



# KEY CHALLENGES FOR EARLY EDUCATION AND CHILDCARE IN THE UK

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**This briefing highlights the challenges in the early education and childcare sector, emphasising the high costs and limited access for families, especially those with children under 3 years old. The underfunding of the sector has led to sustainability issues, affecting children, staff, families, and the economy. The briefing proposes a rescue and reform approach to increase funding and create a universal, high-quality childcare system. Such investment would bring positive employment and fiscal outcomes, benefitting both families and the economy.**

## Unaffordability

Childcare is extremely costly in the UK, with prohibitive prices for many families. Since there is currently no free provision of childcare for children under 3-years-old in England (with some exceptions for disadvantaged 2-year-olds), costs for younger ages are particularly high. Childcare costs can absorb around 50% of women’s median earnings.

**Table 1: Average childcare costs and median earnings for women, 2022**

Childcare costs in Great Britain for children in nursery (per year)	Cost (per year)	Women’s median earnings per year	% of women’s earnings absorbed by childcare
< 2-year-olds (part-time)	£7,212.40	£11,400	58%
< 2-year-olds (full-time)	£14,032.72	£28,332	47%
2-year-olds (part-time)	£6,951.88	£11,400	56%
2-year-olds (full-time)	£13,632.32	£28,332	46%
3-4-year-olds (part-time)	£2,813.20	£11,310	23%
3-4-year-olds (full-time)	£5,499.52	£28,314	18%

Source: Coram Survey 2022. Part-time: 25 hours per week. Full-time: 50 hours per week. Women’s median earnings per year: Table 8.7a ASHE 2022, provisional edition.

Compared with other OECD economies, families need to allocate a higher proportion of their income to childcare costs. Considering a single parent earning the average wage with two children, aged 2 and 3 years old, net childcare costs would absorb 15% of their wage after accounting for benefits to reduce gross childcare costs. This is the second highest for European OECD countries, after Czech Republic. For Ireland it is 10%, 6% in France and 1% in Germany.<sup>1</sup>

**The UK invests very little in our EEC system compared to its peers: 0.5% of GDP, below the OECD average of 0.8%.<sup>2</sup> Investment is particularly low for younger ages (under twos), at less than 0.1% of GDP (against OECD average of 0.3%).**

1 OECD.Stat (2023) [Net childcare costs for parents using childcare facilities. Figures for 2022.](#)  
 2 OECD (Feb 2023) [Public spending on childhood education and care.](#) Chart PF3.1.A

## Unavailability

In 2023, according to Coram’s annual survey,<sup>3</sup> only 48% of local authorities in England stated that they had enough childcare available for children of parents who work full-time. This marks a decline from 2022, when 59% of local authorities had sufficient spaces for children of full-time working parents<sup>4</sup> (68% in 2021<sup>5</sup>). Less than one-fifth (15%) reported in 2023 adequate childcare for those with atypical work schedules. The situation is also worrying for disabled children, with only 18% of local authorities having available childcare for them in all areas.

The number of providers and Early Years Register (EYR) places has decreased in the last two years, another result of the crisis in the sector (see Table 2). The fall in providers is driven by a decrease in childminders and home childcarers. These providers are generally more flexible and affordable, meaning a fall in that area will disproportionately impact parents needing arrangements out of typical hours.

**Table 2: Number of providers and places, 2021 and 2022**

	2021	2022
<b>All providers</b>	<b>70,980</b>	<b>65,573</b>
Childminder	33,683	29,625
Childcare on non-domestic premises	27,378	27,062
Childcare on domestic premises	234	225
Home childcarer	9,685	8,661
<b>EYR places</b>	<b>1,302,300</b>	<b>1,281,027</b>

Numbers for England. Source: Childcare providers and inspections 2021 and 2022

## Unsustainable sector

The Government has underfunded the early years education and childcare sector for years, creating a sustainability crisis with negative consequences for children, staff, families and the economy.

Lack of access to high-quality early education and childcare deepens inequalities between children from different socioeconomic backgrounds. Nearly 40% of the total attainment gap between sixteen-year-olds from the most deprived fifth of families and the least deprived fifth of families is already present at age five.<sup>6</sup>

3 Coram Family and Childcare (2023) [Childcare survey 2023](#)

4 Coram Family and Childcare (2022) [Childcare Survey 2022](#)

5 Coram Family and Childcare (2021) [Childcare Survey 2021](#)

6 Education Policy Institute (2016) [Divergent Pathways: the disadvantage gap, accountability and the pupil premium](#)

## Underfunding

The DfE estimated that by 2020/21, a government-funded early years place for 3- and 4-year-olds would cost an average of £7.49 per hour.<sup>7</sup> However, in the same period, local authorities paid an average of £4.89 per hour for funded hours, resulting in a significant shortfall of £2.60 per child per hour, or £2,964 per year.

In July 2023, the Government announced that funding rates for three and four-year-olds will increase from £5.29 to £5.62 per hour on average starting from September 2023. For two-year-olds, the average rate will rise from an average of £6.00 to £7.95 per hour.

Whilst the additional funding is very welcome, it falls short of what WBG estimated to be necessary to cover the true cost of provision in 2023/24: £8.54 for three- and four-year-olds and £9.58 for two-year-olds.<sup>8</sup>

## Retention and recruitment crisis

The lack of adequate funding means that salaries in the sector are low. Approximately 1 in 4 early years employees, aged 25 and above, working in group-based providers, receive wages at or below the National Living Wage.<sup>9</sup> In 2020, 1 in 8 workers was earning just £5/hour.<sup>10</sup>

The turnover rate in the sector is high, particularly in private group-based providers.

**Table 3: Mean turnover by type of provider, 2022**

Type of provider	Turnover rate (mean)
School-based provider offering nursery	9%
Maintained nursery school	10%
All school-based providers	9%
Private group-based	20%
Voluntary group-based	11%
All group-based	18%

Numbers for England. Survey of Childcare and Early Years Providers 2022

## Impact on women's careers and the wider economy

The unavailability of early education and childcare services, along with their high costs, can hinder parents' ability to secure employment. In England, half (53%) of non-working mothers with children 0 – 5 years old would prefer to be employed if they could arrange suitable childcare.<sup>11</sup>

7 Department for Education (2015) [Early Years Spending Review Scenarios: Note to Ministers 27th October 2015](#)

8 WBG (Mar 2023) [The Chancellor must invest £1.82bn in childcare to help families with the cost-of-living crisis](#)

9 Department for Education (2022) [The early years workforce: recruitment, retention, and business planning](#)

10 Social Mobility Commission (2020) [The stability of the early years workforce in England](#)

11 UK Government (2022) [Childcare and early years survey of parents 2021](#)

A recent survey by the Centre for Progressive Policy<sup>12</sup> shows that the lack of suitable childcare prevented 46% of mothers from increasing their working hours. An equivalent of 1.5 million mothers is willing to work more hours if there was access to suitable childcare. These additional hours would result in £9.4bn of additional earnings per year, generating an increase of 1% to the UK's GDP (between £27bn and £38bn per year).

## **Spring Budget 2023 – the early education and childcare expansion announcement**

The Government has allocated an additional £240 million for 2023/24 to increase funding for the current funded hours. But this falls far short of the £1.8bn we had estimated was necessary to compensate for the shortfall providers are experiencing.<sup>13</sup>

Younger children (9 months – 2 years old) of working parents will be entitled to 30 funded hours per week during term time in a phased rollout from April 2024 to September 2025. However, the £4.2bn allocated by the Government in 2025/26 falls short of the true cost of providing that childcare and early years education.

The Women's Budget Group estimates for funding to cover the true cost of provision of all funded hours in 2025/26 an additional £5.2bn would need to be allocated (£9.4bn in total).

In addition to proper funding of the costs of provision, a workforce strategy is needed. If we are to create new early education and childcare places for younger children, we need an estimated 38,116 more workers (considering the new optional ratios at 1:5 for 2-year-olds).

More details [here](#).

## **WBG's approach and long-term vision:**

### **Investing in universal free and high-quality early education and childcare**

We must work towards a bold vision of early education and care that recognises the essential nature of this service for children's life chances, mothers' financial autonomy, and the consequent returns to the wider economy.

We propose a rescue and reform approach. In the short term, policies should focus on addressing the crisis in the sector by increasing funding and creating a workforce strategy. Our early education and childcare sector is in a very fragile state. Any additional pressures (e.g. expanding the demand and continued underfunding) could lead it to collapse, as providers close and workers continue to leave the sector. A rescue plan is needed to ensure a minimum level of sustainability and security in terms of resources.

In the long term, we propose moving to a model of universal and high-quality childcare, free at the point of use for every child, recognizing the importance of early education and childcare for children, parents and the wider economy.

12 Centre for Progressive Policy (2023) [Growing pains. The economic costs of a failing childcare system](#)

13 WBG (2023) The Chancellor must invest £1.82bn in childcare to help families with the cost-of-living crisis

## Employment and fiscal impacts

The paper by Jérôme de Henau “Simulating employment and fiscal effects of public investment in high-quality universal childcare in the UK”<sup>14</sup> estimates the annual public expenditure for a system of highly qualified and well-paid childcare staff with low child-to-staff ratios, with universal coverage for all pre-school children aged 6 months to 4.5 years.

Figures for costings and taxation relate to the fiscal year 2018-19 (latest full fiscal year pre-Covid).

Under different scenarios for take-up rates and payment levels for the workforce in the sector, **a net annual funding requirement is estimated to be 0.3%-0.8% of GDP**. This would cover **28-39% of the costs**, with the rest covered by the policy itself. This investment would increase employment (directly and indirectly) and tax revenues for the government, and reduce social security spending, which would pay for the rest of the investment (see Figure A1 in the Appendix).

To cover the funding requirement, there are two proposals:

1. Raising taxation: additional net contribution of 0.4% of their income for the richest 20% in the population.
2. Recouping the cost over 21-31 years from persistent mothers' increased earnings.

**Summary of scenario 2:** moderate take-up rate with pay levels as for primary school teachers.

- Average take-up rate: 71%
- 2.3 million children
- Facilities covered: 42,400
- Pay levels: same as for primary school teachers (from £15 per hour for staff on level 3 of qualifications to £19.81 for staff on level 6)
- Average pay (% of median hourly wage): 134%
- Gross annual cost (£m, 2018 prices): 40,222
- Gross annual cost (% of GDP): 1.9%
- Net funding gap (£m, 2018 prices): 15,745
- Net funding gap (% of GDP): 0.7%
- % of self-funding: 61%
- Number of jobs created (FTE): 942,000 places (80% for women)
- The gender gap in employment rates would be reduced by 2.7 percentage points (from 9 percentage points in 2018)

14 Jérôme de Henau (2022). [Simulating employment and fiscal effects of public investment in high-quality universal childcare in the UK](#). *International Journal of Child Care and Education Policy*, 16(1), article no. 3

## Useful documents

**Early Childhood Education and Care (ECEC) policies** (J De Henau for WBG)

*A summary of the childcare system in the UK and policy recommendations*

**Pre-budget briefing 2023: Gender and Early Education and Childcare**

*An overview of the current system, including support available, problems and recommendations.*

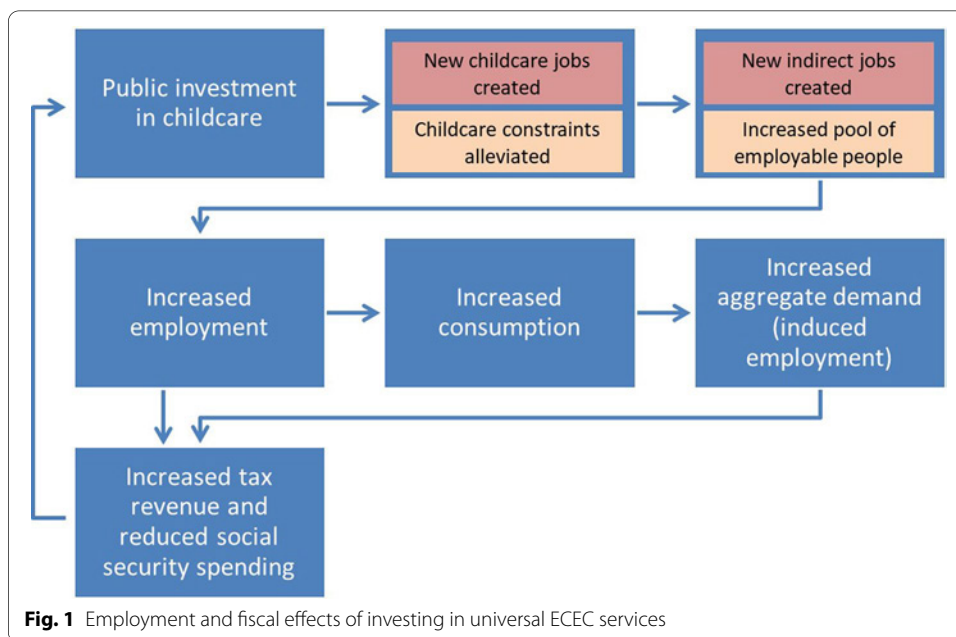
**WBG's response to childcare measures – Spring Budget 2023**

*Briefing with WBG's response to childcare measures, including the analysis of the funding shortfall.*

## Appendix

Tables and Figures from "Simulating employment and fiscal effects of public investment in high-quality universal childcare in the UK" <sup>5</sup>

**Figure A1: employment and fiscal effects of investing in universal ECEC services (p. 6)**



## Tables with details by scenario

Table A.1: Gross annual investment of universal childcare for different scenarios (Table 3 from De Henau (2022) , p.12)

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
<i>Parameters</i>				
Take-up rates				
6 month- and 1 year-olds	50%	50%	67%	67%
2 year-olds	75%	75%	90%	90%
3 and 4 year-olds	90%	90%	100%	100%
Pay levels	Current	Teacher	Current	Teacher
Average pay (% of median hourly wage)	83%	134%	83%	134%
<i>Costing (£m)</i>				
Gross annual cost	26,574	40,222	32,555	49,375
(in % of GDP)	1.2%	1.9%	1.5%	2.3%

Source: author's calculations. 'Teacher' pay levels signifies the pay scale of primary school teachers of equivalent qualification. 'Current' pay levels reflect wage rates in current commercial facilities for equivalent qualification

Table A.2: Employment created in the childcare industry and more widely by pay scenario (Table 4 from De Henau (2022), p.16)

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
<i>Parameters</i>				
Average take-up rate	71%	71%	85%	85%
Pay level	Current	Teacher	Current	Teacher
<i>Employment creation</i>				
ECEC services	603,000	603,000	807,000	807,000
% Women	98%	98%	98%	98%
Other sectors	258,000	340,000	341,000	441,000
% Women	48%	48%	48%	48%
Total	860,000	942,000	1,147,000	1,248,000
% Women	83%	80%	83%	80%
<i>% Point change in employment rates (FTE)</i>				
All	2.1	2.3	2.8	3.0
All men	0.7	0.9	0.9	1.2
All women	3.4	3.6	4.6	4.8
Gender gap (men–women)	– 2.7	– 2.7	– 3.6	– 3.6
Mothers of 1–4 year-olds	22.9	23.5	29.9	31.0

Source: author's calculations; job creation figures are of employees in full-time equivalent (FTE)



Table A.3: Fiscal effects of different scenarios of universal childcare provision (2018) (Table 5 from De Henau (2022), p.18)

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
<i>Parameters</i>				
Average take-up rate	71%	71%	85%	85%
Pay level	Current	Teacher	Current	Teacher
<i>Costing (£ million)</i>				
Gross annual cost	26,574	40,222	32,555	49,375
(in % of GDP)	1.2%	1.9%	1.5%	2.3%
Direct tax revenue	7911	10,506	9819	13,916
Indirect tax revenue	2677	3518	3518	4998
Other tax revenue	651	1770	797	2172
Lower spending on cash benefits	3536	4222	4646	5899
Current ECEC subsidies	4461	4461	4461	4461
Net funding gap	7339	15,745	9314	17,929
(in % of GDP)	0.3%	0.7%	0.4%	0.8%
% self-funding	72%	61%	71%	64%

Source: own calculations using UKMOD microsimulation tool, ONS (2020) and OECD (2020). 'Teacher' pay levels signifies the pay scale of primary school teachers of equivalent qualification. 'Current' pay levels reflect wage rates in current commercial facilities for equivalent qualification. Current ECEC subsidies include free childcare entitlement for eligible 2-to-4 year-olds and tax relief on childcare expenses but excludes spending on tax credits as part of the means-tested benefits since these are simulated in UKMOD (part of 'lower spending on cash benefits')

Table A.4: Average number of years needed per mother to offset childcare costs (Table 6 from De Henau (2022), p.20)

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
<i>Parameters</i>				
Average take-up rate	71%	71%	85%	85%
Pay level	Current	Teacher	Current	Teacher
<i>Results</i>				
Low-educated	85.6	66.1	45.3	37.7
Mid-educated	82.0	59.5	45.5	39.0
High-educated	17.1	22.5	14.6	18.7
All mothers	26.3	30.9	20.9	23.8

Source: own calculations using FRS data and UKMOD. Low-educated mothers correspond to those having attained at most lower secondary education; mid-educated mothers are those having attained upper secondary or post-secondary education; high-educated mothers are those with a degree

