WOMEN'S BUDGET GROUP

UK Women's Budget Group
June 2024

Early education and childcare

Briefing for a new government

Early education and childcare

A briefing from the UK Women's Budget Group – 2024

Summary

Early education and childcare is vital social infrastructure. It is one of the essential services necessary for our society and our economy to function, delivering benefits for children, families and the wider economy.

The early education and childcare system in England is not working for children, parents, workers or the wider economy. The absence of flexible, affordable and quality early education and childcare is a huge barrier to positive child outcomes, tackling inequality and increasing women's employment.

- Lack of access to high quality EEC can leave disadvantaged children behind before they have even started school and require expensive interventions in the future. Around two-fifths 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.

- The current system of funded hours is shutting out children from the poorest families. Just 20% of the poorest third of families are eligible for the existing 30-hour offer for three- and four-year-olds.

- Just 6% of local authorities have enough provision for children with Special Educational Needs and Disabilities.

- The cost and unavailability of childcare is putting household budgets under strain: the average weekly cost for a full-time nursery place for a two-year-old in England £290.77 in 2024. 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.

- Nurseries face severe retention and recruitment challenges among staff, while childminders are leaving the profession at an alarming rate. 57% of nursery staff and 38% of childminders are considering leaving the sector in the next 12 months.

Recommendations

Along with other members of the Early Education and Childcare Coalition we recommend a strategy of rescue and reform for the Early Education and Childcare sector:

Rescue

An urgent set of measures will be required to stabilise the sector. We are calling for an independent National Early Education and Childcare Commission to assess, design and implement recommendations on the broad range of interconnected issues that are undermining the current system. To ensure lasting reform, this body must work cross-party and in the interests of the greater good.

Reform

We need a New Deal on early education and childcare. This will require working in partnership with providers, the workforce, unions, families and across national and local government to produce evidence-led recommendations for long-term reform, including a review a of the suitability of the current funding model, regulation and investment targets, putting early education as well as childcare in the centre.

In the longer-term, the Women's Budget Group is calling for a universal and free system, delivered as a public infrastructure service on equal footing with school education. Modelling by the Women's Budget Group of the employment and fiscal impacts of such a system shows that while the upfront investment is significant, almost all of it is recouped through higher tax revenue due to the returns on increased maternal employment and reduced spending on means-tested benefits[1].

[1] J. De Henau (2022) Simulating employment and fiscal effects of public investment in high-quality universal childcare in the UK.

Introduction

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[2].
- 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 education and childcare (EEC) sector does not currently deliver to its full potential. The coronavirus pandemic threw into disarray a EEC sector which was already under severe strain, grappling with issues of underfunding low pay, insufficient training and high staff turnover.

This briefing summarises the key issues – from supply to access, quality and affordability – and considers what action is required in the short-, medium- and long-term to build a sustainable EEC sector that delivers to its full potential.

Please note that this briefing refers to early education and 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 EEC provision and use

Availability

Only 34% of local authorities in England in 2024 reported that they have enough childcare for the children of parents who work full-time, and only 9% have sufficient childcare for the children of parents who work atypical hours. This is a reduction compared to 2023, when 48% of local authorities said they had sufficient places for children of parents working full-time. Disabled children are particularly under-served, with only 6% of local authorities having enough childcare for them, down from 18% in 2023[3].

There is also some suggestion that there has been a 'disproportionate loss of places in the most deprived parts of the country.'[4] In England, 44% of children between the ages of 0 and 5, more than 1.5 million, live in a "childcare desert", with more than three children for every available place. Childcare deserts are more likely to be in the most deprived areas[5].

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[2] 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)

[3] Coram Family and Childcare Trust (2024) Childcare Survey 2024

[4] Gaunt, C. (2022) 'Fall of more than 4,000 childcare providers in a year,' Nursery World (https://bit.ly/414Abml)

[5] NEF (2023) A fair start for all.

Affordability

EEC in the UK is expensive, and prices continue to both rise above inflation and outstrip wage growth. The average price for 50 hours a week childcare in nurseries in England for children two years old it is £290.77. For children under two is £305.11[6], 49% of the median salary for women working full-time[7].

The combination of lack of availability and high early education and 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[8].

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 from black and ethnic minority background)[9].

A report 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[10].

Unequal access for children

Lack of access to high quality early education and childcare can leave children behind before they have even started school and require expensive interventions in the future. Around two-fifths 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[11]. Children from poorer backgrounds are a third less likely to take up free places in pre-school education[12].

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 19.9 percentage points in 2022/23[13]. Research by the Sutton Trust found that over half (54%) of primary school leaders surveyed said fewer pupils were 'school ready' when they started reception in 2021 than they would usually expect[14]. At schools with the most deprived intakes this was 67%.

The current system of funded hours is shutting out children from the poorest families. Just 20% of the poorest third of families are eligible for the existing 30-hour offer for three- and four-year-olds[15].

Low-paid workforce and high turnover

Staff in the early years sector are low paid. The Childcare and early years provider survey 2023 shows that 11% of early years staff, aged 23 and over, in group-based providers are earning below the National Living Wage[16].

[6] Coram Family and Childcare Trust (2024) Childcare Survey 2024
[7] ONS (2023) Earnings and hours worked, place of residence by local authority: ASHE Table 8
[8] Department for Education (2018) Childcare and Early Years Survey of Parents in England, 2018 (http://bit.ly/331ebKm) p. 15
[9] Mumsnet (2021) Mega survey of UK parents shows that childcare is failing families (https://bit.ly/3vvAE1t)
[10] Centre for Progressive Policy (2021) Women in the Labour Market (https://bit.ly/3MbY8QW)
[11] Hutchinson, J. and Dunford, J. (2016) Divergent pathways: the disadvantage gap, accountability and the pupil premium. Education policy institute
[12] Lloyd, E. (2018) Submission of Written Evidence to the Treasury Committee's Childcare Enquiry (https://bit.ly/3XIICRd)
[13] Sutton Trust (2024) Inequality in early years education.
[14] Sutton Trust (2021) A Fair Start? (https://bit.ly/3YLMgen)
[15] Sutton Trust (2024) Inequality in early years education.
[16] Department for Education (2023) Childcare and early years provider survey. Table 6.2

The sector is losing qualified staff, with 68% of those who left moving to a school, outside the childcare sector, to retirement or other. Three-quarters of staff leaving an employer within a year had reached Level 3 or higher[17].

A recent report by the Early Education and Childcare Coalition shows that 17% of nursery respondents are intending to leave the early years sector and 40% may leave. 38% of childminders said that they were planning or maybe planning to leave the sector. Pay and job security are among the reasons for job dissatisfaction mentioned by childminders and staff working in group settings[18].

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

The marketisation of the sector

The UK spends less than 0.1% of GDP on early education and childcare, the second lowest investment in the OECD[19]. England is exceptional within Europe in the extent that it has deliberately shaped the EEC market to promote the provision of services by for-profit companies. 84% of early education and childcare is delivered by for-profit providers, as opposed to 3% in Germany or 4% in France[20]. The nursery sector in England is highly fragmented but international supergroups are now emerging and getting larger as consolidation continues[21].

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[22]. The early education and 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[23].

The rapid privatisation of childcare in England has taken place without any meaningful discussion of the potential risks[24]. However, numerous studies of early years provision around the world have concluded that non-profit settings offer better quality care[25]. Early education and 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 education and care provided.

In 2016, the OECD highlighted that a market-based approach to EEC leaves public authorities with less control over fees and less control over when and where services are provided. It identified

[17] Department for Education (2023) Childcare and early years provider survey.
[18] Early years and childcare coalition (2023) Retention and return: Delivering the expansion of early years entitlement in England.
[19] CPP (2021) Women in the Labour Market (https://bit.ly/3MbY8QW)
[20] Barrett-Evans, Dominic and Birlean, Diana (2018) *Childcare UK Market Report; Fifteenth Edition*, London: Laing and Buisson
[21] Barrett-Evans, Dominic and Birlean, Diana (2018) *Childcare UK Market Report; Fifteenth Edition*, London: Laing and Buisson
[22] Penn, H. (2018) Quality of employment of childcare staff (unpublished)
[23] Barrett-Evans, D and Birlean, D (2018) *Childcare UK Market Report; Fifteenth Edition*, London: Laing and Buisson
[24] NEF (2020) Quality Childcare for All (https://bit.ly/2TPDY5t)
[25] 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

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[26].

This is certainly the case in England. High-quality early education and 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 EEC workers. As a result, the EEC system is characterised by inequalities of access, poor quality, financial instability and poor working conditions[27].

Unregistered childcare

Nannies, a largely unregulated workforce that forms an integral part of the broader early education and 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[28]. 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[29], the Children's Workforce Development Council estimated **36,000** in 2005[30], while a 2006 study by the now-defunct Sharing Care put the number at over 110,000[31]. Because such work is relatively unregulated – home childcarers are not required to register with Ofsted, undergo background checks or 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[32].

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, up to a cap. Recent Government data shows relatively low take up of this support: in households where the youngest child is aged 2 only 37% of earning single-parent households receive the childcare element, and for dual-earning couples this was only 32%[33].

Furthermore, Universal Credit may undermine low-income parents' ability to work. UC is tapered as earnings rise, which means reduced gains to

[26] 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)
[27] NEF (2020) Quality Childcare for All (https://bit.ly/2TPDY5t)
[28] Solidarity and Care (2020) Nanny Solidarity Now (https://bit.ly/3jHPtYD)
[29] Ofsted (Sep 2020) Main Findings: Childcare Providers and Inspections as at 31 March 2020 (https://bit.ly/3rJDTiD)
[30] Nursery World (Nov 2009) Analysis: A Closer Look at Nanny Workforce (https://bit.ly/3tRnGJV)
[31] BBC News (Apr 2006) Higher salaries fuel 'nanny boom' (https://bbc.in/3pe8kfg)
[32] Hall, M. and Deutsch, V. (Oct 2020) Why scrapping hostile environment policies would benefit kids, parents, and childcare workers (https://bit.ly/3rXYlan)
[33] DWP (2022) Universal credit claimants eligible for and receiving the childcare element between March 2021 and February 2022 (https://bit.ly/3SilWq2)

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[34].

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 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[35].

Free-hours entitlement

Parents can access in-kind support through the 'free entitlement' to early education. All eligible families can access 15 hours per week for 38 weeks per year for three- and four-year-olds children, with 15 additional hours per week for working families. Disadvantaged two-year-olds can access 15 hours per week for 38 weeks per year.

In March 2023, the Government announced the expansion of the free-hours entitlement for working families with children between the ages of 9 months and two years, offering 30 hours of free hours for 38 weeks per year. The expansion is being implemented in stages, with a full roll-out planned for September 2025.

While the extension of the free entitlement is a welcome move, there are serious concerns about the lack of adequate funding (see next section) and the additional workforce required to deliver the expansion[36].

There are also significant concerns about equity. The new free-hours entitlement is restricted to parents working 16 hours a week or more earning at least the National Living Wage. Parents seeking employment, in education or training, or with caring responsibilities which don't allow them to work more than 16 hours are excluded[37]. Moreover, the expansion is expected to benefit better-off families more than low-income families[38].

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[39].

[34] WBG (2018) Submission to the 'Childcare as Barrier to Work Enquiry' of the Work and Pensions Select Committee (https://bit.ly/2PTpldK)
[35] Nursery World (2020) Government reveals £1.7bn underspend on tax-free childcare (https://bit.ly/35l7b1l)
[36] Early years and childcare coalition (2023) Retention and return: Delivering the expansion of early years entitlement in England.
[37] WBG (2023) Women's Budget Group response to the Spring Budget 2023
[38] Sutton Trust (2024). General Election Policy Briefing. Inequality in early years education.
[39] The Sutton Trust (2018) Stop Start: Survival, decline or closure? Children's centres in England, 2018 (http://bit.ly/34dMFK0)

Underfunding of childcare provision

For many years there has been concern about the low rate at which the free-hours entitlement policy is being funded[40]. Under-funding is likely to undermine the sector's ability to provide care, and may also compromise the quality of care[41], a concern echoed by the House of Commons Treasury Committee[42].

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. 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[43].

To fund the expansion of the entitlement announced in March 2023, the Chancellor allocated £4.2bn for 2025/26, when the expansion is complete. This amount is not sufficient to cover the actual costs of provision and does not address the funding gap for 3 and 4-year-old children that providers have had to bear for many years.

Department for Education (DfE) files released in response to freedom of information requests submitted by the Early Years Alliance (EYA) show that DfE officials estimated 'a Government-funded early years place for three- and four-year-olds would cost an average of £7.49 per hour by 2020/21'[44]. They also show that ministers understood that funding less than the full cost of care 'would result in higher prices for parents of younger children as providers would be forced to cross-subsidise those on the 30-hours scheme'. Ceeda research for the EYA found that in 2020/21 the average rate paid to local authorities for 'funded hours' was £4.89[45].

Based on the Government's own figures at the time of the announcement, WBG have estimated that there is a shortfall of £5.2bn in the free hours funding in 2025/26[46].

Cuts to local government funding have increased the pressure in the sector. 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[47]. 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[48].

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[40] IPPR (2015) Extending the Early Years Entitlement: Costings, concerns and alternatives (http://bit.ly/1KTD10I)
[41] 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)
[42] House of Commons Treasury Committee (2018) Childcare: Ninth Report of Session 2017–19 (http://bit.ly/2oto98o)
[43] Noden, P. and West, A. (2016) The Early Years Single Funding Formula: National policy and local implementation (http://bit.ly/2mWoddv)
[44] Early Years Alliance (2021) New data shows ministers early years was underfunded (https://bit.ly/3EqGqHd)
[45] Ibid.
[46] WBG (2023) WBG finds Government funding for early education and childcare falls short by £5.2bn.
[47] Action for Children (2019) Closed Doors: Children's centre usage between 2014/15 and 2017/18 (https://bit.ly/3ikjhZz)
[48] The Sutton Trust (2018) Stop Start: Survival, decline or closure? Children's centres in England, 2018 (http://bit.ly/34dMFK0)

Recommendations

There is a need for immediate interventions to stabilise the early education and childcare providers that remain. However, whilst short-term interventions are required to 'rescue' the system it is essential that a longer-term vision is developed, with a timeframe for interventions that will drive the wider reforms that are needed. Policymakers must appreciate the importance of how interventions are made: ensuring provision recognises the benefits of more direct control by workers and parents, supporting higher wages and skills for early education and childcare professionals and guaranteeing more accessible and consistent provision. To create a stable and sustainable universal service that can support all families, longer-term reforms must ensure that public funding generates the best possible return on investment and tackles the issues of equal access, high quality of care and a highly-skilled and well-rewarded staff.

Along with other members of the Early Education and Childcare Coalition we recommend a strategy of **rescue and reform** for the Early Education and Childcare sector.

Rescue: an urgent set of measures will be required to stabilise the sector. We are calling for an independent National Early Education and Childcare Commission to assess, design and implement recommendations on the broad range of interconnected issues that are undermining the current system. To ensure lasting reform, this body must work cross-party and in the interests of the greater good.

The National Commission must:

- Prioritise and quantify inclusion, equality and access for all children, including those from low-income families and children with SEND.
- Establish sustainable and fair funding rates that ensure full cost recovery for providers including Maintained Nursery School Supplementary Funding.
- Begin work on an early years workforce strategy that includes action to address the rapid decline in childminder numbers
- Reform our social security system by uprating benefits to 2010 levels in real-terms, removing the 5-week assessment period for Universal Credit, ending no recourse to public funds, scrapping the benefits cap, and transferring budgeting advance loans into non-repayable grants.

Reform: we need a New Deal on early education and childcare. This will require working in partnership with providers, the workforce, unions, families and across national and local government to produce evidence-led recommendations for long-term reform to include:

- Review policy, regulation, and practice building on the 'Best Start for Life'[49] to ensure that our early education and childcare system recognises the importance of the first 1001 days of child development, supports family life and relationships, and promotes a broad and rich experience for all children including those growing up in disadvantage. It must also recognise that early years policy

[49] HM Government, 2021, The Best Start for Life, https://bit.ly/4aaqtTj

should be about both early education and childcare.

- Review the suitability of the current funding model, identifying the most effective mechanisms for allocating funding to ensure maximum social return. This should also include appropriate supply-side funding approaches that ensure maximum return on public investment.
- Establish targets for government to adhere to that sees a progressive increase in the percentage of GDP that is invested in early education and childcare.
- Commit to a plan to progressively reduce the amount families spend on childcare fees to no more than 5% of household income within ten years.
- Establish a permanent independent body to undertake transparent annual reviews of funding rates for the sector indexed to inflation and National Living Wage rates.
- Review parental leave, flexible working and benefit conditionality to ensure all families are able to make genuine choices about how they balance work and caring responsibilities in the early years.

In the longer-term, the Women's Budget Group is calling for a universal and free system, delivered as a public infrastructure service on equal footing with school education. Modelling by the Women's Budget Group of the employment and fiscal impacts of such a system shows that while the upfront investment is significant, almost all of it is recouped through higher tax revenue due to the returns on increased maternal employment and reduced spending on means-tested benefits[50].

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[51].

High-quality childcare supports children's cognitive and social development. It is particularly effective in improving the life chances of the most disadvantaged children.[52] 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 early education and care makes good fiscal sense. The expected return on investing in interventions in the early years is estimated at 6-10% per year[53]. 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[54].

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[50] J. De Henau (2022) Simulating employment and fiscal effects of public investment in high-quality universal childcare in the UK.

[51] Mumsnet (2021) Mega survey of UK parents shows that childcare is failing families (https://bit.ly/3vvAE1t)

[52] IFS (2014) The Economic Effects of Pre-school Education and Quality (http://bit.ly/2ngboeF)

[53] See various studies by J. Heckman and team (http://bit.ly/2qgyiEk)

[54] Centre for Progressive Policy (2021) Women in the Labour Market (https://bit.ly/3MbY8QW)

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