Institute for Public Policy Research

THE CHILDCARE CHALLENGE

HOW CAN THE NEW GOVERNMENT DELIVER A REAL CHILDCARE GUARANTEE?

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Save the Children

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SUMMARY

The government's Opportunity Mission sets out a commitment to reform childcare and early years support so children have the best start in life, with a goal that half a million more children will hit their early learning goals within six years. This paper assesses the inheritance of the new UK government on childcare and early education in England, and considers key delivery challenges and choices it faces in realising those ambitions. In so doing, it seeks to reimagine childcare[1] as a public service, capable of supporting all children and families well – including the most disadvantaged.

Funded childcare entitlements have grown incrementally over the last quarter century and childcare is the daily frontline service for most families with young children – yet childcare is not fully conceived of as a 'public service'. A great deal of regulation has been introduced, but expectations of the sector fall well behind those in other public service markets. There has also been a tendency to use funding as a lever to 'intervene' in failures, rather than seeking to develop a fair funding system where prices reflect costs. And active local market-shaping and support has been increasingly limited: while at some point there was a vision for this being led at the local authority level, the powers and capacities of councils have been curtailed over time and not replaced with any alternative. The aspiration for childcare to be integrated into wider communities and services through children's centres has also largely fallen by the wayside. Because of all of this, provision often appears volatile and not fully at the service of communities.

For all its design shortcomings, the extension of funded childcare entitlements currently underway represents an unprecedented investment and takes England much closer to a universal guarantee. It will give greater and easier access to a substantial proportion of the current and future population – including the growing number of low-income working families with young children. And it will leave the UK government as the biggest buyer of hours in England's childcare market by some way – an estimated 80 per cent of hours will be bought through government funding. This presents a unique chance – and imperative – to rethink how the state shapes and influences the market in all its diversity to develop a better offer that meets the needs of all children and families.

We focus on three key delivery questions and six challenges.

1. What changes are needed to create **a sustainable and fair funding system** that supports stable and reliable local options offered free at the point of access?
   - Challenge A: free entitlement rates often do not reflect provider costs, and the offer is currently predicated on providers cross-subsidising from other income.
   - Challenge B: free entitlement funding is failing to support the costs of delivering quality provision to more disadvantaged and vulnerable children.

2. What changes are needed to create responsive local ecosystems of childcare, with **places available to match the needs of all children and families**?

1 Throughout this report, we use the term 'childcare' as an abbreviation for services which provide care, education and wider support to children in the early years. We use the term 'free entitlement' to refer to provision which is funded by government and required to be provided free of charge to parents.

- Challenge A: a short supply of accessible provision in some communities – 'childcare deserts'.
- Challenge B: childminders are in long-term decline, despite the rising need for more bespoke and flexible provision.

3. How can government develop the expanding offer into something which is **more than just childcare**, providing effective, joined-up early support in the early years?
    - Challenge A: families with young children do not always feel confident or able to take up childcare services.
    - Challenge B: settings and staff often do not feel equipped with the capacities and connections to support them well when they do.

FIVE PRINCIPLES FOR REFORM

Reflecting on the opportunity presented by the current expansion, the government's objectives and the realities of the current system, we derive five principles for reforming how we deliver childcare.

I. **Funded entitlements should support parents to make positive choices about balancing work and family life, reduce the cost burden on families *and* narrow gaps/enhance life chances**. We should not think of entitlements for education and parent subsidies for care; entitlements need to do both.

II. **Children should be able to access quality provision wherever their families choose to take up their entitlements – and funding and infrastructure should support this**. No assumptions should be made that disadvantaged children or those with more complex needs should access one type of provision or another.

III. **Responsive local ecosystems of childcare are needed to deliver high quality funded entitlements for all, and national policy should set the conditions for this** – providing a framework, and not attempting to foist one-size-fits all solutions onto local communities.

IV. **Focus needs to be on optimising the planned extension and new funding, at least in the short term** – even though it may not be the system we would have designed. A further significant cash injection is unlikely in the current fiscal climate.

V. **There is a unique opportunity now to recreate childcare as a comprehensive public service** – we must harness new public investment to reform the childcare system so that it meets the diverse needs of *all* children and families, and drives progress toward the opportunity mission goals.

RECOMMENDATIONS

1. Fair and sustainable funding

Recommendation: Move as fast as possible to more transparent funding rates which better reflect costs, and provide more generous funding for more vulnerable children.

1. **Reset rates based on a transparent process.** Central to this will be a comprehensive cost survey to which all contacted providers are mandated to contribute. This would establish best possible estimates of costs of delivery for different providers across age groups, controlling for profits and taking account of fluctuations in utilisation, childcare salaries and varied premises costs.
2. **Improve funding distribution across areas.** Use the survey and childcare-specific measures of costs to guide area adjustments. Combined authorities should be permitted to flatten entitlement funding from government across

areas where evidence suggests it is warranted. Local authorities could also be allowed to make within-area cost adjustments to account for diverse local economies.

3. **Improve continuity of support across intake fluctuations.** Provide a small element of block funding or grant to nurseries which is not tied to pupil numbers for nurseries, and monthly payments to childminders.
4. **Increase funding for deprivation**. Increase weighting in the national distribution for disadvantaged children and areas through raising the early years pupil premium amount and hours claimable, and increasing weighting for additional need in the national formula, bringing both in line with schools. Also consider giving local authorities greater latitude to weight for disadvantage through local supplements.
5. **Reform the SEND funding system and provide more generous support.** Give greater recognition to emerging needs in the early years within mainstream funding, universalising integrated two-year-old checks and using them to inform national allocations and a new 'developmental needs' funding formula supplement. Also improve the consistency of Special Educational Needs Inclusion Fund (SENIF) across local areas and make access to the Disability Access Fund more automated.
6. **Regularly uprate childcare funding in line with inflation.** Once prices paid are as reflective of costs as possible, commit to uprating the settlement based on a specially adjusted childcare-relevant cost inflation measure. This could be taken forward by an independent body through an annual review process.

2. Access to places which match needs

Recommendation: Enable more responsive local commissioning, create a new model to nurture valued providers, and adopt a new strategy on childminders.

1. **Actively curate school-based nursery expansion, with local authorities playing a key role, including as brokers of partnerships.** Target national funding toward disadvantaged and rural areas, and give local authorities a strong say in where/how school expansion takes place. Local authorities should proactively broker new partnerships between schools and private and voluntary providers (including childminders). Government could explore legal changes to make it possible for schools to offer favourable rental rates to encourage co-delivery.
2. **Pool funds for commissioning new provision across groups of local authorities**. Groups of local authorities should establish collective pots for commissioning childcare, which would be managed by combined authorities or local authority collectives. They would prioritise jointly, with decisions informed by local intelligence. In future, funding for the schools-based expansion could be directed via this mechanism too, with leeway given to distribute funding for new provision in maintained nursery schools, family hubs or children's centres where that was a better fit with need and best use of public assets. They could collectively negotiate with larger nursery groups and academy trusts to secure provision in disadvantaged areas, where needed.
3. **Nurture good provision for disadvantaged children, including establishing new not-for-profit nursery trusts.** Nursery trusts would offer a model of light-touch networks open to all types of provider, delivering business support and facilitating best practice sharing. They would work across regions, drawing in settings that are not direct competitors. Start-up grants from combined authorities or local authority collectives would help initiate them, and member nurseries would pay a subscription fee which could be sponsored by a local authority. Government could set supportive conditions for Trusts to evolve into fully integrated social enterprises or ethical businesses where this is desired, capable of rivalling private equity-backed for-profit chains.

4. **Central and local government taking a stronger leader on growing and supporting childminders.** Set a new long-term national strategy explaining how childminders will be supported to play a central position in the new world of expanded entitlements. This will include a plan for growing supply, making interaction with different funded entitlements easier, and requiring all local authorities to pay monthly. Wind down the childminder agency model, returning Ofsted registration and inspection requirements to all childminders directly, and complement this with annual quality assurance visits between inspections, conducted by local authority-linked networks or communities of practice. Explore establishing a childminder friendly national digital platform.

More than childcare

Recommendation: Develop childcare into a consistently high quality, inclusive and integrated service by building staff capacity and harnessing the unique position and strengths of local authorities.

1. **Reconsider the new 5:1 child/adult ratio maximum for two-year-olds** – where the evidence is clear this is compromising quality, it should not be an option or a basis for modelling funding.
2. **A full root and branch workforce strategy** - this should deal with issues of pay and progression but also critically, focus on how to improve staff wellbeing, skills and frontline capacity for responsive care.
3. **Learn from SureStart, prioritising childcare co-located with wider early years support services where there is local demand for it, and investing in outreach.** Make mainstream the most effective multi-agency approaches to outreach that have been developed through the last 10-plus years of local outreach to disadvantaged two-year-olds.
4. **Local authorities should play a more consistently active role in promoting and supporting quality.** This should be their priority, above offering business advice and support. For example:
    - the SEN Inclusion Fund (SENIF) could be linked to a broader offer of targeted support for Early Years settings to enhance knowledge and skills
    - a local professional development guarantee could be provided, including a bank of staff to back-fill workers so they can be released for training and development
    - regular local authority quality assurance visits and preparation for Ofsted (or via a linked network or community of practice for childminders).
5. **Local authorities should better harness their unique position to support settings to work in a more integrated way.** For example, they could:
    - provide and negotiate named early help and community health professionals to work with each setting
    - drive and support implementation of fully integrated two-year-old checks
    - drive and support better transitions from childcare into school
    - ensure multi-agency outreach approaches to engage families in childcare
    - engage childcare providers in early help and intervention strategies, and support them to engage in multi-agency meetings.
6. **Match this with stronger expectations and accountability** – by setting clearer expectations on providers to work as part of a system and provide high quality support, especially for children with special educational needs, and strengthening local authorities' hand to enforce terms set out in funding agreements and withdraw entitlement funding if a provider is not meeting these. Local authorities' relationship with Ofsted on childcare

should also be re-cast so that their local insight and oversight is valued, aligning more with the approach on schools.

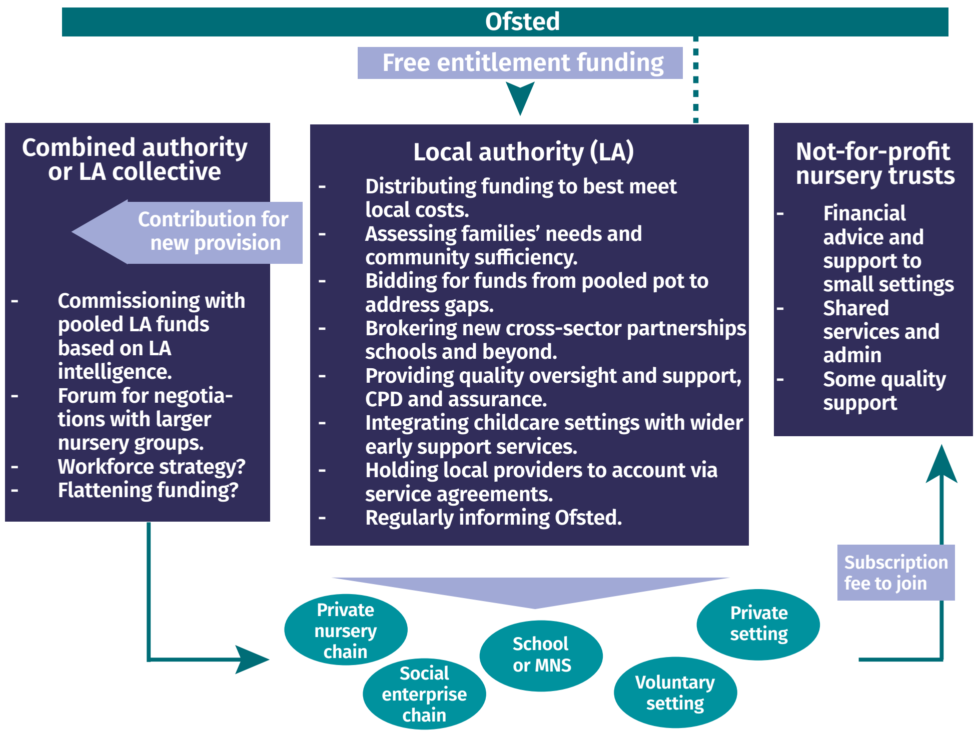
WHERE NEXT?

Taken together, the challenges and options presented make the case for a much more active future role for central and local government in shaping and delivering childcare in England. Without a clearer vision for childcare as a publicly- led service, and a more careful steer nationally and within every community, there is a strong risk that the returns of the unprecedented new investment are not realised for all children. This would be a huge missed opportunity and leave the government's Opportunity Mission goals of reducing child poverty and achieving better outcomes for half a million children by 2030 well beyond reach.

Where next for local systems of childcare?

Childcare's 'middle tier' (see figure S.1) and local authorities' role within it needs to be reimagined and strengthened. This will require a supportive national policy framework, sufficient resources, strong and committed local leadership, and highly skilled early years teams. Government should set out a clear and ambitious vision for the future system and the role it expects local authorities to play – and be clear on how it will support them and hold them to account.

FIGURE S.1: CHILDCARE'S 'MIDDLE TIER' – EMERGING FUTURE LANDSCAPE



Source: Authors' analysis

Where next for the childcare offer?

Most of the reforms we have set out are about making more effective and imaginative use of existing resources to develop an offer that works better for everyone. There are a range of reforms government could instigate relatively quickly.

Yet new cost pressures must also be fully recognised where they exist. Of these, the pressing importance of delivering more generous and reformed funding to meet the true costs of providing quality provision to the growing numbers of children who need additional adult time and support stands out. Much more research is required to fully understand the evolving nature of rising needs in the early years, what is driving these needs and the effects this is having on practice. But this should not delay efforts to improve the reach and effectiveness of funding for disadvantaged children and those with emerging special needs or developmental delays through the mechanisms we set out in chapter 3.

Looking ahead, we believe the shape of the entitlement will also need to be revisited. Reforming the offer has not been our focus, but it is clear that singular focus on expansion of entitlements to 'working families' currently creates a number of risks to realising the Opportunity Mission goals and delivering for disadvantaged children and families. Extending entitlement provision to all two-year-olds from families where no parent earns more than £100,000 would raise the proportion of children in that age group eligible for a funded entitlement from 59 per cent to 93 per cent – a near universal offer. It would simplify access for families and end the situation where currently, a large amount of administrative resource is taken up for the sake of excluding a minority who fall between the offers. It would be a meaningful step towards a childcare guarantee.

1. INTRODUCTION

Quietly, childcare took up its place as a major area of policy investment for the last UK government. Following months of speculation about a Labour offer, chancellor Jeremy Hunt's 2023 spring budget signalled that within two and half years all 'working families' would be able to access free or government-funded childcare from the end of parental leave to the start of primary school. Funded early education and childcare entitlements have grown incrementally over the last quarter century. But Hunt's expansion down to children from nine months old represents the most significant single step change for families. It will be underpinned by an additional £4.1 billion per annum investment by 2027/28 – more than doubling government childcare spending in a period when most other public services have seen freezes or cuts. It has been called the largest expansion of the welfare state in a generation and will leave the UK government as the biggest buyer of hours in England's childcare market.

The newly elected Labour government has taken on the mantle, committing to continuing the plans to roll out 'free' hours and **develop a stronger childcare system more widely.** Early education and childcare are central to the new government's mission to break down the barriers to opportunity. It wants to "deliver not just more childcare, but better childcare and early education – for the best start to every life", and has made bold pledges to reduce child poverty and that **half a million more children will hit their early learning goals by 2030** (Labour, 2024). Before the election it also announced plans to rocket boost capacity with 3,300 new nurseries in primary school buildings across England, offering a potential 100,000 additional childcare places.

But the devil will be in the detail of delivery. The expansion comes on top a of a system which arguably has been creaking for some time, with a set of government funded entitlements that, while taken up widely, have been marred by problems with affordability, access and quality. The urgency to address these issues has been articulated clearly by ministers since before the election, and by partners across the sector (Early Education and Childcare Coalition, 2024).

This paper assesses the inheritance of the new UK government, and considers some of the key delivery challenges and choices it faces in making a meaningful reality of the expanded offer for all children and families. In so doing, it seeks to reimagine childcare as a proper public service, genuinely capable of driving progress on the opportunity mission goals. We bring together our learning from the policy literature, conversations with national experts and industry leaders over the course of 2024, engagement with providers and local authorities, and focussed analysis of published data to consider three critical delivery questions and six underpinning challenges.

1. What changes are needed to create **a sustainable and fair funding system** that supports stable and reliable local options, offered free at the point of access?
    - Challenge A: free entitlement rates do not reflect provider costs, and the offer is currently predicated on providers cross-subsidising from other income.

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3. How can government develop the expanding offer into something which is **more than just childcare**, providing effective, joined-up early support in the early years?
    - Challenge A: families do not always feel confident to take up childcare services.
    - Challenge B: settings and staff often do not feel equipped with the capacities and connections to support them well when they do.

In the concluding chapter, we consider priorities in the pathway forward for local and national government, including how government might build towards a more universal childcare guarantee.

A NOTE ON TERMINOLOGY

Throughout this report, we use the term 'childcare' as an abbreviation for services which provide care, education and wider support to children in the early years. We acknowledge that the use of the term on its own has sometimes been seen to undermine the true value of such services in promoting positive child development. Indeed, a core message across this report is that 'childcare' should be seen as far more than babysitting. Evidence shows its potential power as a critical driver of life chances, and thus it deserves to be treated as a public service. However, as the Early Education and Childcare coalition articulated in its recent manifesto: "If you want to win hearts and minds you need to meet people where they are". Its research found that 80 per cent of the public could explain what 'childcare' meant while only 23 per cent could do the same for 'early education'. As a useful shortening and a term in common parlance, we therefore use the term 'childcare'.

2.
CONTEXT FOR CHANGE

The task of delivering a meaningful childcare guarantee to all children in the early years and their families must be understood in the context of the government's evolving objectives, the system as it currently stands and the unique opportunity for change which is now presented. We summarise these briefly in this section, drawing out a set of short principles which frame our thinking across the rest of this paper.

EVOLVING OBJECTIVES

The Conservative government's announcement to expand childcare entitlements was the culmination of mounting concern about spiralling childcare costs being a barrier to workforce participation among parents. The cost of a part-time nursery place for a child under two is estimated to have grown by 60 per cent in cash terms between 2010 and 2021 – twice as fast as average earnings (Farquharson et al 2022). And prior to the extension, over one-third (34 per cent) of parents with a child aged 0–4 years in England reported finding it difficult to meet their childcare costs – higher than at any point for 10 years (DfE, 2024). With labour force participation at an all-time low, an array of organisations representing both parents and employers were starting to put pressure on the government to take action.

Yet Labour's promise to make the extension a reality reflects its far broader long-term aspiration to develop childcare and early education services for the benefit of both the economy and enhanced life chances. It was Tony Blair's government that introduced free childcare entitlements and first called childcare 'a new frontier for the welfare state' (Halpin, 2004). And it was Gordon Brown's treasury that introduced a range of additional subsidies through the tax credit system to build a progressive universal offer, compelled by mounting evidence of the critical importance of investing in early childhood not only to promote growth, but to support development and close gaps for those from disadvantaged backgrounds, unlocking future talent and productivity (eg Heckman, 2002; Feinstein, 2003; Sylva et al, 2004). In an echo of New Labour's 10-year childcare strategy, *Choice for parents, the best start in life for children* (HMT, 2004), education secretary Bridget Phillipson has been unequivocal about the new government's ambitions to grow quality provision that helps parents to make choices to access employment where they want to, alleviates cost pressures that push more into poverty, and narrows the widening gap in school readiness between children growing up on low incomes and their more affluent peers.

There has arguably never been a more important moment to strive to realise the potential benefits of a strong childcare offer. Around 1.5 million children under five now live in poverty (DWP, 2024) and families with at least one child under five have also experienced the steepest rise in child poverty of all age groups (Oppenheim, 2021). Gaps in outcomes between disadvantaged children and their peers at age five have also been growing. Analysis of national teacher assessments by the Education Policy Institute finds that disadvantaged pupils were 4.6 months behind their peers by the end of their reception year in 2023, with gaps for lower-attaining ethnic groups broadening and gaps for children classed as having special educational needs (SEN) the widest they have been since measurement started in 2013 (Tucket et al, 2024). Teachers also widely report increasing numbers of children arriving in reception who are not ‘school ready’ (Kindred2, 2024). Meanwhile, powerful evidence has continued to materialise of the potential of regular access to quality childcare to deliver real returns to child development over time, especially for the most disadvantaged (see box 2.1).

BOX 2.1: QUALITY EARLY EDUCATION AND CHILDCARE: THE EVIDENCE

The study of early education and development (SEED) is the most significant in-depth UK longitudinal study in recent times. It tracks 6,000 children, their home environments, and the type and quality of early years provision they access and how this relates to their outcomes. Data on children’s use of early childhood education and care (ECEC) and on families’ demographic and home environment backgrounds was collected via parental interviews when children were aged two, three and four years old. Quality was observed and assessed by researchers using a range of known scales focussing on aspects such as staff/child interactions, activities and routines, and educational and learning opportunities. Key findings at age 7 include the following.

- Attending higher quality ECEC in nursery classes, nursery schools or playgroups between ages two and four was associated with better academic results in maths, science and combined English and maths outcomes for key stage 1.
- Children from the 40 per cent most disadvantaged families who started using at least 10 hours per week ECEC before age two in nursery classes/schools, playgroups or with childminders, and who went on to attend for at least 20 hours per week between age two and the start of school, had better outcomes on key stage 1 reading, writing and science and on the phonics check than children who had never attended such childcare for 10 or more hours per week.
- An early start to formal ECEC (0–24 months) combined with a higher amount of formal ECEC use was associated with better child outcomes for disadvantaged children only (measured as the 40 per cent most disadvantaged).
- Attending better quality ECEC was associated with better child outcomes. Overall quality of childcare which children experience may be more significant for their later academic development than the specifically ‘educational’ element of the childcare prior to starting school.

Source: Melhuish et al, 2021

SYSTEM CONTEXT

Funded entitlements have been developing over the last quarter century, becoming the favoured mode of government childcare support. Offering ‘free’ funded entitlements backed by state subsidies to providers has over time become the preferred option for governments of all persuasions in England (see figure 2.1), while spending on childcare support in the benefits system or through tax-free childcare has waned. Supply-side funded entitlements offer the most politically attractive option for politicians wanting to make a clear promise, and have consistently proved to be the best way to guarantee good take-up. Take-up rates of the universal 15-hour entitlement for three- and four-year-olds have been consistently above 90 per cent and now sit at 95 per cent. And although the proportion of families qualifying for the targeted offer to disadvantaged two-year-olds has declined significantly over time (from nearly 40 per cent when it was introduced in 2015 to just over one-quarter of children now – largely due to frozen income thresholds), take-up among those who are eligible has reached 75 per cent.

FIGURE 2.1: TIMELINE OF FUNDED 'FREE' ENTITLEMENT DEVELOPMENT IN ENGLAND

1998	Labour introduce first universal offer to 4-year-olds to 12.5 hours per week, 33 weeks per year.
2004	Universal 12.5 hours extended to all 3-year-olds.
2006	Plans start to extend 3- and 4-year-old universal entitlement to 15 hours per week, 38 weeks per year. Launch of disadvantaged 2-year-old pilot.
2009	National 15-hour-per-week offer to most disadvantaged 2-year-olds launched.
2010–14	Coalition develops 2-year-olds' entitlement, reaching 40% of the most disadvantaged.
2016	Conservatives launch extended 15-hour offer to 3- and 4-year-olds from "working families", entitling them to a total of 30 hours per week, 38 weeks per year.
2017	All 3- and 4-year-olds from families where both parents work (or one parent in a single-parent household) entitled to an additional 15 hours per week.
2023	Extension of "working families" offer to 0–2-year-olds announced.
2024	2-year-olds from working families become entitled to 15 hours per week (April). Labour implement 15-hour extension down to age 9 months (September).
2025	Commitment to extend working families entitlement offer down to 30 hours per week, 38 weeks per year to babies from 9 months (September).

FREE ENTITLEMENTS SPENDING EQUALS SPENDING ON CHILDCARE SUBSIDIES VIA BENEFITS

FREE ENTITLEMENTS SPENDING OVER 70% OF TOTAL GOVERNMENT CHILDCARE SPENDING

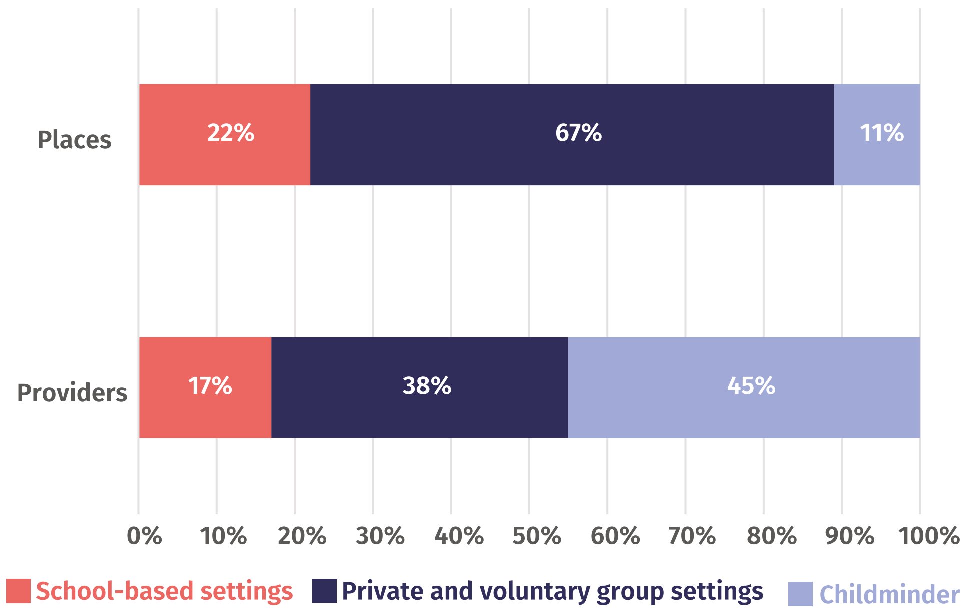
Source: Authors' analysis

Success of the current entitlement extension will depend on fully harnessing England's mixed market of providers, making the most of different provider strengths. England's diverse market of 56,000 childcare providers (see figure 2.2 and box 4.1) is a product of a long historical evolution rather than a deliberate system design. Until the end of the 1990s, places for 0–3-year-olds were almost entirely provided through private and voluntary nurseries, play-groups and childminders (with occasional public support through social services funding). Alongside this, subsidised 'early education' in maintained nursery schools and nursery classes existed for three- and four-year-olds, but more so in some areas than others. The successful introduction of entitlements in the 1990s was dependent on using and developing capacity across all parts of the sector nationally – and this is the case once more. The current extension is projected by the Department for Education to require 85,000 new places for 0–2-year-olds (NAO, 2024).

Children from different backgrounds are more concentrated in some types of provision than others. But those from disadvantaged backgrounds attend provision across all sectors and all sectors have strengths. New Labour's approach from the early 2000s was to 'level the playing field' across different types of providers through more consistent funding, workforce development and regulation – most notably the Early Years Foundation Stage curriculum and ratios. This had the effect of driving up standards across the board and embedding the concept of childcare as the vehicle for early education – and not a separate good delivered by the private and voluntary sector. Evidence shows the changes implemented in that era have resulted in long-term improvements in observed quality in private and voluntary settings, which mean that children's experiences are more equivalent to one another (Melhuish et al, 2019 and 2021). The decision not to further separate out disadvantaged children into particular types of provision also supported the continuation and growth of socially mixed settings – which is also well supported in the evidence (Sylva et al, 2004).

However, some differences remain. It is still the case that the private and voluntary sectors are more likely to deliver the flexibility of hours so crucial for working parents and provision suitable for younger children, while the maintained schools-based sector has, on average, higher-qualified staff with better pay and conditions. Maintained nursery schools are known for delivering particularly high-quality provision to disadvantaged children – but they now number just 400, serve a very small minority of disadvantaged children, and are more expensive to deliver (Paull et al, 2019).

FIGURE 2.2: ENGLAND'S MIXED CHILDCARE MARKET



Source: DfE, 2024a

Success also depends on recognising that childcare in England is actually 1,000-plus mixed micro-markets. Provision has grown up very differently across the country, with pronounced divergences in demand and the market response across regions, local authorities and neighbourhoods. These are the product of different local economies and politics. Local authorities have to a certain extent been at the steering wheel, legally responsible for ensuring sufficiency since 2006 and, well before that, making decisions about where and if to grow state provision. Their powers of influence have arguably never lived up to their 'market shaping responsibilities' and resource capacity has waned over time, yet they continue to have the greatest understanding of local needs and the childcare offer.

In the short term at least, success also requires maximising opportunities within the confines of an imperfect expansion which excludes the precise groups who stand to benefit most. The current funded entitlement expansion will deliver an investment in the system unprecedented over such a short period. But the exclusive focus on working parents of the inherited new extension is not what the new government might have chosen. It does not follow the progressive universal model which was so core to the previous Labour government's approach – giving some to everyone, and a little more to those who need it most through financial benefits to parents.

Instead, while just over half of families with a child aged nine months to two years are predicted to benefit directly from the entitlements, all workless families and virtually all couple households with just one parent working will be excluded. Those not eligible include families with a parent in training or looking for work, single parents unable to work due to disability or working but not meeting the earnings threshold (who would, with a partner in work, otherwise be eligible), and those without recourse to public funds who do not have access to financial support with childcare through the benefit system either: there are 71,000 working families with no recourse to public funds. IPPR analysis of the Family Resources Survey has found that there are in the region of 9,000 lone parent families, and a further 25,000 two-parent households, with a child under five where one parent is a student who would be excluded from the offer to working families on this basis. Furthermore, families who could potentially qualify may not come forward, put off by the requirements to prove eligibility through working status – when perhaps their contract hours are irregular, and they do not want that instability for their child. Estimates based on childcare use in 2019 project that beneficiaries will include just a fifth of families earning less than £20,000 a year, but four fifths of those with household incomes above £45,000 (Drayton et al, 2023). (See box 2.2 for a fuller explanation of the new offer).

The scale and pace of rollout also creates new risks to the sustainability, quality and inclusiveness of provision – to which we must now rise. The price the government sets for the hours it funds will now be critical: too high and the state splurges money it can't afford in a tight fiscal environment and risks attracting profiteers; too low and settings will close their doors. And without the right fine-tuning of incentives, many providers are likely to pivot their provision away from vulnerable groups (who may be supported to access provision through the targeted two-year-old offer or universal credit) and towards children who are entitled to the extended offer and less likely to require additional support. Extending a government-funded offer down to babies and toddlers also raises some significant questions about the childcare market's capacity to offer quality age-appropriate care at scale, especially in the context of ongoing challenges for the sector in securing a stable supply of sufficiently skilled and qualified staff. A wealth of evidence suggests that the potential developmental benefits of childcare are more fragile for the very youngest and greatly reliant on the formation of strong and stable relationships.

BOX 2.2: ENGLAND'S FREE ENTITLEMENT OFFER IN 2025

While 15 core hours for three- and four-year-olds are truly universal, the rest of the government's free entitlement is now reserved for 'working parents'. To qualify as a 'working parent' you must pass two tests.

1. Parent(s) weekly earnings must meet a minimum threshold of 16x national living wage.
2. Parent(s) must not have annual earnings of over £100,000.

This disqualifies households on the lowest incomes, as well as those on the highest, from funded early education and care. The exception to this is the UK government's disadvantaged two-year-old offer, which is aimed at children who are in a household in receipt of means tested benefits, have an Education Health and Care Plan (EHCP) or receive disability living allowance, or are in the care of the local authority or have left care. This leaves a small but important minority who qualify for neither offer.

	Pre-2024 funded hours offer	Offer extension phases 1 and 2	Planned offer extension phase 3, inherited from previous government
Three- and four-year-olds	All families are offered 15 hours a week. 'Working families' are offered an additional 15 hours a week.	No change.	No change.
Two-year-olds	Disadvantaged two-year-olds are offered 15 hours a week.	From 1 April 2024, eligible 'working families' with two-year-olds have been able to access 15 hours a week.	From September 2025, all eligible 'working families' of children aged nine months to three years will be able to access 30 hours a week.
Under-twos	None.	From September 2024, all eligible 'working families' with children aged nine months to three years will be able to access 15 hours a week.	From September 2025, all eligible 'working families' of children aged nine months and older will be able to access 30 hours a week.

All offers are funded on the basis of a term-time only offer, covering 38 weeks of the year, although where a provider has capacity and there is parental demand hours can be 'stretched', meaning a child's entitlement can be taken over fewer hours a week and more weeks of the year.

OPPORTUNITY FOR CHANGE

Although the above provides critical context, the real starting point for our paper is that the current expansion provides an opportunity.

Childcare is already the daily frontline service for most families with young children. At least 70 per cent of families with young children aged 0–4 years are regular users of childcare (DfE, 2024). This figure has been consistent over the last decade (with the exception of the pandemic year) and is now set to grow.

For all its shortcomings, the extension currently underway takes us much closer to a universal guarantee – which is what IPPR advocated strongly for in 2022 (Statham et al, 2022). It will give greater, more affordable and easier access to a substantial proportion of the current and future population – including the growing number of low-income working families with young children. And it will leave the UK government as the biggest buyer of hours in England's childcare market by some way – an estimated 80 per cent of hours will be bought through local authority funding, handed down by the Department of Education in 2025 (Drayton et al, 2023). This presents a unique chance to rethink how the state shapes and influences the market in all its diversity to develop a better quality, more accessible offer for all.

Up until this point, policymakers have arguably not fully conceived of childcare as an essential 'public service'. While a great deal of regulation has been introduced, expectations of the sector fall well behind those that exist in other public service markets, as others have recently emphasised (Jitendra, 2024). As we shall argue here, there has also been a tendency to use funding as a lever to 'intervene' in failures rather than seeking to develop a fair funding system where prices reflect costs. And active local market shaping and support has been increasingly limited – while at some point there was a vision for this being led at local authority level, the powers and capacities of councils have both been curtailed over time and not replaced with any alternative. The aspiration for childcare to be integrated into wider communities and services through children's centres has also largely fallen by the wayside, and very often settings operate with a high degree of isolation. Because of all of this, provision often appears volatile and not fully at the service of communities.

The childcare system remains a poor relation to the school system which – for all its flaws – is a service that is expected by government and the public to deliver for all children. Whether or not the government meets its mission goals of lifting the early years outcomes of half a million children within six years or reducing child poverty will depend on how firmly the moment is gripped to reform the delivery of childcare so that it works for everyone.

EMERGING PRINCIPLES WHICH SHAPE THE DELIVERY CHALLENGE

Considering the history and context presented above, we have identified five key principles for childcare reform which frame our thinking about delivery across the rest of this paper. Together they lay the foundations for a set of recommendations which we hope are both ambitious and firmly rooted in the realities of the system.

FIVE PRINCIPLES FOR REFORM

I. **Funded entitlements should support parents to make positive choices about balancing work and family life, reduce the cost burden on families** and **narrow gaps/enhance life chances**. We should not think of entitlements for education and parent subsidies for care; entitlements need to do both.

II. **Children should be able to access quality provision wherever their families choose to take up their entitlements – and funding and infrastructure should support this**. No assumptions should be made that disadvantaged children or those with more complex needs should access one type of provision or another.

III. **Responsive local ecosystems of childcare are needed to deliver high quality funded entitlements for all, and national policy should set the conditions for this** – providing a framework, and not attempting to foist one-size-fits-all solutions onto local communities.

IV. **Focus needs to be on optimising the planned extension and new funding, at least in the short term** – even though it may not be the system we would have designed. A further significant cash injection is unlikely in the current fiscal climate.

V. **There is a unique opportunity now to recreate childcare as a comprehensive public service** – we must harness new public investment to reform the childcare system so that it meets the diverse needs of *all* children and families and drives progress towards the opportunity mission goals.

3.
FAIR AND SUSTAINABLE FUNDING

The UK government is forecast to be the purchaser of around 80 per cent of childcare places across England by the end of the planned extension of the free entitlement – up from around 50 per cent – making it the biggest buyer of hours in England's market. The rates paid by government to providers have long been contested but, while there has been some reconfiguration across the market, there has been no mass collapse in the amount of provision available. Yet the shift to a publicly controlled market demands paying closer attention to how the government sets the price for funded hours.

*How can the government create **a fair and sustainable funding system** for providers that enables families to access stable and reliable local provision, which is offered genuinely free at the point of access?*

CHALLENGE A: FREE ENTITLEMENT RATES OFTEN DO NOT REFLECT PROVIDER COSTS, AND THE OFFER IS CURRENTLY PREDICATED ON A CROSS-SUBSIDY MODEL

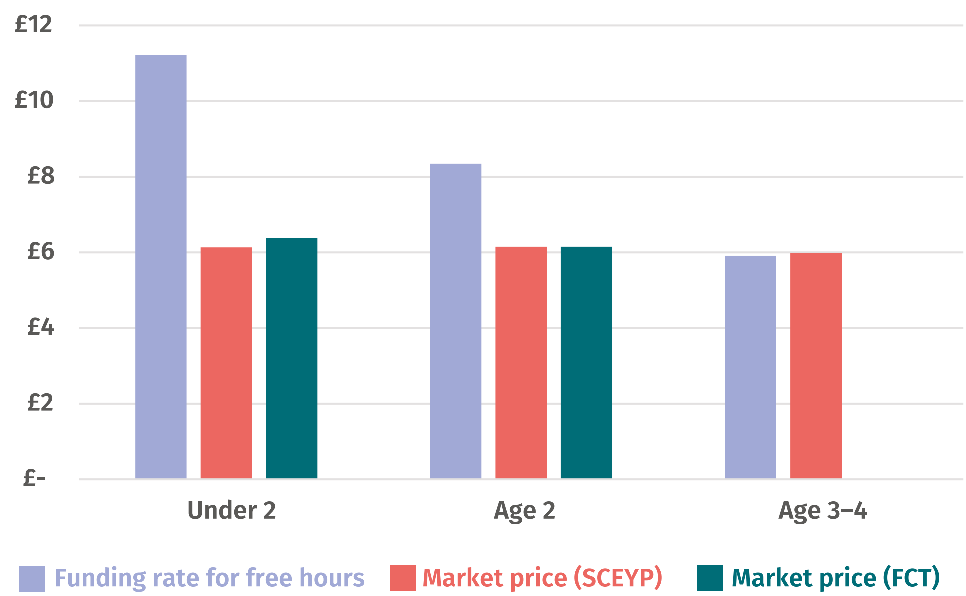
Funding for free entitlements over much of the last parliament was not sufficient to cover the costs of provision for many providers. There is evidence of substantial gaps between running costs and government funding rates, including internal DfE analysis in 2021 which was the subject of an FOI request and suggested that on average, rates for the three- and four-year-old offer covered just two-thirds of current costs for providers (Early Years Alliance, 2021). One key explanatory factor is that rates may have been predicated on settings maximising staff:child ratios, which is often not a realistic prospect, especially where children's needs are greater. 35 per cent of school-based providers and 30 per cent of group-based private and voluntary providers report running staff:child ratios that are more generous than the statutory minimum (DfE, 2024). Even where demand is good and needs are 'normal', numbers of children naturally ebb and flow throughout the year. And it is not clear that additional staff time is built into the rate – for example, to support continuing professional development time.

The gap broadened over the decade to 2024 as rates failed to keep pace with rising costs. Analysis by IFS shows a nine per cent real terms fall in core funding per hour offered in 2023–24 compared to a decade earlier, using a standard inflation measure, or 16 per cent lower when the specific expenses faced by nurseries are factored in. Many of these have escalated rapidly in the period since the pandemic (namely staff costs – which typically account for 70 per cent of costs - food, rent and utilities) (Drayton et al, 2023a).

This under-funding led to a well-acknowledged dynamic of cross-subsidisation, whereby providers cover costs for government-funded hours by charging more for additional hours and services paid for by parents, and particularly by charging higher rates for hours for younger children. While making access to entitlements conditional on top-up fees is not legal, such practices are commonplace and very hard for local authorities to regulate. Local authorities estimate that this practice is used by around half or more providers (Hodges et al, 2024). This has favoured certain kinds of provider and is likely a key factor behind the decline of voluntary settings serving lower income communities and sessional provision. Many have faced closure or been taken over or merged into larger private nurseries offering full daycare with greater scope to achieve economies of scale and leverage additional income from parents. By early 2023, in the context of families already stretched by high childcare costs and a cost-of-living crisis, and faced with a hike in the national minimum wage of approaching 10 per cent, many settings across the board appeared to feel this strategy had run its course and there were signs of increased closures.

In response, **the department is introducing a funding offer for new free entitlements for two-year-olds and under, which is significantly more than the rate for older children and substantially** higher **than market rates** (see figure 3.1). In addition, the early years pupil premium is being extended down the age range. An inflationary increase has also been instituted across most entitlements and funding elements – although according to IFS analysis, which factors in inflation related to the specific expenses faced by nurseries, this still leaves rates of funding for three- and four-year-olds more than 10 per cent lower in 2024–25 than they were in 2012–13 (although aligned with market prices). And that is without new pressures resulting from wage and National Insurance increases following the autumn 2024 budget.

FIGURE 3.1: IFS COMPARISON OF FUNDING RATES FOR NEW ENTITLEMENTS AND MARKET PRICES



Source: Farquharson C, 2024

This strategy reduced immediate peril within the market and crucially signalled a clear incentive for providers to enter the market for younger children, but it bakes instability into future funding settlements. In failing to correct funding rates for three- and four-year-old places, and paying over the odds for places for younger children, it is in essence replacing parent cross-subsidy with increased cross-subsidy across entitlements. Although the new rates for two-year-olds are certainly closer to the costs (two-year-olds are more expensive to support due to higher ratio of adults) it marks the continuation of a long-term trend whereby government funding rates appear determined more by a calculation of what it will take to stimulate particular behaviours in the short term than true costs. The underpinning assumption being that this model is effective because providers can draw on other (ie parental) resources to secure their sustainability where needed.

To some extent this has been a successful strategy – while the number of providers may have declined, the number of places relative to children has not. But in a world where government funds most childcare hours, and the potential for cross-subsidy is almost exclusively from other government entitlements, it is no longer a sustainable model. Distortions in the childcare market are likely to be felt with increasing ferocity. The risks that could emerge over the next parliament can be summarised as follows.

- **Pressure on school budgets** – the vast majority of school nurseries currently only serve children aged 3–4 years. While some may have capacity to expand downward as investment in school-based nurseries rolls out, many will not and are likely to be dependent on cross-subsidisation from schools budgets.
- **Increased charges to parents** – private and voluntary settings not equipped to serve significant numbers of children aged 0–2 years, or where demand for this age group remains low, will likely increase parent charges for wrap-around care or associated services.
- **Sustainability pressures** – if high rates for children aged 0–2 years are not sustained over the long term, the cross-subsidy model providers have adjusted to will no longer be feasible. With limited potential to lean on parent charges, maintaining viability is likely to become an issue for an increasing number of providers.
- **Poor quality provision grows** – over generous funding for children aged 0–2 years could entice providers more interested in profit than in effectively supporting all children: for example, those keen to take advantage of new sub-optimal ratios or less oriented to meeting emerging additional needs. The rapid growth of some private equity backed chains is already causing concern in this respect (Garcia et al, 2024).
- **Over-supply** – with new government rates so far above current market levels for younger age groups, there is a major risk that the market overreacts, resulting in too many places for younger children. This would be an ineffective use of public resource, ultimately leading to increased provider churn and instability for children.
- **Under-supply** – risk that new three- and four-year-olds entering childcare for the first time or moving providers at this age are unable to access a place because the market has pivoted too far to serving younger age ranges.

CHALLENGE B: FREE ENTITLEMENT FUNDING IS FAILING TO SUPPORT THE COSTS OF DELIVERING QUALITY PROVISION TO MORE VULNERABLE CHILDREN

A sub-set of Challenge A is that currently, free entitlement funding does not adequately meet the costs of delivering to more vulnerable or disadvantaged children. This means it is not a level playing field for those children or the providers who serve them – and it can be a disincentive to taking them.

The current funding system is far from blind to this issue. Several features of the model have been designed to weight funds towards more disadvantaged or vulnerable children. These include the following.

- Weighting in the distribution of free entitlement funding from national government to local authorities (up to 10.8 per cent allocated through the

National Early Years Funding Formula based on local area indicators of ‘additional needs’.
- Mechanisms which give the local authorities some ability to target this funding at their discretion (including potential to introduce supplements of up to 12 per cent for disadvantage factors in their formulas for distributing funding to providers, and setting the scale and shape of their Special Educational Needs Inclusion Fund, which draws on locally agreed amounts from the early years and/or high-needs blocks within the delegated schools budget).
- Fixed national per-child subsidies passed to early years settings with qualifying children (via the early years pupil premium and Disability Access Fund).

Further explanation is provided in box 3.1.

Yet the level of weighting for economic disadvantage in early years is far less marked than for schools. Although deprived schools have seen cuts relative to others, funding remains significantly greater to support disadvantaged children in the school age than it is when they are younger. IFS has calculated that overall, the most deprived fifth of local authorities receive hourly resources in early years 12 per cent higher than areas in the most affluent fifth[2] – while school spending per pupil is about 21 per cent higher among the most deprived group of schools than for the least deprived (Drayton, 2023a).

A key underlying driver of the disparity is differences in the national funding formulas. While in schools the government’s national funding formula allocates 17.8 per cent of funding for additional needs factors (based on financial deprivation, low prior attainment, English as an additional language and mobility), the total weighting in the early years formula is 10.8 per cent (based on financial deprivation, English as an additional language and disability allowance as a proxy of complex needs) (DfE, 2024b; DfE, 2024c). Arguably, some of the measures used to weight additional funding for pupils such as mobility and prior attainment are not possible to glean for younger children. Yet even isolating the specific financial deprivation elements within the two formulas, it is hard to explain the difference: 10.2 per cent of funding for school pupils is weighted for deprivation, versus 8 per cent for early years entitlement children.

Disparities in weighting across the age groups have also been very stark in the levels of pupil premiums funding available – and in the number of hours for which it can be claimed. In 2024–2025, the maximum claimable amount per child for the early years pupil premium (EYPP) will be £388 per year, in contrast to a standard primary school pupil premium of £1,480 per eligible pupil per year. In other words, nearly four times more. The maximum EYPP is not even enough to pay for a staff member on the national minimum wage to provide one hour a week of individual additional support to a child across the year.

A rising chorus of provider voices report that the ways in which funding is being targeted at younger children with disabilities and diagnosed or emerging special educational needs, and the level of funding provided, is insufficient. In a 2023 survey, 86 per cent of providers said they had funded SEND support themselves – 62 per cent on a regular basis (Dingley’s Promise, 2023). Concerns relate to the processes and incentives they create, and the funding levels that are ultimately delivered. In summary, the criticisms are as follows.
- **SEN Inclusion Fund (SENIF)** – while there is no published national data on SENIF, we know that eligibility criteria, access, processes and systems for allocation and amounts allocated are highly inconsistent across areas

2 This is based on combined differences in funding deprivation, disability and additional language needs in the early years national funding formula, as well as the early years pupil premium and the Disability Access Fund.

(Hempsalls, 2020). Differences may justifiably reflect local circumstances, although it is hard to judge the extent to which this is true. It is likely that the fact that local authorities are required, at their discretion, to draw down from two highly pressurised pots (High Needs Block and Early Years Block) in a context of rising needs is undermining the level of allocations. We heard complaints that when it does arrive, funding is often insufficient to cover full hours, arrives too late and excludes younger children.

- **Disability Access Fund (DAF) –** access to DAF is linked to disability living allowance (DLA) and parents must apply, meaning that it is only accessible to families who have the confidence and readiness to take this route. Many parents feel understandably reluctant to apply while a child's needs are still emerging at such a young age. This may explain why there tend to be significant underspends in DAF (Dingley's Promise, 2023b).
- **Education health and care plans (EHCPs) –** EHCPs act as the gateway to more funding, but place children in the special needs system in the long term and are not an appropriate route for many young children whose needs are still evolving. There is a sense that EHCPs are increasingly being turned to early, even where there may not be a clear long-term need because given the shortcomings described above, they offer the only secure option for accessing additional funding. The process involves investing significant staff time without recompense, often only for the child to progress on to school before additional funding is in place.

All these issues have become more problematic over time for providers, as targeted funding has reduced at the same time as the level and complexity of needs has grown.

Key elements weighting funding for disadvantage and disability have diminished over time. Targeted funding elements have not been uprated with inflation, falling even further behind than the overall EYFF base rate. When first introduced in 2015, the early years pupil premium (EYPP) equated to £302.10 per year for a three- or four-year-old child accessing the full universal early entitlement offer. The value of the premium remained unchanged from its introduction in 2015 until 2022/23 (when it increased to 60 pence per hour). Similarly, DAF remained frozen in cash terms over that period, but its value fell significantly. This has occurred in parallel with dramatically reduced access to funded entitlement hours for disadvantaged two-year-olds, as thresholds for eligibility have been frozen (as discussed in chapter 2).

Meanwhile, deepening financial hardship is creating increased pressures on early years settings and professionals – with likely additional burden on staff time and therefore, provider costs. The impact of deepening financial hardship on staff time in primary schools has been well documented. In one recent survey including over 500 primary schools nationally, staff reported nearly 48 per cent of children needing more help with emotional support and help with regulation because of hardship, rising to 58 per cent in very or somewhat deprived areas. The report also found that school staff are increasingly being turned to as sources of support for families in crisis due to the demise of other support services (Schmuecker et al, 2024). As the daily frontline service for the vast majority of young families, childcare settings face similar additional needs, but in dealing with younger children the time pressures can be greater.

The rise in children with emerging special educational needs in the early years has been still more dramatic. The upward trend in needs pre-dates the pandemic but has been escalating since then. The percentage of children registered for the 15-hour and 30-hour entitlements who have SEN has increased across two- three- and four- year-olds to the highest level – now 9 per cent of three- and four-year-olds taking up the universal entitlement are categorised this way (DfE, 2024d). The 2023 calendar year also saw another record number of new Education and Health Plans (EHCPs) made in England (up 26 per cent on the year before), and one-quarter of these were for children aged 0–5 years (DfE, 2024e). And more widely, early years professionals are reporting increasing low-level needs and developmental delay, which are having far-reaching implications for school readiness (Kindred, 2024). Not enough is understood about what is driving this but the growth, as it is among children of other age groups, appears to be particularly among those with needs that might be identified as autism spectrum disorder (ASD), social, emotional and mental health (SEMH) needs, or speech, language and communication needs (SLCN). They are less likely to qualify for support via the Disability Access Fund and, as they are just emerging, often do not meet thresholds for High Needs Block funding or EHCPs.

This resulting funding squeeze is affecting the availability of provision and access to places for the very children who often stand to benefit most from regular quality childcare and education. We discuss the consequences of this further in chapter 3 in relation to a growing lack of availability of provision in disadvantaged areas, and what might be done. But the funding environment also appears to be driving a rapid decline in availability of places for children with SEND within individual settings, as providers report struggling to recruit or afford the additional staff to meet additional need, or other associated costs. Over half of local authorities identify 'sufficiency of childcare places for children with SEND' and 'funding to support children with SEND' as a barrier to the new expansion (63 per cent and 57 per cent respectively) – second only to workforce – and there is a significant drop-off in councils reporting sufficient provision for those with disabilities (Hodges et al, 2024). Many providers also report that they lack spaces for children with SEND, with around half fearing this will be the case once the new entitlements take full effect (Dingley's Promise, 2023). Families with children with SEND are also reporting being turned away from settings (Clarke, 2024).

BOX 3.1: ENTITLEMENT FUNDING EXPLAINED

Early Years National Formula – the level of funding for the 'free' hours (the childcare entitlement) paid by central government to local authorities is determined via the early years national funding formula (EYNFF) for three- and four- year-olds and a Formula for two-year-olds (which is now being integrated into the EYNFF). The funding is passed down to local authorities as an 'early years block' within their dedicated schools grant. The EYNFF is composed of a 'Base Rate' and weighting for additional needs, which accounts for 10.5 per cent of the total. Additional needs are calculated based on local levels of:

1. free school meals among primary and nursery school children – and the area disadvantage measure IDACI for two-year-olds and under. These are used as a proxy for disadvantage and SEN (8 per cent)
2. English as an additional language (1.5 per cent)
3. disability living allowance rates among three- and four-year-olds as a proxy for more complex needs (1 per cent).

These funds are then multiplied by numbers taking up the offer and an 'area costs' measure, which adjusts for staff costs based on a general labour market measure (weighted at 80 per cent) and the rateable values and floor space of nursery, infant and primary school premises. A supplement for maintained nursery schools is paid in addition.

Local distribution of entitlement funds to providers – local authorities must pass through 95 per cent of the early years entitlement funding they receive from government to providers, and must do so via a transparent local formula. The rest can be retained for central costs such as support for providers. Local formulas are shaped by a framework set by the Department for Education and must be reviewed by Schools Forums (including childcare providers). Most funding is distributed equally across providers according to the numbers of children they have on roll (with at least termly counts). Local authorities also have freedom to flex up to 12 per cent of the funding they provide through local supplements, as agreed by Schools Forums. Within this, a supplement for deprivation is mandatory for three- and four-year olds and discretionary for two-year-olds and under (although disadvantaged two-year-old entitlements must be funded at a rate *at least* equal to the one they pay for the two-year-olds accessing the working parent entitlement). Local authorities also have the option to provide supplements for rurality, flexible provision (eg out of hours care) and quality (eg to support higher workforce qualifications or system leadership). Maintained nursery schools can also receive an additional supplement of up to £10 per hour.

Early years pupil premium - the EYPP was introduced in April 2015 as part of the government's commitment to closing the attainment gap for disadvantaged children. It provides funding attached to individual funded entitlement children and is available to those whose family are in receipt of means tested benefits, or children who are looked after by the local authority, have been adopted from care, or have left care under a special guardianship or child arrangements order. Children are eligible for up to up 570 hours a year, equivalent to 15 hours per week across a 38 week per year funded entitlement. Previously only three-and four-year olds have been eligible, but it is now also being extended down to children aged 0–2 years. Local authorities act merely as a funnel for this funding, passing it down fully at the national rate (currently 68 pence per hour per eligible child). Unlike the school-age pupil premium, parents usually need to apply through their early years provider or local authority.

SEN Inclusion Fund (SENIF) – all local authorities have been required to establish SENIF for three- and four-year-olds taking up funded entitlements since April 2017 and, as of this year, for two-year-olds and under. It is aimed at children with lower level or emerging special needs. Local authorities, in consultation with local partners through the Schools Forum, decide how much to invest in their SENIF funds from their DSG early years block and high needs blocks (with the total high needs block pertaining to children aged 0–2 years.). They also determine locally the children for which the fund can be used and how the fund is allocated to providers. The value of the grant must take account of the number of SEN children locally, their level of need and the overall capacity of the market to support them. Details must be published as part of their 'local offer'.

Disability Access Fund – settings which provide places for any three- or four-year-olds or disadvantaged two-year-olds who receive disability living allowance (DLA) are eligible to receive disability access funding, which is £615 per child per year. Providers must establish whether families are accessing the DLA, get a copy of the DLA award letter and complete an application form to receive the funding directly.

LOOKING FORWARD: THE ROAD TO FAIRER AND MORE SUSTAINABLE FUNDING

The new government faces a choice of whether to reset funding for the free entitlement so as to anchor rates more effectively to real costs faced by providers, and end reliance on cross-subsidisation, or continue on the DfE's planned trajectory. While the market appears to have broadly stabilised for now thanks to the significant cash injection, the continuation down the current route presents some very significant risks and, as we have argued, is not likely to be sustainable in the long term. A number of studies and sector representations have previously advanced alternative 'rates' that they feel would more accurately reflect costs. However, developing a funding system that pays the 'right price' for childcare hours is complicated by some distinct features of the childcare market.

First, there is arguably no such thing as a definable national 'at cost' funding rate – or one that can be defined by provider area or type. Costs differ significantly by individual setting. A key factor is the high variability of rents which relate often to the type of landlord – commercial rents can be tens of thousands per year while at the other extreme, some councils offer premises based on peppercorn rents. Variations in the salary and profit expectations of senior staff and owners also vary widely by individual setting in the private and voluntary sectors.

Second, many providers are not clear themselves on their hourly break even rate. The reality of England's childcare market sees many small and independent providers operating on thin staffing structures and without significant specialist business expertise. According to the latest government data, two-thirds of private and voluntary nurseries are small organisations and not part of a chain (DfE, 2024a). They may have become accustomed to flexing to changing financial incentives but do not have a clear picture of the limits of the rate it would accept – or what their own 'break even' rate would be for government-funded hours.

Third, there is an asymmetry of information between government and providers. While some providers might have an idea of the minimum price they could accept from the government for funded hours, this is not known to government and many businesses do not want to disclose it – muddying the waters further. Reluctance to share information with government is reflected in low response rates to government survey questions about costs. With a small but significant and growing minority of private equity-backed chains drawing significant levels of profit from the system, that reluctance may yet grow.

Accepting there is likely no perfect model for pricing, there are at least six areas where reforms could help establish a fairer funding settlement, and a more transparent and sustainable funding system.

1. Re-set rates based on a transparent process

The government could develop a strategy to move towards paying a rate to local authorities that is transparent and predicated on the best possible information on provider costs.

As a starting point, a revised base rate should be calculated based on an in-depth and up-to-date cost survey to which all contacted providers are mandated to contribute. This would establish, as far as possible, the average costs of provision for different age groups across all provider types, including controlling for profit levels. It would take account of realistic staff:child ratios (ie utilisation rates) and actual data on childcare salaries and premises costs.

The challenge of executing this sort of survey effectively should not be underestimated. In a reflection of the lack of business skills and asymmetry discussed above, only 7.4 per cent of the provider sample in recent government-commissioned costs analysis gave any information about total income and cost, and still fewer provided a breakdown – information provided about the breakdown of income and costs was often inconsistent (Lee et al, 2023). The government would need to communicate clearly that this is the first step toward greater transparency and the basis for a more adult conversation with the sector about funding. Prior support and guidance would be required to help providers to align and bring consistency to the financial information they provide. We would further recommend a dip-sample audit or moderation approach to testing data that comes back. If providers know that funding rates are based on what they submit there is a very strong incentive to inflate costs, which needs to be countered in some way.

2. Improve the distribution across areas

The government could look at making improvements to area cost adjustments in the early years national funding formula (EYNFF). This could initially also be informed by the survey proposed above. To ensure the fairest possible adjustments on an ongoing basis, the most relevant metrics should also be used in the 'area cost adjustment' calculations. For example, moving away from the current system of using general measure of labour market data to childcare workforce specific data.

Provisions might also be made to allow groups of local authorities to agree to redistribute or 'flatten' rates across where the EYNFF has produced wide variation in neighbouring local authority rates which, according to local knowledge, do not feel justified as being a true reflection of differences in cost pressures. Powers could be given to combined authorities to facilitate this and make necessary redistributions where evidence suggests it is warranted.

Government might also give individual local authorities discretion to make within-authority area cost adjustments to reflect how they distribute funding across providers in different areas across their council. Currently there is no provision for them to do this, despite vastly different economies often co-existing within single local authorities.

These ideas are discussed further in chapter 4 in relation to addressing childcare deserts.

3. Improve continuity of support across intake fluctuations

Mechanisms within the funding system are needed which recognise costs associated with peaks and troughs of demand (and thus staff:child ratios) while continuing to enable broad market principles to be sustained so that where demand dwindles, for example due to falls in birth rates or a particular provider being unpopular with parents, natural 'wastage' can occur, and necessary closures take place.

One option for creating greater stability in the face of changing demand would be to introduce an element of block funding, which is paid to nurseries irrespective of child numbers. Some other countries have moved away significantly from a per child funding system in their public subsidy. Notably, in Ireland over half of funding is allocated via a Core Funding Stream (in 2022/23 it was €259 million versus €200 million on child subsidies). A less extreme measure that could work better for England might be to introduce a smaller grant alongside per child funding, as has been done at various times in schools funding. This could be developed to support nurseries who cannot practically manage staff numbers down when they have fewer children – and cannot recruit quickly enough when the opposite occurs. This happens in essence already within some local authorities that provide crisis grants for providers who apply. But a more explicit preventative approach would be for the government to provide this funding up front and advise local authorities on how to assign it.

Alongside this, local authorities could be required to pay childminders monthly, based on monthly headcount. This might appear challenging for them in the current climate, but some have started doing so already.[3] Others will need to get the data management systems in place to support it.

4. Increase funding for deprivation

The inconsistency with funding for economic disadvantage in schools is difficult to justify in policy terms, given the weight of evidence on the potential of quality early education and childcare to have positive effects on disadvantaged children's long-term outcomes during and beyond school.

Government should look to increase weighting for disadvantage in the national distribution and give greater latitude to local authorities to weight for disadvantage. Again, up-to-date and robust national cost analysis could inform the level of future weighting required to take account of the true costs associated with delivering quality childcare provision to those from disadvantaged backgrounds. Improving funding through all existing mechanisms for delivery should be on the table. This means:

- giving greater weighting for 'additional needs' in the early years national funding formula – bringing the proportion in line with schools funding
- increasing potential for weighting for disadvantage factors in local authority supplements through increasing the maximum that can be targeted (beyond 12 per cent) and better guidance for local authorities about how to implement this consistently and clearly
- an increase in the early years pupil premium (EYPP) rates, paid for all the time a child is accessing entitlement provision rather than capped at the equivalent of 15 hours per week, as it currently is.

5. Reform the special educational needs funding system and provide more generous support

The government should increase the generosity of funding for children with special educational needs (SEND) to ensure that settings are paid fairly and equitably for the additional support they provide and remove any disincentives to taking children with SEND – while also improving processes to make additional funding quicker and easier to access.

Delivering this is partly a question of making administrative improvements. For example, giving local authorities clear guidance about the level of funding they should be investing in the Special Educational Needs Inclusion Fund through early years and high needs block funding, the criteria they use and alignment of payments to funded entitlement hours. For those with higher needs, action is required to make access to the Disability Access Fund simpler and more automated – for example, as the Local Government Association has argued, by giving local authorities access to disability living allowance data or by decoupling access from this measure entirely.

However, given the scale of rising need, a new approach is needed to ensure that the funding system is sufficiently recognising pressures caused by early and emerging need – and difficulties accessing support are not incentivising providers to go down formal pathways and put children on a long-term 'SEND track' unnecessarily. The SEND system generally is at breaking point and, as Isos Partnership has argued, needs weaning off such heavy dependence on EHCPs (Bryant et al, 2024). This means greater recognition of emerging needs in the early years within mainstream funding.

The particular challenge of this is that it is inherently difficult to target funding at needs which are just starting to be identified – and are sometimes transient. As such, the national early years national funding formula (EYNFF) relies purely

3 See Surrey example: https://www.bbc.co.uk/news/articles/clwygwjwee7o

on free school meals levels as a proxy of SEND – a fairly poor measure. And local authorities are very inconsistent in the approaches and criteria they apply. In contrast to the EYNFF, the National Formula for schools includes a prior attainment factor which accounts for 6.4 per cent of spending and is likely to pick up the need for increased support for children who are not meeting development milestones.

The government should look at harnessing two-year-old checks as a proxy of SEN and developmental delay. The Ages and Stages Questionnaire, conducted with all parents as part of health visitor reviews at 12-month and two-year developmental checks, includes questions that gauge the meeting of key development milestones that could be useful indicators of need for funding providers – for example, speech and language and social skills. If applied consistently and robustly, and especially with an early-years professional as part of an integrated review with childcare professionals working alongside public health professionals, this could provide a useful indicator of emerging need in the early years.

Some local areas have struggled to work across systems and introduce integrated checks in the past – but the success of professionals working together in other locations (for example, Barnsley)[4] demonstrate it is possible. Two-year-old check outcomes might then be used as a basis to target government funding at local authorities through the EYNFF, and to inform local distribution to providers – for example, through a new 'developmental needs' local authority funding formula supplement. We know that many areas have struggled to overcome barriers to cross-professional working and consistently implement integrated two-year checks in the past, but in other areas they are conducted as a matter of course and we would need to learn from these.

Of course, increases in funding to support children with SEND and developmental delays must also be accompanied by expectations of, and accountability for, high quality support to children with SEND. We do not go into detail here, but others have recently made compelling arguments for this and set out how it might happen (see Bryant et al 2024; Jitendra, 2024). Chapter 5 also reflects on the wider support that childcare workers and providers need to be able to draw on to rise to the challenges being presented by growing levels of need in this area.

6. Regularly uprate in line with inflation of childcare costs

Once government is confident that the prices paid for funded entitlements are as fair as they can be, including removing cross-subsidy and elements of underfunding, it should commit to regularly uprating the settlement based on inflationary changes in costs to providers.

A specially adjusted childcare cost inflation measure should be used for this purpose based on relevant categories of cost to providers – such as the one developed by IFS. At the least, funding should be uprated regularly to reflect changing childcare salaries – which could see further increases if the Labour government is serious about its commitment to make a 'genuine living wage' a reality. This might be informed by regularising the mandatory income and costs survey proposed above, or another means such as analysis of trends in advertised childcare worker salaries. It might also be overseen by an independent Early Education and Childcare Funding Review Body as part of a transparent annual review of funding rates, and make recommendations to government – as proposed by the Early Education and Childcare Coalition (EECC, 2024).

4 See: https://help-for-early-years-providers.education.gov.uk/get-help-to-improve-your-practice/integrated-reviews

SUMMARY AND CONCLUDING COMMENTS ON FUNDING

Despite shortfalls and inconsistencies in entitlement funding, provision has been maintained over recent years, and the new injection of funding for the expansion is substantial, removing peril for a period of time for many settings. And yet, the significant expansion of the proportion of childcare which will be publicly funded changes the market dynamic, vitally requiring a fairer and more transparent funding system where prices are better anchored in real costs and cost changes. Without this, there is a continued risk of many providers becoming unsustainable or unable to offer places to some, with far-reaching consequences for children and families. With it, a more adult conversation about funding becomes possible with the sector, which also allows the government to make clearer demands of providers in return.

The nature of the childcare market means that there is no perfect funding price or model. But we have set out here six areas where improvements are practicable and would, we believe, lead to a more effective system. However, providers will need to contribute to this process too. And the proposals are not cost free. We do not provide specific figures here – this is a complex job for government – but we envisage that shifting towards the kind of fairer funding system set out could add a fifth or more onto the government's funded entitlement bill. This is without funding any significant further ambitions – for example, a drive to raise the qualification or wage levels of the workforce. So, the key question is not whether to transition from current trajectory to a fairer system – but how fast we can afford to go?

Recommendation: Move as fast as possible to more transparent entitlement funding rates, which better reflect the true costs to providers and provide more generous and effective funding for more vulnerable children.

1. **Re-set rates based on a transparent process.** Central to this will be a comprehensive cost survey to which all contacted providers are mandated to contribute.
2. **Improve funding distribution across areas.** Use the survey and childcare-sector specific measures of costs to guide adjustments. Combined authorities should be permitted to flatten entitlement funding from government across areas where evidence suggests it is warranted. Local authorities could also be allowed to make within-area cost adjustments.
3. **Introduce mechanisms to take account of intake fluctuations.** Provide a small element of block funding or grant to nurseries which is not tied to pupil numbers for nurseries, and monthly payments to childminders.
4. **Increase funding for deprivation**. Increase weighting in the national distribution for disadvantage through raising the early years pupil premium amount and hours claimable and increasing weighting for additional need in the national formula, bringing both in line with schools. Also consider giving local authorities greater latitude to weight for disadvantage through local supplements.
5. **Reform the SEND funding system and provide more generous support.** Give greater recognition to emerging needs in the early years within mainstream funding, universalising integrated two-year-old checks and using them to inform national allocations and a new 'developmental needs' funding formula supplement. Also improve the consistency of SENIF across local areas and make access to DAF more automated.
6. **Regularly uprate in line with inflation.** Once prices paid are as reflective of costs as possible, commit to uprating the settlement based on a specially adjusted childcare cost inflation measure. This could be taken forward by an independent body through an annual review process.

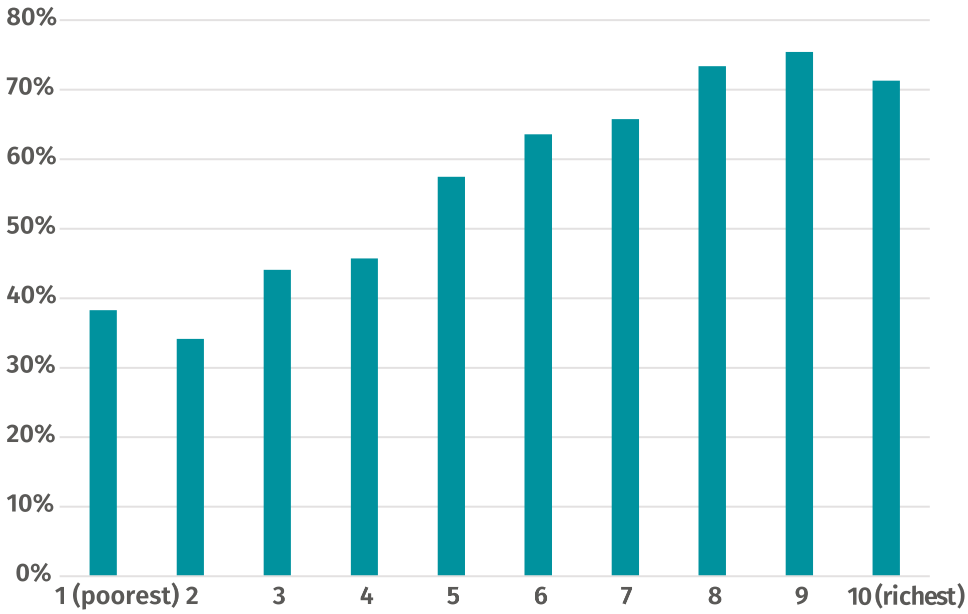
4.
ACCESS TO PLACES WHICH MATCH NEEDS

Government says places for two-year-olds and under will need to increase by a fifth in order to deliver the funded entitlement expansion.[5] At the same time, the existing provision does not always appear to match the needs of families. While the total number of places available has remained broadly stable over time, local authorities' confidence in the 'sufficiency' of provision has declined in general and especially for certain groups (Hodges et al, 2024). There is also a jump in the proportion of families with children aged 0–4 years saying there are not enough places since 2019 – from 26 per cent in 2019 to 37 per cent in 2023 (DfE, 2024). Patterns of take-up suggest that it is children from lower-income families and those whose parents work in lower status occupations who lose out most often (see figure 4.1).

What changes are needed to create responsive local ecosystems of childcare, with places available to match the needs of all families?

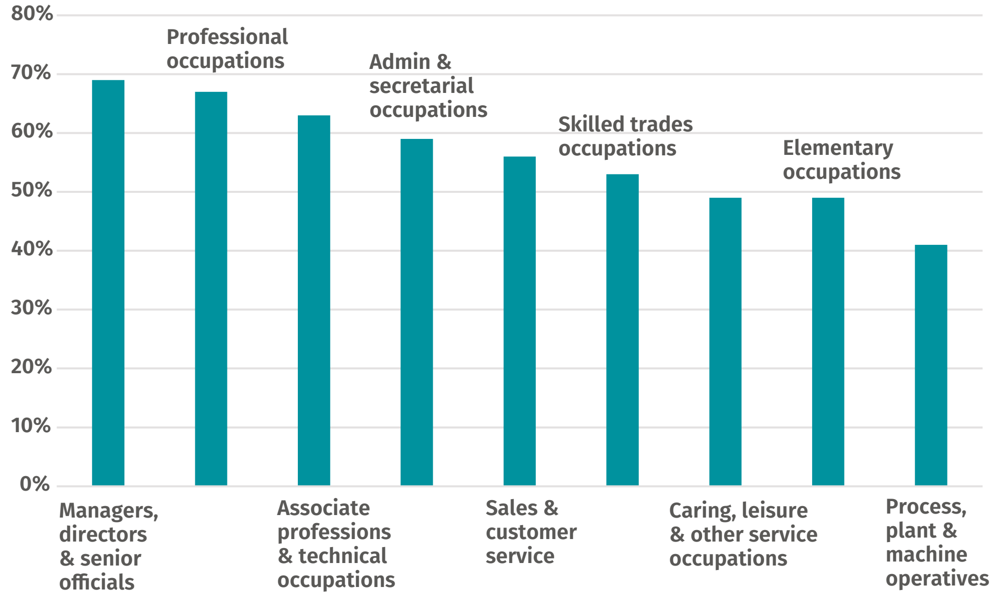
FIGURE 4.1: CHILDCARE USE BY EMPLOYMENT STATUS AND CLASS

Childcare use data reflects differences in demand and access to affordable provision that matches families' needs. IPPR analysis of the UK Family Resources Survey shows that among households on the lowest fifth of incomes with a child aged 1–4 years, just 36 per cent use formal childcare compared to double that (over 73 per cent) among households in the highest one-fifth of incomes.



5 The government has projected that 85,000 new places have to be delivered by September 2025 to meet the requirements of the new expansion to working families – a 19 per cent increase in places for two-year-olds and under from June 2023, according to NAO (2024).

Use of formal childcare is also shaped by class. Looking at take-up by parents' job type, we find that over two-thirds of parents of young children in professional and managerial job roles (including lawyers, doctors, architects and chief executives) use formal childcare compared to fewer than half parents in elementary occupations (such as cleaners) or caring, leisure or other service occupations (such as hairdressers and care workers) to use formal care.



Source: IPPR Analysis of DWP, 2024

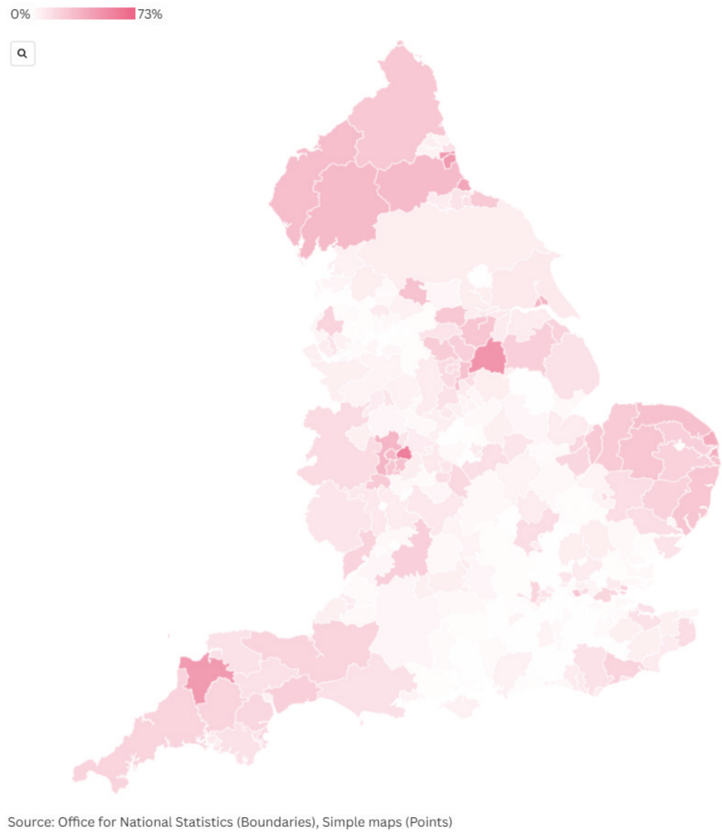
CHALLENGE A: SHORT SUPPLY OF ACCESSIBLE PROVISION IN SOME COMMUNITIES – 'CHILDCARE DESERTS'

For a significant minority of families, lack of local access to suitable provision is a real problem. Councils most often report having sufficient provision in some localities – but only a minority of councils say they have enough provision across the board when it comes to children aged two years and under, families living in rural areas, disabled children, those with parents working full-time or atypical hours (Hodges et al, 2024). Among parents of children aged 0–4 years, over one-third (37 per cent) said there were not enough places and 6 per cent report not using childcare because they cannot find a childcare place as local providers are full – a further 2 per cent cite transport as a barrier (DfE, 2024).

The availability of private and voluntary nursery and childminder places is not evenly distributed across areas – or children – in England. Using ONS data (2024) on the number of places available within a reasonable daily travel time, our analysis reveals significant variation in levels of access to provision for families across England's neighbourhoods, local authorities and regions. Figure 4.2 illustrates the proportion of children in local authority districts with the poorest access to childcare, revealing the range of challenges across local authorities and trends across regions.

FIGURE 4.2: NATIONAL VARIATION IN ACCESS TO PRIVATE AND VOLUNTARY CHILDCARE

ONS data estimates the number of private and voluntary nursery or registered childminder places for children aged 0–7 years within a 15-minute drive, a 25-minute public transport journey or a 15-minute walk. Our map below shows the proportion of children in each local authority living in the bottom 10 per cent of private and voluntary childcare access. Darker pink indicates a higher proportion of children with poorer access.



Source: IPPR analysis of ONS data (2024)

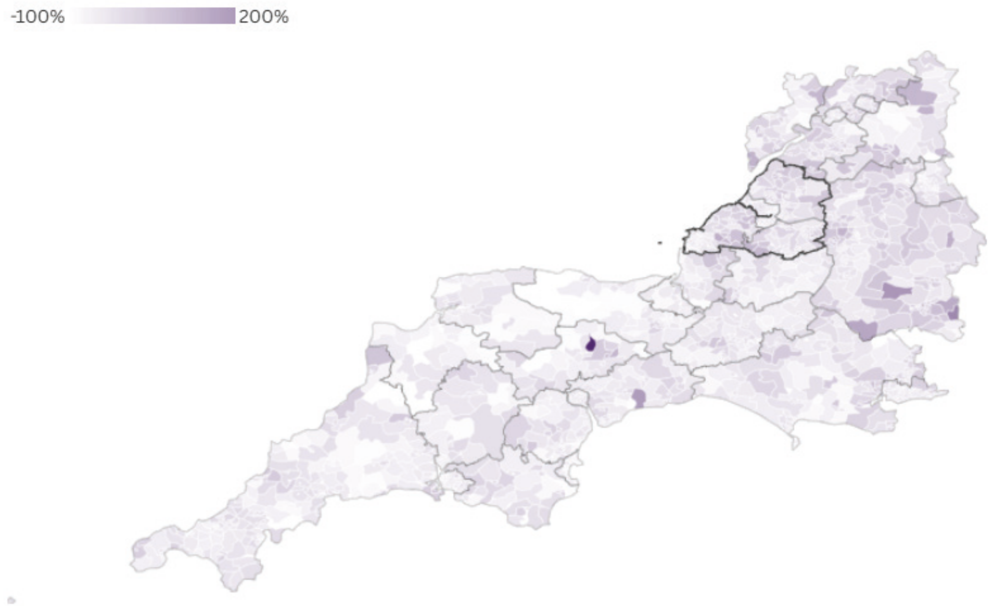
Closer examination of the data highlights the extent of local variation within regions and local authorities. Figure 4.3 shows the most detailed ONS data available for the South West, North East and West Midlands, mapping childcare access by decile for each Lower Level Super Output Area (LSOA)[6] compared to the rest of England. While figure 4.2 provides an overview, it conceals the fact that even though some local authorities may appear to have average childcare access rates at an aggregate level, there are still areas within these authorities that suffer from very poor access. Within local regions – and combined authorities – there can be extremely pronounced differences in access to private and voluntary childcare provision, with high access and low access areas often cheek by jowl. There are parts of the South West that have five times the average ratio of private and voluntary childcare places to children – while there are other parts that have no access to such provision. In some areas access to school-based places is likely to be compensating, but not consistently – and generally not for younger children.

6 LSOAs are standard geographical measures used in the Census. They have an average population of 1,500 people or 650 households.

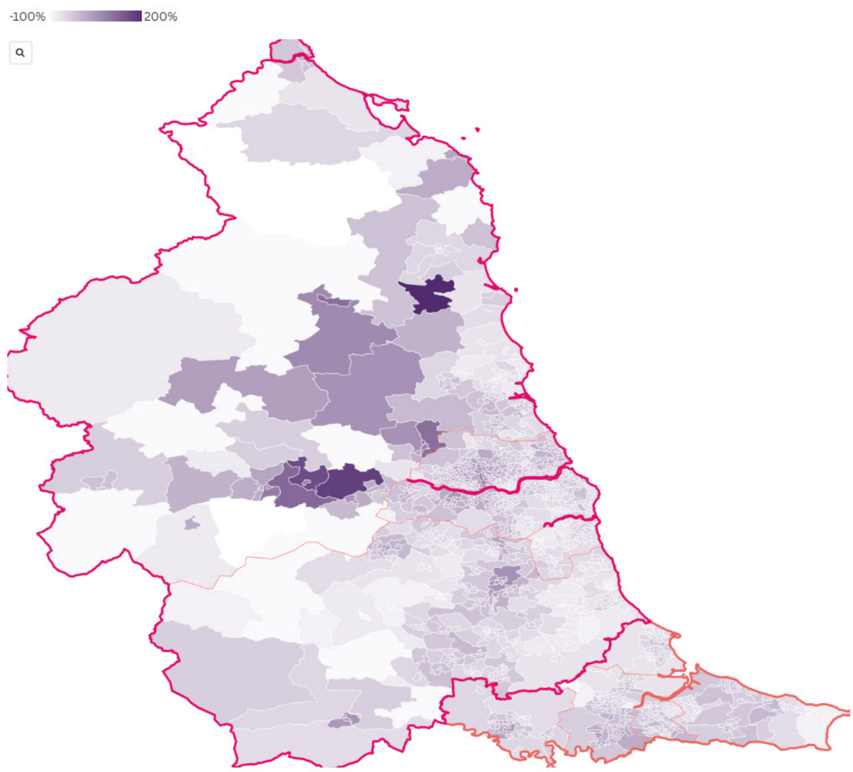
FIGURE 4.3: LOCAL VARIATION IN ACCESS TO PRIVATE AND VOLUNTARY CHILDCARE

These maps draw on ONS data again and show levels of access to private and voluntary childcare by Lower Level Super Output Area (LSOA) within three regions of England. LSOAs are coloured to indicate their decile for access compared to the rest of England: darker blue indicates higher-than-average accessibility, while white signifies lower accessibility relative to all English LSOAs. Grey lines demark upper tier local authority boundaries.

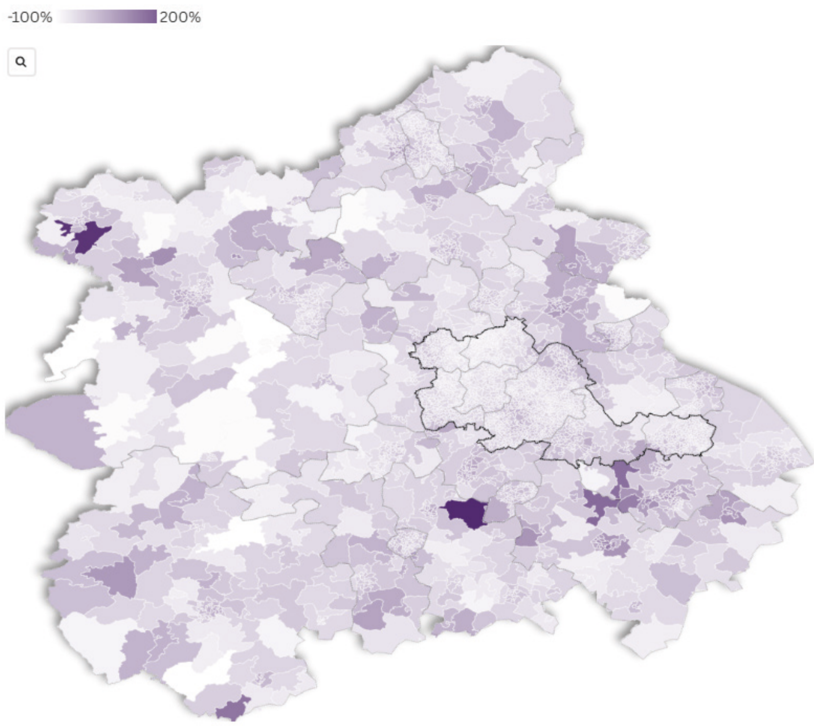
South West – with West of England Combined Authority marked



North East – with Tees Valley and North East combined authorities marked



West Midlands – with West Midlands Combined Authority marked

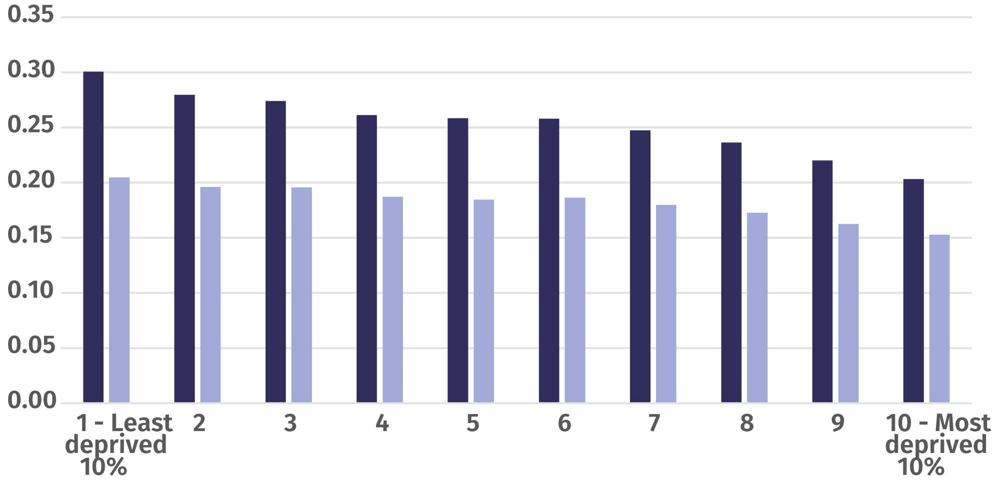


Source: IPPR anlaysis of ONS data (2024)

Those living in disadvantaged or rural areas are least likely to have good access to private and voluntary provision, and least likely to have good access to good quality provision. The maps above illustrate that rural areas such as Torridge and Great Yarmouth demonstrate poor access to childcare, as do deprived urban areas like Walsall and Sunderland. We have delved into rurality and deprivation effects further, using descriptive statistics to measure the size of gaps and how they vary. The results show a clear gradient in both the number and quality of childcare places (as indicated by Ofsted) based on deprivation and rurality (figure 4.4). We have also conducted regression analysis to determine if the variation in childcare access may be explained by the proportion of households with children who are in work – we still find a large and statistically significant gradient in childcare accessibility.

FIGURE 4.4: NUMBER OF PLACES AND NUMBER OF GOOD PLACES BY DEPRIVATION AND RURALITY

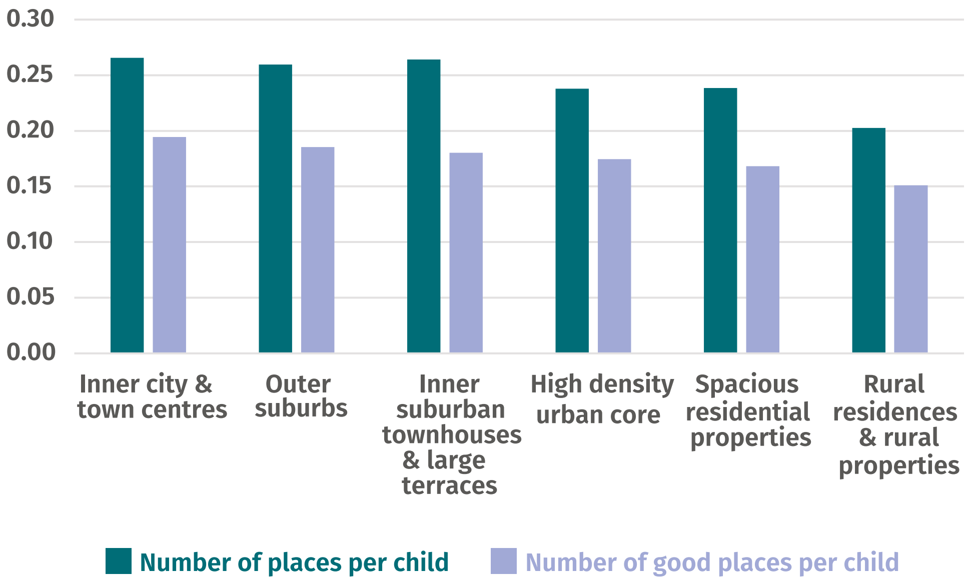
Average number of places and of good places per child by deprivation decile



Average number of places and of good places per child by rurality

We assessed deprivation levels by ranking areas based on the proportion of households experiencing deprivation in at least three of the following dimensions: education, employment, and health and housing. Correlating this with NAO childcare access data we find that the most deprived 10 per cent of areas have 32 per cent fewer places per child and 25 per cent fewer good places per child, compared to the most affluent 10 per cent.

To evaluate rurality, we refer to data from Singleton et al (2022), which analyses satellite imagery to classify the rurality of UK postcodes. Since each Lower Layer Super Output Area (LSOA) contains multiple postcodes, we determine the rurality of an LSOA by adopting the rurality classification of the postcode with the highest proportion of people in that LSOA. Correlating this with NAO childcare access data we find that rural areas have 31 per cent fewer places per child and 29 per cent fewer good places per child compared to inner cities and town centres.



Source: IPPR analysis of ONS (2024)

Geographical differences in provision available is not a new issue. The supply of childcare places has never been evenly distributed across neighbourhoods – or children – in England. As a history by West and Noden describes, economic inequalities and politics have shaped provision. Northern local authorities and those in more disadvantaged industrialised urban areas with higher female employment were more likely to have taken up the 'early education' gauntlet set by the 1944 Education Act, to opt to create state provision for young children in maintained nursery schools and nursery classes. The highest proportion of private childcare provision meanwhile developed in the south, where the population was more middle class – and more able/likely to pay. Further expansion in the 1970s/1980s was driven by growth of state provision in major urban areas controlled by Labour, and by growing private and voluntary sectors elsewhere (West and Noden, 2016).

But stark disparities in availability across areas have continued since the introduction of funded entitlements – and they appear to have magnified in recent times as the market has polarised. The funding conditions described in chapter 3 have set the scene for growing disparities in the supply of private and voluntary provision. Higher costs and lower profitability have continued to be associated with operating in lower-income neighbourhoods, where fewer parents are likely to afford to pay for additional hours on top of funded entitlements (Penn, 2007).The gap between costs of delivery and entitlement funding has played particularly badly for smaller (single site) and sessional providers and those serving more disadvantaged communities. Full daycare settings with greater potential to charge private fees for hours or services outside entitlements have tended to do better. Although closures are quite evenly distributed across areas, settings are less likely to open (or be replaced by) new provision in more disadvantaged areas (Reed and Parish, 2023). New openings in leafier areas are also increasingly accounted for by takeovers by larger private equity-backed chains, with slicker business models and greater ability to achieve economies of scale – and a tendency to draw substantial profits out of the system. Large chains still make up a relatively small proportion of the market (nearly 2000 settings or 9 per cent of private and voluntary nurseries – see box 4.1) but have expanded rapidly in recent years.

Simultaneously, the national policy levers which have in the past been used to compensate failings of the childcare market in disadvantaged areas have largely withered on the vine. There are three ways that the state has attempted to mitigate this problem, which have all weakened and reduced in impact in recent years.

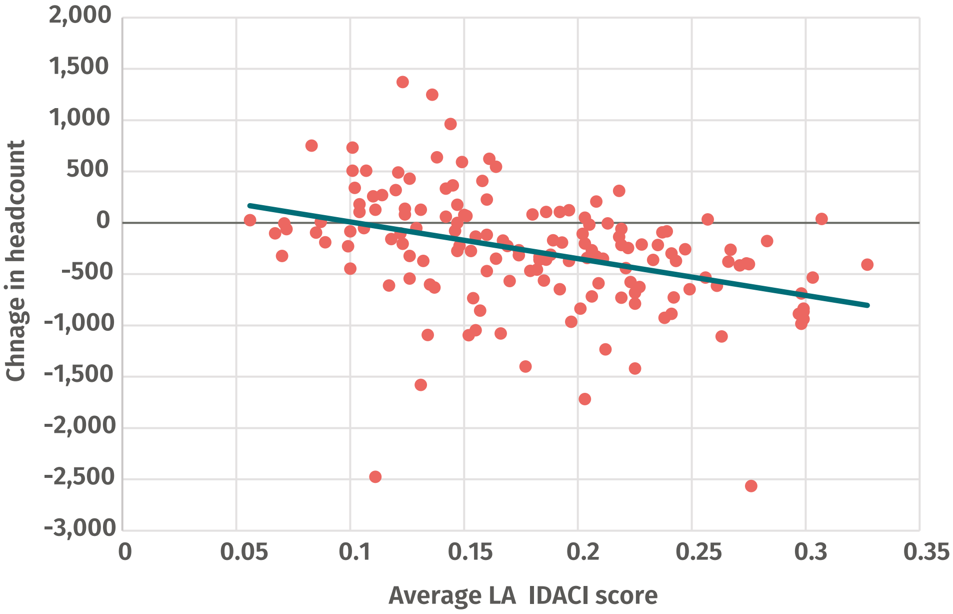
1. **Targeted funding** - the value of funding weighted for disadvantage has diminished over time, now falling significantly short of what is required to meet costs – as discussed in chapter 3.
2. **State provision in poorer areas** – maintained nursery schools (MNS) are located in more disadvantaged communities but have declined by more than one-third since the 1990s. There are now just 400 MNSs nationally. Children's centres, a significant number of which would have delivered childcare in more disadvantaged communities, have also reduced or narrowed their service offer. Data shows a drop in the number of full children's centres of 40 per cent since 2010.

   Our analysis also reveals that despite a growth in the number of primary schools offering nursery provision in recent years (up by more than 1000 since 2018) and full-time equivalent places (DfE, 2024a), primaries are offering places to fewer children – and that the decline has been greater in more disadvantaged local authorities. Schools Census data shows that the headcount of children in primary school nurseries reduced by 14 per cent (or

42,000 children) in the period from 2015/16 to 2023/24.[7] This drop is larger than the overall drop in three- and four-year-olds registered for universal places (down 9.5 per cent from 2015 to 2023). The graph in figure 4.5 also suggests that more disadvantaged local authorities were more likely to see greater drops in the numbers of nursery and early years children in their primary schools, although schools provision and places are still more greatly concentrated in disadvantaged areas. A likely explanation is that a significant number of schools sought to offer full-time places to children qualifying for the new 30 hours working families offer for three- and four- year-olds (introduced in 2016/17) at the expense of part-time universal places.

FIGURE 4.5: CHANGE IN PRIMARY SCHOOL NURSERY HEADCOUNT BY LOCAL AUTHORITY DEPRIVATION

Change in EYs and nursery headcount in primary schools 2015/16–2023/24 by LA disadvantage (IDACI average)



Source: IPPR analysis of Schools Census 2015/16 and 2023/24

3. **Local authority market shaping –** the Childcare Act 2006 attempted to shift councils' role from being providers of childcare to commissioners of last resort. Explicit limits were placed on the councils' role in childcare provision, and they were banned from providing places directly unless they could show that there were no private or voluntary sector organisations that were willing to do so. At the same time new 'Sufficiency Duties' were introduced, requiring them to support all providers and ensure sufficiency of provision for all working parents. But their powers and capacities to implement these were never strong and have ebbed over time, and many feel constrained in their ability to support new providers to set up in areas of disadvantage (LGA, 2023). Local authorities never had a standard commissioning budget per se – and even the potential to develop a pot for this purpose has diminished as council budgets have reduced and the proportion of the early years funding formulas they are able to retain

7 We have included all early years primary school provision across Early Years 1, Early Years 2, Nursery 1 and Nursery 2 – thus covering children turning one to children turning four during the school year in this analysis. 81 per cent of children in early years provision in schools are aged 3–4 (ie in Nursery 2) and similar patterns are evident.

centrally has reduced and come under pressure more widely.[8] Although annual sufficiency assessments are required to be conducted, this often appears a tick-box exercise. The extent of local intelligence gathered about the market and where there may be real gaps that require action is limited by staff capacity and lack of commissioning expertise in early years teams, which have diminished greatly in many places.

Looking forward, there is a strong risk that the current expansion of funded entitlements to 'working families' worsens availability of quality places for poorer families and those in more disadvantaged areas. This has been a historical pattern where new entitlements are rolled out. And local authorities are voicing concerns about providers pivoting focus to meet the needs of newly eligible working families at the expense of the places they offer for vulnerable two-year-olds (who are being funded by government at the same rate in the new system). From the provider's perspective, this is an understandable financial decision given that a child from a working family may be likely to have fewer needs and offer a better prospect of retention, graduating to the funded 30-hour working families offer at three. In theory, the generously funded nature of the new entitlements for children aged two years and under, together with the relaxation of staff:child ratios for this age group, also risks attracting new providers into areas with low provision ('deserts') that are focussed on profit over quality. Local authorities lack powers to effectively prevent this – even where a provider has a poor track record on quality elsewhere.

The government's intention is to address 'childcare deserts' through investment in new state (or state-hosted) provision in schools. Ministers have said that the 3,300 newly announced school-based nurseries in empty primary school classrooms will be prioritised in childcare deserts, where places are lacking. The first 300 are expected to open by September 2025, and there is a £15 million capital grant pot to support this. They might be delivered by the school themselves or a private or voluntary sector partner. With school rolls falling, the idea seems an excellent use of public assets, and offers the prospect of meeting the accessibility needs of many families, especially where they have an older child at the school. It also offers the possibility of harnessing schools' strengths by creating more quality places led and/or supported by qualified teachers, and able to draw down from school leadership, expertise and infrastructure, and to enable smoother transitions into school for some children. There are strong arguments to suggest there is untapped potential for a more school-led or linked early years system in disadvantaged areas (Morgan and Reed, 2016).

However, without paying closer attention, new investment in re-purposing classrooms might plug gaps in supply without re-patterning access to match needs in poorer areas. We have looked at patterns of nursery and early years provision in primary schools, which suggests that those in local authorities where families have more limited private and voluntary access are, according to NAO data, reasonably well covered by school-based early years provision. Given the historical development of school nurseries in more disadvantaged areas, and their continued relatively strong representation in those areas, this is not a huge surprise. But it raises the question of how ready the schools situated where there is a lack of provision will be to expand their nursery classes further – and what appetite they might have for this. Few are likely to want to establish a pre-school cohort larger than their reception cohort, as this delivers limited

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8 Local authorities were required to 'pass through' *at least* 95 per cent of their early years budget from 2017 – although the exact pass-through rate is agreed at individual authority level by Schools Forums, and many local authorities are known to pass through more than this, retaining a smaller central budget. The previous government mooted increasing the pass-through rate to 97 per cent on the assumption that the expansion of the funded entitlement will significantly increase the total pot, although the extent to which this is true will vary by area, according to take-up.

benefit in terms of boosting their reception admissions. Many schools are also prioritising space for before- and after-school care as part of the new wrap around offer for school pupils. Others prefer to use spare available space to support growing intakes of children with SEN.

The alternative to opening more nursery classes for three- to four-year-olds is to use government grants to develop new provision for children aged two years or under, which would directly help address shortfall of places for the new entitlement. But schools have proved very reluctant to do this in the past. As set out in box 4.1, they have a very poor track record of providing for younger children. Almost 90 per cent of children registered with school-based providers are aged three and four, with only 1 per cent aged under two. Often headteachers are very cautious about expanding in this direction, seeing toddlers and babies as quite a different business and an age group where teacher expertise is limited. Experience suggests that for many, the incentive to deliver provision to younger age groups themselves would have to be very strong. Where falling rolls and budgetary gaps do not present a real risk of closure, and financial rewards cannot significantly offset this, they may not come forward for grants to adapt their classrooms, even where space may be suitable.

BOX 4.1: ENGLAND'S MIXED CHILDCARE MARKET OFFER EXPLAINED

There are 56,300 early years childcare providers across England – 370 per local authority on average, although numbers vary greatly.

Private and voluntary group settings deliver over two-thirds of places for children aged 0–4 years. They include 14,000 private nurseries (numbers steadily growing) and 6,000 voluntary group providers (numbers in steady decline). The majority are independent but many (43 per cent) of private providers are part of a chain, as are a small number (11 per cent) of voluntary providers. Only 9 per cent (or around 2,000 settings) are part of one of the largest chains (each of which have 20-plus nurseries), although their numbers are growing.

Offer: prior to the expansion, private and voluntary group settings accounted for around half of funded entitlement places. 51 per cent of children in private group providers and 31 per cent of voluntary group providers are aged two and under. Private providers are on average larger (average 56 children) than voluntary sector providers (average 36 children). They also offer longer hours than voluntary providers, many of which are playgroups offering sessional care only.

Geography: the number of group-based providers (private and voluntary) is fairly consistent across areas by deprivation level, although there are slightly more in the least deprived areas.

School based providers deliver under one-quarter of places (22 per cent). The vast majority of these are primary schools with nursery classes (9,400 or 96 per cent) and only a few are maintained nursery schools (400 or 4 per cent). Most schools deliver places on their own – only 2 per cent do so with a partner.

Offer: schools tend to focus on older children. Almost 90 per cent of children registered with school-based providers are aged three and four, with only 1 per cent aged under two (maintained nursery schools take slightly more two-year-olds, but still only 1 per cent of under-twos). Only 6 per cent of school-based providers are open in holidays as well as term time (with the proportion slightly higher in maintained nursery schools at 18 per cent).

Geography: the proportion of school-based provision ranges from 10 per cent of providers in the South East to 28 per cent in the North East. In the most deprived areas, school-based providers make up 26 per cent of childcare providers, twice the proportion in the least deprived areas (13 per cent).

Early years childminders number 23,500 and make up nearly half of providers but deliver only 11 per cent of places (due to caring for small numbers). The number of registered childminders reduced by 50 per cent in the decade to 2023 and continues on a sharp downward trajectory. Childminders can register directly with Ofsted (at a one-off cost of £60) or via a childminder agency.

Offer: childminders can look after up to six children, usually in their own home. 90 per cent are open during both term time and school holidays, more than any other type of provider. They offer a mean average of up to 10 hours a day which, alongside private group providers, is the highest. 61 per cent of children registered with childminders are aged two or under. The majority say they offer options for funded entitlements, but very few do compared to any other provider type.

Geography: childminders make up a bigger proportion of childcare providers in the least deprived areas (46 per cent) than they do in the most deprived areas (37 per cent).

Source: DfE (2024a), Gaunt (2024)

CHALLENGE B: CHILDMINDERS IN LONG-TERM DECLINE – DESPITE RISING NEED FOR MORE BESPOKE AND FLEXIBLE PROVISION

Childminders are the option of choice for many families, especially those wanting a small, home-like environment, or requiring flexible or 'out of hours' care to fit with the hours they work. This is a growing proportion of families. The greater prevalence of dual earner families has increased demand for the more flexible provision – often well met by full daycare nurseries. But nurseries alone are less likely to meet these needs when families require atypical hours. The numbers of children with emerging special needs are also increasing as discussed, and childminders have traditionally played a strong role supporting many families in this situation due to their unique ability to tailor support and work closely with parents (well-illustrated in case study examples)[9]. New demand for provision that meets the needs of babies and toddlers from working families resulting from the expansion will put the spotlight still further on the systems' ability to deliver effective development of quality, personalised, home-based care such as childminders can provide.

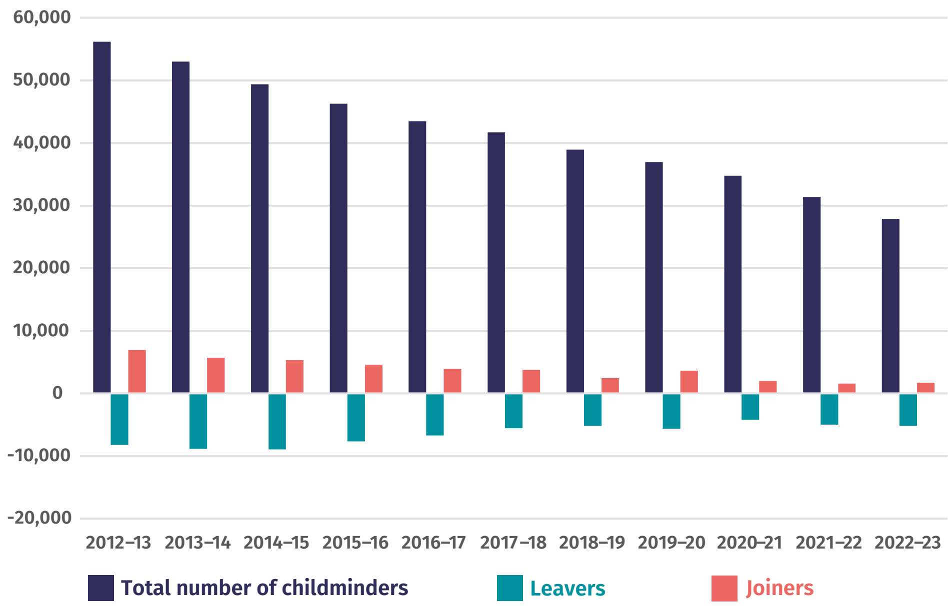
Yet numbers of childminders are in long-term decline, with around half the number registered than a decade ago. The number of childminders on Ofsted's register has declined over the past 10 years, from 56,200 in 2013 to 27,900 in 2023 – a fall of 50 per cent. This is due to more childminders leaving than joining the sector, and the number of childminders joining progressively decreasing over time (see figure 4.6).

The decline in childminders is showing up as growing gaps in sufficiency for parents of younger children and those who have more flexible needs. Around a fifth (21 per cent) of parents with children aged 0–4 years report problems with finding childcare flexible enough to meet their needs (DfE, 2024). And only 9 per cent of local authorities now say they have sufficient provision for those who work atypical hours – compared to 14 per cent a decade earlier and less than for

9 See: https://www.pacey.org.uk/caring-for-children-with-special-educational-needs-england/

any other group (Rutter et al, 2014; Hodges et al, 2024). In 2014, over half (54 per cent) of local authorities told Coram that they had sufficient childcare for families with children aged two and under – their latest data puts the figure at 35 per cent and 45 per cent for children aged under two years and two-year-olds respectively (Rutter et al, 2014; Hodges et al, 2024). It is, once again, families in poorer areas who are likely to have the fewest options – childminders making up a far larger proportion of providers in the least deprived areas (46 per cent) than in the most deprived areas (37 per cent) (DfE, 2024a).

FIGURE 4.6: CHILDMINDER NUMBERS 2012/13–2022/23



Source: Ofsted (2023)

Poor retention and diminishing numbers of new childminder recruits have been attributed to many different factors, but chief among them are tightening financial pressures and increased administrative burden.

- **Financial pressures:** one-third of childminders were estimated to have been operating at a significant 'deficit' pre-Covid, with a typical childminder just about breaking even (Blanden et al, 2020). As the provider type with the greatest proportion of their income from parent fees, they were also hardest hit by the pandemic when state subsidies were protected but parent fees were not. Cost of living pressures have since also bitten hard for many, affecting both viability, and mental health and wellbeing (PACEY, 2022). For some, the financial model appears to work now only because they are able to care for one or more of their own children as well, or do another job in addition to supplement their income – one in ten childminders report doing each of these.
- **Administrative burden:** professionalisation, and particularly the introduction of the Early Years Foundation Stage (EYFS), has formalised some aspects of the job. While many childminders see EYFS as a positive and take pride in Ofsted endorsement, demonstrating that EYFS learning goals are understood at the point of registration, and being met on an ongoing basis to ensure Ofsted compliance, can be extremely time consuming and continues to be cited as one of the top reasons for wanting to leave the profession (PACEY, 2024). The evolution of a broader culture that pays greater dues to safeguarding and

risk management has also created new demands from outside the sphere of early education and childcare. For example, childminders are now required to show compliance with food safety as businesses and they increasingly report difficulties obtaining written permission from landlords, including, if they live in a council-owned property, local authorities.

Concerns about finances and administration have been writ large for childminders when it comes to participating in funded entitlements. While most say they can in principle deliver funded entitlement places, traditionally relatively few actually do. Less than one-quarter (24 per cent) of childminders said they had two-year-olds funded through the 15-hour entitlement, in contrast to more than 80 per cent of school-based providers and group-based providers (DfE, 2024a) – despite them catering to a large proportion of children in this age group. The proportion of childminders looking after children funded under the 15-hour entitlement for three- and four-year-olds is much higher (62 per cent) but still trails other provider types very significantly. Anecdotally, many report being deterred by low reimbursement rates, the prospect of navigating further systems for registration, and the financial instability of termly payments from local authorities for funded entitlement children.

At the same time, much of the support previously provided for childminders by local authorities has disappeared as the funding environment for local authorities has tightened. Childminder representatives report very weak levels of support from their local authorities. While there was always a good deal of variability from one authority to the next, many of the childminder networks and training opportunities that used to be facilitated centrally at local authority level have disappeared.

The government's main strategy of the last decade to overcome this has been to develop childminder agencies (CMAs). First created in 2014, CMAs were designed to encourage more childminders to enter the profession, offer childminders greater support, and increase professional standards (DfE, 2014). They are private companies that register childminders as an alternative to registering with Ofsted and create a bespoke service for their childminders, charging a monthly fee or a percentage of earnings in exchange for this support. They are required to carry out one or more quality assurance visits a year (compared to one every six years by Ofsted) and provide practice support and CPD, and can also offer a range of additional services such as invoicing or helping to find clients. CMAs themselves are inspected by Ofsted periodically, including a check of a small sample of provision by members.

But CMAs have proved limited in their reach, have failed to stem the flow of childminders out of the sector, and have no clear track record of supporting childminders to access funded entitlements. There is a reported reluctance among many to take on additional ongoing costs where they do not have to, and many are reported to like having the recognised Ofsted badge they are able to obtain if registering independently, using it in their marketing. Our exploration shows there are currently only three active registered CMAs, with their latest Ofsted reports indicating a total of fewer than 1,200 members in total across England. Even assuming all of these childminders offer services to children in the early years, they represent under 10 per cent of the early years childminder workforce. Of those childminders registered with agencies, the vast majority are signed up with one agency – a fast growing venture capital backed social enterprise which has been highly praised by Ofsted for the quality of service it provides. This agency has proved popular with childminders, including attracting individuals from diverse professional backgrounds and communities, largely because it has invested in the development of a bespoke tech platform to support childminders managing the daily organisation of their business and to feel part of a wider network. Until recently only a minute proportion of the childminder business it administered was via funded entitlements – but this is changing as the new entitlements roll out, and thanks to a significant investment by this CMA to make access to entitlements easier via their platform.

Over time there have been a handful of other CMAs, but high-profile closures have highlighted some of the model's shortcomings. Notably, the largest agency at the time (Rutland Early Years Agency, with over 700 childminders) was shut in 2023 following heavy criticism from Ofsted of its ineffective quality assurance processes. These were shown to be not timely and built on frameworks which lacked professional rigour. Their representatives – along with other CMA leaders – largely attribute this to not being funded properly to perform the quality assurance role, and in particular to annual visits. The model relies on CMAs being able to leverage their fees to childminders to pay for this – an imbalance, they would argue, with Ofsted which requires just a £35 registration fee and inspects every six years. Given the tight margins that most childminders run on, there is a low ceiling to the fees they can charge. However, the closure of Rutland also arguably highlights the difficulty with positioning CMAs as poacher *and* gamekeeper. There is a potential conflict of interest between childminder agencies being the arbiters of quality, while their financial model relies on them trying to attract as many childminders as possible – a concern which has been noted by local authorities (LGA, 2023).

The extension of the funded offer is changing dynamics within the childminder market significantly. With nearly two-thirds of childminders' business coming from children aged two years and under, many will face a stark choice of whether to open up to the funded entitlement or close their business. The generous rates offered to younger children may be enough to incentivise some – but without the security of regular monthly payments or simplified administration processes it remains to be seen how many will stay. Initially, when the extension was announced, many reported they would leave (PACEY, 2023). Government has taken small steps to address some specific disincentives to childminders joining – for example, pre-registration requirements have been loosened and a small £600 start-up grant has been introduced for those joining or re-joining the profession, or £1,200 if they join via a CMA. But it is questionable whether this will be sufficient to reverse a decade-plus trend in the wider context of expansion.

LOOKING FORWARD: THE ROAD TO PLACES THAT BETTER MATCH NEEDS

Neither of the challenges presented here is new. Yet the expansion of the funded entitlement and school-based provision creates a new imperative and a new need for action. There is an opportunity to think afresh about where powers and responsibilities should lie and how a state which takes a more proactive role in market shaping could create the conditions for more responsive and inclusive local provision.

Shaping responsive local markets

A fairer funding system which better reflects the true costs of delivering to disadvantaged children as proposed in chapter 3 could significantly alter the incentives to providers, and may go some way to addressing the dearth of private and voluntary provision in certain areas. But unless the financial incentives offered were to outstrip costs alone (which is not what we are proposing), it seems unlikely to ameliorate 'childcare deserts' or achieve a radical shift in the landscape. A wider approach to securing healthy access to provision which matches local needs across all communities is required.

What might this look like?

1. Actively curating the schools expansion

The schools nursery expansion will need to be carefully curated in order to ensure it effectively plugs gaps, delivering places that are needed in disadvantaged communities and to disadvantaged children. Government guidelines on applying for funding for the initial tranche of school-based nurseries are already very clear that schools should supply evidence of local childcare need, and encourage schools to discuss this with their local authority. And applicants who can demonstrate a strong educational approach to disadvantaged children are rewarded. But there is more that could be done.

Nationally, government should set a clear expectation that schools should be developing provision where there is clear need, and deliver places to the most disadvantaged children. Weighting the overall profile of funding for refurbishments nationally to disadvantaged and rural areas where access to private and voluntary provision is generally weaker would support this. Government could also set expectations that alongside new places for children on working families entitlements, all schools prioritise a proportion of places for children who are eligible as part of the disadvantaged two-year-old offer and children on low income or with emerging needs who are entitled to the three-four-year-old universal offer – reflecting their local population. This could be monitored by local authorities to ensure it is the case.

Local authorities are uniquely placed to play an instrumental role in the distribution of school expansion funds in future, ensuring that allocations are guided by local knowledge about evolving demand and the local market – and setting conditions which providers must meet. Councils' local and neighbourhood level intelligence will be vital for ensuring that new school-based provision is a good fit with need and does not encroach unhelpfully on valued existing providers. Giving local authorities a greater say in where/how school expansion is commissioned than in the past will enable a more locally responsive and strategic approach, helping to stave off ad hoc schools growth. The initial process set out by the government, which sees bidding schools competing for funds and urges them to talk to their local authorities in doing so, will give local authorities some voice but it is not clear all schools – especially academies – will comply, and limits local authorities' ability to set strategic direction.

If the school-based expansion is to plug the most significant provision gaps, local authorities will need to actively broker partnerships between schools and private and voluntary providers (including childminders). Currently only 2 per cent of school provision is delivered with a partner organisation (DfE, 2024a). Yet engaging private and voluntary providers (PVIs) to deliver on school sites has huge potential to enable schools to develop the provision needed without being weighed down by the challenges of running a service that stretches them well beyond their traditional remit. For many it is likely to be the only way to bring in childcare professionals with the experience and expertise of working with younger children, and staff willing to provide care beyond the school day or term. From the perspective of private and voluntary nurseries, it could also be attractive in helping to get access to good premises with good leases and affordable rent – while also ameliorating concerns about competition from schools-based expansion.

The failure of school-private/voluntary partnerships to take off in childcare so far can likely be attributed to concerns about differences in terms and conditions across the sectors, and weak local relationships. And yet there are a number of pioneers who demonstrate that with sufficient thought and negotiation it is possible to co-deliver provision in a variety of ways, and that doing so can bring additional benefits to the quality of the service (see box 4.2). For some schools the most amenable option may be a straightforward rental of a converted classroom to a private and voluntary provider. For others, there is an opportunity to consider working in a more integrated and collaborative way, enabling joint training and aligned pedagogical approaches, and establishing relationships and communication across staff that can support families. Since childminders are no longer required to work from domestic premises, partnerships with them could also be considered.

It is notable that currently, due to provisions in the Subsidy Control Act, schools are prohibited from offering favourable market rates for space to external partners delivering childcare on their premises. Government could explore legal changes to remove this barrier and incentivise more co-delivery.

BOX 4.2: PVI/SCHOOLS PARTNERSHIP EXAMPLES

Ark Start

Ark Start is a 'MAT-governed but independently managed' not-for-profit nursery group. Its first three nurseries are on school sites in South London, and it is opening provision in a non-Ark nursery in a voluntary-aided primary school.

"Developing our work in partnership with schools has been vital but we have emphatically not taken over the running of our schools' nursery classes. On the contrary, this collaborative approach has led many of our schools to broaden and extend their own work in early years… Using the space in schools and integrating nursery provision is sensible. All children in nurseries will eventually end up in schools and building our nurseries on school sites makes for strong transitions and deep relationships with families," says Katie Oliver, managing director.

Ark Start supports the Ark Schools early years network with specialist training and knowledge. At the same time, Ark Start is able to keep its operating costs down by making use of the Ark Schools infrastructure and back-office support such as HR and finance.

LEYF Angel pre-school

Angel pre-school is one of over 40 settings within the London Early Years Foundation (LEYF), a social enterprise nursery chain operating across the capital. Angel provides 50 places for children aged two to four years, including a very high proportion with emerging special educational needs. The setting has operated out of St Gabriel's Church of England Primary School in Pimlico for more than two decades. The school and nursery are completely distinct entities, and their only formal tie is through rental agreement. However, most Angel children go on to St Gabriel's and the head teacher and pre-school manager are committed to working collaboratively, particularly in supporting transition to school. Children from the pre-school are taken up to the school regularly to get to know the space prior to starting. The school Special Educational Needs Co-ordinator often visits Angel to discuss strategies for supporting individual children with the setting manager Learning support assistants also visit to spend time with the children and get to know them individually prior to reception. Having interlinked space also allows nursery children to make use of facilities such as the school kitchen garden, and allows staff to regularly attend each other's events.

2. Strategic planning and commissioning

Effective strategic planning and commissioning of new local provision and expansions will be needed to secure sufficient supply of quality providers and places across all sectors where there are gaps. The government needs to acknowledge that school-based provision will not suit every child or family, or every school – and avoid a solution that seeks to concentrate disadvantaged children exclusively in state-based providers, as this would be socially segregating and thus undesirable from a social and child development perspective (Sylva et al, 2004).

Our mapping brings the extent of local variation into sharp relief, and there is a compelling case for creating greater purchasing power for the commissioning of new provision in specific areas where it is needed most. A collectively pooled pot for commissioning across a number of local authorities could be the best way of achieving this in many areas, with decisions about where spending is needed fully informed by local intelligence but a more strategic level view on priorities and more effective distribution of funds to address gaps. Our proposal is that collective pots should be manged by combined authorities or local authority collectives focussed more exclusively on commissioning – individual local authorities would still be responsible for understanding local need and shaping the delivery of new provision, but the decision about priorities would be a joint one.

IPPR has put forward the idea previously of 'regional childcare co-ops' to manage supply and support training and regulation, with a broad set of financial and workforce development responsibilities (Statham, 2022a). Our concern was that – similarly to social care – local authorities are supposed to have sufficiency and quality duties, but in practice lack the resources, scale or capacity to do them effectively. Having further tested this idea, we have concluded that local authorities' closer proximity to communities means they are, in principle, better placed to know and support childcare providers, assure their quality and ensure that they are meeting the expectations and conditions set out in the terms of their provider agreements – or potentially in future 'license to practice' (see Jitendra, 2024). The fact that the childcare market is so localised, and dominated by many very small entities and schools, means that a structure operating across a wider geography would likely struggle to develop the provider relationships and familiarity necessary for effective day-to-day market management. The setting of local formulas (with Schools Forums), issuing of provider agreements, regular distribution of free entitlement funding and monitoring of that are all linked processes which continue to sit best with local authorities. (For similar reasons, oversight on quality and the coordination of training and support largely best sits at local authority level too – this will be discussed further in chapter 5).

Similar to the regional co-ops model, we propose that combined authorities or local authority collectives consisting of groups of around five to 10 authorities should pool a small proportion of their free entitlement funding – and work together with a more exclusive commissioning focus. These could be used for the purpose of direct commissioning or to establish provider incentive schemes which stimulate the setting up of provision in areas of need. For example, based on 2024/25 funding a group of 10 local authorities pooling 10 per cent of their centrally retained early years budgets would be able on average to establish a pot of around £1.5 million for the year that could be used in this way.[10] The process would be overseen by a governance group composed of members of

10 We calculate this based on 2024/5 funding, and assuming average funding rates and an Early Years Block pass-through rate of 96 per cent to providers. Local authorities can retain up to 5 per cent of funding and we know many retain less than this but there is no national data available, so this is an informed estimate. The size of the Early Years Block awarded to local authorities varies greatly, especially due to population, so this is an average rather than uniform estimate. In using 2024/25 funding rates we have excluded future increases from the expansion which will lead to significantly larger total Early Years Block designations in future.

all constituent authorities and drawing together commissioning skills and expertise. These groups would collectively agree priorities for new provision and expansion based on individual local authority representations and local intelligence – including considering access issues which impact communities that sit across local boundaries. They could employ individuals with specific commissioning expertise and might also enable coordinated outreach to a larger pool of potential providers when trying to fill a childcare gap. Acting as a collective would also give them a stronger and more consistent voice when commissioning or negotiating with some of the larger childcare organisations, which tend to be regional or national in scope.

The London area and Greater Manchester, where cross-local authority boundary strategies and experiments in improving childcare take-up have been implemented in the past (through the Greater London Authority and Greater Manchester Combined Authority), could be good places to trial this. A number of other combined authorities would be suitable sites – and others have recently made parallel arguments that collective commissioning on childcare should be part of mayoral combined authorities' future functions (Freedman, 2024). Other groups of local authorities could be encouraged to come forward together, complementing the government's plans to widen and deepen local devolution. Smaller partnership groups may make more sense in more geographically spread and rural localities.

Once they are established, the funding that the government is providing for school-based nurseries could be put through local authority collectives too, and the scope of that funding should be broadened. Local leaders will be best placed to decide how funding can be harnessed to expand quality provision and make best use of public assets. They could consider bids by schools or academy trusts – and request government to use academy funding agreements to push trusts to develop specific provision in disadvantaged areas where needed. Where expansion of provision in maintained nursery schools, children's centres and family hubs is a better fit for local demand as opposed to school classrooms, local leaders should be able to direct it in this way. The funding in this case could be distributed directly to combined authorities or local authority collectives, and from there distributed based on the most pressing neighbourhood needs.

3. Nurturing and protecting good provision for disadvantaged children

As well as considering new provision, efforts are required to nurture and encourage aspects of the market which are in decline, yet currently serve disadvantaged children and communities well.

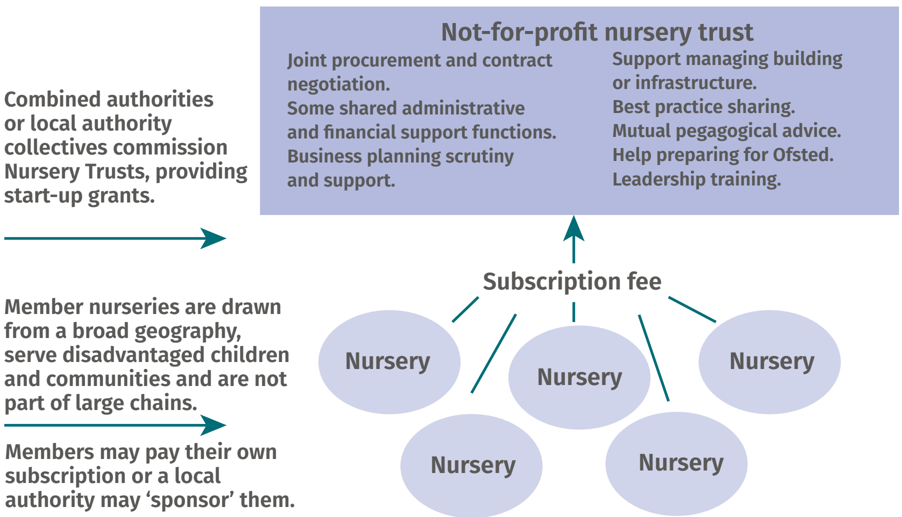
There are some relatively straightforward steps government could take in this area. For example, local authorities could be given stronger leverage to withhold entitlement funding to new providers deemed to be encroaching on fragile local markets where those providers do not have a track record of offering good quality. Local authorities could be required to move over time to monthly payments for childminders and very small independent providers (discussed in chapter 3). They might also provide greater security to maintained nursery schools which – despite costing more to deliver – offer some of the best quality provision to small numbers of children in some of the most deprived areas.

In addition to these changes, we believe an infrastructure is needed to help secure and strengthen smaller/more independent high-quality settings. IPPR has previously recommended incentivising local authorities to establish not-for-profit nursery trusts (Statham, et al, 2022a) and we have given further consideration to how this model could be developed. The aim would be to give valued small providers, and especially those serving disadvantaged children and communities, access to some of the same benefits and economies that currently enable larger chains to grow and be profitable. Thus, nursery trusts could provide a structure for:

- joint procurement and contract negotiation
- some shared administrative and financial support functions
- business planning scrutiny and support
- support managing building or infrastructure projects
- best practice sharing and mutual pedagogical advice
- help preparing for Ofsted or deliver data to meet legal requirements
- leadership training.

The nursery trust structure must be attractive to all types of smaller/independent settings working with disadvantaged intakes irrespective of sector, including those who want to retain their own pedagogical model or business structure. On this basis, we propose a light-touch network model. Providers would not need to integrate their businesses fully, but instead retain their independence and pay a subscription (similar, for example, to many Local Education Partnerships which facilitated collaboration across groups of schools such as Camden Learning, Haringey Education Partnership and Learn Sheffield). Geographically-spread groups within a region would be encouraged in order to attract providers who do not view one another as competitors and are more comfortable to share organisational information. The nursery trusts themselves would be governed independently as charities, but commissioned by combined authority/local authority collectives who may also choose to subsidise them, either on a matched funding basis or by sponsoring particular providers to participate. In some cases, new school-based provision could be an opportunity to establish trusts, linking in new provision delivered within the school estate. (see figure 4.7).

FIGURE 4.7: UPDATED IPPR NURSERY TRUST MODEL



Source: Authors' analysis

Nursery trusts could, if members choose, develop into fully integrated social enterprise groups or ethical businesses with unified leadership and finances, or social franchises. Government should explore creating better conditions to support this, including by consulting existing successful social enterprises in

the sector. A landscape of providers with more competitive social enterprise chains would see efficiencies of scale ploughed back into the sector, as opposed to a large proportion being taken out of the system as profit. This is an area of concern IPPR has flagged previously, and analysis since then by Joseph Rowntree Foundation suggests that a growing number of companies backed by private equity or investment firms take on average 22 per cent profit, which is more than seven times that reported by non-profit companies (Garcia et al, 2024). Critical to this will be promoting more ethical investment in the sector and affordable borrowing to enable scaling.

A new strategy on childminders

On childminders, there are three broad possible directions.

The first is to let childminders continue to decline. At the current rate (a drop of around 3,000 childminders per annum) there will be perhaps just a small handful of specialist childminders left by 2033. Under this plan, financial incentives could be withdrawn, and no further action would be needed on childminders or agencies. However, a strategy would be required to grow a significant amount (around 165,000) of substitute places in other provision suitable for younger children, provided flexibly and year-round, and to develop bespoke support for individual children with higher needs.

The second option is to seek to strengthen incentives and build a stronger and richer market of childminder agencies (CMAs) that makes the childminding profession more attractive. Financial incentives to new recruits could be bolstered significantly and opportunities to reduce administrative burdens further reduced – particularly streamlining requirements around entitlements. Childminder agencies could be promoted and supported – for example, with training to level up standards on how they conduct the quality assurance role; and the possibility of lightening their load on quality assurance (QA) visits, and offering a one-off incentive payment to agencies as ippr have previously put forward. However, the critical shift – with the potential to change the landscape for CMAs – would be to require all childminders to join an agency, as they do in the Netherlands (see box 4.3). Alongside providing greater support and a stronger guarantee of take-up through making registration mandatory, the government could develop expectations of CMAs further – for example, requiring them to make funded entitlements central to their model through supporting with evidencing eligibility, or helping to manage some of the financial risk by issuing monthly payments even where payment from local funding formulas comes less frequently.

BOX 4.3: CHILDMINDER AGENCIES IN THE NETHERLANDS

In the Netherlands[11] all childminders must sign up to a childminder agency; there are around 200 active childminder agencies.

The Dutch government makes individual requirements of childminders in terms of accredited training and all individuals must register as 'a person active in the childcare sector' with the National Childcare Register for safeguarding purposes. But in order to practise they must register with an agency. Agencies advertise provision to parents and are required to set out a pedagogical vision and provide day-to-day oversight and support, including implementing a clear health and safeguarding plan, running a parents committee and ensuring member childminders have required qualifications.

11 See: https://business.gov.nl/starting-your-business/checklists-for-starting-a-business/checklist-for-starting-a-childminding-agency/

The third option is for government – national and local – to take the lead in growing childminders and making them a strong feature of the system. The first step would be to make a positive statement of commitment to the childminder sector, including a new long-term national strategy setting out childminders' central position in an expanded entitlement world. This could also include a plan for growing the supply of childminders covering recruitment, training and support, and a vision for how they might work with group settings to deliver more flexible packages of care.

Further alignment could be sought at a national level to make daily administration and interaction with different funded entitlements more joined up and easier. And, as above, the government could require all local authorities to implement monthly payments for childminders delivering funded entitlements. Sector leaders believe this kind of endorsement alone could make a difference to both childminders/ potential childminders and parents who appear to be viewing them increasingly as a niche service and not turning to them for access to the entitlement (perhaps in the belief that they cannot participate).

Alongside this, the CMA model could be wound down, returning Ofsted registration and inspection requirements to all childminders directly – and complementing this with a new plan for quality assurance. Annual quality assurance visits between Ofsted inspections might be conducted by local authorities or local authority-linked networks and communities of practice. This would need careful development but there are opportunities to learn from existing excellent practice in some localities – and re-capture childminder network models that existed previously in other areas. It would also be critical to learn from highly valued bespoke digital solutions, which the most successful CMAs have developed to enable childminders to feel better supported and navigate their administrative tasks. The government could consider building on some of these successes with a childminder-friendly national digital platform.

On balance, the latter option of government disbanding CMAs and taking a stronger lead feels like the surest – although there would be clear merit in consulting childminders themselves. The first option risks fewer bespoke options for families and parental dissatisfaction. The second has the clear attraction of unleashing market creativity to develop bespoke support and solutions for childminders on a larger scale, as originally intended with CMAs. But there is still no guarantee this would happen, and if it did it may take time – which the rate of decline in childminders does not afford. The final model would reduce ongoing costs to childminders and confer all with a recognised quality mark. Starting with a positive statement of intent about the importance and centrality of childminders in the new offer could be a quick win.

SUMMARY AND CONCLUDING COMMENTS ON SHAPING PROVISION

Historically, politics and economic inequalities have shaped the development and availability of childcare provision. And despite the growth of funded entitlements over the last quarter-century, the increasingly laissez-faire approach taken by government to shaping childcare provision has allowed some significant gaps to persist and grow in recent years, impacting disadvantaged families and children most of all. The current extension of funded entitlements to 'working families' only could serve to re-enforce current market dynamics as providers pivot further to support families who qualify – with a strong risk that provision in some areas and for some families gets left further behind.

The government's school-based expansion offers a bold solution, but the elephant trap would be to mistake it for 'the solution'. Simply extending school nursery classes might be attractive to some heads but not others, and will not re-pattern provision in a way that addresses these gaps if left primarily to schools to do the bidding. And it will not deliver the diversity of places necessary to meet the needs and wants of all families – especially those with younger children or requiring greater or more bespoke hours and care.

To achieve this, we need to build a system which empowers local leaders to curate, broker, plan and commission strategically and, where the infrastructure exists, to nurture and protect the valued provision. Central government has a critical role – and responsibility – to make that possible through levelling the playing field with fair funding (as argued in the previous chapter), through creating a supportive policy framework and through stepping in more decisively where parts of the market which parents depend on are struggling nationally. The ideas put forward in this chapter demonstrate that there is room to be far more imaginative about all of this.

Recommendation: Enable more responsive local commissioning, create a new model to nurture valued providers and adopt a new strategy on childminders.

1. **Actively curate school expansion with local authorities playing a key role, including as brokers.** Target national funding towards disadvantaged and rural areas and give local authorities a strong say in where/how school expansion takes place. Local authorities should proactively broker new partnerships between schools and private and voluntary providers (including childminders). Government could also explore legal changes to make it possible for schools to offer favourable rental rates to partners to encourage co-delivery.
2. **Pool funds for commissioning new provision across groups of local authorities**. Groups of local authorities should establish collective pots for commissioning childcare, managed by combined authorities or local authority collectives. They would prioritise jointly, with decisions informed by local intelligence. In future, funding for the schools-based expansion could be directed via there too, with leeway given to distribute funding for new provision in maintained nursery schools, family hubs or children's centres, where that was a better fit with need and best use of public assets. They could collectively negotiate with larger nursery groups and academy trusts to secure provision in disadvantaged areas where needed.
3. **Nurture good provision for disadvantaged children, including establishing new not-for profit nursery trusts.** Nursery trusts would offer a light-network model open to providers of all types, delivering business support and facilitating best practice sharing. They would work across regions, drawing in settings that are not direct competitors. Start-up grants from combined authorities or local authority collectives would help initiate them and member nurseries would pay a subscription fee which could be sponsored by a local authority. Government could set supportive conditions for Trusts to evolve into fully integrated social enterprises where this is desired, capable of rivalling for-profit private equity backed chains.
4. **Central and local government taking a stronger lead on growing and supporting childminders.** A new long-term national strategy setting out how childminders will be supported to play a central position in the new world of expanded entitlements. This will include a plan for growing supply, making interaction with different funded entitlements easier, and requiring all local authorities to pay monthly. Wind down the childminder agency model, returning Ofsted registration and inspection requirements to all childminders directly –complement this with annual quality assurance visits between inspections conducted by local authorities or local authority-linked networks and communities of practice. Explore establishing a childminder-friendly national digital platform.

5.
MORE THAN CHILDCARE

The new UK government wants to harness the potential of childcare to support positive child development to narrow achievement gaps and realise its mission to break down barriers to opportunity. Yet with efforts across the system predominantly focussed on a rollout to meet the needs of working families, there is a risk that in implementation we lose sight of this. Ensuring entitlements are properly funded and free at the point of access and that local provision is available to meet the full diversity of needs will be essential. But beyond this, ensuring that all families opt in to services, and that children and families get the support they need when they get there must be a priority.

*How can the expanding offer be developed into something which is **more than just childcare**, providing services all families opt in to and quality joined-up early support for all those who need it?*

CHALLENGE A: FAMILIES DO NOT ALWAYS FEEL CONFIDENT OR ABLE TO TAKE UP CHILDCARE

The offer to families is critical. But differences in awareness, cultural preferences and quality concerns can all also drive lower take-up among more disadvantaged families. Research from Campbell et al (2018) has identified several factors contributing to lower childcare usage among families on low incomes, including:

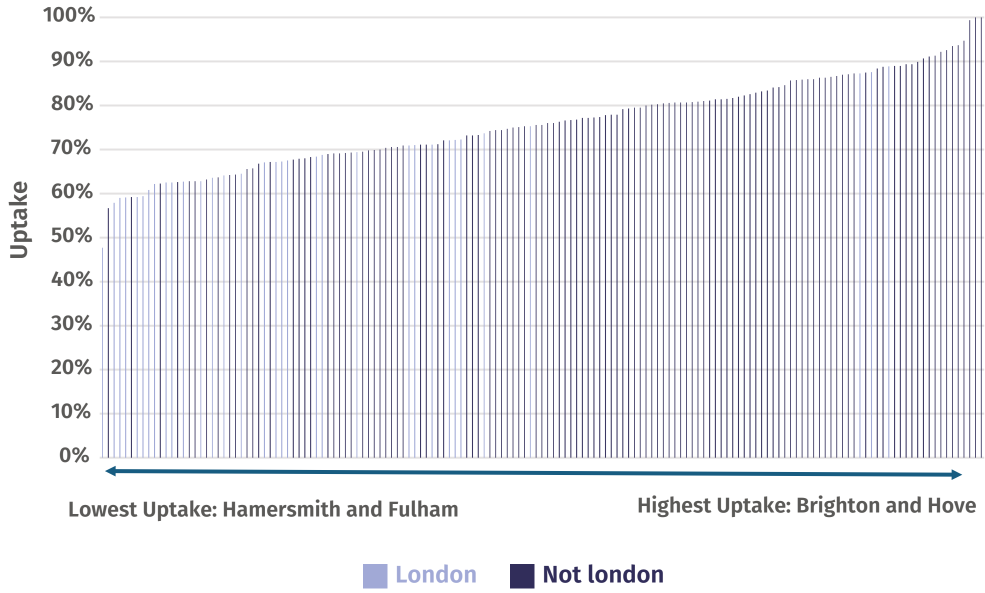
- awareness: less-advantaged families were often less aware of their entitlements and the available childcare options
- cultural preferences: some ethnic minority groups (who are disproportionately likely to be on a lower income) showed a preference for familial care over formal childcare settings
- quality concerns: disadvantaged areas often had fewer high quality childcare options, discouraging usage.

Others looking at the take-up of the targeted two-year-old provision have similarly identified that demographic characteristics such as ethnicity explain a significant proportion of the variation in take-up. Take-up was found to be lower for children from non-white British backgrounds and particularly low when English is an additional language spoken at home, suggesting cultural and linguistic differences could be a barrier – although these do not fully explain the difference, with take-up among white British pupils in London remaining comparatively low (Teager et al, 2018).

Even where provision exists and is in theory accessible, the way it is offered by providers can create barriers to take-up. Asked about barriers to the take-up of 15 funded hours in their local childcare markets in one recent survey, 57 per cent of local authorities mentioned providers who do not offer or who limit places for disadvantaged two-year-olds, with the figure increasing to 65 per cent for two-year-olds with SEND. Over half (51 per cent) said disadvantaged two-year-olds are offered places at times that don't work for their families. And 40 per cent reported payments associated with an entitlement that is targeted at low-income families (La Valle, 2024).

Data shows wide variation in the level of take-up among disadvantaged groups across different areas for free entitlements. Take-up rates for the funded entitlement to disadvantaged two-year-olds average at 75 per cent but range from less than half of eligible children in one local authority to 99.5 per cent in another (See figure 5.1). Partly, differences reflect varying market contexts and levels of accessibility of provision (discussed in the previous chapter). But they also reflect the very wide range of practice in outreach at local authority level. The performance of local authorities in London (marked in red in figure 5.1) illustrates this. *Among local authorities in the bottom quartile for take-up rates for the disadvantaged two-year-old entitlement, 20 (out of 38) are in London – and of those in the top quartile for take-up, only three are from London.* The context of the local market and population is clearly a key factor – but the performance of some local authorities such as Camden, and Barking and Dagenham, suggests it is possible to succeed and secure high take-up against the odds.

FIGURE 5.1: TAKE-UP RATE FOR DISADVANTAGED TWO-YEAR-OLD ENTITLEMENT BY LOCAL AUTHORITY



Source: IPPR analysis of DfE (2024) education provision: children under 5 years old

Over 10 years on from the full implementation of the funded two-year-old offer nationally, there is an opportunity to learn more from the most effective outreach practice. A new national study aimed at understanding take-up of the early education entitlements in England defines more clearly than ever before the key features of successful local authority approaches to engaging families with childcare. They include:

- a robust multi-agency early years strategy, backed by senior managers
- effective use of data to identify disadvantaged children
- conversations on entitlements becoming a routine for family-facing professionals
- tailored one-to-one support for some families, including targeted home visits
- supporting peer-to-peer communication to promote the benefits of entitlements (La Valle et al, 2024).

CHALLENGE B: SETTINGS AND STAFF OFTEN DO NOT FEEL EQUIPPED WITH THE CAPACITIES AND CONNECTIONS TO SUPPORT THOSE WITH GREATER NEEDS WELL

The current system is straining under the burden of meeting children's increasingly high needs. As we set out in chapter 3, the needs of very young children are rising and becoming more complex. There is a much greater presence of children identified with SEND in all setting types than in 2019, with voluntary sector providers having seen the sharpest growth (DfE, 2024a). Further work is needed to better understand what is driving this and exactly how it is presenting in childcare settings. But we do know that at the same time, many settings are struggling to recruit and retain skilled and qualified staff. Although national data suggests there is no longer a mass exodus from the childcare workforce, it remains a low pay, low status career with high turnover and heavy dependency on temporary staff – particularly in private sector settings. The result is that children with emerging SEND or developmental needs are commonly being turned away by mainstream settings (Dingley's Promise, 2023), and there are signs a growing proportion of staff feel ill-equipped to provide the right level of support for all children in their care.

A survey conducted by the Anna Freud centre illustrates the extent to which early years professionals feel they lack the skills and knowledge necessary – and the implications for staff wellbeing. The survey of 900 nursery workers found that many feel extremely underprepared to meet some of the more difficult situations when dealing with children with challenging and complex backgrounds (Album J et al, 2021). Most respondents (91 per cent) said they had dealt with challenging situations that involved children who had what they considered could be mental health issues, or social or emotional difficulties. Of these, most (71 per cent) said they had become stressed or upset dealing with difficult situations, and most (74 per cent) said they felt confused and unsure of the best way to deal with them. The vast majority said these kinds of situations had become more common since the pandemic. Research for the Local Government Association has described how rising levels of poverty, complexity of needs and pandemic-related trauma are biting more for those settings serving disadvantaged communities. This is driving high turnover, which in turn is damaging quality and setting resilience (Reed et al, 2023).

Part of the issue for private and voluntary nursery settings in responding to higher needs is structural and related to their size. Most private and voluntary settings are not part of a large chain (see box 4.1 in previous chapter). The average number of staff in a private or voluntary group setting is 12 – many have fewer (DfE, 2024a). They serve on average 50 children – 36 in voluntary settings. If a child arrives with a certain profile of needs, it could be the first time that an early years setting has worked with a child with those needs. Where a setting has a Co-ordinator for children presenting with Special Educational Needs (SENCo), the chances are that person has multiple other responsibilities alongside this. And for a small organisation, making time to release staff for training and development when operating on tight margins and fixed ratios can be especially hard. This is a striking difference with the maintained nursery schools, who serve on average just under 100 children.

The challenge of meeting the increasingly complex needs of children also relates to a lack of effective join-up and integration with wider support systems. This is partly a reflection of the pressures facing other service areas. Often children must meet high thresholds of need to access expert support from community health services, and face long waiting lists where formal diagnosis is required. The result is that specialist services can feel unattainable to families – and to the childcare professionals who support them. For example, there are over 74,000 children on the waiting list for speech and language therapy, with nearly one-third waiting up to a year and over 5,000 waiting longer than a year (NHS England, 2024). Childcare professionals are often entrusted to 'hold' children in the interim while they wait, but sometimes with limited ongoing support. As discussed in chapter 3, where settings decide to take children down the route of accessing an education and care plan (ECHP), the process tends to be time consuming.

More widely, private and voluntary settings can appear to be disconnected from local multi-agency approaches on early intervention and support. Non-state nurseries are not always fully recognised by those leading wider children's services for their potential as the daily front line with the majority of families with young children. In some areas there is little to no strategic engagement with council services, except where there is a safeguarding concern. Often, providers are not central to Early Help or prevention strategies. And many settings can feel hard to engage with when councils try – whether because they face more towards their headquarters (if they are part of a chain) or are pushed for time and do not see the interaction as worthwhile. There is some evidence that during the pandemic, councils came to depend on and value childcare providers for the unique relationships they have with families, including engaging them at strategic level – and that providers found they needed to connect and signpost more to council-run services, and learnt how to do so (Reed et al, 2022). But generally, as funding for local authority early years teams and wider early support services have diminished over time, communication and cross-working between many local authorities and their providers appears to have diminished.

The expansion to younger children now puts a greater premium than ever on getting high quality, fully responsive services in place. This is not only because of the scale of the new offer, but also because of the younger age profile. Younger children and their families tend to be more dependent on support from health. And key longitudinal studies have shown that those aged two years and under face increased risk of behavioural problems emerging if they are in poor quality childcare for long hours (eg Sylva K et al, 2004). The importance of achieving a system which delivers consistently responsive and stable care has never been greater.

Furthermore, the expansion itself creates new risks to the quality and responsiveness of provision. Historically, entitlement expansions have led to a drop in available provision for children with SEND as the workforce is stretched to cope with new general demand – this was highlighted as a risk in the government's Equalities Impact Assessment. Emerging evidence also shows that the reduction of staff:child ratios, critical to facilitating new places for the expansion, is worsening the quality of care in some settings. Since September 2023, nurseries in England have been allowed to increase the number of children per qualified staff member, so that one adult now looks after five two-year-olds rather than four. Early reports on a study by Northampton and Nottingham Trent University of the impact of reducing ratios suggests that one-third of staff (32 per cent) at nurseries that followed the new guidelines feel that quality has been hit. Staff reported concerns about implications for safety and difficulty in giving children the attention they need (reported in Fazarkerly, 2024). The government is not requiring these ratio reductions, but if the funding model is predicated on it many settings will feel they have little choice.

LOOKING FORWARD: THE ROAD TO CHILDCARE AS A GREAT EARLY SUPPORT SERVICE

There is a tendency in policy circles to think about addressing issues of 'quality' purely through national levers on workforce and ratios, and what is in and out of the Early Years Foundation Stage. In light of the challenges presented, there are some clearly necessary actions for government in this space. The continued offer of a staff:child ratio for two-year-olds, which is starting to show detrimental effects, is hard to justify, as others have argued (see EECC, 2024). And a full root and branch workforce strategy that deals comprehensively with issues of pay and progression and seeks to reignite the drive on skills and capacity, as well as giving strong consideration as to how working in childcare can be made more rewarding and less stressful, is long overdue. Without it, the expansion risks being delivered without the professional skills and stability critical for quality early education and care.

Yet there is also a pressing need to think more clearly about how all childcare settings operate and are supported as part of locally integrated systems.

The current expansion should learn from Sure Start at its best. Having local access to a Sure Start centre offering a variety of early years services in one place has now been demonstrated to have improved the long-term educational achievement of children, with benefits lasting at least until the age of 16. Evaluators found that children who lived within a short distance of a Sure Start centre for their first five years performed 0.8 grades better in their GCSEs, with largest impacts for those from the poorest backgrounds and those from non-white backgrounds. Strikingly, living close to a Sure Start centre also significantly decreased the proportion of children recorded as having special educational needs at ages 11 and 16 (Carniero et al, 2024).

This means prioritising childcare co-located with wider early years support services where there is clear local demand for it, and investing in outreach around those services and beyond. It was the original Sure Start Local Programmes (SSLPs) which delivered the positive impacts described above – and not the later wave of children's centres. SSLPs had extra funding which allowed more extensive parental outreach teams. Some included childcare services but this was based on a local assessment of need – not a de facto prerequisite as it was in later children's centres. Required childcare services within children's centres often become a drain on resource when left largely under-occupied, as was often the case, and this may be a linked factor. This suggests that commissioners of new provision should look for opportunities in multi-agency sites such as children's centres and family hubs, as well as harnessing opportunities to build childcare as part of a wider multi-agency offer in schools where there is local need and there is potential for this (see the models advocated by Todd et al, 2024). It also emphasises the importance of investing in good outreach offers alongside any new provision, especially where it is co-located with other important services. With the benefit of more than a decade of additional learning from local authorities with strong outreach for the two-year-old programme, there is an opportunity to do this really well.

Importantly, integration does not always (or ever only) mean co-location. More widely, it is about supporting settings working across local areas to work seamlessly with other services and agencies to identify and respond to diverse needs. This is particularly vital in a context where so many providers are small independent settings as described above.

Local authorities are uniquely placed to lead and enable the development of more effective and integrated models of provision. Their knowledge of communities and wider responsibilities in relation to schools, social care, special educational needs (SEN) services, Early Help and public health mean that they are exceptionally well placed to knit childcare services together with others – and ensure more early, joined-up and seamless support. And their oversight of local needs and providers, and experience in driving and supporting quality historically in relation to early years and education more broadly, means they have good grounding here too.

Indeed, when we asked a sample of providers and council early years teams for their views about the future local authority role in a survey,[12] the strongest areas of agreement were around the potential for local authorities to promote quality and better harness their unique position at the centre of communities and services. Supporting childcare workforce recruitment and development, equipping settings to cope with rising special needs, ensuring greater join-up with wider early support and prevention services, and providing more quality support to settings and staff – particularly around SEN – were all areas where both providers and local authorities thought councils could helpfully do more. Providers were far less enthusiastic about them providing business advice and support (despite many local authorities feeling this is what they should be doing), tending to view others as better informed and placed to provide this. In our model, nursery trusts would provide the natural home for this.

What might a broader local authority role look like?

There are many existing examples of good practice within more proactive, quality and integration focussed local authorities that could be sought out and developed in other areas – and a range of case studies have previously been published (for example, see Reed et al, 2022; LGA, 2018; Lewing et al, 2022). And there are many local officials working in early years teams who have further ideas about actions they would like to put in place – but currently lack leadership momentum, resource or capacity, or are overly cautious about the limits of their legal roles and functions.

For example, to improve their quality offer, local authorities could:

- link the SEN Inclusion Fund (SENIF) to a broader offer of targeted support for Early Years settings to enhance knowledge and skills to work with increasingly diverse needs
- provide a local Continuing Professional Development (CPD) guarantee, and a bank of staff to backfill workers so they can be released for this
- conduct regular quality assurance visits and provide advice – including support for Ofsted preparation (in the case of childminders it might be via them, or a delegated network as set out in the previous chapter).

To improve the joined-upness of the system, local authorities could:

- provide and negotiate named early help and community health professionals to work with each setting
- drive and support implementation of fully integrated two-year-old checks, coordinating health agencies and early years professionals
- engage schools to support better transitions from childcare into school, including improved communication and information sharing
- ensure outreach approaches to engage families in childcare are multi-agency, and improve sign-posting to childcare from all professionals
- fully engage a diversity of childminders in the development of early help and intervention strategies and support to engage in multi-agency meetings
- lead workforce recruitment and development strategies, including support from colleges and apprenticeships or offering learner bursaries – although this might work more effectively at a higher combined authority or regional level.

Beyond their role as funder and supporter, local authorities also need to be able to operate a more reciprocal relationship with providers – holding settings in receipt of public funds to high and rising standards. Others have compellingly made this case, especially in relation to prudent and appropriate financial management and inclusion of children with SEN (see Bryant et al 2024; Jitendra, 2024). Empowering

12 See: https://www.isospartnership.com/blog/childcaremiddletier

local authorities to ensure greater local accountability will be critical as government funding expands – and as government becomes the biggest buyer of places there will be greater opportunities to do so.

This will require practical tools: for example, strengthening local authorities' hand to enforce terms set out in funding agreements and withdraw entitlement funding if a provider is not meeting them. And the relationship between local authorities and Ofsted on early years will need to be recast to give councils greater recognition as a body for regular oversight and quality assurance. For example, Ofsted should notify councils in advance when local settings are being inspected, giving them the opportunity to feed in observations or concerns as a matter of course – as local authorities are currently invited to do with schools.

SUMMARY AND CONCLUDING COMMENTS ON DELIVERING MORE THAN CHILDCARE

Addressing long-standing structural barriers to quality childcare provision is critical. But realising the government's opportunity missions also depends on fully recognising childcare as the daily frontline service for the vast majority of families with young children – and the proportion of families engaged will grow, even if some of the most disadvantaged remain excluded from the new offer. The close relationships childcare professionals have with children and parents mean they are exceptionally placed to offer children and families in their care timely advice and support, identify additional needs early and help them find their way to expert or specialist help.

This can only happen if all professionals, irrespective of setting, are able to work – and are supported – as part of a wider local system. A more proactive approach from local authorities to supporting quality and knitting together services is vital to make this happen – as well as more reciprocal relationships with providers and Ofsted. The emerging vision is of local authorities building on their strengths and position within the community.

Recommendation: Develop childcare into a consistently high quality, inclusive and integrated service by building staff capacity and harnessing the unique position and strengths of local authorities.

1. **Re-consider the 5:1 child/adult ratio maximum for two-year-olds** – where there is clear evidence it is compromising quality, it should not be an option or basis for modelling funding.
2. **A full root and branch workforce strategy** - this should deal with issues of pay and progression but also critically, focus on how to improve staff wellbeing, skills and frontline capacity for responsive care.
3. **Learn from Sure Start, prioritising childcare co-located with wider early years support services where there is local demand for it, and investing in outreach.** Make mainstream the most effective multi-agency approaches to outreach that have been developed through the last 10-plus years of local outreach to disadvantaged two-year-olds.
4. **Local authorities should play a more consistently active role in promoting and supporting quality.** This should be their priority, over and above offering business advice and support. Examples include the following.
    - The SEN Inclusion Fund (SENIF) could be linked to a broader offer of targeted support for Early Years settings to enhance knowledge and skills.
    - A local Continuing Professional Development (CPD) guarantee could be offered, and a bank of staff made available to backfill workers so they can be released for training and development.

- Regular local authority quality assurance visits and preparation for Ofsted (or via a linked network or community of practice for childminders).

5. **Local authorities should better harness their unique position to support settings to work in a more integrated way.** For example, they could:
   - provide and negotiate named early help and community health professionals to work with each setting
   - drive and support implementation of fully integrated two-year-old checks
   - drive and support better transitions from childcare into school
   - ensure outreach approaches to engage families in childcare are multi-agency
   - engage childcare providers in early help and intervention strategies and support them to engage in multi-agency meetings.

6. **Match this with stronger expectations and accountability** – by setting clearer expectations on providers to work as part of a system and provide high quality support, especially for children with SEND. Strengthen local authorities' hand to enforce terms set out in funding agreements and withdraw entitlement funding if a provider is not meeting these. Local authorities' relationship with Ofsted on childcare should also be recast so that their local insight and oversight is valued, aligning more closely with the approach on schools.

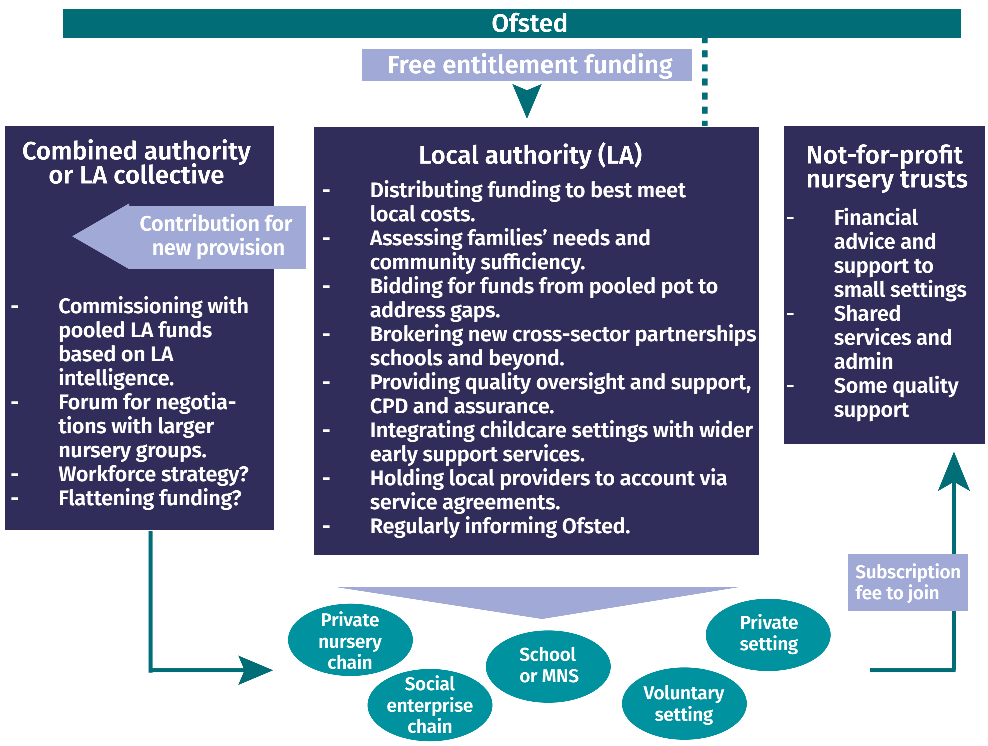
6. WHERE NEXT?

Taken together, the challenges and options presented across this paper make the case for a much more active future role for central and local government in shaping and delivering the childcare system as a public service. Provision is, and will remain, in the hands of a mixed market. There are considerable virtues to this. But without a clearer vision and more careful steer nationally and within every community, there is a risk that the returns of the unprecedented new investment are not realised for all children. This would represent a significant missed opportunity and leave the government's Opportunity Mission goals of reducing child poverty and achieving better outcomes for half a million children by 2030 well beyond reach.

WHERE NEXT FOR LOCAL SYSTEMS OF CHILDCARE?

As we have argued, childcare operates at a neighbourhood level and local authorities remain the natural conduit between central government, providers, wider services and families. Councils are uniquely placed to lead market shaping and effectively steward quality and integration with other services across the system, using their position and working in collaboration with other actors within an evolved 'middle tier'. Figure 6.1 illustrates the future middle tier landscape emerging from this project.

FIGURE 6.1: CHILDCARE'S MIDDLE TIER – EMERGING FUTURE LANDSCAPE



Source: Authors' analysis

The legal framework largely supports this. Under the Childcare Act 2006, councils have significant legal responsibilities in relation to sufficiency as well as a duty to improve the wellbeing of young children in their area and reduce inequalities.

Yet the role of local government in relation to childcare will need to be reinvigorated. It is currently under-developed and has eroded over time due to strained resourcing and a lack of strategic policymaking. Many appear to have retreated to the bare essential functions of distributing funds, rudimentary sufficiency assessments and support for settings in crisis. To play the more expansive role we envisage, all councils will require highly skilled staff, and strong local leadership from individuals who are willing to champion childcare and support in early childhood in the context of other competing pressures. Local authority early years teams will, in particular, need to be uniformly sophisticated and robust, so that they can build in-depth understanding, innovate to solve problems and work effectively across multiple boundaries – whether with neighbouring areas on commissioning, with other children's services to link up support to families, or brokering new relationships and arrangements across childcare providers and schools.

A first step toward this would be for government to set out a clear and ambitious vision for the future system and central role it expects local authorities to play – and the ways in which it will support them and hold them to account. Currently, it is not uncommon for local authorities to under-spend their central early years budgets[13] – but this is more likely to be a reflection of inconsistencies in the current funding system and a lack of local prioritisation and service vision than of over-generous budgets. Decisions about future spend and what local authorities should be able to retain centrally should be taken with a clear eye to the future and the roles and functions we need them to play. Government might usefully draw on current best practice to model the functions it wants to see locally – and the costs of providing them.

WHERE NEXT FOR THE NATIONAL CHILDCARE OFFER?

The majority of the reforms we have set out in this paper are about making more effective use of existing or already allocated resources – and a greater imagination to develop an offer that works better for everyone, and most especially for more disadvantaged children and families. A revised approach to funding based on greater transparency on the parts of both government and providers, and more effective distribution across areas and providers, would go a long way towards ameliorating the current, unsustainable reliance on cross-subsidy. Carefully locally curated and brokered school-based nursery expansion together with pooled commissioning across groups of local authorities could help to address the gaps in accessible provision which some communities face. The establishment of new structures designed to nurture and strengthen valued local providers (nursery trusts) alongside a new approach to supporting childminders would help protect and grow places which match different families' needs. And a better harnessing of local authority knowledge, strengths and existing relationships has the potential to improve integration between childcare and other services, enabling more children and families to access the support they need when they need it. These are all areas that do not necessarily demand significant additional resource, and where reforms could be initiated quite quickly.

13 FOIs submitted by the National Day Nursery Association suggest that in 2022–23, 62 per cent of local authorities underspent their centrally retained early years funding and 31 per cent overspent (NDNA, 2024), although this data may be affected by the time of year it was collated.

However, in the constrained fiscal climate new cost pressures must also be fully recognised where they exist. Failure to do this in relation to National Insurance increases and national living and minimum wage rises in the autumn 2024 budget has caused understandable consternation in significant parts of the sector. This marks a continuation of a culture in which government funding for childcare is not designed to cover costs.

Alongside better tracking of funding with wage costs, this paper highlights the pressing importance of delivering generous and reformed funding to meet the true costs of providing quality provision to the growing numbers of children who need additional adult time and support. Much more research is required to fully understand the evolving nature of rising needs in the early years, what is driving these needs and the effects they are having on practice – new learning will be essential to inform an effective long-term national policy response. But this must not delay efforts to improve the reach and effectiveness of funding for disadvantaged children and those with emerging special needs or developmental delays through the largely mainstream mechanisms we set out in chapter 3. Investment in building stronger local professional support and training, as we make a case for in Chapter 5, should also be regarded as urgent. Making these areas a priority has potential to support the workforce and deliver considerable benefits to children now, and to schools and the public purse later down the line – as Sure Start has demonstrated.

Finally, while this paper has not focussed on remodelling the offer, it is impossible to ignore the risks which the singular focus on very rapid expansion of entitlements to 'working families' creates. In chapter 2 we highlighted the number of groups – including many who would like to make the transition into work – who will remain excluded from the new entitlements in their current form. In chapter 4 we discussed the difficulties of building a childcare market which operates effectively in disadvantaged communities – and how this is more difficult with a market which is incentivised to pivoting further to working families only. In chapter 5 we highlighted the risks of compromises to quality from very rapid growth of places to the very youngest children. Continuing down the road of these inherited plans (and doubling entitlement hours to 30 per week for the very youngest children whose parents work by September 2025) could make realising the Opportunity Mission goals tougher in some respects.

Looking ahead, we argue therefore that the shape of the entitlement will need to be re-visited. Extending entitlement provision to all two-year-olds from families where no parent earns more than £100,000 seems an obvious next step. This would raise the number of children in that age group eligible for a funded entitlement from 59 per cent to 93 per cent – making it a near universal offer. Not only would it mitigate the risks listed above, but it would also simplify access for families with children in this age range and end a situation where currently, a large amount of administrative resource is taken up for the sake of excluding a minority of two-year-olds who fall between the entitlement offers. And it would help build long-term support for childcare as a public service, and represent a meaningful step toward a real childcare guarantee.

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