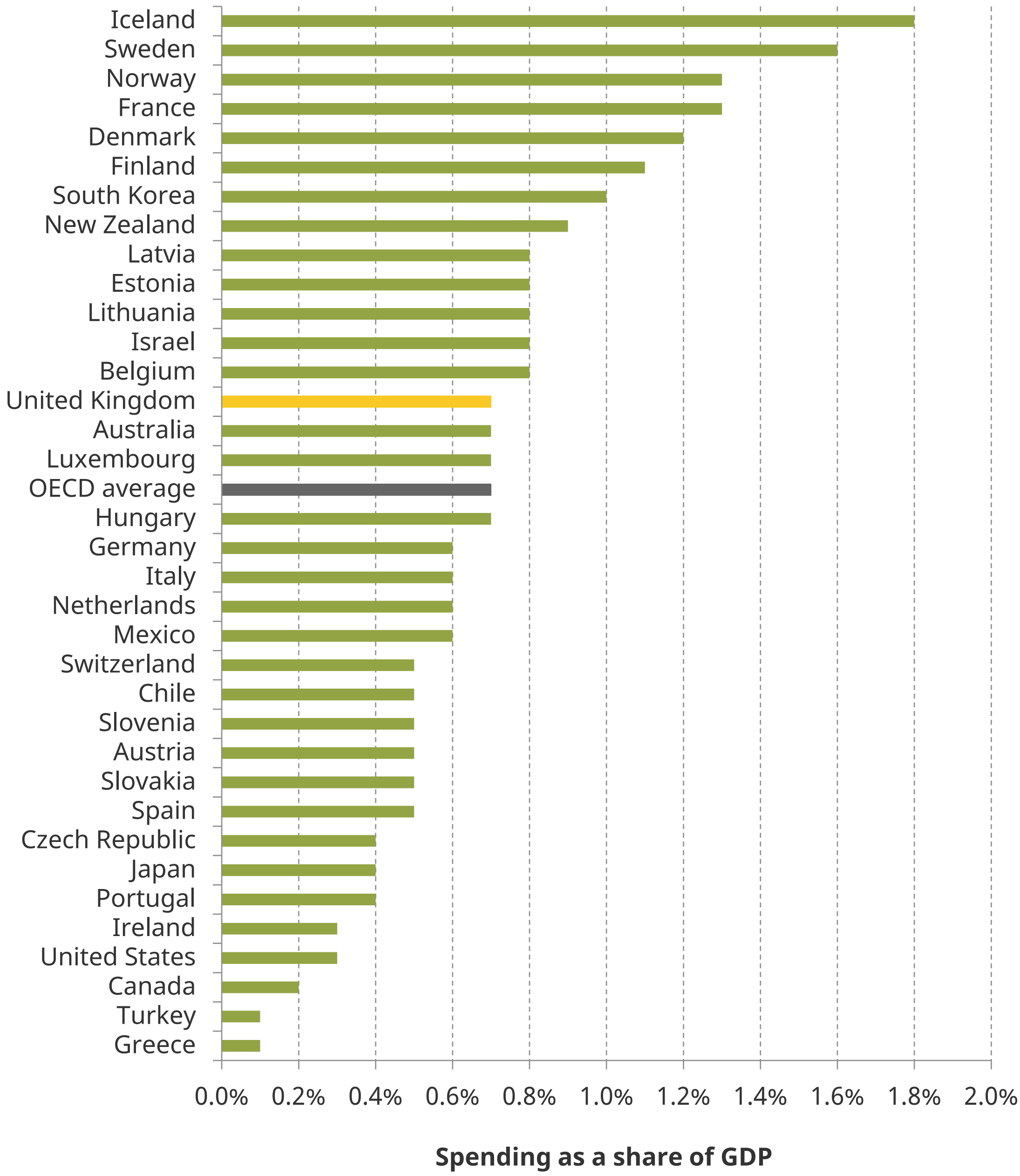
Source: Figure 2.2 of Britton, Farquharson and Sibieta (2019).

Early years spending in international comparison

Spending (as a share of national income) on early childhood education and care in the UK stood close to the EU average in 2015, as shown in Figure 3 based on data from the Organisation for Economic Co-operation and Development (OECD). This study put UK spending at 0.7% of national income, or about £14.7 billion in today's terms – the much higher figure is primarily due to the inclusion of spending on 5-year-olds in school and on some social services, to improve comparability across countries.

On this measure, the vast majority of UK spending goes on children aged 3–5. Existing research by the OECD shows a clear difference in the data between countries that spend most of their early years budget on this age group (e.g. the US, New Zealand, Germany and Italy) and countries where the division is more equal or even skewed towards children aged 0–2 (such as the Scandinavian countries, France, South Korea and Australia). In general, countries with a more generous early years budget tend to spend a greater share of it on 0- to 2-year-olds, suggesting that one major international difference is the extent of government support for education and childcare in the earliest years of life.

Figure 3. Spending on 'early childhood education and care' in selected countries, as a share of national income (2015)



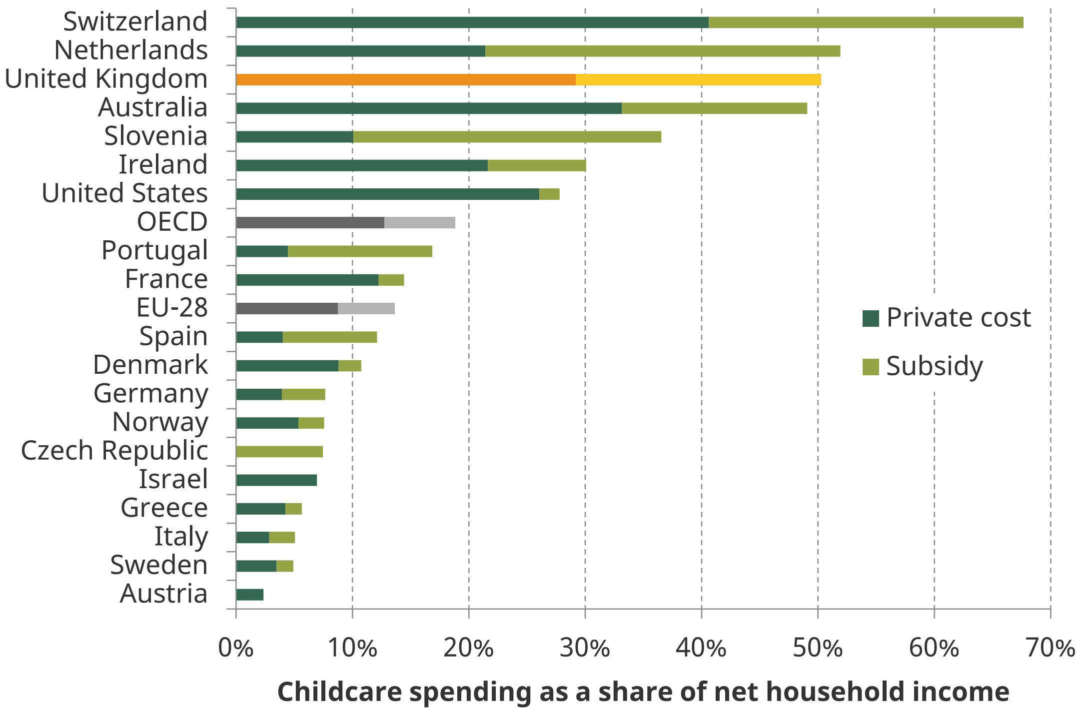
Note: Spending on early childhood education and care is as defined by the OECD. This definition is intended to be internationally comparable and so does not align with the definitions of spending used elsewhere in this briefing note.

Source: OECD.Stat, 'Social expenditure – detailed data', accessed 7 November 2019.

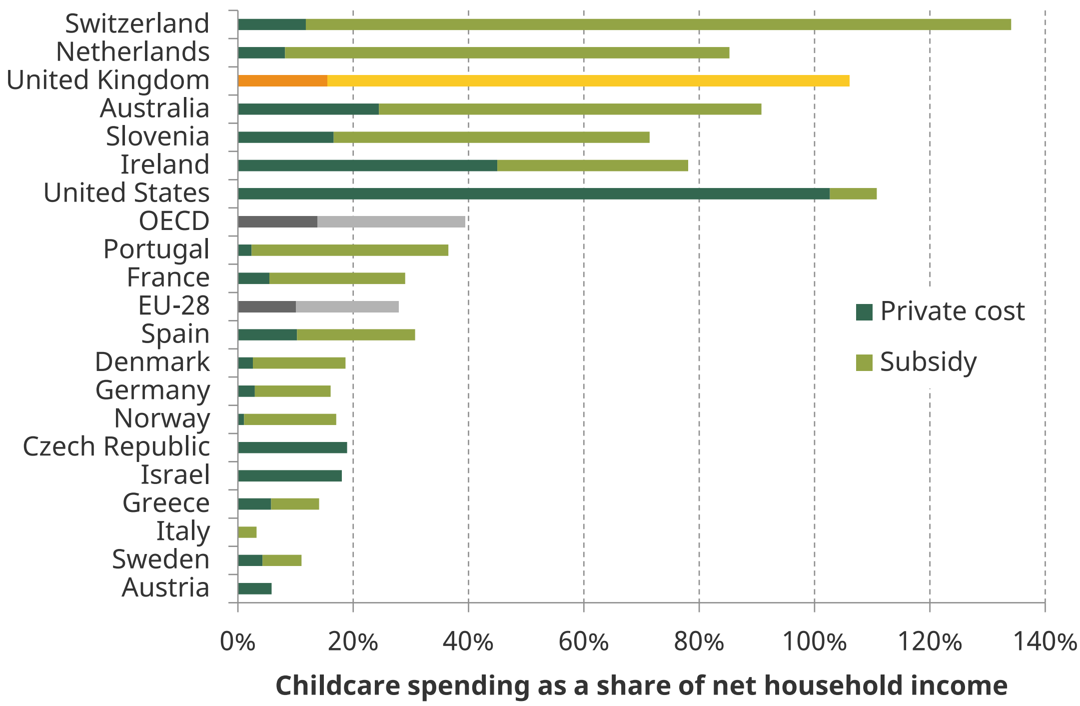
However, when looking at childcare costs, the UK is a much bigger outlier. Figure 4 shows average childcare costs (among families using childcare) as a share of household income after taxes and transfers, in selected OECD countries. It looks at the costs for a full-time (40-hour a week) place in a 'typical' centre-based childcare facility. Panel A does this for a dual-earner couple with two children (aged 2 and 3) and both parents earning the average wage. Panel B looks at a single-parent household on two-thirds of the average wage, again with two children of the same ages.

Figure 4. Childcare costs as a share of household income, 2018 (selected countries)

Panel A: Dual-earner couple on average wage with two children



Panel B: Single-parent household on two-thirds of average wage with two children



Note: Total costs refer to the amount paid for parents with two children, aged 2 and 3, in full-time care (40 hours a week) at a 'typical' centre-based childcare facility. See here for more details about the OECD's methodology.

Source: OECD.Stat, 'Net childcare cost for parents using childcare', accessed 7 November 2019.

The most striking point is that UK childcare costs, as a share of net household income, are among the highest in the OECD. The richer, dual-earner couple with children would expect to face childcare costs worth half of its household income; for the single-parent household, childcare costs come in at 107% of net income. Each of these figures is near the top of the league table and far above the OECD and EU averages.

But the UK system also stands out for its relative progressivity. For the dual-earner couple, subsidies cover 42% of these childcare costs: considerably lower than in Portugal, Slovenia, Spain and the (costly) Netherlands, but on a par with Italy and Switzerland and substantially above the OECD and EU averages. When looking at the single-parent family in Panel B, though, subsidies cover about 85% of the childcare cost – the seventh-highest rate of the countries considered.

3. Who benefits from these policies?

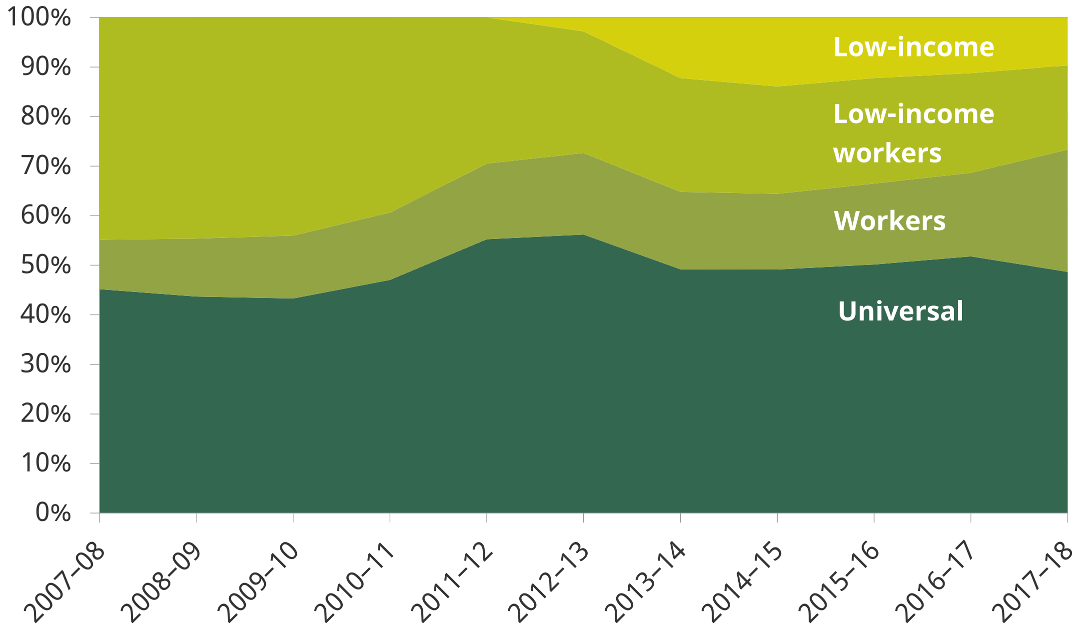
Over the past 20 years, policymakers have outlined at least three distinct aims for their early childhood education and care (ECEC) policies: **promoting child development** (especially for disadvantaged children), **supporting working parents** and, more generally, **helping families with the cost of childcare**.

Where does early years spending go?

In many cases, the different programmes of childcare support reflect attempts to meet different goals. For example, the original entitlement to free childcare for 3- and 4-year-olds was referred to as 'early education'. The current 2-year-old offer is even more explicitly targeted at supporting the development of potentially disadvantaged children, including those whose parents are receiving out-of-work benefits.

But childcare support through the extended 30-hour free childcare offer, the benefit system, or employer-supported and tax-free childcare is targeted at working families. In the case of support through the tax and benefit systems, this includes children who are already in school; these subsidies are clearly targeted at supporting work and reducing the cost of childcare rather than fostering children's development in the early years.

Figure 5. Share of childcare subsidies targeted at different groups



Note: 'Universal' refers to spending on the universal 3- and 4-year-old free entitlement. Childcare support targeted at low-income families includes the 2-year-old free entitlement, and support for low-income working families comprises childcare subsidies in the benefit system. Support targeted at working families includes the extended entitlement for 3- and 4-year-olds and the cost of employer-supported childcare and tax-free childcare.

Source: Adapted from figure 2.5 of Britton, Farquharson and Sibieta (2019).

These different policy goals map closely into different targeted groups. Figure 5 shows the share of total childcare support spending that goes on universal programmes (the universal free childcare offer for 3- and 4-year-olds); programmes targeted at low-income families (free childcare for 2-year-olds); programmes targeted at low-income families in work (support through the benefit system); and programmes for most working families (support through the tax system and the extended 30-hour free childcare offer for 3- and 4-year-olds).

There have been important changes in the profile of childcare spending over time. The system today puts more emphasis on working families of all income levels than it did a decade ago, and correspondingly less on low-income families (whether or not they are in work).

Support for low-income workers fell from 45% of total childcare spending in 2007 to just 17% ten years later. Even taking into account new spending on the 2-year-old free childcare targeted at the 40% most disadvantaged, the share of childcare spending on low-income families has fallen by close to half, from 45% to 27%. On the other hand, support for working families – regardless of their income level – has increased from 10% of total childcare subsidies to 25%, following the introduction of 30 hours' free childcare.

Of course, it is important to remember that this analysis deals with the share of total spending. Since overall spending on the sector was rising during this period, a cut in the share of spending on a particular service can still be consistent with rising spending in monetary terms; for example, while spending on low-income families (working or not) fell as a share of spending, it stood at almost exactly the same level in 2017 as it did in 2007. But the analysis in Figure 5 does show how policymakers' priorities in the childcare sector have shifted over time.

What are the benefits?[15]

Free childcare has certainly been popular with parents: for almost 20 years, the take-up of the 3- and 4-year-old free childcare offer has been around 95%. But is it successful in supporting parents' working patterns or boosting children's school readiness?

Effects on parents' employment

Previous work by IFS and ISER researchers suggests that offering free full-time childcare (in the form of school) can help mothers to be in paid work. However, these effects are only found for mothers whose *youngest* child is eligible for between 30 and 35 hours a week of free care. Even then, the gains are small – extending care from 15 hours of free childcare to 30 hours of school for one cohort of 690,000 4-year-olds moved 12,000 mothers into paid work.

One reason for these relatively modest effects on mothers' employment is the small effect that free childcare has had on childcare as a whole. The authors find that the part-time programme in England only increased the amount of time that eligible children spent in childcare by 1.6 hours a week, on average. While take-up rates of part-time free childcare are high, most of the children using the programme would have been using other forms

[15] This subsection draws heavily on Cattan and Farquharson (2017).

of childcare anyway – either paid childcare places or informal care from family and friends. By ‘crowding out’ childcare provision that was already in place, the free childcare programme increased families’ income (saving them the money they would have spent on paid childcare), but did not meaningfully ease the barriers to work.[16]

These findings are also in line with international evidence, which typically finds that free or subsidised childcare does the most to help mothers into paid work in countries where the existing take-up of childcare is low; where existing female employment rates are low; and where the barriers to women working are mostly around the availability and cost of childcare (rather than, for example, broader cultural factors).

Effects on children’s development

Existing evidence suggests that the original part-time free childcare offer had small academic benefits for children, but these did not last in the longer term. And, despite international evidence that typically finds bigger benefits from childcare among more disadvantaged children, the researchers did not find any evidence of stronger effects for children from poorer backgrounds.

The authors of this study suggest that one possible explanation for the small impacts on child development was the type of childcare places that delivered the free entitlement. In England, most of the expansion in childcare provision was in the private, voluntary and independent sector, which on average has lower quality than state-maintained nursery schools.

Impacts of the 30-hour extended entitlement

At the moment, it is too soon to tell whether the 30-hour extended entitlement will fare better on either point. The research on labour supply does suggest that full-time places might be more effective than part-time; but even if it has the same effect on mothers’ working patterns as a child starting full-time school, the impact will still be relatively small, especially set against the cost of the programme.

The research is even less clear on how the 30-hour entitlement might affect child development. As it stands, the programme excludes children from the poorest families (where the parents are not in paid work, or who are but earn too little), who might benefit most from high-quality childcare. On the other hand, evidence on the ‘right’ amount of time for children to attend centre-based childcare is limited, and some studies even find that children who have longer days in childcare tend to have worse behaviour. These arguments might apply particularly if the childcare on offer is not consistently high-quality.

So far, policymakers have often displayed a tendency optimistically to assume that childcare programmes will deliver a double or even a triple dividend, supporting several policy goals at once. In reality, international evidence suggests that it is hard to design a programme that has meaningful benefits for both child development and parents’

[16] In fact, policies that increase family income may *reduce* the number of hours worked among parents who are already in work.

employment: successful childcare programmes in other countries often either benefit children's development or increase mothers' employment, but not both.[17]

A complicated system for early education and childcare support

England's system for subsidising childcare and early education is undeniably complicated, with a variety of departments involved and even more programmes for parents to consider. Is there any justification for such a complex system?

One piece of the complexity is transitional: in both the tax and the benefit systems, the government has introduced new programmes and is trying to deliver a gradual migration onto the new schemes. The roll-outs of both tax-free childcare and universal credit have proven to be (much) slower and more complex than the government had planned, with take-up very low relative to the government's projections. However, with both childcare vouchers and working tax credit now (mostly) closed to new entrants, it seems likely that the next five years will see the bulk of this transition take place for families with children.

But this will still leave England with very different subsidy schemes organised by different departments and targeted at different kinds of families. Childcare and early education is a cross-cutting issue that affects not only education and labour supply but also child health and families' living standards. If childcare support is to be effective in achieving its aims, the government needs to clearly set out the goals it hopes to reach and think carefully about the most appropriate policy tools to get there.

At this point – with a complicated childcare system targeting a range of aims through an abundance of policies that interact in sometimes-complicated ways – there is little value in politicians getting into a bidding war to design even more programmes for childcare support. Instead, politicians of all stripes should take this election as an opportunity to think holistically about England's system of childcare and early education, to set out their plans for the system as a whole and to assess whether individual programmes contribute to it. Otherwise, the system risks becoming ever-more challenging for the families it is trying to support.

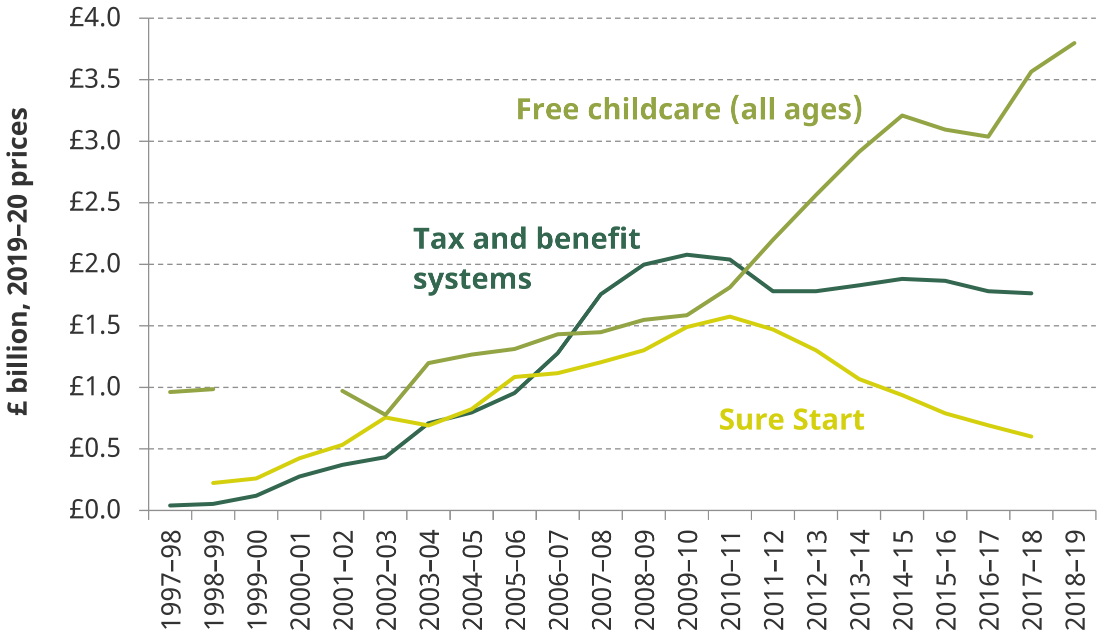
[17] For example, two evaluations of a 1975 expansion of subsidised childcare in Norway found big benefits for children's development and eventual labour supply, but no effect on the labour supply of their mothers at the time of the policy (Havnes and Mogstad, 2011a and 2011b). By contrast, a subsidised childcare programme in the Canadian province of Quebec significantly increased maternal labour supply, but at the cost of worsening parenting and child outcomes – such as an increase in aggression (Baker, Gruber and Milligan, 2008; Lefebvre and Merrigan, 2008).

4. Sure Start children's centres[18]

In addition to spending on early education and childcare, the government in England also funds a variety of other early years programmes. One of the most important of these is Sure Start, now known as children's centres.[19] It offers families with children under the age of 5 a 'one-stop shop' for childcare and early education, health services, parenting support, and employment advice, with the aim of improving children's school readiness, health, and social and emotional development.

Figure 6 shows that spending on Sure Start broadly tracked spending on free childcare and spending through the tax and benefit systems in the 2000s. But, since peaking at £1.6 billion in 2010, spending on Sure Start has fallen sharply by almost two-thirds, to reach £600 million in 2017–18 (the last year for which spending data are currently available).

Figure 6. Total early years spending through various programmes (2019–20 prices)



Note: Data on spending through the tax and benefit system will be an underestimate for 2005–06 and 2006–07, when data on the cost to the public purse of employer-supported childcare vouchers are not available.

Source: Figure 2.6 of Britton, Farquharson and Sibieta (2019).

Sure Start has been evaluated twice, once in the earliest years of the programme (the National Evaluation of Sure Start) and again after its peak in the early 2010s (the Evaluation of Children's Centres in England). Both studies assessed a very wide range of outcomes and found evidence that users of Sure Start had better outcomes in some areas, though they also found no effect on many of the outcomes considered.

[18] This section draws heavily on Cattan, Conti, Farquharson and Ginja (2019).

[19] Similar programmes exist in Scotland, Northern Ireland and Wales (which calls it Flying Start).

Recent IFS research found that access to Sure Start had a big benefit for children's health, reducing hospitalisations in late childhood by up to 18% of the baseline; an extra centre per thousand children aged 0–4 prevented around 5,500 hospitalisations at age 11 each year. On their own, the financial benefits (to families, the NHS and wider society) from preventing these hospitalisations offset about 6% of Sure Start's costs. But while Sure Start is a universal service, the benefits were by far the strongest in the poorest areas.

5. The costs of potential childcare policies

This section outlines the cost of a range of policy options drawn from across the political spectrum, including elements of the 2017 manifestos of the Labour and Liberal Democrat parties and policies that have been discussed over the last few years. It is important to emphasise that these are neither costings of the 2017 manifestos (which, in the case of Labour and the Liberal Democrats, included a wider range of proposals than discussed here), nor of the manifestos for the current campaign (which have not been published at time of writing); instead, our aim is to provide an indicative cost of some of the policy options on the table to help inform debate.[20]

We provide estimates both for the next financial year (2020–21), which can inform potential promises made on the election campaign trail, and for the end of a five-year parliament in 2024–25.

All of the options that we consider are compared against a spending baseline based on current policy. This means that spending per hour on free childcare is frozen in cash terms[21] except for 2020–21, when early years will receive a £66 million boost from the recent spending round (which is assumed to carry forward in a cash-terms freeze thereafter).[22] Importantly, this means that the changes to the free entitlement costed in Table 3 are set against a backdrop of declining real-terms hourly spending. For government to deliver any of these extensions alongside real-terms protection to hourly spending would cost more than the costs reported in Table 3.

The first policy option that we analyse in Table 3 is offering real-terms protection in per-hour funding for the free entitlement (across all ages) at 2018–19 levels. Factoring in changes in the population size and assuming that take-up stays constant, offering real-terms protection would cost about £80 million in the first year (2020–21) and about £340 million (in today's prices) in 2024–25.

We next analyse the cost of extending free childcare for 3- and 4-year-olds to cover an extra 10 weeks of the year (48 rather than the current 38 weeks). It has been reported that the Conservative party has considered this policy in the current campaign. We find that this could cost £610 million next year if implemented in full.[23]

[20] See Cattan and Farquharson (2017) and section 2.4 of Britton, Farquharson and Sibieta (2019) for discussion of Labour's 2017 manifesto.

[21] Policy on per-hour funding for the years beyond 2020–21 has not yet been announced. However, the most recent increase in hourly funding, implemented in 2017, was explicitly front-loaded (see paragraph 176), and so hourly funding in subsequent years was held constant in cash terms (and fell in real terms).

[22] See section 2.4 of Britton, Farquharson and Sibieta (2019) for further detail on the assumptions underlying these costings.

[23] One reason that the cost is not higher is that the policy would actually only provide 10 more weeks of childcare per child, not the 20 weeks (10 weeks in each of two years) that might have been expected. That is because most children enter school the September after turning 4, and so the longest time a child might spend entitled to free childcare is 1 year and 8 months – not long enough to need the second lot of the extra 10 weeks.

The third policy option we cost is making the 30-hour free childcare entitlement universal, offering it to all 3- and 4-year-olds regardless of whether their parents are in paid work. Since at the moment only about half of children are eligible for the extended entitlement, making the scheme universal would boost spending by 80% over the baseline, costing £570 million in 2024–25.

We also analyse the impact of making the 30-hour entitlement less generous, by limiting entitlement to families where parents are both earning under £50,000 (the threshold at which child benefit starts to be withdrawn). Only about a tenth of people earn more than £50,000 but less than the current limit of £100,000, so this change would only reduce the share of children eligible by 8 percentage points, to 45%. Still, this change would be enough to save the government about £90 million a year by 2024–25.

Table 3. Costings for potential childcare and early years options (2019–20 prices)

Policy option	**Extra cost in 2020–21**	**Extra cost in 2024–25**	***For reference: baseline cost in 2019–20***
Real-terms protection for per-hour free childcare spending	£80m	£340m	*£3,710m*
Extend the 3- and 4-year-old free childcare to 48 weeks/year	£610m	£530m	*£3,240m*
Extend the 30-hour free childcare entitlement to all 3- & 4-year-olds	£650m	£570m	*£720m*
Remove the 30-hour entitlement for parents earning over £50,000	–£110m	–£90m	*£720m*
Offer 15 hours' free childcare for all 2-year-olds	£680m	£610m	*£470m*
Restore Sure Start spending to peak (2010–11) levels and protect in real terms	£1,010m	£1,050m	*£580m*
Real-terms protection for Sure Start spending at 2017–18 levels	£30m	£80m	*£580m*

Note: Costs are rounded to the nearest £10 million. The baseline case for the childcare scenarios assumes a cash-terms freeze in spending per hour at 2020–21 levels (the last year for which spending plans have been announced), constant take-up of existing programmes and constant eligibility rates (40% for the 2-year-old entitlement and 52% for the 30-hour extended entitlement) and takes into account population growth. The baseline case for Sure Start spending assumes a cash-terms freeze at £579 million, which is nominal Sure Start spending in 2017–18 (the latest year of data available).

Source: Based on table 2.3 of Britton, Farquharson and Sibieta (2019).

The final free entitlement option that we examine is to make the 2-year-old entitlement to 15 hours a week of early education universal. This was proposed by both Labour and the Liberal Democrats in their 2017 manifestos, and is reported to be under consideration by the Conservative party in this campaign. This would cost £680 million in 2020–21, falling to £610 million in 2024–25 as inflation erodes per-hour spending.

We also cost two very different policies on Sure Start spending: returning spending to its 2010–11 peak of £1.6 billion (and protecting it in real terms thereafter); and maintaining spending at current levels in real terms going forward.[24]

Restoring Sure Start spending to its 2010–11 peak is an expensive proposition. We estimate that the cost of doing this in one shot in 2020–21 would be just over £1 billion; continuing to protect this level of spending in real terms means that the cost in 2024–25 would rise by another £40 million. By comparison, offering real-terms protection for Sure Start budgets at 2017–18 levels is the cheapest policy option we consider, costing just £30 million in 2020–21 and £80 million four years later.

[24] Both of these options are costed against a baseline scenario that assumes a cash-terms freeze in Sure Start spending at £579 million, the cash-terms level of spending in 2017–18. See Britton, Farquharson and Sibieta (2019) for more details on this baseline.

6. Conclusion

The differences between these policy options – for childcare and for Sure Start – highlight some of the big choices in an election campaign. These are only indicative options; there is a wide range of potential policies costing somewhere in between either endpoint of our costings, and indeed there are policy options that would be even more expensive or save even more money.

In practice, decisions about how far – and how quickly – to increase budgets for services such as free childcare or Sure Start should be informed by evidence about the impact that they have on families and children, balanced against political judgements about which areas of spending to prioritise.

More generally, while the growth of policy initiatives in the early years has been welcome, it is also important for policymakers to consider the overall design of the system and how well it supports the different – and sometimes conflicting – goals of promoting child development and supporting parents to work. There have been big changes in how spending within the early years is allocated, with a much greater role for the free entitlement and the tax system set against cuts to childcare subsidies for low-income families and dramatic cuts to services such as Sure Start.

England is not short of ideas about 'where next' for the early years sector. But any decisions about the future of England's early childhood education and care strategy need to be informed both by evidence into what works and by clear thinking about what the policy priorities are. In this sense, the election provides an opportunity for politicians and policymakers to consider their goals for the early years sector, and the different policy options available to meet them. In a sector that has often been pulled different ways by competing targets, and where families often struggle to make sense of an increasingly complex system, clear thinking and clearly articulated goals will be welcome.