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DELIVERING A CHILDCARE GUARANTEE

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SUMMARY

Childcare in England isn't working, for children, parents, or providers. A patchwork of government-funded support leaves parents battling against eye-wateringly high costs, while providers are struggling to keep their doors open across the country as running costs rise but funding continues to fall short. The UK government now funds the majority of pre-school childcare hours in England – but the funding offered falls so far below the costs providers accrue in delivering these places that they are forced to push up costs elsewhere to stay afloat. Parents face a long and expensive wait between the end of parental leave, and when free available hours kick in the term after a child turns two or three, and wrap-around and holiday care is too often lacking altogether, or unaffordable for a growing share of families.

Access to high quality early years education and care is associated with better academic results at key stage 1, while children from the 40 per cent lowest income families who access formal childcare report better outcomes at key stage 1 than their peers who miss out (Department for Education 2021). A lack of access to quality early years education costs children who miss out on this development opportunity – and particularly those who are already at a disadvantage, who disproportionately lose out (Sutton Trust 2021).

It also costs their parents – and particularly mothers. This has an immediate effect through fees that reach two-thirds of the median wage in parts of the UK (TUC 2022) and leave lone parents and second earners in couples worse off for taking on more paid work (Statham et al 2022). A lack of available and affordable childcare also affects families' wider wellbeing, as new research shows the withdrawal of childcare through school closures during the Covid-19 pandemic demonstrably harmed mothers' mental health, while researchers are still grappling with the significant and potentially long-term effects on children's mental health and development (Blanden et al 2022; BMJ 2022). As gaps in school readiness widen between disadvantaged children and their peers, and as soaring living costs pull more families into financial insecurity, or deeper poverty, action on childcare is urgent.

In a challenging fiscal context, investment in children's early years offers significant returns over the short- and long-term. High quality early years education is a social good: it improves children's wellbeing and education outcomes over the short and longer term, and it improves parental wellbeing and strengthens families' economic security by lowering barriers to paid work. Investment in childcare also stands to reduce the poverty and inequality that can hold back disadvantaged children's social and educational development, provide jobs in every part of the country, and increase economic output as well as tax returns to the exchequer as more parents move into, or increase their hours in paid work.

This paper is the second of two exploring the case for a childcare guarantee in England. The first laid out the policy framework for delivering universally accessible, affordable childcare from the end of parental leave to the end of primary school in England. We argue that this has three clear benefits.

1. **Investing in the best start for every child:** increasing access to high quality early years education and care has potential to narrow developmental gaps between children before they start school – and improve children's outcomes into adulthood. Quality is key, and as such we have a clear focus

on an adequate and sustainable funding settlement for providers, and on strengthening the childcare workforce.

2. **Increasing parental employment by lowering barriers to getting into and getting on in work:** This has potential to increase total parent earnings by over £13 billion per annum. We find that gains would disproportionately flow to households at the lower end of the income distribution. Under our proposal for a childcare guarantee, this would sit alongside substantial costs reductions for typical families (see table S1).
3. **Supporting long term economic growth:** we measure the potential impacts of increased employment rates and hours of paid work for parents of young children, which could deliver annual returns to the exchequer of £7.9 billion, boost post-tax family incomes by over £7 billion, and narrow the gender pay gap. In addition, investing in a childcare guarantee that improves childcare access for parents across England could create 130,000 more jobs in the early years sector across the country.

TABLE S1: INVESTING IN A CHILDCARE GUARANTEE COULD REDUCE ANNUAL CHILDCARE COSTS FOR PARENTS BY OVER £6,000

Typical savings for parents

	Working single parent of a two-year-old	Working single parent of a two-year-old, in receipt of universal credit	Dual-earner couple, children aged one and three	Dual-earner couple, children aged four and seven
Childcare needs	30 hours per week	20 hours per week	20 hours per week per child	40 hours per week for four-year-old, and 10 hours wraparound childcare for seven-year-old
Current provision	Tax-free childcare	15 hours free hours and universal credit childcare element	30 hours free childcare for three-year-old, and tax-free additional childcare	30 hours free childcare for four-year-old, and tax-free additional childcare
Annual savings	**£6,175**	**£623**	**£4,116**	**£3,091**

Source: Authors' analysis
Note: Assumes families work for 48 weeks of the year and fully utilise existing provision.

Delivering a childcare guarantee would rely on three core shifts – towards a sustainable funding settlement, a new deal for the early years workforce, and to drive up quality and ensure a sufficient supply of childcare places in every neighbourhood.

INVESTING IN A SUSTAINABLE FUNDING SETTLEMENT

Delivering a high quality childcare guarantee will not be possible without additional investment in a sustainable funding settlement for the early years sector. We recommend that funding rates for free available hours are stepped up significant to support the development of the early years workforce and boost quality. This increased funding rate would then be the basis of a gradual hours expansion, working towards a 30 free hours offer from the end of parental leave to the start of school.

A 'NEW DEAL' FOR THE CHILDCARE WORKFORCE

Driving up quality will rely on investing in the early years workforce. Pay will need to be a key priority, combined with stronger training provisions and a clear progression framework to aid retention and development. We recommend the development of an early years workforce strategy to support the recruitment and development of an expanded early years workforce. To drive quality and minimise profit extraction in a better funded sector, we recommend that increased funding is conditional on staff qualification levels and observation of national pay scales. In the longer term, minimum terms and conditions should be set through fair pay agreements established through sectoral collective bargaining.

DRIVING UP QUALITY AND ENSURING SUFFICIENT SUPPLY OF CHILDCARE PLACES IN EVERY NEIGHBOURHOOD

To drive up quality and ensure sufficient supply of childcare places, local and regional bodies should play a larger role in shaping childcare provision. The UK government should work to reshape the childcare market by limiting the expansion of highly leveraged for-profit nursery chains, and encouraging the expansion of maintained and non-profit sector provision. The UK government's Department for Education should work with providers and workforce representatives to develop a new regulatory framework for childcare provision, underpinned by new care standards. We recommend new powers for local authorities to establish not-for-profit nursery trusts, alongside the establishment of regional care cooperatives to manage supply and support training and regulation at the regional level.

1.
WHY INVEST IN CHILDCARE?

First, we consider the wider case for prioritising investment in childcare for children, parents, and the wider economy.

LONG-TERM RETURNS: INVESTING IN THE BEST START FOR EVERY CHILD

High-quality childcare has long-lasting impacts on children's development and outcomes throughout their lives – ranging from school readiness and education attainment, through to employment, health, and criminality (Brookings 2022). Access to high quality early years education and care is associated with better academic results at key stage 1, while children in lower income families (measured as the bottom 40 per cent of household incomes) who access formal childcare report better outcomes at key stage 1 than their peers who miss out (Department for Education 2021). It is a key influence on children's school readiness, alongside parental engagement and home environment, which affects language development and maths ability (Axford et al 2019).

A recent evidence review found case study evidence of settings that were particularly effective in improving children's outcomes included:

- good quality adult child verbal interactions, involving sustained shared thinking, open-ended questions, formative feedback modelling of skills or appropriate behaviour
- initiation of activities by staff via group work, and children via play
- good knowledge and understanding of curriculum
- knowledge about how children learn, reflected in teaching and play activities
- trained staff with skills to support children
- encouraging high levels of parent engagement in their child's learning, for example by sharing child-related information, and involving parents in decisions about their child's learning programmed.

Adapted from Axford et al 2019

The benefits of accessing high quality early years education and care also stretch beyond educational attainment, and into wider health and wellbeing measures. Research exploring the long-term impacts of accessing the Sure Start programme rolled out across the UK through the 2000s shows a wider range of social and emotional benefits, including in health outcomes. Children who attended Sure Start centres reported significantly lower rates of hospitalisation as teenagers than those who did not (IFS 2021).

Now, the early sector is under increasing pressure from rising costs – exacerbating an already inadequate funding settlement. We anticipate that real-terms cuts to early years investment – expected to fall by 8 per cent next year – would directly undermine government ambitions to strengthen economic growth. This has the potential to harm economic growth both in the short term, as settings close and parents' access to paid work is affected, and over the longer term, as investment in early-years education can improve acquisition of skills throughout an individual's life, making them

more productive and helping increase GDP (Drayton and Farquharson 2022; Hoddinott 2022).

PARENT WELLBEING

> *"Mental health is a really big thing, especially if you're a single parent and you just need that breathing space"*
> Parent

Childcare availability – and particularly the withdrawal of childcare – is important for parents' mental health. A recent academic study finds that school closures and reopening during the Covid-19 pandemic had significant effects on parent mental health – with the detrimental effect of closures on mothers' mental health recorded on a scale comparable to the run up to a divorce, or following a partner's job loss (Blanden et al 2022). Wider evidence finds that lone mothers in paid work experience lower rates of depression than mothers who stay at home (Nuffield Foundation 2013).

INCREASING PARENTAL EMPLOYMENT BY LOWERING BARRIERS TO GETTING INTO AND GETTING ON IN WORK

> *"If I can't afford the childcare, I just can't go to work… there's just no choice"*
> Parent

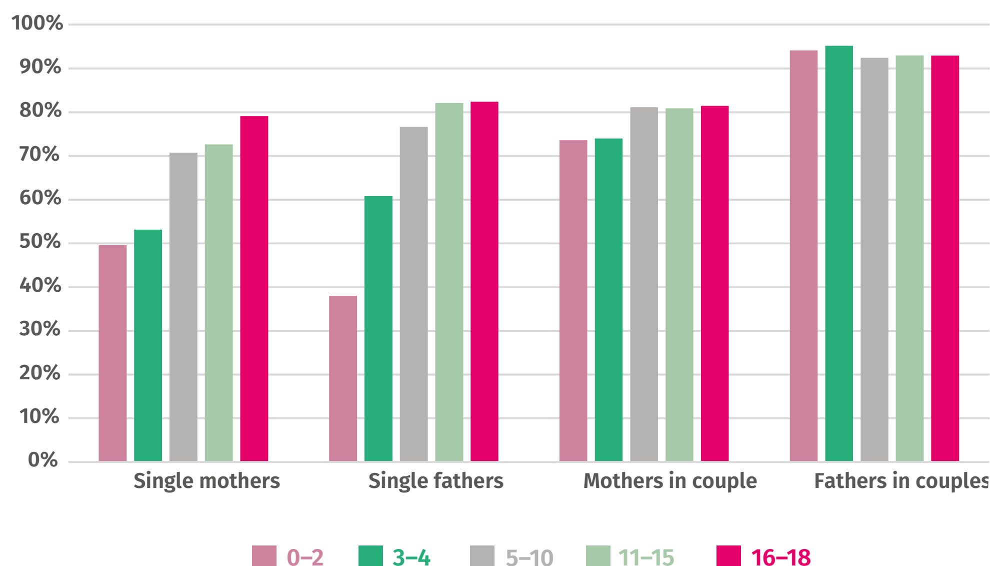
A lack of affordable childcare can push parents out of paid work, or limit choices around employment. If it is not available, and parents are not able to make up gaps by relying on informal care from friends and family their working patterns are limited by childcare arrangements. As IPPR's recent paper explored, these limits on parents' access to the labour market are particularly acute for parents on a low income, for whom childcare costs more often outstrip take-home pay (Statham et al 2022). We also find that these barriers stretch far up the income distribution as second earners with relatively high-earning partners face high barriers to returning to paid work, particularly when they have very young children with very high associated childcare costs. As one parent explained: "When I want to go back to work, childcare is such a worry".

Childcare access is a critical gender quality issue in the UK labour market. These employment constraints continue to disproportionately affect mothers – who are a majority of primary caregivers and second earners in couples with children, and who make up the vast majority of lone parents. The employment impacts of parenting are well documented – as are those of free childcare access on parental employment patterns. Brewer et al find that free childcare access only impacts the labour market participation of mothers whose youngest child is eligible – which we take as the basis of our modelling assumptions, discussed below, when attempting to ascertain potential impacts of increased employment for households and the wider economy (Brewer et al 2022). They also find that expanding free childcare from part time to full time leads to significant increases in labour market participation and employment for mothers, including over the short term (ibid).

We know that parents have higher levels of employment the older their children get, and this is particularly true for lone parents. As figure 1.1 shows, mothers in couple or lone parent families are substantially less likely to be in paid work compared to fathers of children the same age.

FIGURE 1.1: PARENTAL EMPLOYMENT RATES ARE LOWEST AMONG PARENTS OF CHILDREN UNDER TWO, PARTICULARLY FOR LONE PARENTS

Parental employment rates in Q1 2022



Source: IPPR analysis of ONS 2022b

Alongside limits to participating in paid work, a lack of access to affordable childcare limits parents' progression in work. This can either be because a lack of access to suitable childcare limits the jobs parents can access, or the hours they are able to work (see Brewer et al 2022).

> *"You kind of feel like you can't reach your potential"*
> Parent

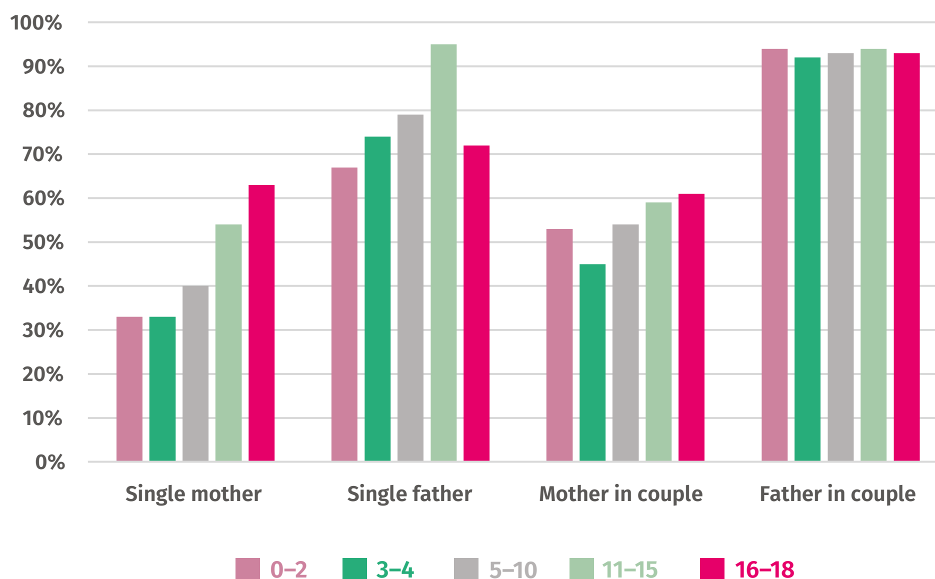
These challenges are particularly acute for lone parents, for whom a lack of affordable childcare has the most direct impact on paid work. A lack of flexibility in childcare arrangements forces many lone parents to work fixed hours patterns, limiting access to jobs, promotions, training, and socialising opportunities (Gingerbread 2020).

> *"I don't think they make it very easy for single parents – any parents really – to get into a career"*
> Parent

As figure 1.2 shows, parents' – and particularly mothers' – work patterns are shaped by caring responsibilities. Only one-third of lone parents of very young children work full time, at least partially reflecting lack of access to affordable childcare – which is most acute for pre-school age children. Whether in couples or not, mothers' rates of full-time work increase as their youngest child grows older, and particularly as they reach the milestones of starting primary school and later secondary school.

FIGURE 1.2: FEWER THAN TWO IN FIVE LONE PARENTS OF PRIMARY-SCHOOL AGE CHILDREN WORK FULL TIME

Rates of full-time work among employed parents, by age of youngest child



Source: IPPR analysis of ONS 2022b

MODELLING THE IMPACTS OF PARENTAL EMPLOYMENT GAINS

In this report, we explore the case for a 'childcare guarantee' (outlined in detail in the next chapter), which would invest significantly in childcare provision from the end of parental leave through to the end of primary school (see chapter 2 for detail).

To understand the potential impact of investing in affordable childcare on the wider economy, we need to look at how it would change parental employment patterns. To do this, we used the IPPR tax-benefit model to model the effects of increasing employment rates and working hours of parents with younger children up towards those seen by parents with older children.

Due to the uncertainties involved in such a large-scale policy shift, such modelling can only be illustrative, with the scenarios outlined below giving a sense of the potential economic benefits stemming from greater investment in early years education and childcare.

First, we have modelled the impact of increasing the employment rate of mothers with younger children to match the employment rate of mothers with older children. We assume the additional workers transition from 'economic inactivity' relating to caring responsibilities into paid employment – altering the rate at which we expect mothers currently classified as not in paid employment for whom the primary reason given is "looking after children/family" to move into or back into paid employment.[1]

Alongside this increase in maternal employment rates, we modelled the impact of more mothers moving from part-time into full-time work. To do this, we adjusted

1 In the scenario modelled, we assume that 57 per cent of the newly employed mothers work full-time (30 hours) for £15.65 an hour, the full-time median hourly pay rate (ONS 2022b), while the remainder work part-time (16 hours) on the part-time median hourly pay of £10.64 (ibid).

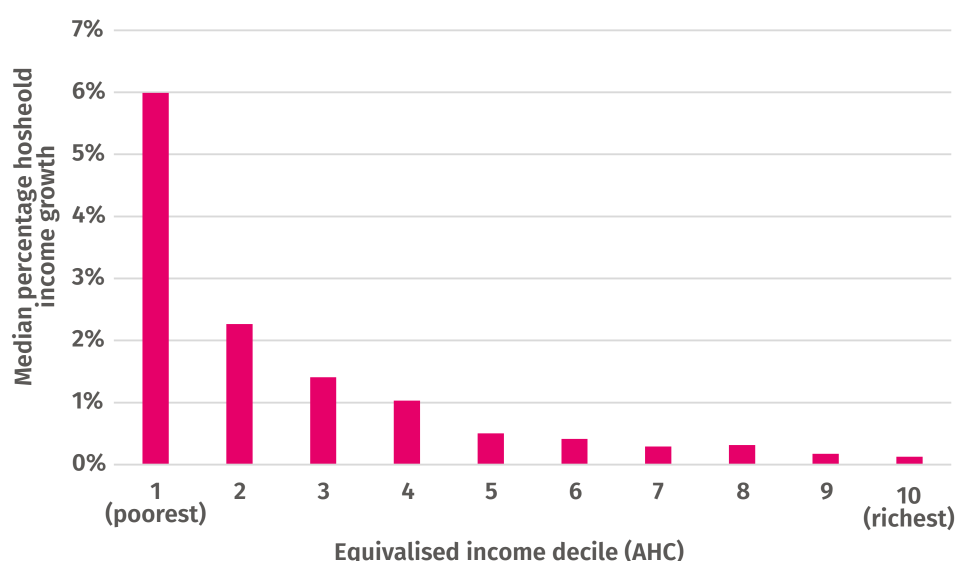
the rate of full-time work amongst mothers of younger children towards that of mothers of older children. We also modelled the anticipated impacts on rates of pay, recognising that full-time job roles are systemically paid at higher hourly rates than part-time roles.[2] For full modelling assumptions, see annex A.

Effects on household incomes

We find that household incomes could rise across 700,000 households, which include 1.6 million children. We would expect these gains to disproportionately flow to households at the bottom of the income distribution, while the richest households gain the least – see figure 1.3. The poorest tenth of households with children stand to see a typical income gain of 3.5 per cent, while the richest tenth of households would see a typical rise of 0.2 per cent.

FIGURE 1.3: THE LARGEST GAINS FROM INCREASED LABOUR MARKET ACCESS FLOW TO HOUSEHOLDS ON THE LOWEST INCOMES

Income growth from additional hours of paid work by household income decile



Source: IPPR analysis of DWP 2020 using the IPPR tax-benefit model

These figures do not include the additional benefits associated with a reduction in childcare costs for households who relied on formal care beyond the existing funded hours offer.

Exchequer effects

As more people enter work and increase their hours, many will increase their annual tax contribution to the exchequer. Under the scenario outlined above, our modelling suggests the UK government could expect exchequer returns of approximately £8 billion per annum from the changes outlined above.

This includes reduced social security spending of nearly £2.8 billion, as lowering childcare barriers would allow more families to move into work, or to increase their hours. These additional earnings would also come with additional income tax payments and NICs contributions from employees and employees. Finally, we anticipate that additional take-home pay for parents moving into more paid work

2 We increase hourly pay by 47 per cent, reflecting the fact the median hourly pay of full-time workers is 47 per cent higher than the median pay of part-time workers (IPPR analysis of ASHE 2022).

would translate into additional VAT take, as families' disposable incomes rise as they get into and get on in work.

TABLE 1.1: A CHILDCARE GUARANTEE COULD DELIVER EXCHEQUER RETURNS OF UP TO £5.9 BILLION PER ANNUM

Breakdown of estimated exchequer returns

Element	Scenario 1
Income tax	+£1.6bn
Employee NICs	+£0.8bn
Employer NICs	+£1.1bn
Reduced spending on social security	+£2.8bn
Additional VAT[3]	+£1.5bn
Total	**+7.9bn**

Authors' analysis using the IPPR tax-benefit model

These figures are UK wide, assuming a similar trajectory of expansion is followed by governments in Scotland, Wales, and Northern Ireland, each of which currently offers a more generous childcare offer than that available to families in England.

SUPPORTING LONG TERM ECONOMIC GROWTH

In addition, we have modelled the wider economic impacts of lowering barriers to parental employment – across wages and GDP, the labour market, and the gender pay gap.

Boosting wages and GDP

In the scenario modelled above, we estimate that parents' wages rise by over £13 billion as their rates of employment and hours in paid work increase. Alongside the household impacts and exchequer returns already outlined, we estimate that this wage growth would provide a commensurate boost to UK GDP.

Improving labour market matching and productivity

Investing in a childcare guarantee could also improve the efficiency of the UK labour market. Currently, a lack of affordable childcare acts as a barrier for women seeking to progress into more senior jobs, which limits the pool of talent available to employers.

Removing barriers to employment and progression should enable better matching of workers to more senior roles, determined by aptitude, rather than home circumstances – increasing productivity across the UK workforce, and the wider economy. A recent academic study of a multinational firm working across 101 countries found that equalising barriers to participation in paid work would increase firm productivity by 32 per cent – keeping employment and the wage bill constant (Ashraf et al 2022).

Reductions in the gender pay gap

Finally, there is a significant case for investing in childcare to reduce the UK's persistent gender pay gap. A substantial proportion of the gender pay gap arises because of differences in the proportion of women who work part time as opposed to men. These jobs tend to be less well paid and have less scope for progression. If these differences between full and part-time working patterns were to diminish

3 We assume in this modelling that additional disposable income for households is spent on normal VAT-rated goods, as such 20 per cent of additional household disposable income is recouped in tax revenue.

due to better childcare as we would expect, we would expect the gender pay gap to reduce considerably: two-thirds of the current pay gap is attributed to differences in work experience in the 20 years following childbirth (Costas dias et al 2018).

PUBLIC APPETITE FOR CHANGE

The public are well aware of the ways in which limited access to childcare damages their economic opportunities and demand for change is growing. In a deepening cost of living crisis, childcare costs are playing a significant role in destabilising families' finances, as recent opinion polling shows worried parents are being pushed to the edge by childcare costs. A majority of UK parents (52 per cent) reported concern about being able to pay for childcare in August this year (Nesta 2022).[4]

Recent research from Save the Children into public attitudes towards policy interventions to tackle child poverty finds that 'childcare everyone can afford' tops the public's priorities. Childcare was the top priority issue among a menu of options to tackle child poverty amongst two key voter groups identified through the research: 'undecided moderates', who recognise poverty as a serious issue but are conflicted on how they would like to see policy or politicians respond to it, and 'precarious pessimists', who take poverty seriously and are likely to be more economically precarious (Save the Children 2022).

Next, we consider existing childcare provision in England, and the extent to which it delivers for children, parents, and the childcare workforce.

4 Nesta polling with Opinium Research conducted a survey of 5,000 UK parents in August 2022.

2.
CHILDCARE IN ENGLAND

Childcare in England isn't working for children, parents, or providers. As the cost of living crisis deepens, exorbitant costs are heaping financial pressure on families with children. Providers are struggling to keep their doors open as running costs rise rapidly while an already-inadequate funding settlement remains unchanged. A 2021 freedom of information request by the Early Years Alliance found that the Department for Education (DfE) acknowledged internally that hourly funding for free available childcare places would need to be increased by at least one-third in order to meet the costs of provision (Early Years Alliance 2021).

In response to economic downturn, families tend to increase their hours of work to mitigate damage to living standards. In a very tight labour market, we might expect that option to be open to workers across the UK. For those with young children, however, their options are limited by childcare costs that are so high as to leave second earners worse off for going out to work (see Statham et al 2022).

UK policymakers are focussed on improving economic growth and the UK's poor levels of productivity. To deliver growth in a context of record-low unemployment will require consideration of the barriers that hold people back from getting into, or getting on in work. While a lack of affordable childcare is not the only barrier limiting parental employment, it is a substantial one. Evidence finds that expanding access to free childcare increases mothers' labour market participation, as does expanding hours of access (Brewer et al 2022). By failing to lower barriers to parental employment or to tackle educational inequalities in early years, the UK's lack of childcare infrastructure holds our economy back and fuels inequality.

While demand for childcare grows, providers are struggling with retention and development as funding challenges exacerbate the long-standing problem of low pay. Now, nurseries report that they are losing staff to jobs in supermarkets and other parts of the retail sector. Instead of being recognised as skilled and socially valuable jobs, childcare workers are typically low paid and have limited access to training and progression opportunities.

There is no solution to these problems that does not involve greater state investment in early years – but more money alone will not be enough. The childcare market is highly dysfunctional: a mix of small providers without the scale to support career development or ensure consistent quality and, increasingly, private equity backed providers sucking public money out of the system to cover off debt. Putting money into this system without reform risks it being used in ways that do not lead to higher quality provision with a better paid and trained workforce. Moreover, the current system incentivises provision in wealthier areas where parents are more able to subsidise state funding, leading to increased inequality.

This paper is the second of two exploring the case for, and the route towards, a childcare guarantee – which would offer parents in England a reliable and affordable childcare offer from the end of parental leave to the end of primary school. Our first paper set out four key challenges for parents.

Challenge 1: A childcare market failing to deliver on quality or access

Despite eye-watering costs, England's childcare system is on the brink of collapse as government funding for free available hours fails to meet costs incurred by

providers offering funded places, exacerbated by a market that doesn't work. Too many families are unable to access the childcare they need, while children in low-income households are accessing lower quality care than their better off peers.

Challenge 2: A gap in provision for parents from the end of parental leave to the start of the free hours offer

While fully funded hours are offered to three- and four-year-olds and some two-year-olds in England, there is a significant gap between the end of maternity or parental leave and the start of this offer. The inadequacy of the funded hour rate means that providers cross-subsidise from parent fees for nought–two-year-olds, making care for this age group unaffordable.

Challenge 3: High up-front costs and steep trade-offs for parents getting into or getting on in work

Parents returning to work or taking on more hours face high up front childcare costs. These are particularly steep when parents are returning to work after parental leave (when children are too young to be eligible for the funded hours offer) and when parents are getting into or back into work. Here, parents often have to pay for childcare in advance – before they have received their first paycheck, before they are able to claim costs back through the childcare element of universal credit (UC), or before they are able to access funded hours available to some working parents. Parents face staggeringly high effective marginal tax rates of up to 130 per cent, leaving parents worse off for taking on more hours at work (Statham et al 2022). This holds parents back in the labour market, and disproportionately harms mothers' earnings and economic security.

Challenge 4: A lack of reliable wraparound and holiday care for children through primary school

When children start primary school, childcare challenges often persist. Access to breakfast and after school clubs is patchy and unreliable and childminders are often in short supply, leaving parents without access to informal care with few options. Childcare costs through school holidays, which stretch far longer than most working parents' leave allowances, are stretching families' budgets beyond breaking point.

This report, like our first, draws on discussion groups with parents, interviews with policy experts, and economic modelling. Our first paper laid out the four key challenges outlined above and developed a framework for a childcare guarantee – based on four component parts.

1. We recommend the UK government invest significantly in childcare to expand supply and drive up quality – starting by increasing the hourly rate offered to providers for funded hours
2. Close the gap between the end of parental leave and the start of free hours and expand provision to guarantee 30 funded hours for all children, from the end of parental leave to the start of school.
3. Expand and reform the tax-free childcare offer through an affordable hours scheme that subsidises costs for parents of school-age children, and additional hours for parents of under-fives. This would offer a 95 per cent subsidy for additional hours to parents in receipt of universal credit, replacing the childcare element.
4. An extended school day offer in every primary school, to deliver affordable wraparound care.

This paper lays out a roadmap to transform England's childcare system, focussing on the wider reform needed to effectively increase investment and reshape England's childcare market.

3.
A PATCHWORK OF SUPPORT

> *"The whole thing is a shambles... the thing you most rely on – there's nothing to rely on"*
> Parent

At present, the early years system in England is extremely complex and support is patchy. In sharp contrast to the resource and collective effort dedicated to primary schooling, parents of pre-school-age children are largely left to their own devices before a child starts school. In these early years, parents are faced with an array of different provision and different funding streams, which have a mix of contradictory objectives and are not coordinated. Some aspects of provision are heavily regulated, at least in theory, others aren't regulated at all. There is nobody with the power to ensure a functioning mix of provision at a local level and no national strategy as to how it should fit together. Years' worth of policy initiatives, from different governments and ministers, have accreted without any attempt to make them coherent. The result is an increasingly confusing system for parents to navigate, which manages to be both expensive and low quality.

Creating a coherent early years system requires thinking about all the challenges the sector has collectively; starting with a set of objectives that acknowledges the tensions between a focus on child development and increasing maternal employment. To meet these objectives there needs to be adequate funding, that is easy to access, simple to use, and offers support when parents need it. The market needs to be actively designed and regulated to make best use of this funding. And this market needs to be far more focussed on quality, particularly around workforce improvement, than it is at the moment.

There are currently three main mechanisms used by the government for funding early years provision.

1. An entitlement to free hours – 15 hours for two-year-olds from low-income families; 15 hours for all three and four year olds; and a further 15 hours for three- and four-year-olds if their parents are both working (with a cap applied if a/either parent has a total taxable income exceeding £100,000).
2. "Tax-free childcare" – working parents can access up to £2,000 a year per child by paying money to their provider via an online account. Every £8 parents put into the account is topped up with £2 by the government (a similar cap applied if a/either parent has a total taxable income exceeding £100,000).
3. Households in receipt of universal credit can get up to 85 per cent of their childcare costs reimbursed if parents are working, up to £646 per month for one child and £1,108 for two or more children.

These mechanisms were introduced by different governments with different agendas and so don't logically fit together. The original universal entitlement of 15 hours for three- and four-year-olds (initially 12.5 hours) was brought in by the last Labour government and was supposed to be focussed on early education – the hourly rate was significantly higher than now in real terms, albeit still, arguably, not high enough to meet the quality objectives stated in the childcare strategy at the time (Lewis and West 2017).

Likewise, the extension of this offer to two-year-olds from low-income families was a Liberal Democrat policy aimed at improving “school readiness”. But then the 15-hour extension for three- and four-year-olds and “tax-free childcare” were both introduced by the Conservatives as a way of reducing costs for working parents, and thereby increasing employment. These policies actively worked against quality by increasing the amount of poorly funded provision in the system, especially as the value of the hourly rate has been allowed to fall in real terms. At the same time these polices have also pushed up costs for provision outside the free entitlement, as providers try to cross-subsidise. Moreover, the tax-free childcare policy has likely pushed costs higher than they would otherwise have been by enabling providers to charge more to wealthier parents, given there is no cap on fees.

The main effect of this increase in poorly funded provision has been to dramatically reduce the number of well qualified staff in childcare settings, as providers are left with very limited options for where to cut costs. The number of staff in childcare settings with level 3 qualifications fell from 83 per cent in 2015 to 52 per cent in 2019 (Nuffield Foundation 2020). It has forced smaller providers to sell to bigger ones. 69 per cent of places were, by 2019, being offered by privately-owned nurseries. The number of single sites fell from 85 per cent to 62 per cent of the market between 2016 and 2019 and the number of chains with more than 20 sites grew from 3 per cent to 9 per cent (Simon et al 2022). These trends have continued since, and are likely to have been accelerated by the pandemic.

For parents, this patchwork of support is difficult to navigate and often unreliable. As our first report illustrated, parents face a long wait between the end of parental leave and the point at which their child ages in to free hours entitlement at two or (for most parents) three. This is also the period through which care is most expensive, given the intense demands of providing formal care for very young children, and additional pressure on staffing ratios. We heard from parents struggling to meet their pre-school childcare costs who felt mixed emotions as they wished away the last of their child’s pre-school years:

> ***“I’m sad he’s growing up but happy cos I won’t have to pay for nursery”***
> Parent

Varying eligibility criteria for different free hours offers also creates friction for parents, and sees many lose out. We heard from a parent who had started work in April, but was not able to access the full 30 free funded hours offer until September, who described the administrative barriers that the free hours offers create:

> ***“It doesn’t start instantly… You’ve also got to keep applying for your 30 hours every three months. So if you miss that date, even by the day, you’ve lost it.”***
> Parent

Parents on a low-income face some of the most acute affordability challenges, as the more intensive support offered through the childcare element of universal credit is undermined by the fact that the 85 per cent reimbursement mechanism is paid in arrears. This leaves parents in a cycle of debt – as one parent described: “[it] just pushed us into the poverty spiral”. Another explained:

> ***“There was just no sense of any understanding or empathy or sympathy towards it [my circumstances]. And they don’t help you in any way at all… you’re in this minefield completely by yourself.”***
> Parent on their experience of claiming childcare costs through universal credit

Our first paper found that parents of very young children in receipt of universal credit faced effective marginal tax rates of up to 130 per cent when increasing their hours at work – leaving many worse off for returning to work, or increasing their hours. The combined costs of childcare fees, income taxes and universal credit withdrawal can leave parents barely better off for going out to work – and this is a problem that stretches up the income spectrum for second earners and lone parents. As one parent described:

> *"I'm always either earning a couple of pounds more than my childcare, or I'm losing out."*
> Parent

OBJECTIVES AND TRADE OFFS

When considering the aims of investment in childcare, there can be a clear tension between increasing access to childcare so that more parents – particularly mothers - can work, and providing high quality child development. Expanding access requires more people working in the sector – which works against improving the quality of the workforce – and more hours spent in childcare per child, which cannot all be spent engaged in educational and developmental activities.

If a government's objective was solely to maximise the long-term benefit to children it would focus on support for a shorter period of time per week, heavily targeted at lower income families. This narrower focus would allow a much higher hourly rate that could be invested in paying early years professionals at a similar level to primary teachers.

If the objective was solely to boost maternal employment, then a government would employ a different approach, increasing the free hours by as much as could be afforded by keeping the rate as low as possible while still allowing providers to pay the minimum wage. There would be very limited regulation for quality, though there would need to be some to ensure safety and that the free entitlement was being honoured.

Despite government rhetoric, in practice the system has moved far more towards the second of these two models over the past decade, with a big increase in free hours, at a rate that is too low to hire well qualified staff. Any further expansion towards a childcare guarantee needs to acknowledge the risks of taking this approach even further.

As such, additional investment in early years education and childcare must be considered alongside reforms to regulation and commissioning. If the hourly rate is increased without changes to regulation and commissioning then there is no guarantee it will be used to increase quality – or to secure the associated benefits for child development and outcomes. Moreover, the current market contains large numbers of small providers and increasing numbers of private equity backed for-profit chains so is not geared to quality or workforce improvement (Simon et al 2022). This means that additional investment will require efforts to reshape England's childcare market. We discuss these challenges in the next chapter.

4. MOVING TO A UNIVERSAL OFFER

In 2020/21 the total cost of England's early years education and childcare system was £5.275 billion – but this was constrained by lower use of provision during the pandemic. In 2018/19 the cost reached £5.977 billion. Around 70 per cent of this cost is the free entitlement, with the remainder split fairly evenly between the tax and benefits systems (IFS 2022).

It is difficult to predict how costs will change in the coming years. The use of the entitlement dropped during covid but has now increased again. The Department for Education estimate 72 per cent of eligible two-year-olds are registered for the 15-hour entitlement – equalling the pre-pandemic peak – and 92 per cent of three- and four-year-olds – just below the previous peak of 94 per cent. The number registered for the additional 15 hours have reached a new peak – the DfE estimate it is around 80 per cent of those eligible (UK government 2022).

There will likely be substantial budgetary pressures facing the early years sector in the coming years as high inflation further squeezes funding. However, if we assume take up rates stay relatively stable over the coming years then the overall cost of the system should drop (in real terms) due to a substantial fall in the birth rate, from a peak of 730,000 live births in 2012 to 614,000 in 2020 (ONS 2021). The effect of this can be seen in the registration figures for this year. The percentage of eligible two-year-olds registered in the same in 2022 as 2018 but the raw number has dropped from 154,000 to 135,000. It is as yet unclear what will happen to the birth rate post-pandemic, but the fertility rate has dropped every year since 2012.

The amount paid out via the social security system also dipped during the Covid-19 pandemic as fewer people in receipt of universal credit were working, but we can expect to see this rise as well. The extent will depend on how bad the economy gets over the coming years. The number of households in receipt of UC peaked at six million during the pandemic, before dropping, but are now rising again. The profile of people using it is also changing – with a higher percentage of people in work, in their 30s, with children. Some 48 per cent of households in receipt of UC now have children, which is back to the pre-pandemic peak. As such the number of households claiming for childcare is slowly going up but is still less than 5 per cent of all UC households (ONS 2022a).

The use of tax-free childcare is growing faster than any other bit of the system as knowledge of the offer increases. Before the pandemic just over 200,000 families were using accounts. As of March 2022 it was just under 400,000, with 458,000 children benefitting (UK Government HM Revenue and Customs 2022). The cost to government was £43 million in March – the highest amount to date. This suggests the annual cost will rise to over £500 million this year, albeit this is still a lot less than the £1 billion that was initially anticipated by 21/22. Take up challenges persist, as only four in ten parents of pre-school age children had even heard of the scheme in 2019 (Farquharson and Olorenshaw 2022). This put estimated underspend in 2020/21 at £0.5 million (UK parliament 2021). As with the other parts of the system this will be offset to some degree by a falling birth-rate and also

the phasing out of costs associated with childcare vouchers that are no longer available to new applicants.

The average hourly rate for two-year-olds has gone up to £5.76 (from £5.55), and for three- and four-year-olds to £5.07 (from £5) for 2022/23. However, the indicative grant for the entitlement is only £50m higher than in 2021/22 due to the UK's falling birth rate (UK Government Education and Skills funding agency 2022a).

Taking these factors into account, we might expect the overall cost of England's early years education and care system to increase from the levels of expenditure seen through the pandemic years, but not necessarily go back to the peak in 2018/19 for some time. In real terms, spending may not return to 2018/19 levels unless the hourly rate were to increase significantly above inflation and/or take up of the tax-free childcare offer continues to rise to reach the level of access originally anticipated.

Recommendation 1

In our first paper, IPPR made the following recommendations for expanding funding to deliver a childcare guarantee (for full details, see Statham et al 2022). This framework takes as its foundation a commitment to higher funding rates for funded hours, combined with a more generous subsidy for additional hours. This aims to lower barriers to parental employment and support higher quality provision – each of which are discussed in this paper.

Step 1 in doing this would be for the government to invest significantly in childcare to expand supply and drive up quality through a new funding settlement for funded hours, based on maintained sector rates. No expansion is viable until the rate is set at a level that enables good providers to offer high quality provision. This funding should be introduced alongside a childcare workforce strategy underpinned by higher rates of pay and higher qualifications, and a new role for local authorities (LAs) in maintaining standards and managing local supply. We estimate this would require an additional £2.4 billion in additional annual spending.

Once this is in place, we **recommend the government start to expand the childcare offer towards the full guarantee set out in our first paper.** This would start with **step 2: extend 30 hours offer to all three- and four-year-olds.** We estimate that this will require an additional £1.1 billion of investment per annum, and offers to deliver immediate returns to mothers' labour market participation. This makes for a logical first step given it is where provision is currently concentrated. Extending the 30 free hours offer on a sustainable funding model would reduce the need for providers to cross-subsidise or charge top-up fees, and would remove up-front costs for parents looking to return to work or increase their hours.

Once this was in place and government were confident provision could be further expanded through market reforms the next part of the shift to the childcare guarantee would be **step 3: extend 15 free hours to all two-year-olds.** We estimate that this will require an additional £0.9 billion of investment per annum. This could be paid for by abolishing the married couples tax allowance, which would raise £0.9 billion per annum. This would begin to close the gap between the end of parental leave and the start of free hours for more parents, and would help to boost take up of the two-year-old scheme among parents currently eligible.

Again once government were confident that provision could be further expanded we recommend moving to the final elements of the childcare guarantee **step 4: extend 15 free hours to under-twos – with eligibility beginning from the end of paid parental leave.** This would rely on steps to expand childminder supply, which is

discussed below. The extension of 15 funded hours to under-twos would require an additional £0.9 billion of investment per annum.

In parallel we recommend the government expand and reform the tax-free childcare offer to subsidise costs for parents of school-age children, and additional hours for parents of under-fives. This would see the childcare element of universal credit scrapped and replaced with a more generous reimbursement mechanism. Under our proposed 95 per cent of costs for parents in receipt of universal credit should be repaid through a co-payment system (eventually replacing the UC childcare element), and up to 60 per cent of costs for parents earning above the UC taper, up to an earnings cap. This system would also continue to support families with children with a disability who incur additional care costs. We estimate such a scheme would cost £2.7 billion (not accounting for current spending).

Step 5 would see government expand its core free hours offer to 30 hours per week for all three- and four-year-olds, throughout the year – including school holidays. This would constitute a new core offer to all families, regardless of employment or education status – lowering administrative barriers and up-front costs associated with parents entering or returning to work.

As a first step, the funded hours offer should be extended across the year to help to smooth costs for parents. We estimate that extending the three- and four-year-old hours offer to include school holidays through the sustainable funding package outlined above would cost £1.3 billion per annum. Universalising the current 30 hours offer to all parents would cost an estimated £1.1 billion per annum.

Finally, as step 6 we recommend that the Department for Education expand wraparound care through an 8am–6pm extended schools offer, offering varied before and after school activities through term time. UK government should introduce a core extended school offer through term time – accompanied by an appropriate funding settlement. This offer could include breakfast clubs, a safe place to study after school and guaranteed access to digital devices for learning, and links into wider health and family support services.

TABLE 4.1: INVESTING IN A CHILDCARE GUARANTEE COULD REDUCE ANNUAL CHILDCARE COSTS FOR PARENTS BY OVER £6,000

Cost reductions for typical families

	Working single parent of a two-year-old	Working single parent of a two-year-old, in receipt of universal credit	Dual-earner couple, children aged one and three	Dual-earner couple, children aged four and seven
Childcare needs	30 hours per week	20 hours per week	20 hours per week per child	40 hours per week for four-year-old, and 10 hours wraparound childcare for seven-year-old
Current provision	Tax-free childcare	15 hours free hours and universal credit childcare element	30 hours free childcare for three-year-old, and tax-free additional childcare	30 hours free childcare for four-year-old, and tax-free additional childcare
Annual savings	**£6,175**	**£623**	**£4,116**	**£3,091**

Source: Authors' analysis
Note: Assumes families work for 48 weeks of the year and fully utilise existing provision.

We estimate the cost of a full scheme delivered across primary schools in England to be £7.6 billion per annum in total spending, although the marginal cost would be lower given existing provision.

We estimate that the full roll out of a childcare guarantee would deliver significant cost reductions for parents, with a typical (see table 4.1)

Table 4.2 outlines the additional investment required to deliver this transformation of England's childcare system. We discuss options for funding this investment in the final chapter of this paper.

TABLE 4.2: SUMMARY OF RECOMMENDATIONS

Recommendation	Cost	Outcome/impact
Increase funding for free available hours for three- and four-year-olds to maintained sector levels	£1.6bn in additional investment for core 15 hours offer, and £0.5bn in the 16–30 hours offer	Drive up quality to improve educational outcomes for children and put the childcare sector on a sustainable financial footing
Increase funding for free available hours for two-year-olds to maintained sector levels	£0.3bn in additional investment	
Universalise 30 free hours offer for three- and four-year-olds on higher hourly rate	£1.1bn in additional investment	Increase parental access to affordable childcare in order to lower barriers to paid work
Universalise 15 free hours offer for two-year-olds on higher hourly rate	£0.9bn in additional investment	
Extend a universal 15 hour offer for two-year-olds to 30 free hours	£0.9bn in additional investment	
Expand free hours offer to under-twos	£0.9bn in additional investment for 15 hours, or £1.4bn for 30 hours	Close the gap between the end of parental leave and the start of free hours for parents
Expand three- and four-year-old offer to 48 weeks of the year (from 38)	£1.3bn in additional investment	Lower upfront costs for parents getting into or getting on in paid work and build financial stability for families
Introduce an Affordable Hours Scheme covering 60 or 95 per cent of costs for additional hours of care, depending on household income	£2.7bn*	Lower costs for parents of very young children, parents working full time, and parents on a low income
Introduce an extended schools offer to provide wraparound care from 8am–6pm	Up to £7.6bn	Lower costs and barriers to getting on in paid work for parents of children in primary school

Source: Authors' analysis of IFS (2021), ESFA (2022), DfE (2022a; 2022b), pascal et al (2021), ONS (2021; 2022c; 2022d), HM Treasury (2022), Coram Family and Childcare (2022), DWP (2021), and Department for Education and Skills (2006)
***Note: Costing assumes complete rollout of 30 free hours for all children between six months and four years.**

We would also want to see a further step where government extend parental leave to protect carers' time with young children and shift norms around caring roles. This should start with an independent review of statutory leave and entitlement to 'use it or lose it' shared parental leave provision.

5.
MARKET MAKING AND REGULATION

England's childcare sector is on increasingly precarious footing, as nursery closure rates have increased over the last year. Covid-19 hit providers particularly hard, as lockdowns and widespread closures meant that some nurseries shut their doors for prolonged periods, or lost income as more parents stayed at home with their children. Between September 2021 and April 2022, insolvencies for pre-primary education business increased by 71 per cent compared to the same period in 2019/20 (NDNA 2022).

Now, rising running costs are an acute concern for providers, as government funding rates for free available hours have so far failed to keep to up with rising food, fuel, and wider costs. Meanwhile, the childcare workforce is losing staff to retail and warehouse roles, as many providers feel unable to offer a rate of pay above minimum wage. With minimum wage rates due to rise in 2023, stretched providers fear for the impact of a rising wage bill if a funding settlement is not urgently improved. There is an urgent need for a nationally coordinated funding review and workforce strategy to put providers on a sustainable footing.

Alongside funding shortfalls, there is evidence in the UK that suggests current market dynamics can lead to insufficient coverage of childcare providers in lower income areas, which are less profitable under current market dynamics in which providers rely heavily on cross-subsidising funded hours through paid-for hours, and on charging expensive top up fees for things like snacks, meals, and changes (Simon et al 2022).

Our first paper proposed an increase to the hourly funding rate offered for free available hours in England to the rate offered to nurseries in receipt of the maintained sector supplement – taking effective hourly rates to £8.94 for two-year-olds and £8.23 for three- and four-year-olds in 2022. As the previous chapter made clear, however, changing funding policy without changing market design and regulation would be unlikely to deliver better outcomes.

The purpose of increasing the hourly rate would be to increase quality, particularly of workforce, so that the entitlement achieved its original purpose of child development as well as childcare. Given private providers currently have no fee cap and no limit on profits, the problem is obvious. There is little evidence that parents have the knowledge required to judge quality of provision, so there is no reason to believe the market would automatically adjust qualification and pay levels of staffing, and thus quality, to the new higher level of funding. Indeed, the sector would become even more attractive to private equity, with the prospect of even more substantial profits.

Any substantial funding reforms will also require market reform: It is not viable to increase the number of free hours further given the current market structure. Doing so over the past decade is what has led to many of the problems we find ourselves with today – provision that is simultaneously of poor quality and more expensive than in the rest of Europe.

STANDARDS AND SUFFICIENCY IN EARLY YEARS AND EDUCATION AND CARE

Ofsted are the regulator for childcare provision, but their remit is clearly to regulate childcare – not child development. Their focus is primarily on safeguarding and their decisions as to whether to allow providers to register, and whether to deregister, are heavily focussed on this. Very few providers get less than a 'good' rating in their inspections: just 3 per cent of providers fell below this standard in the most recent round (Ofsted 2022a), while a minority of parents of nought–fours (45 per cent) rated their local childcare affordability as 'good' or 'fairly good' in 2021 (Department for Education 2022a).

The Ofsted inspection framework is based on the statutory framework for the Early Years Foundation Stage (EYFS) which was introduced in 2008 and last updated in 2021 (Ofsted 2022b). This was designed during the era when the focus was more on child development than childcare and so does set out some expectations around learning and development as well as relatively stringent adult/child ratios, particularly for one- and two-year-olds. Rules on staffing qualifications are less strict. The manager of any setting (excluding childminders) must have a relevant level 3 qualification (equivalent to A levels) and at least two years' experience. Half of all other staff must have a level 2 qualification (equivalent to GCSEs) (UK Government 2014).

Local authorities are legally responsible for market making and ensuring sufficiency and quality. Their duties are set out in the 2006 Childcare Act. In practice though their levers for doing this are very limited, and they have few resources, nor are there any meaningful sanctions against them for not doing so. LAs are only allowed to hold back 5 per cent of early years funding for central services. They also can't use money from other DfE grants. They are only allowed to use up to 0.5 per cent of the money they receive for schools on other priorities, such as early years, and only then with the permission of the schools' forum who would rarely grant it (UK Government education and skills funding agency 2022b). In theory they could use money from the "high needs block" but in practice this funding, for SEND and alternative provision is under huge pressure.

In practice, this means local authorities have little funding with which to deliver their sufficiency and quality responsibilities. Moreover, these duties are restrictive, particularly on quality. They cannot use anything other than Ofsted judgements to make assessments and are not allowed to require providers to undertake any training or quality improvement unless a provider has been judged 'requires improvement' or 'inadequate' and Ofsted have specified the issue. This essentially prevents them from doing any of their own quality assurance (Department of Education 2018).

On sufficiency, local authorities are legally required to ensure there are enough places to meet parent demand – but are not given any resources to do this. Guidance on the type of places, and how flexible they are, is just guidance, with again no resource to support it. Local authorities are required to ensure that the free entitlement is delivered without conditions by providers but in practice it's hard for them to know about breaches unless it's reported to them by parents, who may well not be aware of the rules.

They are also not allowed to run their own provision, under the 2006 Childcare Act, unless no one else is willing to provide childcare, or if it would be inappropriate for a provider that is willing to do so (UK Childcare Act 2006). They have effectively been prevented from entering the market, outside of maintained nurseries and nurseries in schools that are maintained. Given they have a statutory duty to oversee quality and local provision, giving them the

ability to run provision themselves would arguably create a conflict of interests.

OPTIONS FOR REFORM: REGULATION

There are two key questions on regulation – who does it and what standards should they use to make decisions about quality?

Effectively measuring quality in early years education and care is a significant challenge. While the component parts of quality at the micro level primarily consist of high quality interactions between staff and children (as discussed in chapter 1), quality standards are necessarily a cruder measure. Ofsted inspection ratings are one key measure of quality, as are staff to child ratios in childcare settings.

The simplest approach would be stick with the current model whereby Ofsted are the regulator, who decide whether a provider should be registered and remain so, and local authorities can intervene independently of Ofsted only when there are clear breaches around use of the free entitlement. This would keep regulatory requirements straightforward. In this model, in order to increase expectations alongside a higher universal free entitlement, there would have to be changes to the EYFS requirements.

The easiest way of doing this would be to increase expectations around staff qualifications, which is what the Irish government have just done, following recent funding increases (Government of Ireland 2022). For instance, you could insist that all staff had a level three qualification and that the manager was a graduate, introduced over a transitional period to avoid immediate disruption and to allow people working in the sector to obtain higher level qualifications.

While this model would be easy to implement and would indirectly raise the amount spent on staff pay and professional qualifications, it's not clear that it would necessarily lead to higher quality, especially without reform of the available qualifications, which, as we will see in the next section, are not always of robust quality. There could be ways for providers who wanted to keep costs low to game the system. Another option would be to set national pay scales for early years workers that would have to be used as a condition of receiving the free entitlement, in the same way we do for teachers. These would have to be carefully calibrated against the available funding, which would be a tricky exercise, and would need to be held in line with the hourly rate.

Alternatively, the educational expectations within EYFS could be increased, but these primarily affect older children who are in school settings. It is hard to set detailed instructions for very young children and unlikely to be desirable given the wide variety of contexts.

Finally, there could be limits on profits for private settings, to try and ensure as much government funding as possible was spent on improving provision and staff pay rather than just increasing shareholder profits. Unfortunately, this would be extremely hard to do in practice, given the range of accountancy tricks that could be used to get around any cap. It was considered as part of the recently completed Independent Review of Children's Social Care – a sector in which some private providers are evidently making excess profits – but considered impractical.

As an alternative **we recommend setting limits on acceptable levels of indebtedness for providers**, which in the for-profit part of the sector are increasingly highly leveraged – with leverage ratios of over 50 per cent (Simon et al 2022). This could, for example, see local authorities play a stronger role in demanding providers meet criteria including limits on losses, or leverage

ratios of debt to total assets in order to receive government funding. This would respond to recent evidence that the private-for-profit childcare sector is 'characterised by acquisitions and mergers and indebtedness' under highly leveraged financial models, with evidence of providers displaying consistent losses of over £10 million and heavy borrowing with leverage ratios over 50 per cent (ibid).

A more radical shift would be to give local authorities greater regulatory powers – allowing them to make their own assessments of quality and to regulate against them. On the plus side this would allow local authorities to take local knowledge and contextual information into account. But it would be extremely difficult to manage for providers who were spread across multiple authorities and had to deal with a series of different regulatory expectations.

Conditionality around staffing qualifications and pay scales seem like the best available routes to avoid additional funding being siphoned out into profits. But they are crude measures that cannot by themselves transform the quality of provision. For that we need to also look at commissioning.

OPTIONS FOR REFORM: COMMISSIONING

Regulation is a useful tool to ensure minimum standards are being met but less useful in boosting quality across all providers. The current market structure, especially for younger children, is not 'designed' in any meaningful sense. Local authorities have a sufficiency duty and some expectations around ensuring provision is suitable for all children, but in practice have few tools to do so. They have little funding or capacity, and it is difficult for them to set up their own provision.

In order, then, to transform quality through market reform, commissioning is more important than regulation. And the key shift that needs to happen is for there to be more state or non-profit providers operating at scale, allowing them to compete with private providers and provide better quality assurance and in-house training and/or progression opportunities for staff.

Here, again, there are a number of options. Local authorities could be incentivised and resourced to establish their own provision, outside of school settings, to compete with private providers, potentially with advantageous funding rates to acknowledge the higher costs of pensions that they would be required to pay. There is, though, little evidence that authorities have the inclination, capacity or skills required to create and run their own quality provision. It would also create a potential conflict of interest with their regulatory function, especially if it was strengthened.

We recommend instead that local authorities be empowered and incentivised to set up nursery trusts with maintained nursery schools, local multi-academy trusts (MATs), or other high quality not-for-profit providers, as the core of the trust. These trusts could be not-for-profit entities with independent governance, including local authority representation. They could be resourced to take over smaller voluntary providers who want to sell up as well as setting up new provision, particularly in underserved communities with higher numbers of lower income parents.

Trusts would be built around an existing strong provider, which could be one or more maintained nurseries, MATs, or a high-quality not-for-profit setting that wants to scale. The small number of existing social enterprises that meet this criteria, such as London Early Years Foundation (LEYF), could be given the trust designation as well. These lead providers would support quality across new sites that were acquired or developed. As the hourly rate for the entitlement would be significantly higher than now, they would have a much chance to scale quality than would be

the case now. It would also give them the ability to do more in-house training, professional development, and recruitment.

Putting these not-for-profit trusts in a position where they could complete with private providers would help set a quality bar – maintained nurseries, for instance, have higher staffing standards, and are significantly more likely to be considered outstanding by Ofsted (just under two thirds achieve the designation) (Paull and Popov 2019). It would give them financial security and scale, and provide competition to for-profit providers looking to maximise profits rather than quality. **We recommend that in order to allow them to compete effectively they would have access to capital grants and school sites that become available due to the fall in primary age population**. In return they would be expected to focus on lower income communities, rebalancing the system which currently incentivises higher quality provision in wealthier areas.

A strategy based on incentivising local authorities to set up and grow these nursery trusts would shift England closer to the normal European model of state provided early years while still allowing voluntary organisations, charities, and private providers to continue to operate within the market. Critically it would also ensure quality provision for low-income families. Maintained nurseries are five times more likely than private providers to take children in receipt of the early years pupil premium and more than three times more likely to take children with special educational needs. MATs and social enterprises like LEYF are also more focussed on these groups.

One challenge with this idea is that many local authorities are small and have limited capacity to support the development of these nursery trusts. Also, some local authorities no longer have any maintained nurseries. Others have at least one but none that are outstanding. The quality of MATs is not consistent either. Shifting commissioning to a higher level of regional government that would allow more strategic assessment of provision across a wider area may, therefore, be worth considering.

However, the nature of the current local government settlement makes it hard to do that consistently across England. Not all areas have city mayors or unitary authorities that would be able to commission across a larger area. W**e recommend developing an idea set out in the Independent Review of Children's Social Care for regional care cooperatives.** The review identifies many similar problems in the commissioning of children's care places as we find in the nursery sector (MacAlister 2022). As with childcare, local authorities are supposed to have sufficiency and quality duties but in practice don't have the resources, scale, or capacity to do that effectively, which means they end up buying places at expensive private children's homes.

As a solution to this, the Social Care review proposes regional care cooperatives, which would be made up of around 10 local authorities, and owned by them. These cooperatives would have greater purchasing power and be able to take a strategic view across a wider area. As the review puts it:

> ***"A logical outcome of this will be that Cooperatives make better informed decisions…and will have the financial confidence to create new in-house or not-for-profit types of care homes that are needed to transform care. This… significantly reduces scope for profit making."***

While clearly there are important differences between the two markets, far fewer children need residential care than nursery places and the cost is an order of magnitude higher, the basic problem is similar. Regional cooperatives would help local authorities have the firepower to develop nursery trusts by being able to

combine budgets and offer access to sites across a wider geographic area. This is particularly true in urban areas where local authorities tend to be smaller and where parents often use provision in adjacent authorities. There is a wider question as to whether the cooperative model set out in the social care view could be applied more general to children's services (for instance specialist SEND support and family hubs) to provide a regional entity that could be owned by authorities but have a scale to operate in ways that many cannot at the moment.

Local level commissioning also offers the advantage of supporting better integration across housing and transport infrastructure – which we know can be critical in improving parent access. As one parent explained:

> ***"The location is a big one for me as well, because she [my daughter] is already settled in her school, so I had to choose a nursery near the school. I think from us leaving the house to getting to school, with all the public transport, we're looking at 40 minutes to go from door to door, and then 10–15 minutes to get to the nursery, before I've even had to kind of come back halfway to get to work as well."***
> **Parent of two**

Sufficiency of childcare places, and how well integrated locations are in relation to public transport links, local schools, and workplaces, will be critical to ensure the effective extension of childcare infrastructure.

6. WORKFORCE

> *"The quality of the childcare is the most important for me... if we didn't like the person there is no way that was going to be the best fit."*
> Parent

Staff are the key driver of quality in early years setting. Better outcomes from maintained nurseries are likely a function of more qualified and experienced staff. There is evidence that being in a setting with a graduate has a small but positive impact on attainment that lasts through primary school, and is stronger the more hours a child has in that setting (Bonetti and Blanden 2020). We also know that cost pressures are reducing the number of those even qualified to level 3 in nurseries, and especially private nurseries. In 2019 just over half of early years' staff had a level 3 qualification down from 83 per cent in 2015. It is now probably a minority (Nuffield Foundation 2020). There is also anecdotal evidence of increased use of apprentices who can be paid at a much lower level.

By far and away the biggest barrier to improving the quality of the early years workforce is pay. However good your training and professional development programmes are, if most workers in a sector are on minimum wage you will struggle to recruit and professional recognition will be low. The proposals outlined in the funding section of this paper would give providers the resources to pay at a significantly higher level, which would help transition the profession to a higher-status one which would naturally attract more highly qualified people.

The proposals for market reform discussed above would allow for the development and growth of not-for-profit providers who would be incentivised to invest in staffing. A higher qualification bar could also be put into EYFS regulations, as could conditionality around pay scales.

A move to networks of not-for-profit nursery trusts would also help with pay progression, as there would be more opportunities for senior and middle leadership than are available in single small settings. This is a major restriction on career development at the moment: so much provision is in single site settings. And it would help with ongoing professional development, which is currently very limited, even for those coming into the sector with minimal qualifications. Only 17 per cent of early years workers report receiving job-related training. Again, this would be much more likely to happen in not-for-profit trusts with more scale and ability to run in-house training programmes (Social Mobility Foundation 2020).

There is also a challenge around the quality of training programmes, particularly at level 3. As the Social Mobility Commission put it in their report on the early years' workforce:

> *"[There is] a perceived trend of junior staff entering the sector with entry-level qualifications who are inadequately prepared for the job. Participants felt that courses such as National Vocational Qualification (NVQ) Level 3 do not equip practitioners properly for work in EY. Specific difficulties with new staff include problems with basic literacy (required for paperwork) and poor understanding of the fundamentals*

of working with children. Managers said they regularly need to let new staff go because they fail to meet the basic requirements of the work."
(ibid)

The DfE have commissioned a review of these qualifications as part of a wider investment in early years training and support. It is critical that the bar for them is set at a level that does ensure a minimum quality standard (FE News 2022).

There are, however, practical challenges that currently limit the childcare workforce's access to in-work training – not least as staffing ratios mean that taking one or more worker out of a setting to take up a training opportunity can lead to considerable staffing challenges. This suggests that any serious effort to improve quality across the sector will rely on a nationally coordinated effort, and local support for providers to improve access to training and development opportunities.

Opportunities to increase productivity in order to push up wages in the childcare sector are limited. The work of caring for young children cannot be hurried or rushed, and where it is, there is likely to be a direct negative effect on quality. Improving quality will rely on driving up pay across the sector to attract talent, improve retention, and incentivise investment in workforce training. To achieve this will require focussed efforts to establish minimum terms and conditions and improve worker voice across the sector, by bringing providers and unions together with government to develop a national workforce strategy, and to work towards sector-wider collective bargaining.

Driving up quality will rely on investing in the early years workforce. Pay will need to be a key priority, combined with stronger training provisions and a clear progression framework to aid retention and development. We estimate that delivering a childcare guarantee will require significant expansion of the early years workforce, with over 130,000 additional staff[5] needed to deliver an expanded offer.

We recommend the Department for Education should work with unions and providers to develop a workforce strategy that focusses on driving up pay and conditions for the early years workforce, recognising that this will be critical to delivering quality improvements across the sector, and to closing access gaps. This should take steps towards establishing national pay scales for the early years workforce, similar to those that apply to the teacher workforce. Continued funding should be made conditional on staff qualification levels and observation of national pay scales.

We also recommend that over the next parliament, the UK government should look to prioritise the childcare sector for Fair Pay Agreements that set a floor for minimum terms and conditions, alongside social care. This will require efforts to strengthen worker voice across the early years workforce.

CHILDMINDERS

Childminding is an important part of the early years system as it adds flexibility for parents, particularly for those who require an unusual mix of hours, are using maintained nursery provision which rarely extends beyond early afternoon, or who need post-school care for older children. Childminders, who are regulated by Ofsted according to the same standards as other settings, can also offer a high standard of care and development if properly trained and supported.

5 We estimate the extension of hours will represent an increase of 40 per cent, and so a corresponding increase in staff are needed. Given there are approximately 330,000 paid staff working in childcare and early years provision this would be an additional 130,000 people employed.

Unfortunately, there has been a dramatic fall in the number of childminders in recent decades. There were 106,000 childminders in 1992, dropping to 76,000 in 2000, 47,800 in 2015, 39,000 in 2019 and fewer than 28,000 today. Had the number of childminders stayed at the level of even a decade ago we would have 70,000 more childcare places available. (MacDonald 2022).

There are several causes for the drop but the largest is that we have not seen anywhere near as many people join the sector as in early decades due to a higher regulatory bar to entry. Applying to be a childminder is a lengthy process that requires significant paperwork and cost. There is little support available to navigate this process and it is clearly off-putting.

Reducing the regulatory burden would not be desirable as these checks are important for safeguarding but if we are to increase the numbers of places available via childminders then we need systems in place to actively recruit and support those interested in doing so. In 2014 the government attempted to remedy this problem by introducing childminder agencies. These agencies can take over the regulatory function of Ofsted for any childminders on their books. Ofsted then inspect the agency to ensure compliance.

The idea was a good one – a similar system has arrested the decline in childminders in the Netherlands and led to a small increase in the past decade. But our version of the system was unresourced, which meant there is little financial incentive to set up an agency, and little chance to make one viable at scale. Indeed, there are only six agencies nationwide, and only one (Tiney) attempting to operate at any scale.

We recommend offering a one-off incentive payment for agencies to recruit childminders would instantly create a market for agencies who could then develop a sustainable income stream by taking a small percentage of earnings from the childminders on their books. In return for the initial recruitment payment agencies would be expected to support childminders through the process of setting up and applying for the necessary checks, and then offering ongoing training support to improve quality.

Further conversations with potential providers would be required to identify the right level for the incentive payment but it would not be expensive. A £1,000 fee would mean spending £10 million on recruiting 10,000 childminders – which would be a 35 per cent increase on current numbers. There would also be a related saving in the subsidy provided to Ofsted to inspect individual childminders, as that function would be increasingly undertaken by the agencies.

Under the existing law there are few restrictions on who can start an agency, providing they meet the relevant standards. This includes local authorities, MATs, and other social enterprises. In a fully functioning system, we might see nursery trusts, as discussed in previous sections, establishing a childminding agency, and integrating support for parents who want to use both nursery and childminding provision. A small amount of investment in agencies could lead to a significant increase in flexibility and choice for parents and a higher-quality support system for childminding.

7.
DELIVERING A CHILDCARE GUARANTEE

Our vision is for a future in which every family can access their childcare guarantee as soon as their shared parental leave ends. This would see every parent have their choice of a nursery or childminder, where the people who care for their children earn a decent wage, and where regional care cooperatives are responsible for making sure there are enough places in every neighbourhood, driven by an expansion in not-for-profit trusts, and quality is high in every setting. In this future, every family is entitled to 30 hours per week of free childcare, with additional hours offered at an affordable rate that varies by income. Parents who receive universal credit will have 95 per cent of their childcare costs covered, and this will be paid up front. Once children start primary school, they will be able to attend breakfast and after school clubs, and families will be able to get help with the cost of childcare during the school holidays.

This paper is the second of two exploring the case for a childcare guarantee. The first laid out the policy framework for delivering universally accessible, affordable childcare from the end of parental leave to the end of primary school in England. We argue that investing in high quality early years education and care offers three clear benefits.

1. **Investing in the best start for every child:** Increasing access to high quality early years education and care has the potential to narrow developmental gaps between children before they start school, and improve children's outcomes into adulthood. Quality is key, and as such we have a clear focus on an adequate and sustainable funding settlement for providers, and on strengthening the childcare workforce.
2. **Increasing parental employment by lowering barriers to getting into and getting on in work:** This has potential to increase parent's earnings by over £9 billion per annum, with a typical income boost of £1,200 through wages alone. We find that gains would disproportionately flow to households at the lower end of the income distribution.
3. **Supporting long-term economic growth:** We measure the potential impacts of increased employment rates and hours of paid work for parents of young children, which could deliver annual returns to the exchequer of £5.9 billion, boost GDP by £13 billion, and narrow the gender pay gap. In addition, investing in a childcare guarantee that improves childcare access for parents across England could create 130,000 more jobs in the early years sector across the country.

To deliver a childcare guarantee, we recommend the following steps.

Recommendation 1: Investing in a sustainable funding settlement

Delivering a high quality childcare guarantee will not be possible without additional investment in a sustainable funding settlement for the early years sector. We recommend that funding rates for free available hours are stepped up significant to support the development of the early years workforce and boost quality. This increased funding rate would then be the foundation for the staged

expansion of a free hours offer towards 30 free hours for every child, from the end of parental leave to the start of school.

Step 1: increase funding rates for free hours to the level set for providers in receipt of the maintained sector supplement. We estimate that this will require an additional £2.4 billion of annual investment across existing free hours offers. To successfully deliver improvements in access, affordability and quality at scale will require significant steps to reform England's childcare market, which are outlined below.

Step 2: extend 30 hours offer to all three- and four-year-olds. We estimate that this will require an additional £1.1 billion of investment per annum, and offers to deliver immediate returns to mothers' labour market participation. This makes for a logical first step given it is where provision is currently concentrated. Extending the 30 free hours offer on a sustainable funding model would reduce the need for providers to cross-subsidise or charge top-up fees, and would remove up-front costs for parents looking to return to work or increase their hours.

Once this was in place and government were confident provision could be further expanded through market reforms the next part of the shift to the childcare guarantee would be **step 3: extend 15 free hours to all two-year-olds.** We estimate that this will require an additional £0.9 billion of investment per annum. This could be paid for by abolishing the married couples tax allowance, which would raise £0.9 billion per annum. This would begin to close the gap between the end of parental leave and the start of free hours for more parents, and would help to boost take up of the 2-year-old scheme among parents currently eligible.

Again once government were confident that provision could be further expanded we recommend moving to the final elements of the childcare guarantee **step 4: extend 15 free hours to under-twos – with eligibility beginning from the end of paid parental leave.** This would rely on steps to expand childminder supply, which is discussed below. The extension of 15 funded hours to under-twos would require an additional £0.9 billion of investment per annum.

In parallel, reform the childcare element of universal credit and the tax-free childcare scheme into an affordable hours scheme.

We estimate that an affordable hours scheme would cost an estimated £2.7 billion per annum in total – with and estimated £1.6 billion recouped from current spending on the childcare element of universal credit and the current tax free childcare scheme – rising to £2.1 billion when accounting for underspend on the latter's budget.

Under this scheme, parents eligible for the higher subsidy level should have up-front costs for their first month's fees subsidised. This could be achieved through a grants-based scheme to cover up front costs for the first month, similar to that on offer in Northern Ireland, or a token-based scheme that could be redeemed with registered providers, similar to that offered in the republic of Ireland.

Step 5: increase funded hours for two-year-olds and under-twos to 30 hours per week, and extend the free hours offer from 38 weeks of the year to 48.

We estimate introducing these additional hours for all under threes would cost £3.1 billion. Extending a free available hours offer for nought-fours from 38 weeks to 48 weeks to smooth costs for parents across the year would require a further £1 billion investment.

Step 6: introduce breakfast clubs and after school clubs in every primary school.

We estimate that this would cost up to £7. billion per year, though costs are likely to be significantly lower given many schools already offer breakfast and after school club places.

Step 7: extend parental leave to protect carers' time with young children and shift norms around caring roles. This should start with an independent review of statutory leave and entitlement to use-it-or-lose-it shared parental leave provision.

Revenue raising options: of this investment, an estimated £1.1 billion would be recouped from the childcare element of universal credit, and a further £500 million would be recouped from current spending on the tax-free childcare scheme.[6] The extension of 15 funded hours to all two-year-olds could be fully funded by abolishing married couples tax allowance, which would raise £0.9 billion. Additional investment could be funded by equalising taxation rates across income from work and income from wealth (see IPPR 2022).

DRIVING UP QUALITY AND ENSURING SUFFICIENT SUPPLY

To drive up quality and ensure sufficient supply of childcare places, local and regional bodies should play a larger role in shaping childcare provision. The UK government should work to reshape the childcare market by limiting the expansion of highly leveraged for-profit nursery chains, and encouraging the expansion of maintained sector provision. The UK government's Department for Education should work with providers and workforce representatives to develop a new regulatory framework for childcare provision, underpinned by new care standards.

Recommendation 2

In order to secure the future sustainability of the sector, this should include provisions **to limit government funding where providers' debt to asset ratios breach a sustainable threshold –** starting with a cap that's gradually lowered over time.

Recommendation 3

The UK government should aim to restore local authority capacity in early years, so that local authorities can establish **not-for-profit nursery trusts, led by maintained sector nurseries, MATs, and social enterprises, and independently governed with local authority representation.**

Trusts would have a role to play in maintaining standards across local provision, including through setting up or taking over small-scale providers to meet local need and expand local provider capacity. To support this measure, the UK government should reverse the provision in the 2006 Childcare Act that prevents local authorities from establishing their own early years education and care provision.

Recommendation 4

Local authorities should support the expansion of maintained sector provision and nursery trusts. Immediate steps could include repurposing building that are currently part of the primary school estate that has been made redundant by shrinking pupil numbers.

6 IPPR analysis using the IPPR tax-benefit model.

Recommendation 6

The Department for Education should work with devolved governments to **establish regional care cooperatives**, borrowing from the model recommended by Josh MacAlister's Independent Care review.

Regional care cooperatives (RCCs) would be legally granted commissioning powers, and would play an active role in shaping childcare markets – including by working with local authorities directly and through not-for-profit nursery trusts.

They should first be tasked with **managing regional childcare supply**: working across and between local authorities to identify gaps in childcare supply and taking action to close them – including through commissioning where required.

Secondly, they would have a role to play in **maintaining new care standards** through setting inspection and improvement. Regional coops could additionally be tasked with working with local authorities to coordinate training and support for local providers, and with initiating early years leadership programmes to share best practice across regions.

A 'NEW DEAL' FOR THE CHILDCARE WORKFORCE

Driving up quality will rely on investing in the early years workforce. Pay will need to be a key priority, combined with stronger training provisions and a clear progression framework to aid retention and development. We estimate that delivering a childcare guarantee will require significant expansion of the early years workforce, with over 130,000 additional staff[7] needed to deliver an expanded offer.

Recommendation 7

The UK government's Department for Education should work with unions and providers to develop a workforce strategy that focusses on driving up pay and conditions for the early years workforce, recognising that this will be critical to delivering quality improvements across the sector, and to closing access gaps.

This should take steps towards establishing national pay scales for the early years workforce, similar to those that apply to the teacher workforce. Continued funding should be made conditional on staff qualification levels and observation of national pay scales.

Recommendation 8

Over the next parliament, the UK government should look to prioritise the childcare sector for **fair pay agreements** that set a floor for minimum terms and conditions, alongside social care. This will require efforts to strengthen worker voice across the early years workforce.

Recommendation 9

Provide a financial incentive for recruitment of childminders to encourage childminder agencies to set up, grow, and support the growth of the sector. These could be established by local authorities, nursery trusts or private enterprises and would be regulated by Ofsted.

7 We estimate the extension of hours will represent an increase of 40 per cent, and so a corresponding increase in staff are needed. Given there are approximately 330,000 paid staff working in childcare and early years provision this would be an additional 130,000 people employed.

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ANNEX A: MODELLING ASSUMPTIONS FOR ECONOMIC IMPACTS FROM CHILDCARE INVESTMENT

We use the IPPR tax-benefit model to estimate the effects of a more comprehensive system of childcare on household and public finances.

MODELLING CHANGES IN THE LABOUR MARKET

We model two effects.

Increasing the employment rate of mothers with young children

- We increase the employment rate of mothers with a youngest child under the age of 11 to match those employment rates of mothers of older children.
- We assume 43 per cent work part-time, with the remainder working full time, the same split as observed for working mothers of older children in the model data.
- We assume those working part-time earn £10.64 an hour, the average part-time wage for part-time workers in the latest Annual Survey of Hours and Earnings data.
- We assume those working full-time earn £15.65 an hour, the average hourly wage for full-time workers in the latest Annual Survey of Hours and Earnings data.
- We transition into employment mothers whose current economic status is 'looking after children/family', excluding those with this status who are currently on maternity leave.
- Individuals in the potential pool of people who could transition into work are selected at random. To account for this randomness, we carry out the analysis multiple times and averages are taken of the results.

Increasing the rate of full-time work among mothers of young children already in work

- We increase the proportion of working mothers of young children working full time to match that of working mothers of older children.
- We assume these workers increase their hours up to 34 hours a week, with a corresponding increase in pay.
- In half of cases, we assume this involves transitioning to a new better paid job with an increase in the hourly rate of pay of 47 per cent, the difference in the average full-time hourly pay and part-time hourly pay according to the latest ASHE data.
- Individuals in the potential pool of people who could transition into work are selected at random. To account for this randomness we carry out the analysis multiple times and averages are taken of the results.

EXCHEQUER RETURNS

Having modelled these effects on the labour market, we use a microsimulation model to estimate exchequer returns from additional income tax, national insurance, and social security savings. We assume 100 per cent of additional post-tax income is spent on goods and services, with 20 per cent of this expenditure being VAT.

IMPACTS OF GDP

We assume additional wages paid to households are directly equal to additional economic output.

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