

Spring Budget 2022 Pre-Budget Briefings

# Childcare and gender

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A pre-budget briefing from the UK Women's Budget Group – Spring 2022

### Key points:

- *The childcare system in England was failing to meet the needs of children, parents, and the economy prior to the onset of the coronavirus pandemic.*
- *The Spending Review in Autumn 2021, while emphasising the importance of the first 1,001 days of a child's life, did not provide the level of investment required to meet the needs of children and their parents.*
- *The cost and unavailability of childcare is putting household budgets under strain and for many women 'it doesn't pay to work': an estimated **1.7 million women are prevented from taking on more hours of paid work due to childcare issues**, resulting in up to **£28.2 bn economic output lost** every year.*
- ***Lack of access to high quality childcare can leave disadvantaged children behind** before they have even started school and require expensive interventions in the future. Covid disrupted access to childcare and early years education, impacting children in deprived areas more and widening development gaps.*
- ***The Covid pandemic and the government's response has exacerbated the crisis in childcare.** Continued underfunding, and the decision to stop funding at pre-Covid attendance levels in January 2021, is threatening the survival of providers. In the six months up to March 2021, there was a **4.4% net loss of childcare providers and 1.1% net loss of childcare places**, driven mostly by childminders leaving the sector.*
- ***High quality, affordable early years education and care is critical to the 'levelling up' agenda.** A failure to address the childcare crisis will increase educational inequalities between poorer children and their wealthier peers, entrench inequality and prevent millions of parents, especially mothers, from accessing the labour market.*
- ***Urgent action is required:***
  - ***Funding for the 'free hours' hourly rate should reflect the true cost of care provision.** This public investment **should include conditions**, such as ensuring staff are paid the Real Living Wage and that providers ensure plenty of places are available, including for children with SEND and 2-year-olds that qualify for the free hours.*
  - *The government must also establish an **independent review into the childcare system** we want and need, including how it is funded and a workforce strategy to develop the practitioners needed to deliver it.*
- ***In the medium term we must move to a supply-side funding model**, a better rewarded workforce and increased targeted support for the most disadvantaged children, who benefit the most from high-quality childcare.*
- ***In the longer-term the Government must invest in a universal and free system**, delivered as a public infrastructure service on equal footing with school education. Investment in such a system will largely pay for itself due to the big returns on maternal employment.*

High quality, accessible and affordable early childhood education and care is an investment in essential social infrastructure, with the potential to deliver significant levelling up benefits for the children, families, the economy and wider society:

- High-quality childcare between the ages of 0 to 5 years helps to close the attainment gap between low-income children and their more advantaged peers, reducing inequalities and creating benefits that last throughout a child's time in school and beyond.<sup>1</sup>
- It removes barriers to employment, particularly for women, who are still disproportionately responsible for unpaid care.
- It creates low-carbon jobs in a sector that exists in every town and city across the country.

Yet, the underfunded early childcare sector does not currently deliver to its full potential. The coronavirus pandemic threw into disarray a childcare sector which was already failing to meet the needs of parents, children and the economy as well as grappling with issues of low pay, insufficient training and high staff turnover.

The commitment in the 2021 Spending Review for a further £500m for early years services does not go far enough to meet the scale of the challenge in the sector.

This briefing summarises the key issues – from supply to access, quality and affordability – and analyses the impact of the coronavirus crisis on the short- and longer-term sustainability of the sector.

Please note that this briefing refers to childcare in England. As childcare policy is devolved, policy in

other nations may vary. In England, parents access childcare through four main routes, group settings (registered with Ofsted), childminders (Ofsted registered), nannies and informal or family care (often provided by grandparents).

### Key issues facing childcare provision and use

**Availability:** Only just over half of local authorities in England (56%) prior to the pandemic reported that they have enough childcare for the children of parents who work full-time, and less than a fifth (18%) have sufficient childcare for the children of parents who work atypical hours. Children with special educational needs or disability are particularly under-served, with only 19% of local authorities having enough childcare for them.<sup>2</sup>

**Affordability:** Childcare in the UK is expensive and prices continue to rise above inflation. In 2020, the price of childcare rose between 4-6% for different age groups, well above the 1.4% inflation rate.<sup>3</sup> The TUC found that for parents with a one-year-old child, the cost of their child's nursery provision has grown four times faster than their wages, and more than seven times faster in London (2008-2016).<sup>4</sup> High childcare costs mean that families where both parents are paid at the National Living Wage end up in deficit.<sup>5</sup> A nursery place for children under two costs between 45% and 60% of women's average salaries in England, and between a fifth and a quarter for three- and four-year-olds with the free hours entitlement.<sup>6</sup>

One third (33%) of parents using childcare say their childcare payments are bigger than their rent or mortgage. This rises to 47% of those with a Black ethnic background, 42% of those receiving Universal Credit, 40% of the under-30s, 38% of single parents, and 38% of those who work full time.<sup>7</sup>

<sup>1</sup> The OECD has identified a range of social benefits that can be derived from 'high quality early childhood education and care', including better health, reduced likelihood of individuals engaging in risky behaviour and strong 'civic and social engagement', with positive 'spill-over effects' for society as a whole. Full report: OECD (2011) Investing in High-quality Childhood Education and Care (ECEC) (<https://bit.ly/2ZmGmnb>)

<sup>2</sup> Family and Childcare Trust (2020) Childcare Survey 2020 (<https://bit.ly/2MASdrg>)

<sup>3</sup> Coram Family and Childcare (2020) Childcare Survey 2020 (<https://bit.ly/2MASdrg>) p. 17

<sup>4</sup> TUC (2017) Press release: Cost of childcare has risen four times faster than wages since 2008, says TUC (<http://bit.ly/2iolyr5>)

<sup>5</sup> Child Poverty Action Group (2019) The cost of a child in 2019 (<http://bit.ly/2WrdCal>)

<sup>6</sup> WBG (Jul 2020) Crisis of care for women in England as lock down lifts (<https://bit.ly/3iDWJ7p>)

<sup>7</sup> Mumsnet (2021) Mega survey of UK parents shows that childcare is failing families (<https://bit.ly/3vvAE1t>)

The combination of lack of availability and high childcare costs can block parents' access to employment, with more than half (52%) of non-working mothers in England preferring to be in paid work if they could arrange the right childcare.<sup>8</sup>

94% of parents who changed their working patterns after having children say childcare costs were a factor in that decision, and 73% said they had had difficulty finding appropriate childcare that met their needs (including 80% of single parents and 80% of those with a BAME background).<sup>9</sup>

New work by the Centre for Progressive Policy shows how this impacts families and the wider economy. They estimate that up to 1.7 million women are prevented from taking on more hours of work due to childcare issues, resulting in up to £28.2 bn economic output lost every year.<sup>10</sup>

**Unequal access for children:** Lack of access to high quality childcare can leave children behind before they have even started school and require expensive interventions in the future. Covid-19 has profoundly disrupted the contexts in which young children develop, learn and play. The partial closure and disruption to childcare, early years settings and reception classes, combined with home-learning, has had a detrimental impact on disadvantaged children, and particularly language development, which has widened existing gaps in educational and social development.<sup>11</sup> Research from the 'Childcare during Covid' project found that half of the settings reporting a decreased uptake of the 2-year-old free offer are in the most deprived areas.<sup>12</sup>

The gap between advantaged and disadvantaged children achieving a 'good level of development' as

measured by the *Early Years Foundation Stage Profile (EYFSP)* at the age of five stood at 17.8 percentage points in 2019.<sup>13</sup> Covid is expected to have extended these gaps.

**Low-paid workforce and high turnover:** Staff in the early years sector are low paid. In 2020 the Social Mobility Commission found that one in eight – 13% – of early years professionals are paid under £5 per hour, while the average wage is only £7.42 per hour.<sup>14</sup> This is well below the National Living Wage of £8.72 per hour and much less than the labour market average of £13.27.<sup>15</sup> Recent research for DfE found 70% of childminders have earnings at or below the national living wage.<sup>16</sup> As a consequence, the sector was losing qualified staff to retail with improving pay and fewer responsibilities, and has a higher-than-average staff turnover rate.<sup>17</sup>

High turnover and low levels of qualification can impact the quality of childcare provided. The number of nursery workers qualified to Level 3 has plummeted to low levels in recent years, from 83% of the workforce to 52% currently.<sup>18</sup>

Underlying these issues is the core problem of how the childcare sector is structured, owned and funded.

**The marketisation of the sector:** The UK spends less than 0.1% of GDP on childcare, the second lowest investment in the OECD.<sup>19</sup> England is exceptional within Europe in the extent that it has deliberately shaped the childcare market to promote the provision of services by for-profit companies. 84% of childcare is delivered by for-profit providers, as opposed to 3% in Germany or 4% in France.<sup>20</sup> The nursery sector in England is highly fragmented but

<sup>8</sup> Department for Education (2018) Childcare and Early Years Survey of Parents in England, 2018 (<http://bit.ly/331ebKm>) p. 15

<sup>9</sup> Mumsnet (2021) Mega survey of UK parents shows that childcare is failing families (<https://bit.ly/3vvAE1t>)

<sup>10</sup> Centre for Progressive Policy (2021) Women in the Labour Market (<https://bit.ly/3MbY8QW>)

<sup>11</sup> Nuffield (2021) The Changing Face of Early Childhood 2021 (<https://bit.ly/3ChI78Z>)

<sup>12</sup> Nuffield Foundation (2021) Childcare During Covid Briefing: Sustainability of early childhood education and care in England, 2021 (<https://bit.ly/3B4fwpj>)

<sup>13</sup> Nuffield (2021) The Changing Face of Early Childhood 2021: Changing patterns of poverty (<https://bit.ly/3ChI78Z>)

<sup>14</sup> Institute of Employment Rights (Aug 2020) Childcare workers paid under £5 per hour, Social Mobility Commission warns (<https://bit.ly/3d5yuyi>)

<sup>15</sup> ONS (2020) Annual Survey of Hours and Earnings Table 15 (Childcare and related personal services) (<https://bit.ly/3eRjWj6>)

<sup>16</sup> Frontier Economics (2019) Providers' finances: Evidence from the Survey of Childcare and Early Years Providers 2018 (<https://bit.ly/3gCCWn9>)

<sup>17</sup> Government Business (Jun 2020) Staff turnover for early years sector concerning (<https://bit.ly/35ZgEb3>)

<sup>18</sup> Ibid.

<sup>19</sup> CPP (2021) Women in the Labour Market (<https://bit.ly/3MbY8QW>)

<sup>20</sup> Barrett-Evans, Dominic and Birlean, Diana (2018) *Childcare UK Market Report; Fifteenth Edition*, London: Laing and Buisson

international supergroups are now emerging and getting larger as consolidation continues.<sup>21</sup>

A key structural trend is the steady, continuing corporatisation of the market over time, as many providers have sought to expand their nursery brands locally, regionally and in some cases internationally. Major changes have occurred in recent years. Consolidation within the private market has been rapid. The two largest companies – Busy Bees and Bright Horizons – now have 8% of the market share and provide over 60,500 places.<sup>22</sup> The childcare market in England was valued at £5.5 billion in 2017/18. Private sector (for-profit) nurseries generated an estimated income of £4.7 billion (85%). This is split between £3.3 billion generated by incorporated companies and £1.4 billion generated by sole traders/partnerships.<sup>23</sup>

The rapid privatisation of childcare in England has taken place without any meaningful discussion of the potential risks.<sup>24</sup> However, numerous studies of early years provision around the world have concluded that non-profit settings offer better quality care.<sup>25</sup> Childcare is a labour-intensive industry and therefore cost-cutting measures invariably centre on staffing costs, either employing fewer or cheaper staff. This, in turn, runs the risk of increasing turnover and lowering the quality of the care provided.

In 2016, the OECD highlighted that a market-based approach to childcare leaves public authorities with less control over fees and less control over when and where services are provided. It identified that market dynamics can result in for-profit providers drifting away from less profitable areas, so that very young children in poorer neighbourhoods are sometimes left without any provision at all.<sup>26</sup>

This is certainly the case in England, where childcare is of high cost but relatively poor quality, as noted by the OECD. High-quality childcare is often only available to wealthier families because access to high quality provision is constrained by income and location. The regulatory framework focuses on how childcare is provided but not on its quality; it does not have a responsibility to ensure equality of access for children and parents or ensure fair terms and conditions for childcare workers. As a result, the childcare system is characterised by inequalities of access, poor quality, financial instability and poor working conditions.<sup>27</sup> In September 2021, during the Westminster Hall debate on the call for an independent review into the cost and affordability of childcare in England, Steve Brine MP (Conservative Chair of APPG on Childcare and Early Education) spoke of 'market failure in this sector' and 'urgent need for reform'.

### Unregistered childcare

Nannies, a largely unregulated workforce that forms an integral part of the broader childcare sector, work in other people's homes and often also board with their employers. Many work 12+ hour days and provide flexible care not covered by nurseries and childminders, such as evenings and weekends.<sup>28</sup> Home childcarers, including au pairs and nannies, care for children wholly or mainly in the family home. Many work cash-in-hand. As a result, they don't show up in official data, meaning estimates of the size of this "grey economy" vary substantially: Ofsted estimated that there were 10,200 home childcare providers in March 2020,<sup>29</sup> the Children's Workforce Development Council estimated 36,000 in 2005,<sup>30</sup> while a 2006 study by the now-defunct Sharing Care put the number at over 110,000.<sup>31</sup> Because such work is relatively unregulated – home childcarers are not required to register with Ofsted, undergo background checks or

<sup>21</sup> Ibid.

<sup>22</sup> Penn, H. (2018) Quality of employment of childcare staff (unpublished)

<sup>23</sup> Barrett-Evans, D and Birlean, D (2018) *Childcare UK Market Report; Fifteenth Edition*, London: Laing and Buisson

<sup>24</sup> NEF (2020) Quality Childcare for All (<https://bit.ly/2TPDY5t>)

<sup>25</sup> See for example: Cleveland, G., & Krashinsky, M. (2009) The non-profit advantage: producing quality in thick and thin childcare markets, *Journal of Policy Analysis and Management*, 28(3), 440-462

<sup>26</sup> OECD (2016) Who Uses Childcare? Background brief on inequalities in the use of formal early childhood education and care (ECEC) among very young children (<https://bit.ly/2TSzJpP>)

<sup>27</sup> NEF (2020) Quality Childcare for All (<https://bit.ly/2TPDY5t>)

<sup>28</sup> Solidarity and Care (2020) Nanny Solidarity Now (<https://bit.ly/3iHPtYD>)

<sup>29</sup> Ofsted (Sep 2020) Main Findings: Childcare Providers and Inspections as at 31 March 2020 (<https://bit.ly/3rJDTID>)

<sup>30</sup> Nursery World (Nov 2009) Analysis: A Closer Look at Nanny Workforce (<https://bit.ly/3tRnGJV>)

<sup>31</sup> BBC News (Apr 2006) Higher salaries fuel 'nanny boom' (<https://bbc.in/3pe8kfg>)

have liability insurance – it has historically attracted undocumented migrant workers. The workers are particularly vulnerable to poor conditions, facing losing their home or deportation if they report their employer.<sup>32</sup>

### What childcare support is available?

Childcare support for parents is a mix of in-kind support and cash transfers.

**Universal Credit:** Families claiming UC where one or both parents are in paid work can claim up to 85% of the childcare costs for their first two children. This is paid in arrears through the single UC monthly payment, which means parents have to pay for childcare upfront.

Universal Credit may undermine low-income parents' ability to work. UC is tapered as earnings rise, which means reduced gains to employment or increased number of hours worked, since families will be faced with higher childcare costs not covered by UC. The disincentives are particularly strong for 'second earners' – mostly women – who also face employment disincentives due to a single work allowance for the couple before tapering of UC starts.<sup>33</sup>

**Tax-free childcare:** Cash transfers that act as a discount on the cost of childcare are available through the 'tax-free childcare' scheme. This entitles some families (both resident adults need to be in employment) to 20p of support for every 80p they spend on childcare. Despite the name, this is independent of the tax system and all parents who are not eligible for childcare support under Universal Credit can use it. Parents pay into an online childcare account, which is then topped by the government with 20p for every 80p deposited. This scheme replaces the similar but much less

widely-available employer-based childcare vouchers. In 2020 the Treasury released figures that showed in 2017-20 the Government forecast expenditure for tax free childcare was £2.1bn for the three years, but actual expenditure was £385m, leaving £1.715 bn in underspend.<sup>34</sup>

**Free-hours entitlement:** Parents can access in-kind support through the 'free entitlement' to early education. This is available for three- and four-year-olds and the most disadvantaged two-year-olds. All eligible families can access 15 hours per week for 38 weeks per year. Working families in which all adults are in employment are entitled to a further 15 hours per week since 2017.

While the extension of the free entitlement is a welcome move, and early evidence suggests a positive impact in working hours for parents,<sup>35</sup> there are significant concerns about equity. The stricter eligibility requirements for the additional 15 hours exclude around half of the poorest families that access the free 15 hours.<sup>36</sup> The regressive nature of this policy – with the poorest families excluded from additional hours is likely to widen the achievement gap.<sup>37</sup> Providing the free hours for only 38 weeks a year creates confusion and challenges for families, who are unlikely to have sufficient holiday available to only work 38 weeks of the year.

**Subsidised nurseries:** Another important form of in-kind support is directly provided services via local authorities, such as Sure Start Children's Centres and free or subsidised nursery schools. However, many centres have been closed in the last decade as funding has fallen sharply.<sup>38</sup>

<sup>32</sup> Hall, M. and Deutsch, V. (Oct 2020) Why scrapping hostile environment policies would benefit kids, parents, and childcare workers (<https://bit.ly/3rXYlan>)

<sup>33</sup> WBG (2018) Submission to the 'Childcare as Barrier to Work Enquiry' of the Work and Pensions Select Committee (<https://bit.ly/2PTpldK>)

<sup>34</sup> Nursery World (2020) Government reveals £1.7bn underspend on tax-free childcare (<https://bit.ly/35l7b1l>)

<sup>35</sup> Department for Education (2018) Research Report: Evaluation of the First Year of the National Rollout of 30 hours Free Childcare (<http://bit.ly/36egJa5>)

<sup>36</sup> The Guardian (12 Feb 2017) Parents on zero-hour contracts 'could miss out on free childcare' (<http://bit.ly/2lbdPhc>)

<sup>37</sup> Education Policy Institute (2016) Widening the Gap? The impact of the 30-hour entitlement on early years education and childcare (<http://bit.ly/2bkfttz>)

<sup>38</sup> The Sutton Trust (2018) Stop Start: Survival, decline or closure? Children's centres in England, 2018 (<http://bit.ly/34dMFKO>)

## Underfunding of childcare provision

There are issues with the low rate at which the free-hours entitlement policy is being funded.<sup>39</sup>

Under-funding is likely to undermine the sector's ability to provide care, and may also compromise the quality of care,<sup>40</sup> a concern echoed by the House of Commons Treasury Committee.<sup>41</sup>

Broader cuts to local government funding are also heavily impacting childcare provision (see below).

### **Early Years Funding Formula**

The Early Years National Funding Formula (EYNFF) is the mechanism through which central government allocates money to local authorities to pay providers for the 15- and 30-hours free entitlement for three- and four-year-olds. Most funds (90%) are distributed using a base rate rather than more responsive supplements, like statutory quality supplements to cover support of children with additional needs. This has a negative impact on local authorities' ability to drive up the quality of local childcare and results in underfunding for the free hours entitlements.<sup>42</sup>

The Autumn Budget in 2021 committed £170m by 2024/25 to bolster the Government's free hours entitlement. In addition, it has been reported since the Budget that the £170m will be matched by similar annual investments in 2022/23 and 2023/24, although this has not yet been confirmed.<sup>43</sup>

While this new funding is badly needed, it does not make up for the current shortfall. In 2019, the cost of providing education and care for under-twos was underfunded by 37%, and for three- and four-year-olds it was underfunded by 20%.<sup>44</sup> This amounted to a funding deficit of £662 million for the childcare sector in 2019/2020.<sup>45</sup> Underfunding has driven up

the cost of parent-paid hours, as providers try to cross-subsidise the funding shortfall of free hours from parent-paid fees.

Childcare providers have argued for many years that the hourly rate received for the 'free hours' does not reflect the true cost of providing care. Papers released in June 2021 show that the 2020-21 early years funding rates for three- and four-year-olds are less than two-thirds of what the government believed was needed to fully fund the scheme. Ministers were aware that insufficient investment would result in higher prices for parents of younger children and that early years settings would be forced to maximise child-adult ratios – therefore lowering quality – to stay afloat.<sup>46</sup>

### **Cuts to local government funding**

Broader funding trends are heavily impacting childcare. Local authorities have had large reductions in funding for early years. Spending fell by a third (33%) on children's centres, from £835 million in 2014/15 to £560 million in 2017/18.<sup>47</sup> The impact on Sure Start centres (and other and LA-provided services) has been, and will continue to be, severe across England. Over 1,000 children's centres closed between 2009 and 2017.<sup>48</sup>

The 2021 Autumn Budget made some additional investments in early years, including:

- £82m in a network of 75 family hubs
- £50m for parenting programmes
- £100m for communicating 'start for life' advice during pregnancy and early parenthood
- £50m for specialist breastfeeding support
- £100m for mental health support for new and expectant parents
- £200m to support the expansion of the supporting family's programme.

<sup>39</sup> IPPR (2015) Extending the Early Years Entitlement: Costings, concerns and alternatives (<http://bit.ly/1KTD10l>)

<sup>40</sup> House of Commons Committee of Public Accounts (2016) Entitlement to Free Early Years Education and Childcare, Fourth Report of Session 2016–17 (<http://bit.ly/2mCOKLN>)

<sup>41</sup> House of Commons Treasury Committee (2018) Childcare: Ninth Report of Session 2017–19 (<http://bit.ly/2oto98o>)

<sup>42</sup> Noden, P. and West, A. (2016) The Early Years Single Funding Formula: National policy and local implementation (<http://bit.ly/2mWoddv>)

<sup>43</sup> Nursery World (27 Oct 2021) Autumn Budget 2021: Early years sector gives cautious welcome to funding increase (<https://bit.ly/3EDmizr>)

<sup>44</sup> Ceeda (2019) Counting the Cost in Spring 2019 (<https://bit.ly/2DD13Dz>)

<sup>45</sup> Ibid.

<sup>46</sup> The Guardian (15 Jun 2021) Ministers 'knowingly underfunded' childcare sector in England (<https://bit.ly/3tlfiXS>)

<sup>47</sup> Action for Children (2019) Closed Doors: Children's centre usage between 2014/15 and 2017/18 (<https://bit.ly/3ikihZz>)

<sup>48</sup> The Sutton Trust (2018) Stop Start: Survival, decline or closure? Children's centres in England, 2018 (<http://bit.ly/34dMFKO>)

While these investments are welcome, they do not match the scale of the cuts imposed after 2010. Moreover, in general, the more deprived the local authority the greater the financial retrenchment, leaving those with the highest levels of need the most limited resources.<sup>49</sup>

### What has been the impact of Covid-19 on the childcare sector?

The childcare sector has played a key role during the coronavirus pandemic. Over the first national lockdown, between 33-38% of nurseries and 51-53% of childminders were open for vulnerable children and key workers' families.<sup>50</sup> During the national lockdown that started in January 2021, early childcare settings remained open while schools have been closed to all but key workers' and vulnerable children. The coronavirus pandemic (and the government's response to it) has dealt a significant blow to the childcare sector and its sustainability is under threat. In April 2020, during the first lockdown, a survey found one in four childcare providers expected to close in the following 12 months.<sup>51</sup>

**Closures of providers:** Ofsted data shows that in the six months up to March 2021, there were 14,385 fewer childcare places and 3,292 fewer providers in England. This represents a 4.4% net loss of childcare providers and 1.1% net loss of childcare places.<sup>52</sup> This decrease is being largely driven by childminders leaving the market.

**Low occupancy rates:** The sector faced minimal occupancy rates during the Spring 2020 lockdown, followed by variations and uncertainty. Occupancy rates across the autumn term varied with some reports suggesting higher numbers of children returned in wealthier areas. Low occupancy rates

result in larger financial deficits because providers rely on the fees parents pay to offset the losses made from delivering the government free hours. During 2020, 69% of settings anticipated running at a loss for the remainder of the year – a situation that is unsustainable for a sector that has faced funding challenges for many years.<sup>53</sup>

Research by the Coram Family and Childcare Charity found that 58% of local authorities expect some childcare providers in their area to shut permanently when funding at pre-pandemic levels ends in January 2021.<sup>54</sup> Already in October 2020, 12% of young mothers surveyed by the Young Women's Trust said their nursery had closed down permanently.<sup>55</sup> It is likely that deprived areas will be most affected, as prospect for future private sector investment is low in these areas and Sure Start centres become increasingly rare.

Covid has limited the ability of providers to cross-subsidise the underfunded free hours entitlement hours, exposing the fragility of provider financing models. 41% of nurseries have gone into deficit, 26% have taken on debt and 58% have used reserves to compensate for losses.<sup>56</sup> Alongside the threat of closure it is likely that settings will reduce the number of places they offer in order to reduce costs, making childcare less accessible to families and reducing parents' ability to take up employment or training.

### What the Government should do

Childcare providers are currently facing substantial financial challenges due to lower occupancy and continued underfunding. Funding childcare places through a 'demand-led' mechanism means that children who will most benefit from early years opportunities won't be able to access them because their parents can't afford it. The Government's

<sup>49</sup> Ceeda (2019) Independent Research About and For the Early Years Sector: Annual Report 2019 (<https://bit.ly/3gD9eOF>)

<sup>50</sup> Ceeda (2020) Sustainability of the Early Education and Childcare Sector During the Coronavirus Pandemic and Beyond (<https://bit.ly/3kxfBpo>)

<sup>51</sup> The Guardian (24 Apr 2020) UK childcare industry 'crushed' by coronavirus crisis (<https://bit.ly/2MqgN7I>)

<sup>52</sup> WBG (2021) Access to Childcare in Great Britain (<https://bit.ly/3HqTefz>)

<sup>53</sup> Early Years Alliance (2020) Parents set to face childcare 'chaos' as new data shows huge scale of financial losses facing early years sector (<https://bit.ly/2JzFCX1>)

<sup>54</sup> Coram Family and Childcare (Dec 2020) Over half of local authorities in England anticipate permanent closure of childcare providers after Covid funding ends (<https://bit.ly/2NkoFlg>)

<sup>55</sup> Young Women's Trust (Nov 2020) Picking up the Pieces: Young Women's Experiences of 2020 (<https://bit.ly/35Msmqs>)

<sup>56</sup> Nuffield Foundation (2021) Childcare During Covid Briefing: Sustainability of early childhood education and care in England, 2021 (<https://bit.ly/3B4fvwp>)

Covid recovery catch-up plans for education would see early years as a key area of investment, ensuring that places are a right of every child, particularly those from areas of deprivation where quality provision is most needed for 'levelling up'. As a matter of urgency, the Government must revise the 'free hours' funding so it reflects the true cost of provision of these hours. This public investment should include conditions for childcare providers, including a real living wage salary for childcare workers and the provision of enough places for two-year-olds eligible for the 'free' 15 hours and children with SEND.

**Direct funding to providers:** Instead of trickling money into the demand side (parents), the state should direct funding into the supply side, investing in providers who meet established standards of excellence and equality. This approach enables local and national government to play a stronger role in driving up standards and ensuring equitable provision. It also makes it possible to introduce fee caps.

**Target disadvantage:** This could be done partly by reviewing the components of the EYNFF. The government should work to reduce inequality in the childcare system by increasing the pupil premium, so that it effectively targets disadvantage.<sup>57</sup> This way local authorities would be able to support providers to cover the real cost of providing high-quality childcare in their area, including children with additional needs.

**Fill the gaps:** Marketised provision can leave poorer neighbourhoods underserved. The government should map gaps in provision and work to fill those gaps. This would include getting a better understanding of how funding falls are affecting provision, including Sure Start, and increase the provision to children that are most in need.

**Quality:** Childcare quality is intricately linked to the working conditions in the sector. A national workforce strategy is needed as part of a wider

independent review of the early years sector. Childcare professionals should see national pay scales established and minimum pay set at the Real Living Wage. Training should be provided to improve qualifications and career progression. While the 2021 Autumn Budget announced an additional £150m for training of early years staff, this needs to be part of a wider strategy, that includes funding to pay for additional staff cover while other staff are being trained, and to cover enhanced pay to reflect additional qualifications. Moreover, training and development opportunities should be a condition of receiving public funding.

### The case for universal free childcare

99% of all parents agree that childcare should be recognised as a vital part of our economic and social infrastructure, and invested in accordingly.<sup>58</sup>

High-quality childcare supports children's cognitive and social development. It is particularly effective in improving the life chances of the most disadvantaged children.<sup>59</sup> It is therefore crucial that children – particularly those from disadvantaged families – are able to access high-quality childcare. Yet at present access to high-quality education and care is severely constrained by income, with the result that those children who would benefit the most from such care not being able to access it. Moreover, recent policy changes exacerbate these inequalities.

The positive impact of childcare means that government investment in high-quality care makes good fiscal sense. The expected return on investing in interventions in the early years is estimated at 6-10% per year.<sup>60</sup> Ensuring access to affordable and flexible childcare would enable parents, especially mothers, to increase their earnings by between £7.6bn and £10.9 bn every year, generating up to £28.2 bn in additional economic output per year.

In the long term, the WBG advocates a universal, free childcare system with well-paid and highly

<sup>57</sup> As recommended by the Social Mobility Commission (2017) Time For Change: An Assessment of Government Policies on Social Mobility 1997-2017 (<http://bit.ly/2shbXs1>)

<sup>58</sup> Mumsnet (2021) Mega survey of UK parents shows that childcare is failing families (<https://bit.ly/3vvAE1t>)

<sup>59</sup> IFS (2014) The Economic Effects of Pre-school Education and Quality (<http://bit.ly/2ngboeF>)

<sup>60</sup> See various studies by J. Heckman and team (<http://bit.ly/2qgyiEk>)

qualified staff. Modelling of the employment and fiscal impacts of such system shows that while the upfront investment is significant, almost all of it is recouped through higher tax revenue and reduced spending on means-tested benefits.<sup>61</sup>

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WBG is an independent, voluntary organisation made up of individuals from Academia, NGOs and trade unions. See [www.wbg.org.uk](http://www.wbg.org.uk)

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<sup>61</sup> See WBG briefing on calculating the costs of universal childcare (<https://bit.ly/36S87ed>)