Institute for Public Policy Research

TOWARDS A CHILDCARE GUARANTEE

Rachel Statham, Henry Parkes and **Shreya Nanda**

September 2022

ABOUT IPPR

IPPR, the Institute for Public Policy Research, is the UK's leading progressive think tank. We are an independent charitable organisation with our main offices in London. IPPR North, IPPR's dedicated think tank for the North of England, operates out of offices in Manchester and Newcastle, and IPPR Scotland, our dedicated think tank for Scotland, is based in Edinburgh.

Our purpose is to conduct and promote research into, and the education of the public in, the economic, social and political sciences, science and technology, the voluntary sector and social enterprise, public services, and industry and commerce.

IPPR
14 Buckingham Street
London
WC2N 6DF
T: +44 (0)20 7470 6100
E: info@ippr.org
www.ippr.org
Registered charity no: 800065 (England and Wales), SC046557 (Scotland)

The progressive policy think tank

CONTENTS

Summary..5

Introduction: Early years education and care in England....................................9

Challenge 1: A childcare market failing to deliver on quality or access........12

Challenge 2: A gap in provision for parents from the end of parental leave to the start of the free hours offer 14

Challenge 3: High up-front costs and steep trade offs for parents getting into or getting on in work....................................15

Challenge 4: A lack of reliable wraparound and holiday care for children through primary school....................................19

Lessons from elsewhere....................................21

Solutions: Towards a childcare guarantee 23

References....................................27

ABOUT THE AUTHORS

Rachel Statham is associate director for work and welfare state at IPPR.

Henry Parkes is a senior economist at IPPR.

Shreya Nanda is an economist at IPPR.

ABOUT THIS PAPER

The purpose of this paper is to evaluate the current challenges facing parents of pre-school and primary-school age children with regards to childcare, and to outline a new vision for childcare in England.

ACKNOWLEDGEMENTS

Our thanks to Save the Children for their generous support for this project.

The authors would like to thank Casey Smith for research support on this paper, and Carys Roberts at IPPR.

Thanks too to Meghan Meek-O'Connor, Dan Paskins, Becca Lyons, Kayte Lawton and Jerome Finnigan at Save the Children for their constructive comments on an earlier draft. Thanks to Sam Freedman for thinking through some of the major challenges with us, and to the policy experts that have participated in interviews and shared their thinking for this project.

Our sincere thanks to the parents who gave up their time to speak with us about their experiences of childcare – good and bad – and their ideas for change. Their insights have shaped this project, which would not have been possible without them.

Download
This document is available to download as a free PDF and in other formats at:
http://www.ippr.org/research/publications/towards-a-childcare-guarantee

Citation
If you are using this document in your own writing, our preferred citation is:
Statham R, Parkes H and Nanda S (2022) Towards a childcare guarantee, IPPR.
http://www.ippr.org/research/publications/towards-a-childcare-guarantee

SUMMARY

Childcare and early education in England isn't working – for children, parents, or providers. Childcare costs hold parents – and particularly mothers – back from getting into or getting on in employment, and heap significant pressures on families navigating the challenges of parenthood. For children, access to high quality early years education can play a role in narrowing inequalities between disadvantaged children and their peers. Despite these high stakes, England has no coherent early years' infrastructure: there are currently seven different schemes on offer to parents in England, yet significant gaps persist (Farquharson 2021). Parents and carers navigate systems that are administratively complex, patchy, and expect parents to absorb high up-front costs when they enter or return to paid work, or take on more hours. When a child enters school, childcare pressures continue, as parents struggle to access or afford wraparound and holiday care. Long-term funding challenges and the acute pressures of the Covid-19 pandemic have left the childcare sector in England on the 'brink of collapse' (Strauss 2020). Soaring inflation is now pushing providers to the brink, while many more families are struggling to stay afloat as costs rise.

Typical net childcare costs in the UK now rank as the second highest in the developed world, and fees have risen by an estimated £2,000 per year in cash terms and have almost doubled for parents with a child under two since 2010 (OECD 2022; TUC 2022b).[1] The average price of a part time childcare place (25 hours) a week for a child aged under two in a nursery in Britain is £138.70, or £7,210 a year – double typical household spending on food and drink (Coram Family and Childcare 2022). For parents of three- or four-year-olds in full time work, for whom support is most generous, the typical weekly cost of a nursery place in England reached £105.76 this year.

Recent polling shows that one in three parents of pre-school age children spend more than a third of their wages on childcare, as costs have consistently outstripped wage growth since the financial crisis (TUC 2022; TUC 2018). Additional targeted support offered to parents on low incomes through the social security system comes with high up-front costs, and falls short of many families' needs. For families up and down the country, rising costs translate into intensifying pressure on their time, finances, and wellbeing (ibid; Cottam 2022). A combination of high costs and lumpy support means that children and their families are being held back – with long term costs to individuals, and the economy as a whole.

It's time for a childcare guarantee to lower barriers for parents getting back into or getting on in work, to reduce costs for families with children, and to ensure every child has access to high quality early years education.

To design a childcare guarantee for England, we have heard from parents, providers and policy experts on their ideas for change.[2] We have identified four key challenges.

1 Typical costs for a family with a child under two have increased by 44 per cent since 2010. The OECD indicator measures net childcare costs for parents using full-time centre-based childcare, after benefits designed to reduce childcare fees, including childcare allowances, tax concessions and other benefit entitlements. Costs are calculated for both couples and lone parents assuming two children aged two and three, assuming couple or lone parents earn 67 per cent of the average wage.

2 This paper features quotes from parents from Save the Children's Parent Campaigner Network, who participated in two focus groups exploring childcare challenges and ideas for change, conducted in June 2022. All 11 participants were mothers, and the majority were lone parents.

CHALLENGE 1

A childcare market failing to deliver on quality or access

Despite eye-watering costs, England's childcare market is on the brink of collapse as government funding for free available hours fails to meet costs incurred by providers offering funded places. 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 childcare provision for parents from the end of parental leave to the start of 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.

CHALLENGE 3

High up-front childcare 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, which is exacerbated by the childcare costs rebate offered through universal credit, and administrative frictions between different support schemes on offer. 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. This holds parents back in the labour market, and disproportionately harms mothers' earnings and economic security.

CHALLENGE 4

A lack of reliable wrap around 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.

In this report, we set out four key challenges facing families across the country and recommend a simplified scheme for parents based on two core offers:

1. Extended free available hours
2. Subsidised additional hours, with a subsidy rate that varies by household income

To deliver this on a basis that delivers high quality care on a sustainable basis will require a significant uplift to the funding settlement currently offered to providers, which we recommend is introduced alongside significant new regulations on quality of care.

This paper is the first of two exploring the case for a childcare guarantee.

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

- **Recommendation 1: We recommend the UK government invest significantly in childcare to expand supply and drive up quality** through a new funding settlement for funded hours, based on maintained sector rates. 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 in maintaining standards and managing local supply. We estimate this would require an additional £2.4 billion in additional annual spending.[3]

3 Based on current funding rates for maintained sector nurseries. Take up assumptions vary by age and hours.

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

- **Recommendation 2: We recommend the UK government act to close the gap between the end of parental leave and the start of free available hours** by introducing a core early years education offer of 15 funded hours per week, for 48 weeks of the year, for all pre-school-age children.

  Making the current 15-hour offer available to some two-year-olds universal would cost an estimated £0.9 billion per annum. A universal 30-hour offer would cost £1.8 billion, or £2.1 billion for 48-week coverage.

  Introducing a universal offer of 15 funded hours per week for under twos[4] would cost an estimated £0.9 billion per annum, rising to £1.4 billion for 30 hours, and £1.7 billion for a 30 hour offer through 48 weeks of the year (from the current term-time offer).

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

- **Recommendation 3: We recommend the UK 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.

- **Recommendation 4: We recommend the UK 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 5s**. 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 the costs of a reformed childcare subsidy scheme as follows.

TABLE S.1: ESTIMATED COSTS OF A REFORMED CHILDCARE SUBSIDY SCHEME

Cost sharing assumption		
Subsidy level 1 (families not in receipt of means-tested benefits)	**Subsidy level 2** (families in receipt of means-tested benefits)	**Cost**
30%	95%	£1.6bn
60%	95%	£2.7bn
75%	95%	£3.2bn

Source: Authors' analysis of Coram Family and Childcare (2022), DWP (2021), ONS (2021; 2022c)

Note: IPPR costings based on current market rates and take up. Analysis assumes complete rollout of 30 free hours for all children between six months and four years. The earnings cap is expected to have a negligible effect on costs

4 This has been modelled to start at six months.

Challenge 4: A lack of reliable wrap around care for children through primary school.

- **Recommendation 5: 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.

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

TABLE S.2: SUMMARY OF RECOMMENDATIONS

Recommendation	Outcome/Impact	Cost
Increase funding for free available hours for three- and four-year-olds to maintained sector levels	Drive up quality to improve educational outcomes for children and put the childcare sector on a sustainable financial footing	£1.6bn in additional investment for core 15 hours offer, and £0.5bn in the 16-30 hours offer
Increase funding for free available hours for two-year-olds to maintained sector levels	Drive up quality to improve educational outcomes for children and put the childcare sector on a sustainable financial footing	£0.3bn in additional investment
Universalise 30 free hours offer for three- and four-year-olds on higher hourly rate	Increase parental access to affordable childcare in order to lower barriers to paid work	£1.1bn in additional investment
Universalise 15 free hours offer for two-year-olds on higher hourly rate	Increase parental access to affordable childcare in order to lower barriers to paid work	£0.9bn in additional investment
Extend a universal 15 hour offer for two-year-olds to 30 free hours	Increase parental access to affordable childcare in order to lower barriers to paid work	£0.9bn in additional investment
Expand free hours offer to under twos[5]	Close the gap between end of parental leave and start for free hours for parents	£0.9bn in additional investment for 15 hours, or £1.4bn for 30 hours
Expand three- and four-year-old offer to 48 weeks of the year (from 38)	Lower up front costs for parents getting into or getting on in paid work and build financial stability for families	£1.3bn in additional investment
Introduce an Affordable Hours Scheme covering 60 or 95 per cent of costs for additional hours of care, depending on household income	Lower costs for parents of very young children, parents working full time, and parents on a low income	£2.7bn*
Introduce an extended schools offer to provide wraparound care from 8am-6pm	Lower costs and barriers to getting on in paid work for parents of children in primary school	Up to £7.6bn

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), Department for Education and Skills (2006), HM Treasury (2022)

Note: *Costing assumes complete rollout of 30 free hours for all children between six months and four years

In light of the deep economic challenges the UK now faces, now is the time to take bold action to tackle labour supply shortages, deepening financial insecurity and widening inequalities. Future research will explore revenue-raising options and sequencing of funded and affordable hours extensions in a roadmap towards a childcare guarantee.

5 This has been modelled to start at six months.

INTRODUCTION:
EARLY YEARS EDUCATION AND CARE IN ENGLAND

Childcare and early education in England isn't working – for children, parents, or providers. Childcare costs hold parents – and particularly mothers – back from getting into or getting on in work, and heap significant pressures on families navigating the challenges of parenthood. For children, access to high quality early years education can play a role in narrowing inequalities between disadvantaged children and their peers.

Despite these high stakes, England has no coherent early years' infrastructure: there are currently seven different schemes on offer to parents in England, yet significant gaps persist (Farquharson 2021). Parents and carers navigate systems that are administratively complex, patchy, and expect parents to absorb high up-front costs when they enter or return to paid work, or take on more hours. When a child enters school, childcare pressures continue, as parents struggle to access or afford wraparound and holiday care. Long-term funding challenges and the acute pressures of the Covid-19 pandemic have left the childcare sector in England on the 'brink of collapse' (Strauss 2020). Soaring inflation is now pushing providers to the brink, while many more families are struggling to stay afloat as costs rise.

Combining paid work and childcare has become the norm for parents, as employment rates of mothers with children under four have risen markedly over the last decade (Oppenheim et al 2022). Having two parents in full-time work is now the most common working arrangement for two-parent families with children, while seven in 10 lone parents are in paid work (ONS 2022b). This growth in maternal employment has not, however, reflected a transfer of paid work from men to women: fathers' employment rates have remained steady (Oppenheim et al 2022). Instead, parents are working more hours combined, meaning they are increasingly reliant on external help to care for young children – typically a mix of informal care provided by grandparents, friends and other family, and formal childcare provided by nurseries, childminders or nannies.

Meanwhile, childcare costs have risen steeply. Typical net childcare costs in the UK now rank as the second highest in the developed world, and fees have risen by an estimated £2,000 per year in cash terms and have almost doubled for parents with a child under two since 2010 (OECD 2022; TUC 2022b). The average price of a part time childcare place (25 hours) a week for a child aged under two in a nursery is £138.70 across Great Britain, or £7,210 a year – or double typical household spending on food and drink (Coram Family and Childcare 2022). For parents of three- or four-year-olds in full time work – for whom support is most generous – the typical weekly cost of a nursery place in England reached £105.76 this year. The patchwork of support offered to parents includes a range of uncoordinated offers with varied eligibility criteria, creating a system that is challenging to navigate, and offers lumpy support. Additional targeted support offered to parents on low incomes through the social security system comes with high up-front costs, and falls short of many families' needs. For families up and down the country, rising costs translate into intensifying pressure on their time, finances, and wellbeing (ibid; Cottam 2022).

“Depending on how long the month is, it works out at between £650 and £750 a month”

Parent of one child aged four, on their childcare costs.

The stakes are high. There is clear evidence that the first five years of a child’s life serves as a foundation for their futures, and yet support on offer to children and families is patchy and unreliable. Despite evidence that a very early childhood offers a critical window to narrow inequalities in later life, policy has almost entirely ignored the gap between the end of paid maternity or parental leave and the point at which free hours kick in for children turning two or three (depending on their circumstances). This is also when childcare costs are most expensive, as younger children require lower staff to child ratios.

In direct contrast to the clear entry point and expectations of the primary school education system, families with very young children navigate a patchy system of unconnected offers, characterised by changing eligibility criteria through ages and stages, shifting policy, and high administrative barriers. Free available childcare hours offered to some two, three and four-year-olds now comes with hidden costs, as providers charge additional fees for snacks, changes, or late pick up. While, on paper, the childcare element of universal credit offers parents on a low income a relatively generous rebate on childcare costs, in practice parents describe a ‘complete nightmare’, as they are made to grapple with high up-front costs, incompatible administrative systems, and a lack of predictability that makes planning for the future more difficult. England’s childcare offers run largely on a 38-week calendar – leaving a gulf for parents to navigate outside of term time. This leaves working parents struggling to absorb eye-watering costs, and relying heavily on informal care provided by extended family – with grandparents increasingly called upon to make family life manageable.

Childcare arrangements set the rhythms of family life. In 2022, working parents’ morning commutes tend to involve multiple stops from home to nursery drop off, to school in time for the bell, and to work in time for the start of a shift – only to be repeated in reverse at the end of the day. The complex logistics involved in these routines mean that parents value location in childcare settings – and particularly proximity to either home, work, or school. But childcare is not recognised as vital social infrastructure, meaning suitable and sufficient provision is not planned into our neighbourhoods in the way schools are. Shortages in suitable childcare are widespread, and a lack of planning acts as a further drain on parents’ time. Where the delicate childcare setup families rely on lacks flexibility or proves to be unreliable, it heaps stress onto children and the adults who care for them. A delayed bus or train service risks upending routines and stretching parents’ finances further than they can afford.

Meanwhile, the future of England’s early years sector looks increasingly uncertain for providers and the childcare workforce. Through the expansion of the UK government’s free available hours schemes, providers have pointed to a sustained gap between actual costs incurred and the financial support offered to them by government to provide places to parents, and describe having to cross-subsidise to make up costs by charging more for spaces for younger children, or for additional hours parents need (House of Commons 2016). Financial challenges across the sector have been intensified by the Covid-19 pandemic, as providers report struggling to recover from the widespread shutdown of the sector through lockdowns (Early Years Alliance 2021). The childcare workforce remains chronically low paid, while prices continue to rise for parents.

Closing the gaps between disadvantaged children and their peers in early childhood is critical to levelling up on educational attainment, health and wellbeing across the country. England’s current offer fails the children who stand to gain the most from high quality early years education, who are less likely to access formal early education, and who disproportionately miss out on high quality provision. Access gaps between children in lower-income households and their better off peers are wide – three-year-olds from families on a persistently low income are twice as likely as their higher-income peers to miss out on the full free pre-school care offer – and are likely to be growing further (Gambaro et al 2013; Campbell et al 2019). The Covid-19 pandemic saw a steep rise in the number of children missing out on early years education and care, which is now reflecting in the rising share of children deemed not ready for school when they enter the first year of school (Hobbs and Bernard 2021). Without a renewed focus on expanding access to high quality early education, these gaps risk persisting through school and into adulthoods.

BOX: ENGLAND'S CURRENT CHILDCARE OFFER FALLS SHORT

Parents in England currently have access to a mix of four different schemes, depending on their circumstances.

- Early education entitlement to 15 hours of early years education and care in term time, for all three- and four-year-olds and some disadvantaged two-year-olds.
- An additional 15 hours for three- and four-year-olds in families with 16+ hours work.
- Tax free childcare offer for parents in work (16 hours+ per week).
- The childcare element of universal credit.

These schemes have varied and wide-ranging aims and reflect a lack of overarching vision for early years provision. While hours for three- and four-year-olds are universal and have very high take-up (estimated at 92 per cent), the offer for two-year-olds is restricted to those on low incomes or where children have special educational needs or disability, where take-up is estimated to be lower (at 72 per cent).

Where families with children need a clear and reliable childcare offer, they're met with lumpy support that is constantly changing as children age in and out of eligibility for different schemes. Instead, we need to see a commitment from government to a robust early years infrastructure that can support children and their families through their early years, and give every child the best start in life. It's time for a childcare guarantee to lower barriers for parents getting back into or getting on in work, to reduce costs for families with children, and to ensure every child has access to high quality early years education.

In this paper, we set out four key challenges for a childcare guarantee to respond to.

- Challenge 1: A childcare market failing to deliver on quality or access.
- Challenge 2: A gap in childcare provision for parents from the end of parental leave to the start of free hours offer.
- Challenge 3: High up-front childcare costs and steep trade offs for parents getting into or getting on in work.
- Challenge 4: A lack of reliable wrap around care for children through primary school.

CHALLENGE 1: A CHILDCARE MARKET FAILING TO DELIVER ON QUALITY OR ACCESS

To realise the potential benefits of early years education and care for children and their families relies on two factors: access, and quality. First comes the challenge of ensuring children make it through the door of a nursery or other provider: take up rates for the free available hours offered to three- and four-year-olds are high, with 92 per cent of eligible children accessing a place this year, while targeted support for disadvantaged two-year-olds is significantly lower (at 72 per cent registration) and marked by regional variation (Department for Education 2022; Oppenheim and Archer 2021). Second comes the challenge of ensuring that care is high quality, which is critical to ensuring every child has the best start to their education. Quality can be measured by inspection ratings, staff qualifications, or staff to child ratios. Recent evidence from England finds that time spent in settings with the highest inspection ratings has a positive effect on children's educational outcomes at age 5 (Blanden et al 2019). In England, recent early years offers have failed to provide care of sufficient quality to close gaps in school readiness among children in lower and higher income households, as inequalities in child development have remained stubbornly high through the 2010s (Cattan et al 2022; Gambaro et al 2013; Campbell et al 2019).

Over the past decade, England's childcare market has changed. In 2019, there were over 1.6 million registered early education and care places in England, of which almost half were in private nurseries (47 per cent) while 20 per cent were provided in state-maintained schools, 18 per cent in the voluntary sector, and 15 per cent by childminders (Oppenheim and Archer 2021). The early years education and care sector is under growing strain, as providers grapple with a status quo in which government funding for funded places does not meet the real cost of providing them, and real terms cuts are deepening – funding per place fell 9 per cent between 2018/19 and 2019/20 (Ibid) and providers now face sharply rising costs through rising energy and food costs.

The share of state-maintained providers – which has historically provided the highest quality care, and has disproportionately served disadvantaged children (Gambaro et al 2013) – has been shrinking alongside local authority capacity as dedicated early years teams have been disbanded over the last decade. This has contributed to widening gaps in access and quality by children's socio-economic background. Over the same period, private for-profit provision has expanded – with particularly visible growth in private equity owned nursery chains (Simon et al 2022). A recent Nuffield Foundation study of England's childcare market found concerningly little evidence that for-profit private providers were making efforts to include or meet the needs of disadvantaged children within their services - raising concerns about the potential long-term impacts of this compositional shift (Ibid). Driving up quality and widening access will require a wider review of the childcare market, and stronger efforts to ensure high quality provision and sufficient supply.

Parents and carers navigating England's childcare landscape also face a range of practical barriers to accessing suitable provision. This year, one in four local authorities reported gaps in childcare supply affecting the delivery of the 30 free hours offered to some 3- and 4-year-olds (Coram Family and Childcare 2022). A lack of flexible provision is also a persistent challenge for parents – particularly for those working full time, irregular or non-standard hours. 1 in 10 local authorities reported this year that they did not have sufficient childcare supply in place for parents working atypical hours (Ibid). In nursery settings, parents are expected to book childcare places on what is often a rigid schedule of half-days, which are frequently out of sync with parents' working hours. For parents with non-standard or unpredictable work patterns – including shift work, night shifts, precarious contracts – their options are limited even further.

> *"My pre-school is 9-3, so it's not any good if you work like 9-5 or 8-5, that's not a suitable option"*
> Parent of one

Parents we heard from spoke to the critical role childminders play in providing flexible childcare options to support shift work – and the challenge of a lack of flexibility from other types of provision. Securing a place with a local childminder, however, can prove difficult, with established childminders overwhelmed with demand where there is a lack of places. Locally-based childminder agencies could have a clear role to play in responding to these challenges, by coordinating local provision. This could involve linking childminders to schools or nursery settings, and matching parents to local childminders.

> *"Out of all my family, the childminder has spent the second most time other than me with my little girl, and she's given her so much education... It's really invaluable"*
> Parent of one

Meanwhile, providers face intensifying workforce challenges. The childcare workforce is characterised by low pay and a lack of progression opportunities, leading to recruitment and retention challenges. The current funding settlement fails to provide a sustainable solution for providers – harming quality further where providers are unable to meet their own costs, let alone invest in their staff or facilities.

In theory, investment in childcare offers a 'double dividend' – making it possible for parents, and particularly mothers, to go out to work in the paid labour market, while children stand to gain from early years education. In practice, however, childcare policy must navigate trade-offs between affordability and availability of care on one side, and quality on the other. While affordability and availability of care are critical to parental employment, quality matters most to child development. Any sustainable childcare settlement must balance both: meeting the practical needs of parents, while delivering high-quality early years education. We know too that parents place a high priority on quality, and want to see their children thriving in a trusted environment, where staff are able to provide the care and close attention children need. Shifting the dial on quality and access will require a high-quality early years education offer that parents across the country want their children to have access to – regardless of their employment status or background.

CHALLENGE 2:
A GAP IN PROVISION FOR PARENTS FROM THE END OF PARENTAL LEAVE TO THE START OF THE FREE HOURS OFFER

Childcare is increasingly unaffordable for parents on low- and middle-incomes, as costs have risen faster than wages over the last decade (TUC 2018). The affordability challenge is particularly acute for families with very young children as no fully subsidised hours are available from the end of parental leave to age two, when care is most expensive. Analysis of typical childcare costs from Coram Family and Childcare finds that in 9 per cent of local authorities, the maximum limit on childcare support offered through universal credit does not cover the costs of even a part-time place for a child under two – rising to 99 per cent for a full-time place (Coram Family and Childcare 2021).

High costs for parents of younger children who are not (or not yet) eligible for free available hours also shape parents' work incentives. Mothers, who are both more likely to be the primary care giver of young children, and the second earner in a two-parent, opposite-sex household, often face social and financial pressures to stay at home with young children. While this will be some parents' preference, childcare costs play a key role in shaping decisions around paid work and care. For parents on a low income, childcare costs can outstrip their potential earnings – making it financially damaging to enter or return to paid work. This equation hurts families in the immediate term, by limiting mothers' financial independence and pulling more families into poverty by limiting their earnings. It also has long-term impacts: child poverty casts a long shadow over children's educational and health outcomes throughout their lives, while gaps in participation in paid work significantly limit mothers' future earnings.

Childcare costs continue to push working parents out of better-paid work, and into lower paid and/or lower responsibility work. Mothers who leave employment completely after childbirth are three times more likely to return to a lower-paid or lower-responsibility role that those who do not take a break from paid work, underlining the critical role of affordable early childcare for mothers' working lives and future earnings (Harkness 2019). This pattern was reflected in our conversations with parents, who described leaving behind careers ranging from financial services to the police force. A lack of flexibility from employers and childcare providers as a key barrier to in-work progression for single parents in particular (Clery et al 2020).

Parenting young children is stressful and demanding work, that comes with significant emotional and mental strain for parents trying to juggle paid work and care. Parents we heard from described the impact of the financial pressure stemming from childcare costs on their experience of parenting, and the guilt some experienced as they wished away the time until their children aged into free available childcare hours, or school. When a child does age into eligibility for free available hours, these financial pressures are reduced, but not eliminated: parents working full-time will require additional paid hours, and often face additional fees associated with snacks, meals or changes, or late pick up charges.

CHALLENGE 3:
HIGH UP-FRONT COSTS AND STEEP TRADE OFFS FOR PARENTS GETTING INTO OR GETTING ON IN WORK

Families on a low income will be eligible for support with childcare costs through the childcare element of universal credit, which can support parents with up to 85 per cent of costs up to a cap. The reality of claiming this support is, however, fraught with challenges and administrative hurdles. The universal credit assessment period on which monthly awards are based is established from the date at which a claim was first submitted, making it highly unlikely that it will align with the monthly invoices offered by providers required as proof to receive financial support. Parents describe navigating fluctuating childcare costs as “an absolute nightmare”, which led to a lack of clarity as to what they could or could not expect to be covered through next month’s universal credit award: “it’s never a figure that makes sense to me”. Families’ childcare costs tend to vary across the year, as gaps in free available hours mean parents often see higher costs at certain times of year (the current free hours’ offers in England only cover 38 weeks of the year, mirroring school term time). This affects parents’ ability to plan financially for the future, and shapes decisions about whether to take on additional hours in work, as parents do not feel they can rely on costs incurred to be recouped.

> ***“I do submit my childcare costs through universal credit, because there’s no way I could work and pay my rent and pay for like £700, £750 childcare fees”***
> Parent of one

> ***“When you claim [childcare costs] back… everything’s in arrears and it’s just a minefield”***
> Parent of two

For parents entering or returning to work after parental leave or a break to care for young children, up front childcare costs present a significant financial barrier. A key concern with the design of childcare support offered through universal credit is the high up-front costs parents are expected to absorb before they can reclaim a portion of those costs. As one parent explained:

> ***“It wasn’t something that I was expecting… I got this invoice and was told it needed to be paid before I’d even actually gone back to work, and it was kind of £500 or £600 more than I was earning at the time… so I was just thinking ‘this can’t be right – how can they be expecting me to pay this much money before I even go back to work anyway?’”***
> Mum of two

These up-front costs are driving parents into debt where they borrow from family or creditors to meet up-front costs, beginning a cycle of indebtedness in which parents feel they are “constantly playing catch up” in trying to earn enough to afford the costs of going out to work.

> *"I had to borrow the money. You kind of get in a cycle of, paying that one back, and then having to find money for the next one.... It was constant, kind of, playing catch up for three years until both girls went to school"*
>
> Parent of two, on up front childcare costs

Parents on a low income who look to re-train or upskill in further or higher education face significant barriers relating to their childcare costs. For parents in receipt of universal credit or means tested benefits, their entitlement is withdrawn if they enter full time education – leading to confusion and pushing parents into debt where they rely on accessing formal childcare to take up an education or training opportunity, and support is not offered directly through their college or university.

> *"I never actually saw a penny of it [my childcare costs] back because I was told two different things, they kept changing who was handling it"*
>
> Parent of two on managing childcare costs while at college

High childcare costs and limited availability continue to restrict access to paid work for parents with disproportionate impacts on mothers, who tend to be the primary care-giver and the lower earner in opposite-sex couples with children, and who make up 86 per cent of lone parents (IPPR analysis of ONS 2022). With childcare costs high and quality too often low, mothers face complex trade-offs when considering when and whether to return to work after having a child, and on what terms. In opposite-sex couples with young children, mothers typically face a costly trade-off where their effective earnings barely outstrip childcare costs incurred by taking on paid work. This is set against a backdrop of low rates of employment among mothers of young children, driven by deep gender inequalities across paid work and care: fewer than one-in-five of all new mothers return to full-time work in the first three years after maternity leave across the UK (Harkness 2019).

> *"It wasn't worth unsettling him for – theoretically – a low paid part time job"*
>
> Parent of two

Trade-offs between paid work and care are often sharpest for low-paid mothers with a partner in work, where childcare costs alongside the withdrawal of universal credit as household earnings increase mean parents may see very little financial benefit from entering work (figure 2). Childcare costs, universal credit withdrawal rates, and income taxes combined constitute staggeringly high effective marginal tax rates on earnings for some parents. Parents we spoke with described feeling that low-paid, part-time work was often not worth the disruption to young children's established routines – particularly where entering work came with high up front childcare costs, as parents are expected to absorb their first month on childcare costs before accessing universal credit, and to demonstrate their eligibility for additional free hours offered to working parents before they are able to recoup costs incurred through working. For parents whose children are too young or otherwise ineligible for free hours, these barriers are higher still.

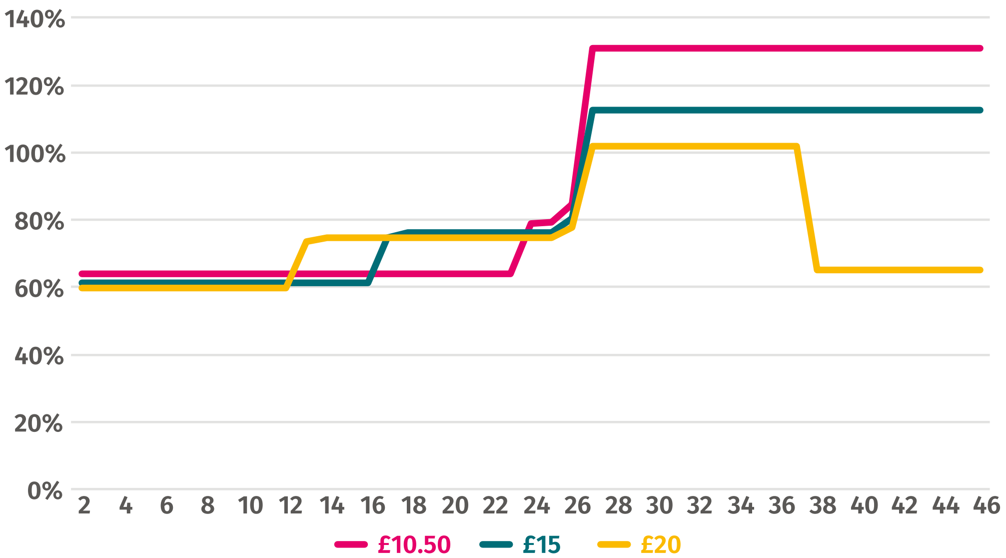
Parents also describe a lack of synchronisation between the free hours scheme and parents' starting or returning to paid work. Working parents seeking to access the 15 additional free hours on offer to parents of three- or four-year-olds with 16 or more hours of per week are expected to pay fees up front when they start or return to work, and then prove their work status retrospectively. For parents on a low income this presented a significant barrier, or thew them into financial precarity.

> *"I initially got my 15 hours, but then the way you claim your 30 hours it's like, for the next term. And because I started by job just a little bit too late I'm not getting my 30 hours until September – so I'm trying to keep him in as little hours as I can do for now. So if work say, 'oh, could you come in on a Wednesday as well?' I can't"*
>
> Parent of two

Parents in receipt of universal credit face a particularly steep trade off when entering or returning to paid work, as their award is tapered as their earnings increase. For a two-parent family in receipt of universal credit, a parent returning to work from parental leave can expect to face steep withdrawal rates, as their social security income is withdrawn as their earnings increase through the universal credit taper mechanism – as figure 1 illustrates. The taper withdraws a claimant's UC award at 55 pence for every additional pound earned. When combined with the fact that only 85 per cent of childcare costs are returned in the childcare element, parents face an exceptionally high effective tax rate on every additional pound they earn – leaving some worse off as a result of taking on additional hours of paid work. Figure 1 illustrates the effective withdrawal rate parents experience as their earnings increase on universal credit, with withdrawal rates exceeding 100 per cent at some points for those on lower hourly rates of pay. That is the choice to work more hours would be expected to make the household worse off overall. This arises because at this point we expect the childcare cost cap has been maximised, so no additional childcare support is available, combined with the fact the taper continues to bite alongside income taxes.

FIGURE 1: A COMBINATION OF UNIVERSAL CREDIT TAPER AND CHILDCARE COSTS ACT AS A SIGNIFICANT BARRIER TO PARENTS ON A LOW-INCOME RETURNING TO WORK AFTER PARENTAL LEAVE

Effective hourly withdrawal rate after childcare costs by hourly rate of pay for second earner



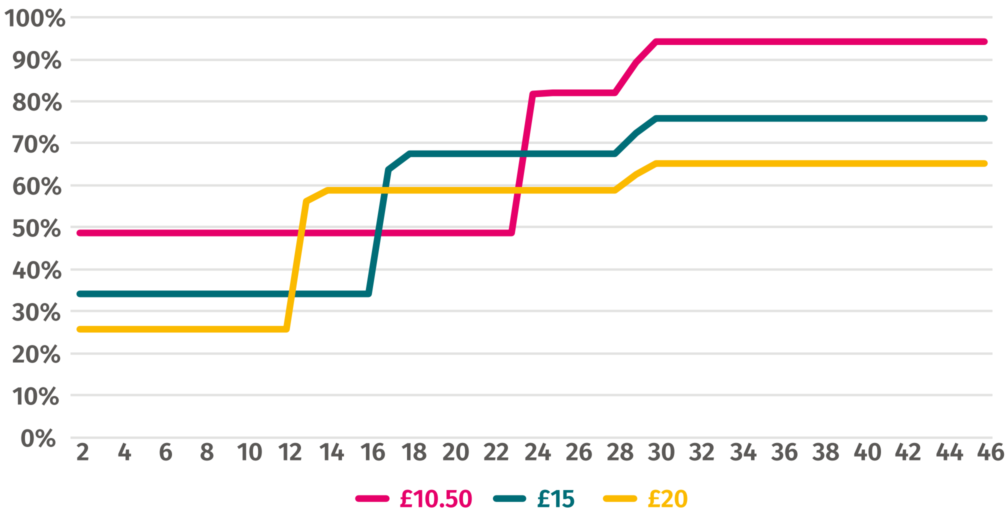
Source: Authors' analysis using IPPR Benefit Entitlement Model

Note: Models effective marginal tax rate (including childcare costs) for a second earner in a two-parent household, where a child is aged one and so is not eligible for free hours. The first earner works 36 hours per week and earns minimum wage.

Childcare costs can act as a high effective marginal tax rate for families relatively high incomes, too. Figure 2 illustrates the effective marginal tax rate faced down by a parent looking to return to work after parental leave, who is the second earner with a partner on a relatively high income. It illustrates their take-home-pay prospects while their child is aged one, considering tax and childcare costs relative to their earnings. In this example, a mother is looking to return to a job with an hourly rate of pay at £11.50, where her partner works full-time on pay of £45,000 per annum. A parent in this circumstance has no access to free childcare hours due to the age of their child, and household earnings are too great to claim universal credit. We estimate that, after accounting for childcare costs, a mother in these circumstances would face an effective tax rate of 56 per cent for every additional hour worked, as a result of childcare costs, assumed at a rate of £5.50 per hour – meaning that the household would keep less than half of the additional income earned due to likely childcare costs. This rate of withdrawal increases to an eye-watering 89 per cent, as national insurance and income tax become payable, such that the working parent is barely better off by increasing their hours of paid work.

FIGURE 2: SECOND EARNERS FACE AN UPHILL STRUGGLE TO INCREASE THEIR EARNINGS AFTER FACTORING IN CHILDCARE COSTS

Effective hourly withdrawal rate after childcare costs by hourly rate of pay for second earner



Source: Authors' analysis using IPPR Benefit Entitlement Model

Note: Models effective marginal tax rate (including childcare costs) for a second earner in a two-parent household, where a child is aged one and so is not eligible for free hours. The first earner works 36 hours per week and earns £45,000 per annum.

At higher rates of pay the withdrawal rate is less severe but remains very high. Supposing an hourly rate of pay at £15/hour marginal rates would still reach 76 per cent after income tax became payable and at £20/hour they could reach 65 per cent. Under these circumstances, a working parent earning £11.50 an hour could expect effective take home pay of under £2 at the steepest point in this curve, while a potential second earner on £15 an hour could expect to be just £3.60 better off for an additional hour's work.

CHALLENGE 4: A LACK OF RELIABLE WRAPAROUND AND HOLIDAY CARE FOR CHILDREN THROUGH PRIMARY SCHOOL

Childcare costs don't stop once children reach school age – with significant gaps before or after the end of the school day, and during school holidays. Parents describe school administrative systems that are incompatible with claiming childcare costs through universal credit: multiple payment systems deployed by schools to enable parents to pay for costs associated with school meals, breakfast or after school clubs, do not straightforwardly disaggregate costs. This produces digital or physical invoices that parents cannot use to successfully claim childcare costs through universal credit. Through invoicing and payment apps, schools are routinely deploying administrative systems that lead to parents incurring additional costs they cannot recoup.

> ***"The app Parent Pay also rolls in together like school dinners that I pay for my eldest and thing like that – so you would have to kind of separate it all out what was for breakfast club and what was for lunches, and get like separate invoices for them, and I needed a letter from the school and all of this kind of stuff. And I just, I didn't feel comfortable kind of going and asking the school for all that kind of stuff"***
>
> Parent of two, on claiming breakfast and after school club costs through universal credit

> ***"The breakfast club, they're not great at invoicing correctly, so then you've got a bigger fight trying to claim it back from universal credit"***
>
> Parent of two

Across the country, wraparound care for school-age children is hard to come by or unreliable. While childminders play a critical role in enabling families to juggle paid work and care, securing a childminder can prove challenging where demand from parents outstrips supply. Meanwhile, breakfast and after school clubs provided by schools are often patchy: parents describe schedules set or communicated to families in the first week of term, and last-minute cancellation of whole days of provision where there are staff shortages. Parents in more rural areas described a total lack of wraparound care – where in one case the only after school activity on offer was a single 45-minute slot once a week. This contributes to the anxiety and precarity parents associate with juggling the demands of care and paid work, which can often feel impossible.

> ***"All childminders in walking distance are full"***
>
> Parent of four

School holidays are the source of significant additional stress for working parents who do not have access to affordable childcare or informal care arrangements. Summer holidays loom as parents are expected to find suitable care at considerable expense. While provision organised through schools in the form of holiday clubs and other activity-based childcare is valued by parents, it also comes at a cost. These concentrated costs can destabilise families' budgets, and parents we heard from prioritised providers willing to spread costs across the year. Administrative decisions that lengthen summer holidays can add additional strain to family finances.

> ***"In the holidays I'll have to pay that massive up-front cost again – and find that money from somewhere"***
> **Parent of one**

> ***"I just can't afford it"***
> **Parent, on the cost of childcare during the school holidays**

As a result, parents rely heavily on informal care provided by extended family, or source 'off the books' care, paying childminders or babysitters cash in hand to keep costs affordable. Parents described these sources of informal care as being invaluable in helping them to make ends meet – pointing to the inadequacy of support on offer. Extended family and friends – and particularly grandparents – play growing roles in providing care for children and keeping costs manageable for families – but this too comes with risks. Rising rates of economic inactivity among older workers may reflect changing priorities as grandparents opt out of work to support their children to stay paid work while raising young children. As state retirement age rises, a growing share of families with young children will struggle to rely on grandparents for support, as they are increasingly likely to still be of working age. We also heard from families who had been experienced a financial shock when a grandparent who was relied on to help with childcare became ill or passed away, compounding the stress of family illness or loss for young families. Parents without family to rely on nearby described the additional pressures this placed on their decisions around paid work and care.

Investment in an extended school offer could alleviate the financial strain on parents through school term time. In the early 2000s, the Department for Education's extended school scheme sought to deliver an 8am-6pm offer for families across schools in England. An independent cost-benefit analysis of this scheme found benefits to outweigh costs (Department for Education and Skills 2006).

LESSONS FROM ELSEWHERE

To imagine an early years education and care infrastructure that better serves children, the adults that care for them, we can look to schemes elsewhere.

CHILDCARE INVESTMENT ACROSS DEVOLVED NATIONS

First, there are alternatives in action in other parts of the UK. While devolved governments in Scotland, Wales and Northern Ireland have developed new approaches in recent years, early years provision in England remains largely unchanged and unattended to by policymakers. England now lags behind Scotland, where devolved childcare policy has seen the universal expansion of free available hours from 600 hours to 1,140 hours per year – equivalent to 30 hours per week for 38 weeks of the year – while the equivalent hours are only offered to parents working 16+ hours per week in England. In Wales, disadvantaged two- and three-year-olds have access to part-time early years education through the Welsh government's 'flying start' scheme, and three- and four-year-olds accessing the funded 30 hours scheme have access for 48 weeks of the year, as compared to 38 weeks in Scotland and England. In Northern Ireland, government has implemented a new system of grants to cover up front childcare costs for parents in receipt of universal credit – lowering a key financial barrier to paid work.

IRELAND'S NATIONAL CHILDCARE SCHEME

Ireland's childcare offer was, until 2019, based on a similar approach to that taken by governments across the UK – with varied entitlements to free hours. It has more recently, however, taken a change of direction in response to challenges similar to those observed in the UK. The Irish government now offers financial support for families with children aged between 24 weeks and 15 years of age through its National Childcare Scheme (NCS). The scheme has two key strands: a universal offer, and an additional income-assessed subsidy. The universal subsidy offers all children under three support with up to 1,170 per year. Means-tested subsidies vary by household income, the age and learning stage of the child, and the employment or education status of the parent or carer. As a result, it has come under criticism from children's charities concerned by the exclusion of families not in paid work (Ingle 2021). Parents and carers then bring a 'chip' to registered providers, which, alongside a child's name and date of birth, enabled them to unlock a subsidy. This subsidy is then paid directly to providers. Early evidence points to positive impacts of the scheme on the cost and use of childcare for parents, alongside minimal impacts on provision (Frontier Economics 2021).

NORDIC APPROACHES TO UNIVERSAL ACCESS

It has become standard practice among the Nordic nations to set a maximum fee that parents pay no more than for childcare. By setting a limit, countries can indirectly cap the profitability of the childcare sector, as well as stop fees escalating across the entire system. Sweden's 'Maxtaxa' provides a ceiling on childcare costs alongside a means-tested element which regulates childcare fees according to the income of families (Scottish Government 2013). A similar system is in place in Finland and Denmark, but Norway goes one step beyond. Norway introduced a maximum fee for full-time care in 2004 and has made subsequent reductions in the maximum fee since.

To achieve egalitarian access, Norway succeeded in delivering a drastic shift away from private provision and towards municipal providers since the 1960s, aided by efforts to ensure opportunities to make profit in the private sector are limited by regulated national curriculum, widespread parental participation in provider governance, and reliance on municipal funding (Ellingsœter 2014). More recent years have, however, seen the re-expansion of private for-profit provision, which parents tend to experience as lower quality than not-for-profit provision, in which parents tend to play active roles in governance and oversight through parent-led co-ops (Trætteberg and Fladmoe 2020). Since 2013, the Kindergarten Act placed a cap on the profits private providers are able to extract – setting high conditions on quality and limiting private providers' ability to undercut municipal kindergartens. This is enforced by municipalities either reducing or withholding grants made available to providers in order to maintain low-cost, egalitarian provision (Stewart et al 2014).

QUEBEC'S FOCUS ON AFFORDABILITY

Quebec's flat fee takes a more universal approach to childcare provision as opposed to the Nordic nations' preference for determining fees according to family income. While Quebec has a long history of not-for-profit care and parent-led co-ops, its defining feature of low-fee care has faced scaling challenges. While directly funded care provided by CPEs (les centres de la petite enfance) tends to be high quality and constitutes around 30 per cent of the sector, the success of this model of provision has not been replicated elsewhere. For-profit centre-based childcare, which has expanded in recent years, has been found to be of substantially worse quality, and parents now face limited choice. Quebec's example offers a lesson in the pace of change: by seeking to expand to too great a scale, too fast, the strengths of Quebec's most successful model of childcare provision have not been effectively replicated at scale (Cleveland et al 2021).

Parents we heard from prioritised quality above all else, but parents on low incomes described the difficult decisions they had to make between quality and affordability. The ability to spread costs across the year, instead of having to pay high up-front costs at the start of a new term, made the difference between being able to keep a child in a nursery setting they were happy in, or having to move them to a lower-quality setting, where costs were more reliable. Reliable invoicing from providers made a significant different to parents' ability to manage tight budgets and plan for the future – underlining how important reliability is for parents.

SOLUTIONS: TOWARDS A CHILDCARE GUARANTEE

It's now time to invest in a robust early years infrastructure that can support children and their families through their early years, and give every child the best start in life. In this chapter, we set out the component parts of a childcare guarantee – a right to high quality early education and care for every child under five, and to wraparound care for children through primary school. We propose this guarantee is delivered through a high-quality funded hours offer, a subsidised hours scheme for additional hours, and an extended schools scheme. Taken together, this investment stands to level up on child development, lower barriers for parents getting back into or getting on in work, and build financial stability for families with children – as well as for childcare providers. They are designed to offer families greater simplicity and stability around which to plan paid work and care, and more breathing space in budgets that are under mounting pressure. And they are underpinned by a focus on quality, recognising its central role in delivering long term benefits for today's children, that can reach far into their futures.

Next, we set out recommendations that respond to the four key challenges outlined in this paper.

- **Challenge 1:** A childcare market failing to deliver on quality or access.
- **Challenge 2:** A gap in childcare provision for parents from the end of parental leave to the start of free hours offer.
- **Challenge 3:** High up-front childcare costs and steep trade-offs for parents getting into or getting on in work
- **Challenge 4:** A lack of reliable wrap around care for children through primary school.

We recommend a simplified scheme for parents, based on two core offers: free available hours, and subsidised additional hours. To deliver this on a basis that delivers high quality care on a sustainable basis will require a significant uplift to the funding settlement currently offered to providers – but this should be introduced with significant new regulations on quality of care.

Lessons from elsewhere teach us that transforming childcare will rely on creating new norms, and sustained investment in a high-quality care infrastructure. Action is urgent, but solutions that drive up quality and close access gaps will require long-term vision and sustained political will. With this in mind, we chart a course from where we are now, towards a childcare guarantee that gives every child the best start – beginning with the targeted expansion of funded hours within a new funding settlement.

We make the following recommendations to deliver a childcare guarantee in England.

To meet challenge 1, we recommend the UK government invest significantly in childcare to expand childcare supply and drive up quality.

The UK government Department for Education should introduce a sustainable funding settlement for funded childcare places, based on the rate set for maintained sector nurseries. This would be delivered alongside measures to push up quality across the sector through funding conditionalities on quality and workforce pay and development. We estimate this would increase annual investment in funded hours by £2.4 billion per annum.[6]

The Department for Education should develop an England-wide childcare workforce strategy, with a focus on boosting pay, retention and progression.

The Department for Education should work with local government leaders to develop a new role for local authorities in maintaining standards and sufficiency, and in managing a workforce development strategy. This could see local authorities play a role in pushing up quality for funded hours through conditions attached to an enhanced funding offer.

These local authority early years teams should play a role in shaping local childcare markets to ensure sufficient supply and quality. This could include the development and expansion of childminding agencies, which can coordinate a network of childminders and establish strong relationships between early years settings and childminders,[7] and the expansion of maintained sector provision through creation of local not-for-profit trusts.

The UK government's Department for Education and Department for Levelling Up, Housing and Communities should work together to establish Regional Care Co-ops to oversee childcare supply, workforce development and spread best practice at the regional level (borrowing on the model for children's care provision proposed by the Independent Care Review).

To meet challenge 2, we recommend the UK government act to close the gap between the end of parental leave and the start of free available hours.

This could be achieved by introducing a core early years education offer of 15 funded hours per week, for 48 weeks of the year, for all children aged six months to school age. This should place a focus on childminders for younger children, with nursery provision for two-, three- and four-year-olds supported by a more generous funding settlement that drives up quality (see recommendation 1).

Making the current 15 hour offer available to some two-year-olds universal would cost an estimated £0.9 billion in additional spending per annum. Extending it to 48 weeks of the year would cost an estimated £0.2 billion in additional investment. We estimate that extending this offer to 30 hours per week would cost an additional £1.1 billion per year.

Introducing a universal offer of 15 funded hours per week for under twos[8] would cost an estimated £0.9 billion per annum, or £1.1 billion if extended to 48 weeks of the year. An additional £0.5 billion of investment would be needed to increase an under twos offer to 30 hours, with £0.1 billion in additional investment to extend a 30 hour offer through 48 weeks of the year.

---

6 This breaks down into £1.6 billion per annum in additional funding to deliver the three- and four-year-old core 15 hours offer, £0.5 billion for the additional 15 hours offered to some parents (working 16+ hours per week), and £0.3 billion for the current two-year-old offer.

7 For more detail, see EPI (2021).

8 This has been modelled to start at six months.

To meet challenge 3, we recommend the UK 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. This offer would cover 48 weeks of the year, up from the current offer of 38 weeks. This could be rolled out first to children at risk of disadvantage as capacity is expanded across the sector.[9]

As a first step, the free 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 an additional £1.3 billion per annum. Universalising the current 30 hours offer to all parents would cost an estimated £1.1 billion per annum.

In addition, we recommend the UK 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. 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 capof £100,000, in line with current policy. This system would also continue to support families with children with a disability who incur additional care costs.

We estimate the costs of a reformed childcare subsidy scheme as follows.

TABLE 1: ESTIMATED COSTS OF A REFORMED CHILDCARE SUBSIDY SCHEME

Cost sharing assumption		
Subsidy level 1 (families not in receipt of means-tested benefits)	**Subsidy level 2** (families in receipt of means-tested benefits)	**Cost**
30%	95%	£1.6bn
60%	95%	£2.7bn
75%	95%	£3.2bn

Source: Authors' analysis of Coram Family and Childcare (2022), DWP (2021), ONS (2021; 2022c)

Note: IPPR costings based on current market rates and take up. Analysis assumes complete rollout of 30 free hours for all children between six months and four years. The earnings cap is expected to have a negligible effect on costs

To meet challenge 4, we recommend that the Department for Education expand wraparound care through an 8am-6pm extended schools offer.

This would offer varied before and after school activities from 8am-6pm for 48 weeks of the year. 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.

9 With eligibility based on receipt of universal credit, legacy benefits, or disability status

We estimate a full scheme would require £7.6bn per annum in total spending (authors' analysis of Department for Education and Skills (2006), ONS (2022c), DfE (2022b), HM Treasury (2022), ONS (2022d)). The marginal cost to provide this would be lower, given that some provision already exists. A cost-benefit analysis of the extended schools offer introduced in the 2000s found benefits to outweigh costs (Cummings et al 2017).

TABLE 2: SUMMARY OF RECOMMENDATIONS

Recommendation	Outcome/Impact	Cost
Increase funding for free available hours for three- and four-year-olds to maintained sector levels	Drive up quality to improve educational outcomes for children and put the childcare sector on a sustainable financial footing	£1.6bn in additional investment for core 15 hours offer, and £0.5bn in the 16-30 hours offer
Increase funding for free available hours for two-year-olds to maintained sector levels	Drive up quality to improve educational outcomes for children and put the childcare sector on a sustainable financial footing	£0.3bn in additional investment
Universalise 30 free hours offer for three- and four-year-olds on higher hourly rate	Increase parental access to affordable childcare in order to lower barriers to paid work	£1.1bn in additional investment
Universalise 15 free hours offer for two-year-olds on higher hourly rate	Increase parental access to affordable childcare in order to lower barriers to paid work	£0.9bn in additional investment
Extend a universal 15 hour offer for two-year-olds to 30 free hours	Increase parental access to affordable childcare in order to lower barriers to paid work	£0.9bn in additional investment
Expand free hours offer to under twos[10]	Close the gap between end of parental leave and start for free hours for parents	£0.9bn in additional investment for 15 hours, or £1.4bn for 30 hours
Expand three- and four-year-old offer to 48 weeks of the year (from 38)	Lower up front costs for parents getting into or getting on in paid work and build financial stability for families	£1.3bn in additional investment
Introduce an Affordable Hours Scheme covering 60 or 95 per cent of costs for additional hours of care, depending on household income	Lower costs for parents of very young children, parents working full time, and parents on a low income	£2.7bn*
Introduce an extended schools offer to provide wraparound care from 8am-6pm	Lower costs and barriers to getting on in paid work for parents of children in primary school	Up to £7.6bn

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), Department for Education and Skills (2006), HM Treasury (2022)

Note: *Costing assumes complete rollout of 30 free hours for all children between six months and four years

10 This has been modelled to start at six months.

REFERENCES

Blanden J, Del Bono E, Hansen K and Rabbe B (2019) *Quality childcare and children's educational outcomes: a discontinuity approach*, ISER. https://www.surrey.ac.uk/sites/default/files/2019-04/childcare-quality-discont.pdf

Campbell T, Gambaro L and Stewart K (2019) *Inequalities in the experience of early education in England: Access, peer groups and transitions*, CASE briefing. https://sticerd.lse.ac.uk/dps/case/cb/casebrief36.pdf

Cattan S, Fitzsimons E, Goodman A, Phimister A, Ploubidis G B, and Wertz J (2022) *Early childhood and inequalities*, IFS Deaton Review of Inequalities. https://ifs.org.uk/inequality/early-childhood-inequalities-chapter/

Clery E, Dewar L and Bivand P (2020) *Untapped talent: single parents and in-work progression – the national picture*, Gingerbread. https://www.gingerbread.org.uk/policy-campaigns/publications-index/untapped-talent/

Cleveland G, Mathieu S, Japel C (2021) *What is "the Quebec model" of early learning and child care?*, Policy Options. https://policyoptions.irpp.org/magazines/february-2021/what-is-the-quebec-model-of-early-learning-and-child-care/

Cominetti N, Costa R, Datta N and Odamtten F(2022) *Low Pay Britain 2022: Low pay and insecurity in the UK labour market*, The Resolution Foundation. https://economy2030.resolutionfoundation.org/wp-content/uploads/2022/05/Low-Pay-Britain-2022.pdf

Coram Family and Childcare (2021) *Childcare Survey 2021*. https://www.familyandchildcaretrust.org/sites/default/files/Resource%20Library/Childcare%20Survey%202021_Coram%20Family%20and%20Childcare.pdf

Coram Family and Childcare (2022) *Childcare survey 2022*. https://www.familyandchildcaretrust.org/sites/default/files/Resource%20Library/Final%20Version%20Coram%20Childcare%20Survey%202022_0.pdf

Cottam H (2022) *The Work Project: Reimagining Work and Care*, UCL Institute for Innovation and Public Purpose. https://medium.com/iipp-blog/the-work-project-reimagining-work-and-care-b324056f4be7

Department for Education [DfE] (2022a) 'Education provision: children under 5 years of age', dataset. https://explore-education-statistics.service.gov.uk/find-statistics/education-provision-children-under-5/2022 [Accessed 9 September 2022]

Department for Education [DfE] (2022b) 'Schools, pupils and their characteristics', dataset. https://explore-education-statistics.service.gov.uk/find-statistics/school-pupils-and-their-characteristics [Accessed 9 September 2022]

Department for Education and Skills (2006) *Evaluation of Full Service Extended Schools Initiative: Final Report*. https://eprints.ncl.ac.uk/file_store/production/55844/F53CDFAE-5B7B-414A-8455-B12F68AA5D0B.pdf

Department for Work and Pensions [DWP] (2021) 'Family Resources Survey 2019/20', dataset. https://beta.ukdataservice.ac.uk/datacatalogue/series/series?id=200017

Early Years Alliance (2021) *Future of early years sector in England "at risk" as survey finds less than half of parents plan to take up childcare places on 1 June*. https://www.eyalliance.org.uk/future-early-years-sector-england-"-risk"-survey-finds-less-half-parents-plan-take-childcare-places

Education and Skills Funding Agency [ESFA] (2022) '2022 to 2023 schools and high needs additional allocations', dataset. https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2022-to-2023

Education Policy Institute (EPI) (2021) *Education recovery*. https://epi.org.uk/wp-content/uploads/2021/05/Education-Recovery_EPI.pdf

Ellingsœter A L (2014) 'Towards universal quality early childhood education and care: the Norwegian model, in Gambaro L, Stewart K and Waldfogel J (eds) *An Equal Start? Providing quality early education and care for disadvantaged children*

Farquharson C (2021) *Complex, costly and constantly changing: the childcare system in England*, IFS. https://ifs.org.uk/publications/15612

Frontier Economics (2021) *Reviewing 12 months of Ireland's National Childcare Scheme*. https://www.frontier-economics.com/uk/en/news-and-articles/news/news-article-i8906-reviewing-12-months-of-ireland-s-national-childcare-scheme/

Gambaro L, Stewart K and Waldfogel J (2013) *Equal access to high quality early education and care? Evidence from England and lessons from other countries*, Centre for Analysis of Social Exclusion. https://www.nuffieldfoundation.org/wp-content/uploads/2019/11/CASEbrief321.pdf

Hobbs A and Bernard A (2021) *Impact of Covid-19 on early childhood education and care*, UK Parliament. https://post.parliament.uk/impact-of-covid-19-on-early-childhood-education-care/

Harkness S, Borkowska M, Pelikh A (2019) *Employment pathways and occupational changes after childbirth*, UK government. https://www.understandingsociety.ac.uk/2019/10/22/how-womens-employment-changes-after-having-a-child

HM Treasury (2022) 'GDP deflators at market prices, and money GDP March 2022 (Spring Statement)', dataset. https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-march-2022-spring-statement

House of Commons (2016) *Delivering free childcare*. https://publications.parliament.uk/pa/cm201617/cmselect/cmpubacc/224/22406.htm

Ingle R (2021) 'Vulnerable children 'falling through the gaps' of new childcare scheme', The Irish Times. https://www.irishtimes.com/life-and-style/health-family/vulnerable-children-falling-through-the-gaps-of-new-childcare-scheme-1.4657090

Institute for Fiscal Studies [IFS] (2021) 'Early years', article. https://ifs.org.uk/education-spending/early-years [Accessed 9 September 2022]

Institute for Public Policy Research [IPPR] (2018) *Prosperity and Justice: Final report of the Commission on Economic Justice*. https://www.ippr.org/research/publications/prosperity-and-justice

Kings College London and Working Families (2021) *Working parents, flexibility and job quality: what are the trade-offs?* https://workingfamilies.org.uk/wp-content/uploads/2021/11/Working-parents-flexibility-and-job-quality-what-are-the-trade-offs.pdf

OECD (2022) 'Net childcare costs (indicator)', dataset. doi: 10.1787/e328a9ee-en (Accessed on 26 July 2022). https://data.oecd.org/benwage/net-childcare-costs.htm

Office of National Statistics [ONS] (2021) 'Estimates of the population for the UK, England and Wales, Scotland and Northern Ireland', dataset. https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland [Accessed 9 September 2022]

Office of National Statistics [ONS] (2022a) 'Families and households', dataset. https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/IPPfamilies/datasets/familiesandhouseholdsfamiliesandhouseholds

Office of National Statistics [ONS] (2022b) 'Families and the labour market, UK: 2021', dataset. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/familiesandthelabourmarketengland/2021

Office of National Statistics [ONS] (2022c) 'Zipped population projections data files, UK', dataset. https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/z1zippedpopulationprojectionsdatafilesuk [Accessed 9 September 2022]

Office of National Statistics [ONS] (2022d) 'Implied GDP deflator at market prices: SA Index', dataset. https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/l8gg/qna [Accessed 9 September 2022]

Oppenheim S, Batchelor R, Rehill J (2022) *Bringing up the next generation: from research to policy*, Nuffield Foundation https://www.nuffieldfoundation.org/publications/bringing-up-the-next-generation

Pascal C, Bertram T, Cole-Albäck A, Holt-White E and Farquharson C (2021) *A Fair Start? Equalising Access to Early Education*, Sutton Trust. https://www.suttontrust.com/our-research/a-fair-start-equalising-access-to-early-education/

Scottish Government (2013) *Early Childhood Education and Care Provision: International Review of Policy, Delivery and Funding*

Simon A, Penn H, Shah A, Owen C, Lloyd E, Hollingworth K, Quy K (2022) *Acquisitions, Mergers and Debt: the new language of childcare – Main Report*. London: UCL Social Research Institute, University College London. https://www.nuffieldfoundation.org/wp-content/uploads/2022/01/The-new-language-of-childcare-Main-report.pdf

Strauss D (2020) 'UK childcare sector on 'brink of collapse'', Financial Times. https://www.ft.com/content/273f9f99-0ff6-4859-8ed0-b9f580450b5e

Trætteberg HS and Fladmoe A (2020) 'Quality Differences of Public, For-Profit and Nonprofit Providers in Scandinavian Welfare? User Satisfaction in Kindergartens', *Voluntas* 31, 153–167. https://doi.org/10.1007/s11266-019-00169-6

TUC (2018) 'Childcare fees have risen three times faster than wages since 2008, TUC analysis reveals', news article. https://www.tuc.org.uk/news/childcare-fees-have-risen-three-times-faster-wages-2008-tuc-analysis-reveals

TUC (2022a) 'TUC poll: 1 in 3 parents with pre-school children spend more than a third of their pay on childcare', news article. https://www.tuc.org.uk/news/tuc-poll-1-3-parents-pre-school-children-spend-more-third-their-pay-childcare

TUC (2022b) 'Cost of childcare has risen by over £2000 a year since 2010', news article. https://www.tuc.org.uk/news/cost-childcare-has-risen-over-ps2000-year-2010

Institute for Public Policy Research

GET IN TOUCH

For more information about the Institute for Public Policy Research, please go to www.ippr.org

You can also call us on +44 (0)20 7470 6100, e-mail info@ippr.org or tweet us @ippr

Institute for Public Policy Research

Registered Charity no. 800065 (England & Wales), SC046557 (Scotland), Company no, 2292601 (England & Wales)

The progressive policy think tank