

Free childcare for the under-2s will mean big savings for some parents – but wider impacts are anyone's guess ^[1]

How might new childcare entitlements for under-2s affect families? Who uses formal childcare already? And will the new entitlements be deliverable?

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Source: Institute for Fiscal Studies

Format: Article

Publication Date: 2 Sep 2024

AVAILABILITY

Access online ^[2]

Excerpt

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What are the aims of the new entitlements?

The main aim of these new entitlements is to reduce childcare costs for working parents, and therefore to encourage more parents to enter (or stay in) paid work. However, the government's business case argues that around 60% of the financial benefits from the new entitlements will come from better child development and educational outcomes for the children attending these settings.

How will the new entitlements be funded?

As Figure 1 shows, childcare providers traditionally try to 'smooth' the cost of childcare across age groups – charging a relatively similar amount for all pre-school-aged children. But the costs of childcare look very different across age groups; staff-to-child ratios are much tighter for younger children, so the cost of delivering care to the under-2s is much higher than the cost for 3- and 4-year-olds.

By contrast, core funding for the free entitlement aims to more closely reflect underlying costs, so funding rates are much higher for younger children. Even more striking from Figure 1 is how generous these funding rates look compared with market prices. Funding for the under-2 entitlements is set to be £11.22 per hour on average, compared with a market price of childcare of around £6.40 an hour. Funding for 3- and 4-year-olds is much closer to its market price (and has fallen over time in real terms), but even so this funding landscape should mean that – at the national level – the average provider will not lose out from offering these entitlements.

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