

Proposals for the early years in England

IFS Briefing Note BN264

Christine Farquharson

Proposals for the early years in England

Christine Farquharson

Copy-edited by Judith Payne

Published by

The Institute for Fiscal Studies

ISBN 978-1-912805-50-1

Funding for this work is gratefully acknowledged from the Nuffield Foundation.

Executive Summary

Support for childcare and the early years is shaping up to be a major issue in this election campaign. To date, both the Labour party and the Liberal Democrats have promised enormous increases in the generosity of England's free childcare system,¹ with money for extra funding per hour, extra children, extra hours and – in the Liberal Democrats' case – extra weeks of the year. The Conservative party is reported to be considering its own package of reforms.

In this briefing note, we analyse the early years packages from the Labour party and the Liberal Democrats. We provide context for how these compare to the current system of childcare support in England and present our estimate of the cost of the individual policies underlying these packages.

Key findings

Both the Labour party and the Liberal Democrats have announced early years packages that feature unprecedented increases in spending on free childcare. We estimate that Labour's free childcare policies would cost £2.6 billion in 2024 (in today's prices) once savings through the tax and benefit system are taken into account – an 80% increase on spending under current plans. **The Liberal Democrats' plans would go even further:** our costings suggest their plans would increase spending by around £7 billion, or more than three times current plans.

Delivering such big increases in spending in such a short time would be immensely difficult. Both parties have promised to increase per-hour funding, which would help ease pressures on providers, but even so the childcare market would be asked to make very big changes very quickly. Putting mechanisms in place to ensure the money is spent well, on delivering high-quality childcare, would be crucial to ensuring the success of these policies.

Both parties plan to make full-time free childcare available to all 2-, 3- and 4-year-olds. In doing so, they would remove all of the targeting (at working families and disadvantaged children) in the current free childcare system at these ages. The Liberal Democrats would also extend coverage to children in working families at younger ages, between 9 months and 2 years old. Many parents with young children would enjoy lower childcare costs under Labour's proposals and even more would benefit from the Liberal Democrats' proposals.

Both parties are proposing increases in the per-hour funding rates, especially for 2-year-olds. Labour is proposing to increase the 2-year-old funding rate to £9 by 2024, while the Liberal Democrats appear to be targeting £7.22 in the same

¹ Free childcare is delivered through the Department for Education, so policy in Scotland, Wales and Northern Ireland is handled by the devolved administrations.

year (£8.17 and £6.56 in today's prices, respectively). The average hourly funding rate for 2020 is currently set to be £5.44 (in today's prices), so these would be real-terms increases of 50% and 21% respectively. For comparison, per-hour spending in 2018 was 20% higher than 14 years earlier, in 2004.

Funding rate increases for 3- and 4-year-olds are less generous, though still substantial relative to recent history. Labour would boost the minimum rate to £5.60 by 2024 (£5.36 for the Liberal Democrats). However, more than a sixth of local authorities are already above the Labour floor.

One of the biggest drivers of the cost of childcare policies is the take-up of them.

We have based our costs around the take-up of parts of the current free childcare system. Of course, the parties might expect take-up to turn out differently, for example if an information campaign encourages more families to enrol in the programme or if more free hours per week boost parents' working hours and childcare needs. We show how sensitive the costs we estimate are to different take-up rates.

1. Introduction

What all of the packages announced and rumoured so far have in common is a focus on the free childcare system. In a [previous briefing note](#), we set out how the system of childcare support is structured; how spending on the different programmes has changed over time, and what this means for different groups; some of the evidence on the impacts of free childcare and Sure Start children's centres; and the costs of some potential policies.

We found that spending on the early years has increased substantially, even at a time when other stages of education and public services more generally were seeing funding cuts. But within England's complicated system of childcare support, the last decade has seen a shift in priorities. Spending on free childcare now takes up 70% of public spending on childcare, up from 43% in 2009–10, as spending on childcare subsidies for low-income families through the benefit system has been cut by almost 45%. And these shifts mean that childcare spending has been increasingly targeted at working families, with less emphasis on children in low-income households.

Childcare and early years policy can be targeted at a range of goals: helping children develop to reach their potential, reducing gaps in children's learning between those from poorer and richer families, helping parents (mostly mothers) to balance between working and raising a family, and boosting family incomes.

While policymakers often claim that one policy can achieve all these goals, international evidence finds that childcare programmes rarely, if ever, both support parental employment and benefit children's development. It is therefore important that any new childcare policy announcement is accompanied by clarity both about what it is intended to achieve and about how it will fit within England's broad and increasingly complicated system of childcare and early years support.

In this note, we build on that analysis to respond to policies that different parties have announced over the course of the election campaign. Sections 2 and 3 provide our estimates of the costs of the Labour and Liberal Democrat proposals respectively, as well as an analysis of individual proposals. Section 4 compares the two sets of early years proposals and analyses some of the elements of the early years system that the parties have not yet commented on.

This document will be updated as the parties release their detailed plans for childcare and the early years.

2. Labour's proposals

The Labour party has promised to 'invest £4.5 billion to radically reform childcare provision' and increase spending on Sure Start. Specifically, Labour is promising to deliver:

- 30 hours a week of free childcare for all 2-, 3- and 4-year-olds;²
- 'additional hours at subsidised rates', with parents paying from nothing to £4 an hour depending on the family's income;
- 'reform' to the childcare funding system, with higher minimum funding rates of about £5.60 in 2024–25 for 3- and 4-year-olds and £9.00 per hour for 2-year-olds;
- an 'end to fragmentation' by moving to 'a single, supply-side funding model' to ensure that the full hourly rate goes directly to providers;
- a 'graduate-led' early years workforce; and
- a £1 billion increase in funding for Sure Start to deliver 'a Sure Start centre in every community'.

This is a big package of proposals that would significantly increase the free childcare entitlement for 2-year-olds and some 3- and 4-year-olds, benefitting many families with young children. And the higher hourly funding rates promised, which will no doubt be welcome in the sector, will also increase the overall cost to the taxpayer substantially.

Table 1 summarises the different elements of Labour's package and, where possible, our estimate of their cost. However, there is not yet enough detail available to estimate the cost of the 'additional subsidised hours' that the party has promised. Excluding this, we find that Labour's package of early years policies could cost around £3.6 billion (rising to £4.2 billion once the implications for funding of devolved administrations are taken into account). This suggests that the net cost of additional subsidised hours would have to be around £1 billion in order to keep within Labour's proposed £4.5 billion envelope.

² Up from the current offer of 15 hours for all 3- and 4-year-olds as well as the 40% most disadvantaged 2-year-olds, plus an additional 15 hours for 3- and 4-year-olds in working families. We assume that Labour's offer would cover 38 weeks of the year, as the current system does.

Table 1. Summary of the cost of Labour's proposed policies (2019–20 prices)

Policy	Cost (in 2024, 2019–20 prices)	Number eligible	Notes
Higher minimum funding levels for current free childcare hours	£0.7bn	1.5 million	Assumes LAs currently funded above this level see no cash-terms change in funding
30 hours/week free childcare for all 2- to 4-year-olds for 38 weeks per year	£1.7bn	1.9 million	
Higher minimum funding levels for new free childcare hours	£0.8bn	1.9 million	Assumes LAs currently funded above this level see no cash-terms change in funding
Additional subsidised childcare hours	<i>Insufficient detail to cost</i>		
Potential savings through tax and benefit system	-£0.6bn		Upper bound – assumes no spend on 2- to 4-y.o.s
£1-billion boost to Sure Start budget	£1bn		Assume the party's promise for a £1bn-increase is protected in real terms in future years
Total	£3.6bn (excluding additional subsidised hours)		
<i>Memo: If take-up rates 10ppt lower</i>	£2.8bn		
<i>Memo: If take-up rates 10ppt higher</i>	£4.3bn		
<i>Memo: Total plus Barnett consequentials</i>	£4.2bn		

Note: All free childcare policies are costed relative to a baseline of a cash-terms freeze in per-hour funding at 2020–21 levels. Further detail on sources and methodology is set out in the appendix. Scenarios on high and low take-up assume take-up rates of the additional free hours are 10 percentage points higher or lower than our main scenario, but do not include implications for the cost of delivering current childcare entitlements. ‘Number eligible’ shows the number of children potentially affected by the policy in 2024–25, if take-up were 100%; this is different from (and higher than) the numbers taking up the policy that we use to calculate costs. Since Sure Start is not means-tested, its potentially eligible population is large and uncertain (at least all children aged 0–4 and their parents, but in some local authorities children up to age 19 as well). Barnett consequentials are the adjustments that must be made to the budgets of Scotland, Wales and Northern Ireland to reflect additional spending on devolved public services in England. Figures are rounded to the nearest £100 million.

30 hours of childcare for all 2-, 3- and 4-year-olds

This will increase the free childcare entitlement of around 1.3 million children. Around 700,000 3- and 4-year-olds would not be directly affected by this policy, since they are in working families and so are already entitled to 30 hours a week of free childcare. About 270,000 2-year-olds from low-income families are currently entitled to 15 hours a week, but this policy would boost their childcare entitlement and extend it to a further 400,000 2-year-olds. Of course, the number of children actually benefitting from the policy will be smaller than this, since take-up of the current 2-year-old entitlement and of the 30-hour entitlement is far from complete.³

This policy would end both forms of targeting that exist in the current system: at disadvantaged 2-year-olds and at working families with 3- and 4-year-olds. Removing targeting might make sense if, for example, children from disadvantaged families were more likely to access a universal service or if parents with access to childcare during their job hunt found it easier to return to paid work. Universal services also provide a way to identify children from better-off backgrounds who might otherwise be at risk of falling behind. But a universal service will increase the cost of the programme and may lead to greater ‘crowding out’ (with the government paying for services that families would otherwise have paid for themselves).

We estimate that extending the 30-hour offer to all 3- and 4-year-olds would cost around £0.6 billion (in today’s prices) next year, **before accounting for Labour’s proposed increase in the hourly funding rate** (which we discuss later in this section). For 2-year-olds, we put the cost at £1.2 billion. We provide full details of our methodology and the assumptions we make in the appendix.

Of course, one of the central drivers of the cost of this policy is the extent to which it is taken up. This is challenging to forecast accurately in advance; we have used information from the take-up of current free entitlement programmes. Specifically, we assume that part-time equivalent take-up rate among 3- and 4-year-olds is 47% and 19% respectively, in line with current take-up of the 30-hour extended entitlement. For 2-year-olds, we assume that the first 15 hours have a PTE take-up rate of 48% (in line with take-up of the current 15-hour offer for this age group), with the PTE take-up rate of the additional 15

³ According to [government figures](#), around 70% of eligible 2-year-olds take up at least some free hours. But the take-up rate of ‘part-time equivalent (PTE)’ (15-hour) places is lower, at around 48%. Nearly all 3-year-olds take up some free childcare hours, but the part-time equivalent take-up rate for the universal 15 hours is around 87%, falling to about 47% (of eligible children) for the 30-hour extended entitlement. For 4-year-olds, the universal PTE take-up rate is about 34%, falling to 19% of eligible children for the extended entitlement.

hours at 26% (based on the lower take-up of the extended 30-hour entitlement among 3- and 4-year-olds).

But take-up rates are likely to differ between groups – for example, between those who are and are not in paid work. To give a sense of how sensitive these costs are, if take-up rates were 10 percentage points lower, the £0.6-billion cost we estimate for 3- and 4-year-olds would fall to £0.4 billion, while take-up rates 10 percentage points higher would raise the cost to £0.7 billion (excluding the higher cost of the current entitlement that they would also imply). For 2-year-olds, 10-percentage-point higher take-up would increase the cost from £1.2 billion to £1.5 billion; if take-up were 10 percentage points lower, the cost could fall to £0.8 billion.

Even if the take-up of the free hours is high, this does not necessarily mean that childcare use has increased substantially. Previous research in England found that free childcare significantly ‘crowds out’ existing spending on childcare: many parents will switch from paying for their own childcare, or having their children looked after by family and friends, into the new free childcare hours. For these families, the policy change affects family income and potentially the quality of childcare that the child has access to, but might be expected to have little impact on parents’ working decisions (if these are more related to whether there is any childcare available).

The authors of this study found that around two-thirds of the take-up of part-time free childcare comes from families shifting away from existing childcare arrangements. When children become eligible for full-time care in school, crowding-out effects are smaller, but still important for privately-paid childcare care. The authors also note that the take-up of any childcare, free or paid, is higher now than at the time of their report, suggesting that there is more scope for crowd-out to be important.

Higher minimum funding rates

In addition to a more generous childcare entitlement, the Labour party has also promised to increase the amount of per-hour funding offered to childcare providers. As it stands, funding for the 3- and 4-year-old free entitlement is allocated to local authorities based on the Early Years National Funding Formula (EYNFF). The EYNFF calculates an hourly rate for each area based on a universal base rate supplemented with uplifts for the level of disadvantage in the area and an area cost allowance. Every local authority then devises its own funding formula; as it stands, local authorities must pass on at least 95% of the funding received to providers (though they can choose to top it up further).⁴

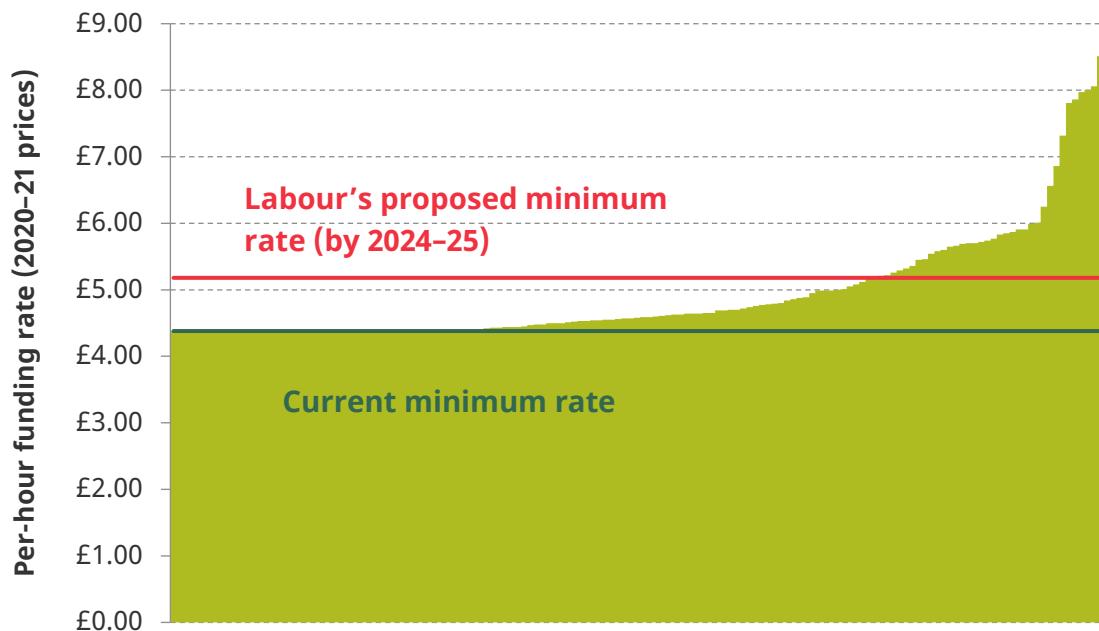
At the moment, the Department for Education (DfE) has a minimum funding rate of £4.30 per hour, which will rise to £4.38 (in cash terms) in 2020–21. Figure 1 shows the per-hour funding rates for each local authority for 2020–21.

Almost a third of local authorities are receiving the £4.38 minimum funding rate. Reflecting the design of the funding formula, local authorities with a higher level of disadvantage – measured by the share of primary-school pupils eligible for Free School Meals and/or with English as an Additional Language – and those assessed to have higher

⁴ For more detail on the early years funding system, see section 2.3 of Belfield, Farquharson and Sibieta (2018).

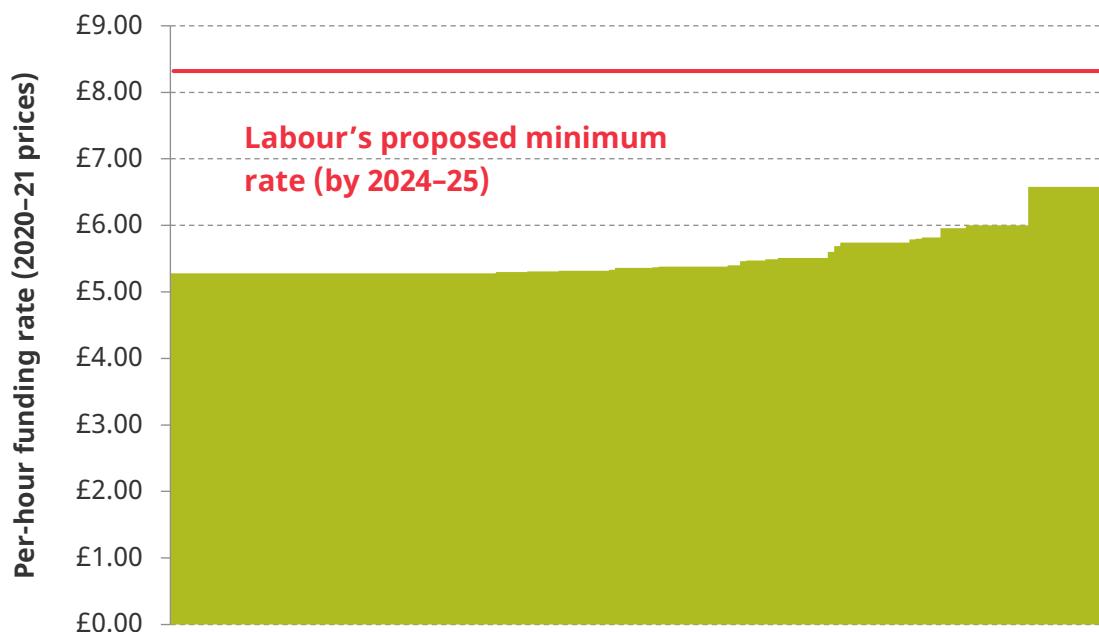
local costs receive a higher funding rate. In practice, this means that the highest funding rates, above £6 per hour, are all for local authorities in London; Camden is set to receive £8.51 an hour.

Figure 1. Hourly funding rate for 3- and 4-year-old free childcare under the 2020–21 Early Years National Funding Formula (by local authority)



Source: Education and Skills Funding Agency, '[Early years funding: 2020–2021](#)'. GDP deflators (June 2019) and ONS's long-run inflation assumption (2%) from 2024–25 onwards.

Figure 2. Hourly funding rate for 2-year-old free childcare under the 2020–21 Early Years National Funding Formula (by local authority)



Source: Education and Skills Funding Agency, '[Early years funding: 2020–2021](#)'. GDP deflators (June 2019) and ONS's long-run inflation assumption (2%) from 2024–25 onwards.

Under current policy, funding rates are effectively frozen in cash terms unless extra spending is explicitly announced (as it was for 2020). But the past few years have seen big increases in cost pressures for nurseries, with successive increases in the minimum wage (which has risen from £6.19 per hour in 2012 to £7.70 for those aged 21–24 and £8.21 for workers aged 25 and older).

Figure 1 also shows how a minimum funding rate of £5.60, as proposed by the Labour party for the final year of the next parliament, would relate to current funding levels. After accounting for inflation, £5.60 is equivalent to £5.18 in 2020–21 prices. This would mean an increase over current rates for around 85% of English local authorities. If the rest of the funding formula were left unchanged, this would significantly reduce the progressivity of the current funding system; of course, the Labour party could also choose to make other changes to the funding formula that would increase its generosity for those authorities currently receiving more than £5.18, though that would increase the total cost to government further.

As it stands, there is much less dispersion in the hourly funding rates for the 2-year-old offer. Figure 2 summarises the 2020–21 plans for hourly funding. The minimum per-hour funding received is £5.28, with the local authorities receiving the most funding – primarily those in Inner London – getting £6.58.

This means that the most generous funding rate under the 2-year-old offer is less than the rate for 3- and 4-year-olds in eight local authorities; there are 10 local authorities that receive less per hour to deliver the 2-year-old offer than they do for older children. This is remarkable, both because childcare for younger children tends to be more expensive and because the 2-year-old offer is focused at disadvantaged children, where additional funding to deliver higher-quality early education might be particularly important in helping children to reach their potential.

As Figure 2 shows, Labour’s proposed minimum funding rate of £9 an hour by 2024 (£8.32 in 2020 prices) would sit substantially higher than any of the current 2-year-old funding rates.

Consistent with this, we calculate that – if local authorities currently receiving more than the proposed minimum level see no change in their budgets – it would cost about £0.5 billion in today’s prices to implement the proposed funding floor for 3- and 4-year-olds **based on the current number of free childcare hours**. The proposed increase to the 2-year-old funding rate, though much bigger than the increase for 3- and 4-year-olds, would apply to fewer hours and fewer children and so would cost less, around £0.3 billion in 2024 (again, in today’s prices). If the more generous funding led more families to take up their existing childcare entitlement, these costs could rise further.

Higher funding for the extra hours

So far, we have analysed the cost of Labour’s promise to extend the free entitlement to childcare to cover more hours for more children at current funding rates, and the cost of (one interpretation of) Labour’s proposal to increase funding rates for the current set of free entitlement hours.

Of course, it is also important to take into account the interaction between these two policies – that is, the cost of higher funding per hour on the extra hours of free childcare that Labour proposes to deliver.

We estimate that the cost of ensuring the higher minimum funding rate for the extra hours delivered to 3- and 4-year-olds would be about £100 million in 2024. For 2-year-olds, the cost would be almost eight times bigger, at £700 million.

The difference in the cost for these two age groups reflects the relative generosity of Labour's offer to different groups. The party is proposing a much higher relative increase in the minimum funding rate for 2-year-olds than for 3- and 4-year-olds. And the increase in the number of funded hours is higher for 2-year-olds as well: all children will get at least an extra 15 hours a week, and the majority will get 30 hours more than under the current system.

Additional childcare hours at subsidised rates

The Labour party is also planning to offer additional childcare hours at subsidised rates, with parents paying between nothing and £4 an hour depending on their income.

What is not yet clear, and will be very important to both the cost of the policy and the design of the system, is how these additional hours will be integrated with additional childcare policies.

- Will children of all ages be eligible, or will these hours be restricted to specific groups? (For example, children before school age or children aged 2-4.)
- How many subsidised hours will families be able to access? Will this be capped, or does this policy mean that children in poorer families will get effectively unlimited access to free childcare?
- What level of subsidy will the government offer? How much will providers of these subsidised hours receive?
- Will families still have access to existing subsidy programmes, such as childcare vouchers or tax-free childcare, to subsidise their contributions?

Without answers to these questions, it is impossible to provide a single costing for this policy.

Savings through the tax and benefit systems

One of the indirect impacts of expanding free childcare provision will be to reduce families' own spending on childcare, and therefore reduce the need for childcare subsidies through the tax system (tax-free childcare and childcare vouchers) and the benefits system (the childcare element of universal credit and working tax credit).

It is beyond the scope of this briefing note to provide a detailed forecast of how Labour's proposals for free childcare would affect spending through these subsidies, but it is important to recognise that there will be some savings to the Exchequer.

We have therefore provided an indication of the upper bound for what the savings could be from offering all 2- to 4-year-olds free childcare for 30 hours a week. This estimate is based on figures for how spending on tax-free childcare and the childcare element of universal credit is distributed based on the age of a child.⁵ We assume that all spending on 2-, 3-, and 4-year-olds through these programmes stops; this works out to roughly halving projected spending on tax-free childcare and cutting spending through universal credit by a third.

Of course, some families with access to a universal 30 hours will still choose to spend more on additional hours of childcare (though these costs could also be lower, depending on the details of Labour's plans for additional subsidised hours). That means that this is a generous assumption about what the savings through the tax and benefit systems could be, rather than a forecast for what they would be.

The structure of the childcare system

The Labour party has also promised 'an end to fragmentation' and a move towards a single, supply-side funding formula to support a graduate-led childcare workforce. As we have argued, it is welcome and overdue for politicians and policymakers to consider the entire system of childcare support in the UK, looking at how the different programmes and policies can best work together to support children and parents – and whether there is scope to simplify an increasingly complex system.

To its credit, the Labour party has been clear about its principal aims. These are to boost the income of families with young children and to help close the attainment gap between children from poor and rich backgrounds.

If the Labour party's main objective is to close the attainment gap between children from different backgrounds, its choice to provide a universal childcare entitlement – regardless of family background – might sit slightly oddly alongside. In the current system, the 2-year-old early education offer is explicitly designed to provide extra support to children who might otherwise be at risk of falling behind their better-off peers. Dedicating a significant share of the extra spending to providing those better-off peers with access to the same 2-year-old childcare offer might not be the most cost-effective way to fight inequalities (though, of course, even 2-year-olds from poorer families will get more funded childcare under these plans, as will 3- and 4-year-olds in non-working – typically poorer – families). Whether children will benefit from a full 30 hours of childcare is the subject of some debate in the academic literature; some studies find that longer days lead to greater academic benefits but can harm children's social and emotional development, particularly for younger children.

⁵ We are focused on the cost in 2024, by which time we assume that universal credit will have largely replaced legacy benefits, and tax-free childcare will have mostly replaced spending through childcare vouchers. See Farquharson (2019) for more detail.

One area that expanding free childcare hours (and introducing subsidised ones) will certainly help families with is their childcare costs. And higher funding rates should reduce cost pressures in the sector, potentially enabling childcare settings to deliver higher-quality care. Done well, reforms and investment to boost the quality of early years settings could mean bigger benefits and better outcomes for children overall, whether or not it closes the attainment gap.

Of course, the link between funding and quality is not automatic. For greater funding to translate into higher-quality care and better outcomes for children, the money must be well spent. The Labour party has promised to move towards a 'graduate-led workforce' in the early years. On the one hand, higher wages in the sector would presumably help to attract and retain higher-quality staff, and moving towards a system with a greater emphasis on free childcare hours (rather than on subsidies for parents' own spending) could give the government more leverage over the standard of care on offer.

But on the other hand, the evidence for the impact of a graduate-led early years workforce is mixed. Some studies, such as the [Effective Provision of Pre-school Education](#), find that childcare settings with more qualified staff tend to provide better-quality care. But the qualifications framework has changed several times since that research was published in 2003, and it is no longer clear which qualifications would be most relevant. [More recent research](#) suggests that the link between staff qualifications and children's academic achievement is weaker than it used to be.

A Sure Start centre in every community

The Labour party has promised to spend another £1 billion on Sure Start, using this to deliver 'a Sure Start centre in every community'. This was also the promise of 2004's [Ten-Year Strategy for Childcare](#), when the then-Labour government targeted 3,500 Sure Start Children's Centres across England.

From its peak in 2010 to 2017 (the latest year for which data are available), the overall budget for the programme was cut by £970 million, or almost two-thirds. Labour's £1 billion of extra spending would therefore essentially restore funding to its peak (2010) level.

Determining how many Sure Start centres have closed over this period is more challenging. Local authorities facing budget cuts for Sure Start responded in very different ways: some chose to close some centres and concentrate limited resources in fewer locations, while others instead implemented cuts and consolidations across the network of centres while retaining a (potentially more limited) presence in most or all sites. According to [new figures](#) from the Department for Education, there are now 570 fewer children's centre sites than in 2010 (when the number of sites peaked at 3,620). But [research](#) by the Sutton Trust suggests that, after taking into account a thinning-out of services within centres, more than 1,000 registered centres may have closed.

What does seem clear is that the scale of budget cuts has outstripped the number of centres closed, suggesting that individual centres are likely doing less than they were in 2010. The Labour party will have choices to make about how much of its extra £1 billion it chooses to spend – or encourage local authorities to spend – on enhancing services at

existing sites (including trying to boost take-up⁶) versus on opening (or re-opening) new centres.

In doing so, there is an opportunity for policymakers to consider how best to target these resources. [IFS research](#) has found that Sure Start, as it was operating during the 2000s, had big benefits for children's health (it was not possible with our methodology to look specifically at the impact of services post-2010). But the research also found that the biggest benefits were in the poorest areas; children in the richest 30% of neighbourhoods saw hardly any reduction in their hospitalisation rate as a result of Sure Start. This suggests that – in common with most early years programmes from around the world – Sure Start has greater potential to make an impact in more disadvantaged communities. The Labour party should set out whether and how it plans to target the new resources for Sure Start, in whole or in part, at the poorer areas that are likely to benefit most.

⁶ In 2010, around a fifth of eligible households used a children's centre once a week, but a few years later the [Evaluation of Children's Centres in England](#) found that only 13% of registered families used the centres more than 20 times a year.

3. The Liberal Democrats' proposals

The Liberal Democrats have also released proposals to increase significantly spending on free childcare in the early years. Though there is common ground between these policies and Labour's proposals, the two packages differ in the specifics. The Liberal Democrats promise:

- to increase the number of hours of free childcare (to 35 hours a week) and the number of weeks of the year it covers (from 38 to 48 weeks);
- to offer this more generous free childcare programme to all 2-, 3- and 4-year-olds;
- to also make children between 9 months and 2 years eligible for this free childcare offer if they live in working households;
- to increase hourly funding rates to £5.36 for 3- and 4-year-olds and £7.22 for 2-year-olds; and
- to increase the Early Years Pupil Premium (EYPP) for disadvantaged children to £1,000 per year.

This package of policies is due to be phased in over a five-year parliament, though some may be introduced earlier. The Liberal Democrats cost this package at £14.6 billion and say that it will be paid for by the £16 billion they estimate they would raise from increasing the rate of corporation tax to 20% and from increased rates of capital gains tax.

Taken together, the Liberal Democrats' policies represent an extensive – and expensive – increase in the generosity of the UK's free childcare system, summarised in Table 2. Spending on this scale would remove the free childcare entitlements targeted specifically at the lowest-income families and increase spending on both universal programmes and those targeted at working families.

The costings that we set out in this briefing note are inherently uncertain; while they give a broad indication of how these policies would affect public spending on the early years, they are not a precise forecast. Differences in take-up and eligibility can have a major impact on the cost of free childcare prices, and are particularly difficult to predict when offering many more hours of free childcare or when extending the entitlement to new groups of children.

Even so, as Table 2 shows, we estimate that the cost of the Liberal Democrats' proposals would come in substantially *below* the £14.6 billion that the party has budgeted – around £8.5 billion (in today's prices), once the implications for devolved administration budgets are taken into account.⁷

⁷ Our main estimate of £8.5 billion in today's prices comes to £9.4 billion in 2024 prices. The Liberal Democrats have not specified which year's prices their £14.6-billion envelope is presented in.

Table 2. Summary of the cost of the Liberal Democrats' proposed policies

Policy	Cost (in 2024, 2019–20 prices)	Number eligible	Notes
Higher minimum funding levels for current free childcare hours	£0.5bn	1.5 million	Assumes LAs funded above the minimum are not affected
35 hours/week, 48 weeks/year free childcare for all 2- to 4-year-olds at current funding rates	£3.7bn	1.9 million	
Higher minimum funding levels for new free childcare hours for 2- to 4-year-olds	£0.5bn	1.9 million	Assumes LAs funded above the minimum are not affected
35 hours/week, 48 weeks/year free childcare for 9-month- to 2-year-olds in working families at new 2-y.o. funding rates	£3.4bn (main scenario) <i>£3.0bn (low take-up scenario)</i> <i>£3.8bn (high take-up scenario)</i> <i>£4.1bn (high eligibility scenario)</i> <i>£3.9bn (higher funding scenario)</i>	~400,000 ~500,000 (high eligibility scenario)	These costs and eligibility numbers are highly uncertain – see appendix for a discussion of scenarios
Early years pupil premium	< £0.1bn		
Potential savings through tax and benefit system	-£0.9bn		Upper bound – assumes no spend on 1- to 4-y.o.s
Total	£7.2bn (main scenario)		
<i>Memo: If all take-up rates 10ppt lower</i>	£5.7bn		
<i>Memo: If all take-up rates 10ppt higher</i>	£8.6bn		
<i>Memo: Total plus Barnett consequentials</i>	£8.5bn (main scenario)		

Note: All free childcare policies are costed relative to a baseline of a cash-terms freeze in per-hour funding at 2020–21 levels. For the free childcare hours for young children in working families, the low (high) take-up scenario assumes that take-up rates are 10 percentage points lower (higher) than in the main scenario, but do not include implications for the cost of delivering current childcare entitlements. The high eligibility scenario assumes that the eligibility rate rises by 10 percentage points. The ‘high funding’ scenario assumes that the new entitlement for children under age 2 is funded at £1 an hour more than the Liberal Democrats’ proposed funding level for 2-year-olds. Further detail on sources and methodology is set out in the appendix. ‘Number eligible’ shows the number of children potentially affected by the policy in 2024–25, if take-up were 100%; this is different from (and higher than) the numbers taking up the policy that we use to calculate costs. Barnett consequentials are the adjustments that must be made to the budgets of Scotland, Wales and Northern Ireland to reflect additional spending on devolved public services in England. Figures are rounded to the nearest £100 million.

Of course, policy announcements do not often come with precise details about how they would be implemented in practice; it is possible that some of the assumptions we have had to make about, for example, per-hour funding plans for younger children are not in line with what the Liberal Democrats are actually intending. We will of course correct this briefing note as appropriate if and when more information comes to light.

But the Liberal Democrats should also provide more detail both on the specifics of the policies they have in mind and on how they arrive at a total spending envelope of £14.6 billion of extra spending on the early years; of course, some or all of these details might be contained in their manifesto, which is expected later this week.

And, importantly, the total cost of this package of policies – whether £8.5 billion, £14.6 billion, or somewhere in between – will represent an enormous increase in the amount of government support directed to the early years, and to free childcare policies in particular. The costing of this package matters. But equally if not more important are questions about what this additional spending will buy and how it will influence the outcomes and well-being of children and their families.

35 hours of childcare for all 2-, 3- and 4-year-olds for 48 weeks

The Liberal Democrats are promising an extension to both the coverage and the duration of free childcare. Like the Labour party’s, this proposal would remove the elements of targeting additional free childcare at disadvantaged children. However, the Liberal Democrats’ offer is significantly more generous: it would provide 1,680 hours of free childcare a year, compared with 1,140 under Labour’s proposals.

We estimate that extending up to 35 hours of free childcare to all 3- and 4-year-olds for 48 weeks of the year would cost about £1.9 billion a year in 2024 (in today’s prices). For 2-year-olds, the cost of this more generous entitlement would be about £1.8 billion. This is **before accounting for the Liberal Democrats’ proposals to increase funding levels**, which are discussed later in this section. As before, details of our methodology and assumptions can be found in the appendix.

35 hours of childcare for 9-month- to 2-year-olds in working families for 48 weeks

Unlike the Labour party, the Liberal Democrats would preserve an element of targeting free childcare towards children in working families, extending the system to these families with children between 9 months and 2 years old. There are about 810,000 children in this age group, and estimates from the Labour Force Survey suggest that around half of them would meet the eligibility criteria (if these were the same as the ones currently applied to the 30-hour entitlement for 3- and 4-year-olds). That suggests that this policy might affect around 400,000 children, even before any changes in parents' working hours in response to the new offer.

This policy would bridge the gap between the end of statutory maternity pay (which runs out 39 weeks after a child is born) and the start of the free childcare system, at least for working families. It would offer families significant support with childcare costs during their child's younger years, when these costs tend to be especially high. And it would bring the shape of England's early years policy more closely in line with countries that spend more than the UK on early years, which typically direct much of this spending to the under-3s.

However, its potential impacts on children are much less clear. There is no conclusive answer for how earlier entry into childcare affects children's development, though some studies suggest that starting before age 2 might be detrimental.

The costs of this policy are also particularly uncertain. One of the most important drivers of the policy's cost will be its take-up: how many children are eligible, how many of them take up the entitlement, and how many hours they use. For our central scenario, we use survey data to estimate the share of young children likely to be eligible and to gather information about the current use of childcare – both paid and unpaid – in these families. Based on the assumptions we make, we estimate in our central scenario that this policy would cost £3.4 billion in 2024 (in today's prices).

To capture some of the uncertainty around this estimate, we also provide three additional scenarios:

- a **low take-up scenario**, where the take-up rates of each band of free hours are 10 percentage points lower;
- a **high take-up scenario**, where the take-up rates of each band of free hours are 10 percentage points higher (capped at 100%); and
- a **high eligibility scenario**, where the share of children eligible for the free hours rises by 10 percentage points (perhaps as more parents move into work).

In the first scenario, we put the cost of the policy at £3.0 billion; in the second, we estimate it would cost £3.8 billion; and, if eligibility increases by 10 percentage points, we estimate the costs would rise to £4.1 billion.

There is one more important assumption underlying these costings: we assume that these hours are funded at £7.22 in 2024 (the same rate as the 2-year-old hours). The Liberal

Democrats could choose a different funding rate; indeed, lower child:staff ratios for children under 2 suggest that funding rates should be higher for this age group. But in the absence of any information from the party about its funding plans, we have had to make an assumption about the funding rate.

To show how sensitive the costs are to this decision, Table 2 also shows the estimated cost should the Liberal Democrats choose to fund the free hours for children aged 9 months to 2 years at a rate £1 higher per hour (£8.22 in 2024–25). This would increase the cost of the policy (in today's prices) to £3.9 billion.

These five scenarios are by no means exhaustive; take-up, eligibility and funding could all turn out differently from what we assume here. The goal of these scenarios is therefore not to provide a precise set of forecasts or even upper and lower bounds for what the policy could cost; instead, these different scenarios demonstrate the sensitivity of the overall cost to changes in these three components.

Higher minimum funding rates

Like the Labour party, the Liberal Democrats are promising to increase per-hour funding for free childcare. Although smaller than those pledged by the Labour party, the increases that the Liberal Democrats propose are still big: 2-year-olds will be funded at £7.22 an hour, while 3- and 4-year-olds will receive £5.36 (compared with £9 and £5.60 under Labour). We assume that this refers to minimum funding levels in 2024, as the Labour policy does.⁸

We estimate that increasing funding rates to this level for the current childcare entitlement would cost around £500 million, and the higher funding levels for new childcare hours for 2- to 4-year-olds would cost another £500 million.

Early Years Pupil Premium

The Liberal Democrats have also promised to increase the Early Years Pupil Premium (EYPP) to £1,000 a year. This additional funding given to childcare providers for disadvantaged⁹ 3- and 4-year-olds is currently 53p per hour, or £302 a year for a child using the entire universal (15-hour) entitlement.

In that sense, the increase promised by the Liberal Democrats seems to be a big one – more than tripling the generosity of the current EYPP. Assuming that this promise refers to cash-terms spending in 2024, this is equivalent to £908 in today's prices.

⁸ Available information about this Liberal Democrat policy is less precise than the information available for the Labour party. We assume that the 'funding levels per hour' quoted refer to the minimum funding level in the EYNFF, rather than the average rate, and before additional funding for elements such as the Early Years Pupil Premium. We also assume that these rates are presented in cash terms for 2024, at the end of the five-year period over which this party has said it plans to phase in this package. If more information becomes available, we will update this analysis if appropriate.

⁹ This definition of disadvantage is more restrictive than the one used for the current 2-year-old childcare entitlement. It covers children whose parents are eligible for some benefits, those looked after by a local authority, and those who have left care. For full details, see paragraph 76 of the government's [operational guidance](#).

But the Liberal Democrats are also promising extra hours of childcare. Looking at the policy in per-hour terms, this would deliver 54p of extra funding for disadvantaged children – just 1p more than the current rate. Of course, this is still an increase in generosity over current policy, which caps the EYPP at 15 hours a week and which has kept the rate frozen in cash terms since its introduction in 2015.

Still, the cost implications of this promise are negligible in our model. Our costings are based on average spending per hour under the current system, taking into account programmes like the EYPP and other supplements, for example, for disadvantaged children.

Savings in the tax and benefit system

As with the Labour party's proposals, some of the cost of these new free childcare entitlements will be offset by savings in the tax and benefit systems, since parents will not be spending as much on childcare and so will receive fewer subsidies through tax-free childcare or universal credit.

We calculate a rough upper bound for what these savings might be, by assuming that current spending directed at children aged one to four is all avoided with the more generous free childcare programme. This methodology effectively assumes that children of these ages won't use any more than 35 hours a week of childcare; this is unlikely to hold, but it does give a sense of how much the savings might end up being. We find that this 'upper bound' could offset about £900 million of the cost of the Liberal Democrats' package.

4. Comparisons and conclusion

Both the Labour party and the Liberal Democrats have promised to increase substantially spending on the early years if elected. It is difficult to overstate how much of a change either of these programmes would mean for free childcare in England. Under Labour's plans, spending on free childcare in 2024 would be more than double the current baseline. This would undoubtedly offset a large share of childcare costs for many families with young children.

And yet even this scale of extra spending is dwarfed by plans from the Liberal Democrats, who would bring the total budget for free childcare to over £10 billion in 2024. This is more than three times as high as the current policy baseline. Even more families with young families would be brought into the free childcare system, in particular those with very young children.

As Figure 3 shows, Labour's programme would require one of the biggest five-year spending increases (in percentage terms) that the free entitlement has seen; it will be on a scale with the increases delivered between 2009 and 2014 as the Coalition government increased the generosity of the free entitlement and extended it to some 2-year-olds. The Liberal Democrats' proposals would go much further still, and would be unprecedented in the history of free childcare in England.

Figure 3. Public spending on free childcare (historical and forecast), 2019–20 prices



Note: Only includes proposals for free childcare (excludes Labour plans for additional spending on Sure Start and subsidised childcare hours). Costs are based on IFS estimates for 2024–25 policies. Policy baseline is shown in dashed line and incorporates population change and 2019 Spending Round allocations, then assumes a cash-terms freeze in per-hour spending at 2020 levels. These figures incorporate an 'upper bound' of savings through the tax and benefit systems and are shown before additional funding due to devolved administrations under these plans.

Delivering this scale of change, on this short a time horizon, would be immensely challenging. Both parties have pledged to increase hourly funding rates, which ought to ease pressures on providers being asked to deliver substantially more funded hours. But whether the childcare market can expand quickly enough to deliver this increase – and, crucially, whether it can maintain or improve quality as it does so – would be of paramount importance for the success of either of these programmes. And whether the government can ensure that all this extra money is spent well would determine whether it is not just a very expensive giveaway that benefits families today, but one that is also an investment delivering future benefits too.

Beyond the sheer scale of these programmes, how do they compare? In some ways, the two offers are similar: both parties propose to make free childcare universal for 2-, 3- and 4-year-olds, effectively removing the current entitlements targeted at disadvantaged 2-year-olds and at 3- and 4-year-olds in working families. This would certainly help to simplify the system, and a universal programme could have other benefits as well – for example, helping to identify children from better-off backgrounds who might nevertheless be at risk of poor development. But universal systems are also costlier, and most international evidence suggests that – at least from a child development perspective – children from better-off families tend not to benefit as much from childcare.

Both parties' plans for hourly funding would increase the funding gap between 2-year-olds and 3- and 4-year-olds. Over recent years, this has been eroding; real-terms spending¹⁰ per hour on 3- and 4-year-olds rose by 6% between 2014 and 2018. For 2-year-olds, spending fell by almost 30% in real terms over the same period, though it remains higher in absolute terms.

There are good reasons that providing childcare for younger children is more expensive – for example, regulations allow for bigger child:staff ratios at older ages¹¹ – so higher funding to recognise those cost pressures makes sense. But throughout the school system, successive governments have also prioritised funding towards disadvantaged children, which seems to be much less of a feature of the Labour and Liberal Democrat proposals. Labour has not made any (explicit) promises about the level of the Early Years Pupil Premium, which has been frozen in cash terms since its introduction in 2015. At the moment this provides a 12% boost over minimum funding levels for (the 15-hour universal entitlement of) 3- and 4-year-olds. Another four years of a cash-terms freeze would leave it worth just 9% of Labour's planned £5.60 minimum in 2024. And though the Liberal Democrats have pledged to increase the maximum funding to £1,000 a year, they have not so far made any promises about whether it will be extended to cover 2-year-olds and younger children.

In other ways, of course, the two parties have quite different early years offerings. The Labour party is proposing to increase funding for Sure Start. Decisions about where and how to spend this extra funding will be important, but there is some evidence that Sure

¹⁰ We distinguish between per-hour 'spending' (which includes all elements of spending on free childcare, including the Early Years Pupil Premium and any additional spending by local authorities) and 'funding' (the hourly base rates set by the Department for Education).

¹¹ In England, early years settings (other than childminders) are restricted to a 3:1 child:staff ratio for children under 2, 4:1 for 2-year-olds, and 8:1 for children aged 3 and older (13:1 if a qualified teacher is working directly with the children).

Table 3. Summary of Labour's and the Liberal Democrats' early years proposals

	Current system	Labour	Liberal Democrats
Free childcare: 3- and 4-year-olds	15 hours/week universal + 15 hours for working families 38 weeks/year	30 hours/week universal 38 weeks/year	35 hours/week universal 48 weeks/year
Free childcare: 2-year-olds	15 hours/week for 40% poorest 38 weeks/year	30 hours/week universal 38 weeks/year	35 hours/week universal 48 weeks/year
Free childcare: younger children	None	None	35 hours/week for working families (9- month- to 2-year-olds) 48 weeks/year
Childcare funding	Ages 3-4: £4.38 minimum per hour (in 2020)* Age 2: £5.28 lowest funding per hour (in 2020)*	Ages 3-4: £5.60 minimum per hour (in 2024)** Age 2: £9.00 minimum per hour (in 2024)**	Ages 3-4: £5.36 per hour (in 2024)*** Age 2: £7.22 per hour (in 2024)***
Childcare in the tax and benefit systems	Subsidies through working tax credit, universal credit, childcare vouchers, tax-free childcare	None announced – more free childcare will lead to some savings	None announced – more free childcare will lead to some savings
Other policies		+£1bn for Sure Start 'Additional subsidised hours' of childcare	Triple EYPP to £1,000 per year

* Equivalent to £4.05 (ages 3-4) and £4.88 (age 2) in today's prices if frozen in cash terms until 2024.

** Equivalent to £5.09 (ages 3-4) and £8.17 (age 2) in today's prices.

*** Equivalent to £4.87 (ages 3-4) and £6.56 (age 2) in today's prices.

Start can have some benefits for (disadvantaged) children – suggesting that this type of programme could be a good target for additional spending on the early years.

The Liberal Democrats, by contrast, have focused their early years programme exclusively on free childcare programmes. They would extend the entitlement from 38 to 48 weeks a year, and from (up to) 30 to 35 hours a week. Taken together, this is a costly proposal to increase the generosity of the system even for the 2-, 3- and 4-year-olds who are already receiving some free childcare. On top of this, the party is promising to extend this more

generous entitlement to an entirely new group: children between 9 months and 2 years old, living in working families.

The party should set out what it hopes to achieve with this spending. Undoubtedly many families with young children would welcome the extra provision. But among 2- to 4-year-olds, international evidence does not suggest that longer days in childcare are likely to be especially beneficial for children's development. Additional weekly hours of free childcare could have more of an impact on mothers' working decisions, but given the relatively small effects from moving from 15 to 30 hours of free childcare, it is hardly certain that an extra 5 hours a week will have a big impact. The additional weeks of the year being promised might also support mothers, in particular, to return to paid work sooner, but so far there is little evidence available to indicate how effective this part of the proposal might be.

The scale of extra funding promised by both parties is absolutely enormous, and raises big questions about how feasible these plans would be to implement. These should not be treated lightly. But answering questions about what families – both children and their parents – might get from this spending are also crucial to evaluating these policy proposals. What is certainly clear is that spending on small children is set to be a big battleground in this election.

Appendix A: Methodology and assumptions

Predicting the cost of childcare and early years policies is inherently uncertain, and the estimates in this briefing note should be taken as indicative attempts at a central estimate rather than as a certainty. Among other things, the costs of childcare policies will certainly depend on take-up rates – both in terms of the number of children taking up the programme and the number of hours they use. Evidence suggests that these take-up rates can be sensitive to the specific design of the childcare programme on offer.

In this appendix we set out the methodology that we use to cost different policies and the assumptions we have had to make. Unless otherwise noted, **all of these costs are relative to a baseline of ‘current policy’**: maintaining the existing set of free childcare entitlements and implementing a cash-terms freeze on per-hour funding rates after 2020–21 (see another [briefing note](#) for further detail). All costings account for inflation (as set out in the [June 2019 GDP deflators](#)) and for age-specific population growth in England (from the ONS’s [2018-based population projections](#) by single year of age).

Labour policies

30 hours of free childcare for all 3- and 4-year-olds

We cost this policy relative to a baseline of 15 hours a week for all 3- and 4-year-olds and an extra 15 hours for those in working families. In this year’s [Education Spending Report](#), we reported that, in 2018–19, about 52% of 3- and 4-year-olds were eligible for the 30-hour extended entitlement. About a third of the hours that children were potentially entitled to were taken up (outside of maintained schools); this is the average of a 47% take-up among 3-year-olds and a 19% take-up among 4-year-olds.

For our costing here, we apply the same age-specific take-up rates to the population newly entitled, based on the ONS’s population projections by single year of age. For our sensitivity checks, we assume that these take-up rates are all 10 percentage points higher or lower. These scenarios for take-up are meant to illustrate how sensitive the cost is to take-up rates; they are not bounds on how high or low take-up might be. It would of course be possible for actual take-up rates to fall outside this range (and for the cost to be accordingly higher or lower).

30 hours of free childcare for all 2-year-olds

This policy requires assumptions both about the take-up of the 2-year-old entitlement among children who are not yet entitled and about the take-up of more than a part-time place among all 2-year-olds. We do this in two steps:

- First, we estimate the cost of extending a free 15 hours to all 2-year-olds, based on the take-up rate among those already entitled (48% of potential hours in 2018).
- We then estimate the cost of offering an additional 15 hours a week to all 2-year-olds, based on the average take-up rate of the 30-hour entitlement for 3- and 4-year-olds.

Clearly, neither of these assumptions will be perfect: we might expect take-up to differ among 2-year-olds from more and less disadvantaged backgrounds, and between 2-year-olds and older children. But using take-up rates from other areas of the free childcare programme provides a plausible ‘ballpark’ figure based on the take-up of the policy as it might be implemented.

Higher minimum funding rates

We estimate the additional cost of the Labour party’s proposed minimum funding rates **assuming no change in the generosity of the entitlements** by:

- **Calculating the extra cost per hour that they imply in each local authority** (assuming that local authorities already getting funding above the floor see no change in their funding). This is done for the 2024–25 minimum funding rate that Labour has promised. It is calculated relative to the 2024 funding rates that would be in place if 2020–21 rates were frozen in cash terms (to be consistent with our costings for other policies).
- **Multiplying the extra cost for each local authority by the number of hours of free childcare it was predicted to deliver in 2019.** This is obtained from the Dedicated Schools Grant, which multiplies the LA-specific funding rate by predicted demand for the 3- and 4-year-old universal and extended entitlements and the 2-year-old entitlement.¹²
- **Adjusting for overall population growth.** The overall population of 3- and 4-year-olds is set to be 1.2% smaller in 2024 than it is this year, so we then adjust our cost for this age group down by the same amount. There are set to be 0.8% more 2-year-olds in 2024, so we adjust up the costings for 2-year-olds.

This approach assumes that the other components of spending on free childcare – additional funding through the Early Years Pupil Premium, Disability Access Fund, Maintained Nursery School supplement, and any additional spending done by local authorities – are not affected by the change in funding rates. The last of these is perhaps the strongest assumption – local authorities may well choose to top up childcare budgets by less if they become more generous. But we estimate that these LA top-ups only account for about £100 million of the £3.7 billion spent on free childcare this year, so even if removed entirely they would have a relatively limited scope to impact on our overall costings of the more generous funding rates.

Minimum funding levels for additional hours

To calculate the impact of minimum funding levels on the additional entitlement promised by Labour, we multiply the amount spent on increasing funding for the current entitlement by the ratio between spending on new hours and spending on current hours, both at baseline funding rates.

This isolates the impact of the new minimum funding level and avoids double-counting other elements of spending on free childcare, such as the Early Years Pupil Premium or any additional spending by local authorities (which are already incorporated in the cost of

¹² We prefer this to using LA-level population projections because the Dedicated Schools Grant formula contains information about the LA-specific demand for the non-universal entitlements.

the additional hours under current funding rates, and which we assume do not change with the new minimum funding levels).

Liberal Democrats' policies

35 hours a week of free childcare for 48 weeks, for all 3- and 4-year-olds

We follow a similar approach to our methodology for costing Labour's extension of 30 hours for all 3- and 4-year-olds. We assume that the take-up rate for the 5 additional hours is the same as the (part-time-equivalent) take-up rate for between 15 and 30 hours. This is broadly in line with data on childcare usage, which show that the majority of families using at least 30 hours of care use additional hours as well.

We then multiply the total (estimated) cost of providing 35 hours a week to all 3- and 4-year-olds for 38 weeks of the year by the 0.263 (10 extra weeks of childcare divided by the 38 existing weeks) to estimate the cost of extending this entitlement to cover 48 weeks of the year. This approach implicitly assumes that all take-up rates will remain the same over the rest of the year.

35 hours a week of free childcare for 48 weeks, for all 2-year-olds

We apply the same methodology as we use for costing Labour's proposed extension of 30 hours to all 2-year-olds. We again assume that the take-up rate for the additional 5 hours a week under the Liberal Democrats' proposals is the same as the (part-time-equivalent) take-up rate for between 15 and 30 hours, and we use the same approach outlined above to arrive at a costing for extending this entitlement to cover 48 weeks of the year.

Higher minimum funding rates

We apply the same methodology as used for costing Labour's proposed higher minimum funding rates and their impact on spending on the additional hours.

Early Years Pupil Premium

Our measure of per-hour childcare spending, which we use to cost the free entitlement extensions, incorporates spending on supplements (like the EYPP and supplements for disadvantaged children) as well as spending top-ups from local authorities. This means that the Liberal Democrats' proposed increase in the EYPP is broadly already incorporated in our policy costings. It's also important to emphasise that this is a relatively small part of the early years funding landscape; in 2019–20, spending on the EYPP (as allocated in the Dedicated Schools Grant) stood at about £30 million, meaning that increasing it from £302 to £1,000 per year (in cash terms) could cost around £60 million in today's prices.

35 hours of free childcare for 48 weeks, for 9-month- to 2-year-olds in working families

Estimating the cost of extending free childcare to a new group is an uncertain process. One of the fundamental drivers of the policy's cost will be how many families take up the new entitlement, and how many hours of it they use. For extensions among 2-, 3- and 4-year-olds, we have used information about take-up rates for existing free childcare programmes. But take-up is unlikely to be constant across ages, so extending this process to a new age group requires even more assumptions.

The process that we follow to get an indicative cost figure is:

- Use ONS population estimates for the population aged 1 and a quarter of the population aged 0 to determine the base population of this age group.
- Use the Labour Force Survey to estimate the number of children aged 1¹³ who live in families that are likely to be entitled (assuming that the Liberal Democrats' definition of 'working families' mirrors the current eligibility criteria for the 30-hour extended entitlement). We find that around 52% of 1-year-olds may be entitled.
- Use the Family Resources Survey to document the weekly childcare use of 1-year-olds in working families; specifically, we collect data on the share of children using 0 to 5, 6 to 10, 11 to 15, and so on hours of childcare per week.¹⁴ We consider all types of childcare, including unpaid childcare by family and friends, since previous research has shown that families who become eligible for more free childcare replace a substantial proportion of their existing informal childcare with the newly-free formal childcare.
- Assume that the Liberal Democrats will fund these hours at the same rate as the hours for 2-year-olds are funded. This is an assumption about the shape of the policy on offer that we will correct as appropriate if more details about the policy are released.
- Multiply the number of expected part-time-equivalent places (based on the population and estimated take-up) by 15 hours a week and 48 weeks a year (the hours covered by a part-time place), and by the (implied new) 2-year-old per-hour funding rate, to arrive at an overall cost estimate.

Of course, there is no one correct way to predict what take-up might look like in this new, younger age group. We therefore calculate the costs of the policy under four alternative scenarios:

- **Lower take-up rates:** Every take-up rate is 10 percentage points lower than in our main scenario. We estimate the cost of the new entitlement at current funding rates to be about £2.7 billion under this scenario, with the higher funding rates adding £300 million to this.
- **Higher take-up rates:** Every take-up rate is 10 percentage points higher than in our main scenario (or 100% if lower). We estimate the cost of the new entitlement at current funding rates to be £3.4 billion under this scenario, with the higher funding rates adding £400 million.
- **Greater eligibility:** It is possible that free childcare might draw more parents with children in this age group into work. We therefore estimate the cost of the policy if the eligibility rate rises by an extra 10 percentage points, to cover 62% of 1-year-olds. Under this assumption, the cost at current funding rates would be £3.7 billion in 2024, with another £400 million from higher funding rates.

¹³ Our data set only contains children's age in years. So while we have information on children aged 0, we cannot tell whether they are 3 months or 9 months old. We assume that the working decisions of children aged 9–11 months are likely to be more similar to those of parents of 1-year-olds than they are to the parents of much younger children.

¹⁴ These rates are relatively high – 80% of 1-year-olds in working families use more than 15 hours of childcare a week, 75% use more than 20 hours, 60% more than 25 hours and 45% more than 30 hours a week.

-
- **Higher funding rates:** This scenario reflects our uncertainty over the Liberal Democrats' plans for funding the new entitlement. In this scenario, we assume that free childcare for the under-2s is funded at £1 higher than for 2-year-olds in 2024 (90p in today's prices). We estimate that the cost of the under-2 entitlement would be £3.9 billion in this case.

Savings through the tax and benefit systems

As for the Labour party, we calculate an upper bound on the potential savings through the tax and benefit systems from the Liberal Democrats' introduction of new free childcare policies. We follow the same methodology as for the Labour party, but in this case we also assume that all spending on 1-year-olds under the current subsidy systems ends. This is because childcare subsidies through both universal credit and tax-free childcare are targeted at working families, who will – broadly speaking – be eligible for the Liberal Democrats' new childcare offer for younger ages.

As before, the savings we estimate are a plausible upper bound rather than a central estimate.