First Steps

Fixing our broken childcare system

Bel Guillaume

Foreword by Siobhan Baillie MP

ONWARD

About Onward

We believe in a mainstream conservatism – one that recognises the value of markets and supports the good that government can do, is unapologetic about standing up to vested interests, and assiduous in supporting the hardworking, aspirational and those left behind. Our goal is to address the needs of the whole country: young as well as old; urban as well as rural; and for all parts of the UK – particularly places that feel neglected or ignored in Westminster. We do this by developing practical policies that work. Our team has worked both at a high level in government and for successful thinktanks. We know how to produce big ideas that resonate with policymakers, the media and the public. We work closely with policymakers of all parties to build coalitions of support. Most importantly, we engage ordinary people across the country and work with them to make our ideas a reality.

Onward is an independent, not-for-profit thinktank, registered in England and Wales (Company Registration no. 11326052).

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Foreword

The childcare juggle is real. When super busy parents, carers and grandparents of young children are raising concerns about childcare policies and bothering to contact MPs, we have to pay attention.

I am grateful to Onward for taking up the challenge of investigating this important issue as we all pay the price for the failings in the current childcare system.

Successive governments of all colours have patched together various childcare schemes. The taxpayer now spends over £5bn a year on a complex system that is not fit for purpose. Childcare costs in the UK are also nearly three times the OECD average during a period of serious pressures on cost of living for families.

World class childcare is not only about giving children the best possible start to life. It is vital to support parents and carers during what can often be a stressful and yet wonderfully rewarding time of life. It is an essential part of helping these parents back to work and fulfil their full potential. In short, it impacts all of us.

Onward has listened to the many helpful suggestions we received, examined all of the data closely and proposed some simple and clear suggestions for change. I am sure you will find this report compelling.

It is a truism that children are the future. We can make sure that future is built on firm foundations. None of us can wait any longer.

Siobhan Baillie MP, Member of Parliament for Stroud

Summary of the argument

It is difficult to overstate the importance of early childhood. It is a crucial period for the physical and emotional growth of children. It is when families are formed, expanded, and strengthened. For all its stresses, it should be a period of joy for parents. And it is a moment when the community and government can serve as supporters and safety nets.

Many manage the pressures of modern parenting through childcare. Around three quarters of parents of children aged 0 - 4 access some form of childcare, with about two thirds using formal support like nurseries and the other third using informal support like grandparents.

Costs of childcare have skyrocketed. Today, the average price for a part-time nursery place of 25 hours a week for a child under two is £140 per week. To put this in context, an average household spends just under £70 per week on food and non-alcoholic drinks. So for many, part time childcare costs are double what they pay for their weekly shop.

In the last five years, costs have risen by an average of 21% across the UK. This has left us dramatically out of step with other countries: 26% of parents' joint income in the UK goes toward childcare costs, roughly three times higher than the OECD average of 9%.

Polling commissioned by Onward for this report reveals the impact this has on parents. Nearly a third of families say that childcare is one of their most expensive costs (32%), behind only housing (74%), energy bills (75%) and food and drink (66%).

High childcare costs have two major impacts. First, they stop parents who want to enter the workforce from doing so. 30% of parents say that the costs of childcare have forced them or their partner to consider leaving work to care for their children. There is a predictable gender gap in these figures: around a third of women (32%) told us the costs of childcare have forced them to consider leaving work, compared to around a quarter of men (23%).

Second, high childcare costs undermine the formation of strong families and place stress on parents. 92% of parents say that childcare costs impact their standard of living. Families across the income spectrum identify the costs of childcare as a stressor: around half of households with an annual income under £10,000 said they find it "very difficult" or "difficult" to cover the costs of childcare, and over a fifth of households earning over £45,000. In a recent JL Partners poll, 51% of respondents agreed that "the costs of childcare are putting people off having children until much later in life".

So what's gone wrong with the childcare system? The most obvious driver of high costs for parents is a low level of public subsidy. As a share of GDP, the UK spends considerably less on early years support than international comparators: 0.56% of GDP compared to 0.7% across the OECD. The UK also has an imbalance in investment, prioritising 3-5 year olds over 0-2 year olds. Sweden spends two times more on 0-2 year olds than 3-5 year olds, and France and the Netherlands spend similar amounts, but the UK spends six times more on 3-5 year olds than 0-2 year olds.

Additional investment in childcare support would be welcome. But the UK is facing a difficult fiscal moment. And the Exchequer already invests around £5 billion in various childcare schemes. So, what are the other drivers of dysfunction in the UK system which could be tackled to get more value out of our existing budget?

First, complexity. The Government operates at least eight schemes to subsidise the costs of childcare, including the 15 and 30 “free hours” entitlements, Tax-Free Childcare, support through Universal Credit, and VAT subsidies. This is confusing for parents, complex and costly to administer, and leads to perverse outcomes: of the 1.3 million families eligible for Tax Free Childcare, only 316,000 take up the support.

Second, inflexibility. The 15 and 30 hours scheme can only be used at an approved childcare provider for the equivalent of school term time (38 weeks per year). And payments for providers are channelled through local authorities who pay different hourly funding rates per child that have historically been below the actual costs of providing care. This means providers are forced to cross-subsidise, increasing costs for parents who require childcare for more than 30 hours a week or during holiday periods.

Third, the early years workforce. A lot of attention has been given to staffing ratios, but England’s stricter requirements are necessitated by a less qualified workforce. In England you can start working in a childcare setting with no specific qualifications, but must have a GCSE-equivalent qualification to be a childminder. In France, a teacher looking to enter the early years profession requires a Masters level qualification. And the UK early years workforce is struggling more broadly. Nurseries have a staff turnover rate of 24%, compared to a national average of 15-18% a year, costing the sector an estimated £879 million in 2019. Over the last 10 years, the number of childminders has halved.

Fourth, a dysfunctional provider market. Since 2015/16, the number of childcare providers has fallen by around a quarter. But the demand for childcare places has remained stable. This is because of a rise in private equity ownership of larger providers, now estimated to make up 61% of the market. While there is limited evidence of the effectiveness of this model, private firms are investing 14% less in their staff than the not-for-profit sector.

Parents are clear on what they think needs to be done. They have no appetite for reduced childcare ratios: 52% oppose the idea that "childcare professionals should be able to look after more children at the same time, as they do in other countries" with only 27% supporting. Instead they want flexible parental leave (net +79%), flexible childcare support programmes (+72%) and frontloaded child benefit (+70%).

We have put forward a five point plan that is fiscally and politically feasible, and genuinely tackles the root causes of our broken system:

1. **Support parents through a new system of Childcare Credits.**
   The current system of "free hours" of childcare is not working for the taxpayer, providers or parents. Childcare Credits would bring together the existing truncated funding streams into one per child credit to be spent on a variety of qualifying activities throughout the whole year. A universal Childcare Credit should be provided for all parents of one to four year olds, and a more generous Additional Childcare Credit for families on lower incomes.

2. **Front load Child Benefit payments.**
   Learning from successful schemes abroad, ministers should give parents the option to front load child benefit payments when a child is younger, in exchange for lower payments when the child is older. Parents can continue to receive a flat rate if they wish, or shape the benefit to reflect their changing circumstance, at a maximum of a third of the whole entitlement over the first three years of a child's life.

3. **Reform parental leave.**
   Separate maternity and paternity leave should be abolished in favour of a single parental leave scheme. Parents would have a shared entitlement to 12 months leave from work, which they could draw down however they wanted. For example, the father could take three months, the mother nine, or both could take six months each.

4. **Expand Family Hubs.**
   Family Hubs are community-based centres which enable easier access and better outcomes for families, more effective service delivery and smarter use of local authority budgets and resources. They should be expanded throughout the UK as an urgent priority to provide more comprehensive support.

5. **Introduce provider side reforms, including boosting childminding agencies.**
   Childminder numbers should be boosted by expanding childminding agencies, tailoring the Early Years Framework, unlocking new premises and reforming business rate eligibility. Graduates should be incentivised into the early years workforce, and better training provided for existing staff. And better data should be gathered on early years outcomes by more effectively tracking the progression of children.

Reforms to our childcare system cannot come soon enough. Parents are overpaying, provider numbers are plummeting and our labour market is underpowered as a result. The new Government has been in office for a matter of weeks, but already the clock is ticking to show they can deliver for families across the UK. Fixing our broken childcare market would be a strong place to start.

Summary of recommendations

Problem	Solution
Complex and Costly The Government operates at least eight schemes across three different Government departments to subsidise the cost of childcare, including the 15 and 30 "free hours" entitlements, Tax-Free Childcare, support through Universal Credit, and VAT subsidies. This is confusing for parents, complex and costly to administer.	1. Create a new system of Childcare Credits for children aged 1-4, paid monthly in advance, to radically simplify the market and empower parents. Low income families would be supported with an Additional Childcare Credit. 2. Parents should have the option to front-load Child Benefit payments when a child is younger, in exchange for lower payments when the child is older. This would be capped at maximum of a third of the whole entitlement over the first three years of a child's life.
Inflexible Parents have little choice about when and how their children are looked after, and there is a lack of local support.	3. Reform parental leave by abolishing separate maternity and paternity leave in favour of a single parental leave scheme. Parents would have a shared entitlement to 12 months leave from work, which they could draw down however they wanted. 4. Expand Family Hubs to enable easier access and better outcomes for families, as well as smarter use of local authority budgets and resources. To ensure better data collection surrounding early childhood outcomes, Unique Pupil Numbers should be assigned at birth.
Dysfunctional providers Providers are struggling to stay open; staff turnover is high and childminder numbers have plummeted.	5. Introduce a number of provider side reforms, including boosting childminding agencies by giving them £1,000 for each childminder they register that starts trading (as Ofsted currently receives), unlocking new premises and reforming business rates to boost staff pay within the sector. 6. Incentivise graduates into the early years workforce by extending the Early Career Framework to early years educators, and boost training opportunities for existing practitioners through a centralised CPD system.

Problems

Why reform of the childcare market is necessary

Most agree that Britain's approach to childcare is broken. But it's not fully appreciated how many problems there are to fix. Costs are high. Subsidies are low. Providers are strained. Particular parts of the country or types of care are prohibitively expensive. Family security is undermined and parents who want to return to work face financial barriers.

This chapter examines the current state of the childcare system for parents, breaking down the different problems with our national approach.

Childcare is a considerable weekly cost for parents of small children

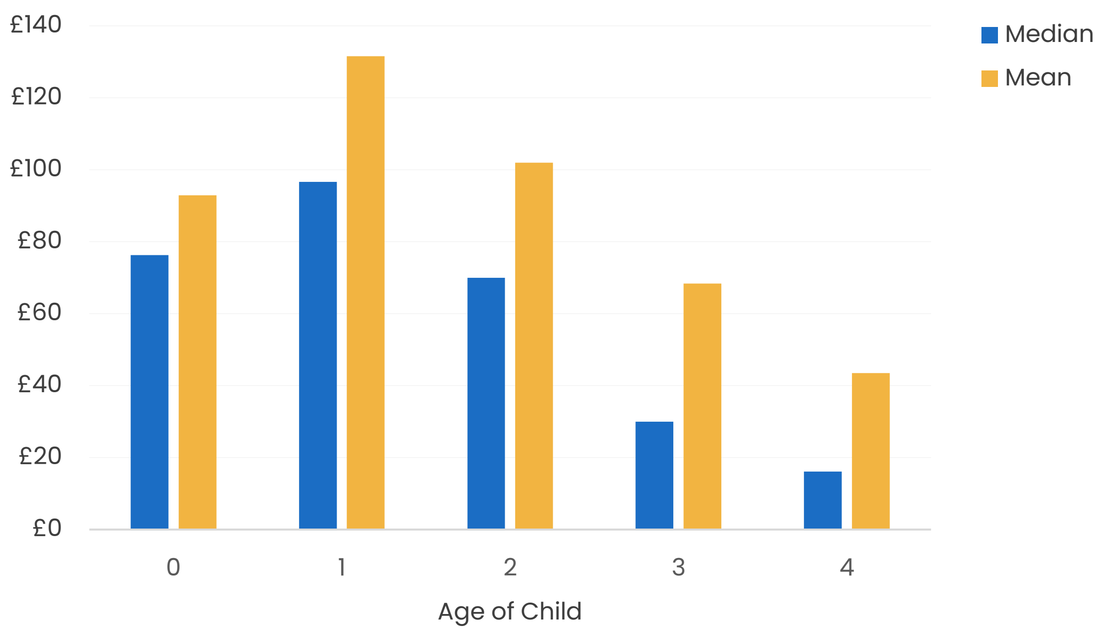
Most parents use childcare. According to the 2019 Childcare and Early Years Survey of Parents, an official survey of parents with children aged 0-4 in England, 76% of households use some form of childcare, of which around two-thirds (64%) use formal childcare and the remainder (33%) use informal care, such as grandparents or other family members.[1] These figures have remained broadly consistent over time: in 2010, 73% of parents used some form of childcare, with 60% using formal childcare and 30% using informal childcare.

For parents using formal childcare, the costs can be considerable. The current average price for a part time nursery place (25 hours a week) for a child under two is £140.68 per week, or £7,315 a year. For a child aged two, the cost is marginally lower, at £135.28 or £7,035 a year.[2] To give these prices some context, average household expenditure on food and non-alcoholic drinks was £69.20 per week in 2020-21. So the weekly cost of a part time nursery place for a child under two years old is double the average weekly shop.[3]

These costs vary considerably with age. The median weekly cost of formal childcare for parents with a child aged 1 years old is around 50% higher than the costs of formal childcare for a two year old, and more than three times higher than the costs for a 3-4 year old.[4] These differential costs reflect the differing government entitlements available at different ages, especially for 3-4 year olds.

Figure 1: Mean vs. median weekly cost of child-level weekly payment for all children receiving paid childcare, by age

Source: Childcare and Early Years Survey of Parents, 2019

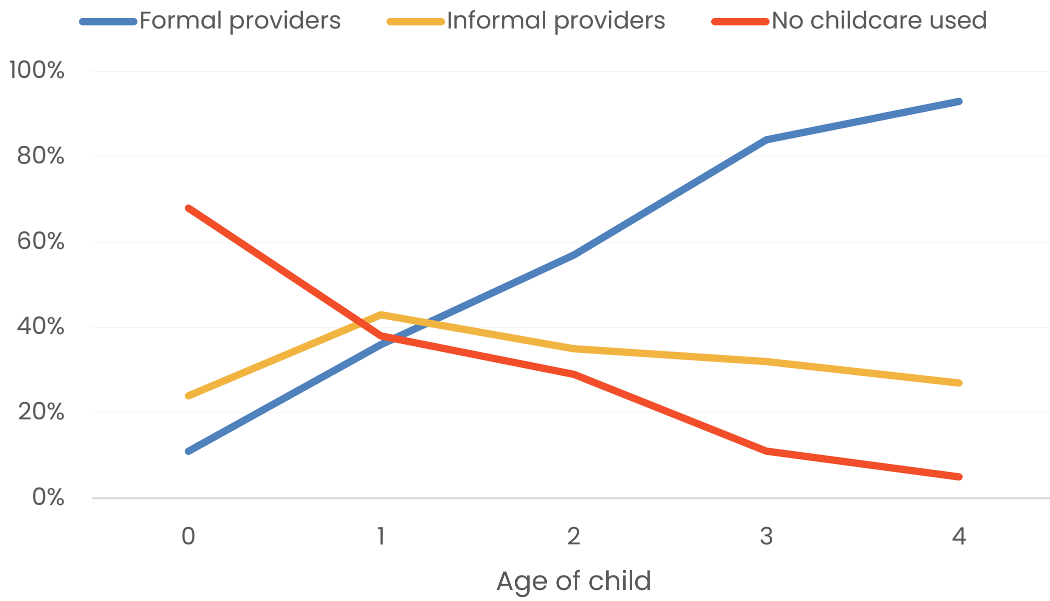


The gap between the mean and the median suggests that a share of parents pay costs significantly above the median. This gap is partly explained by research from the Institute for Fiscal Studies, which found that while some families have low or no weekly childcare costs due to unpaid informal care (such as care from grandparents), other families pay extremely high amounts. Their analysis found that this differential is strongly related to the age of the child.[5]

In part because of these costs, use of formal childcare varies considerably by the age of a child. Among one year olds, 62% of parents use some form of childcare, of which 36% opt for formal providers and 43% for informal providers, with 38% using no childcare at all. Among 2 year olds, the percentage of families using any form of childcare sits at 71%, with 57% of those using formal providers and 35% opting for informal providers. By the age of 3, 84% of children experience formal childcare. Some parents will use both formal and informal childcare, so these categories are not mutually exclusive. [6]

Figure 2: Share of children using different forms of childcare, by age

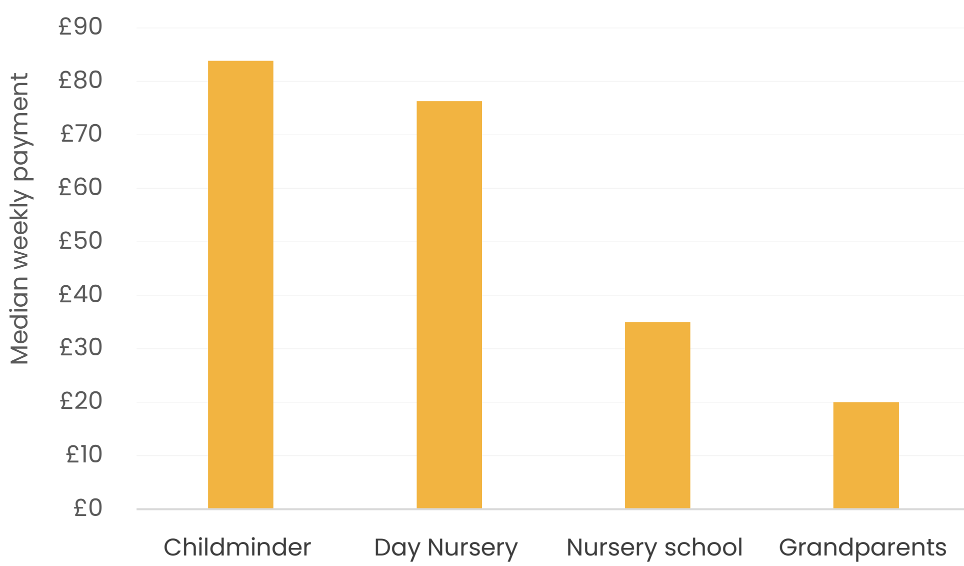
Source: Childcare and Early Years Survey of Parents, 2019



There is also significant variation between the cost of different types of childcare. Looking at the median weekly payment for families who are paying for childcare in some form, we can see that the median family is paying £83.84 a week for a childminder, compared with £76.30 for a day nursery, £35.00 for a maintained nursery school, and just £20 towards the costs of informal provision, such as grandparents. The high cost facing parents for childminders can in part be explained by the lack of government subsidy targeted towards this form of care.

Figure 3: Median weekly payment for different types of childcare

Source: Childcare and Early Years Survey of Parents



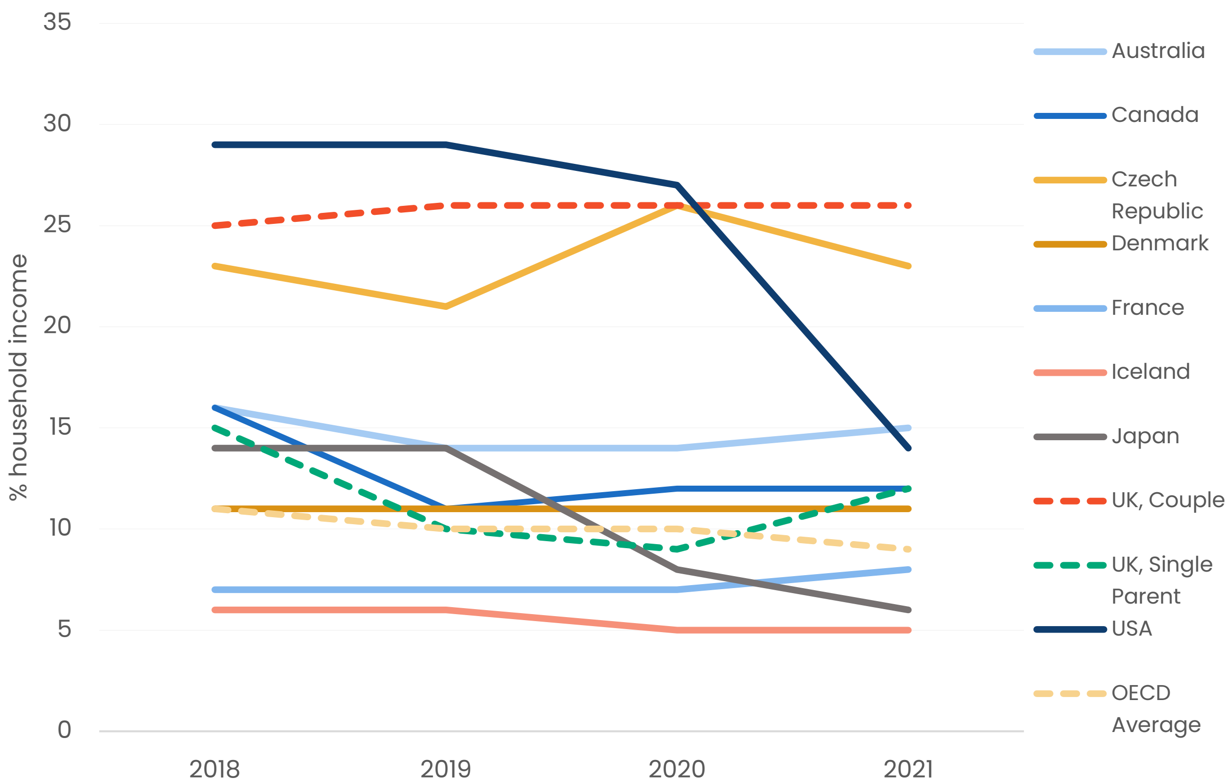
UK parents spend a disproportionate amount on childcare compared to other countries

These costs are unusually high within the developed world. The OECD publishes comparative data for the net childcare costs for parents using full-time centre-based childcare after any benefits designed to reduce gross childcare fees. According to their latest data, for 2021, UK parents spend on average 26% of their household income for couples and 12% for single parents on this form of childcare.[7]

As shown by Figure 4 below, this is extremely high by international standards: the OECD average is 9% and the USA (14%), Canada (12%), Denmark (11%), Norway (7%) and Japan (6%) all have considerably lower cost systems than the UK. As the IFS has shown, even accounting for methodological differences between how countries measure the costs of childcare, the UK still has the ninth highest costs measured as a share of net household income for a two-earner couple on the average wage, and the seventh highest for a single parent on the minimum wage.[8]

Figure 4: Net childcare costs as a percentage of household income, selected OECD countries

Source: OECD Benefits and Wages, Net Childcare Costs (Note: for all other countries shown, the figure shown is for a couple)



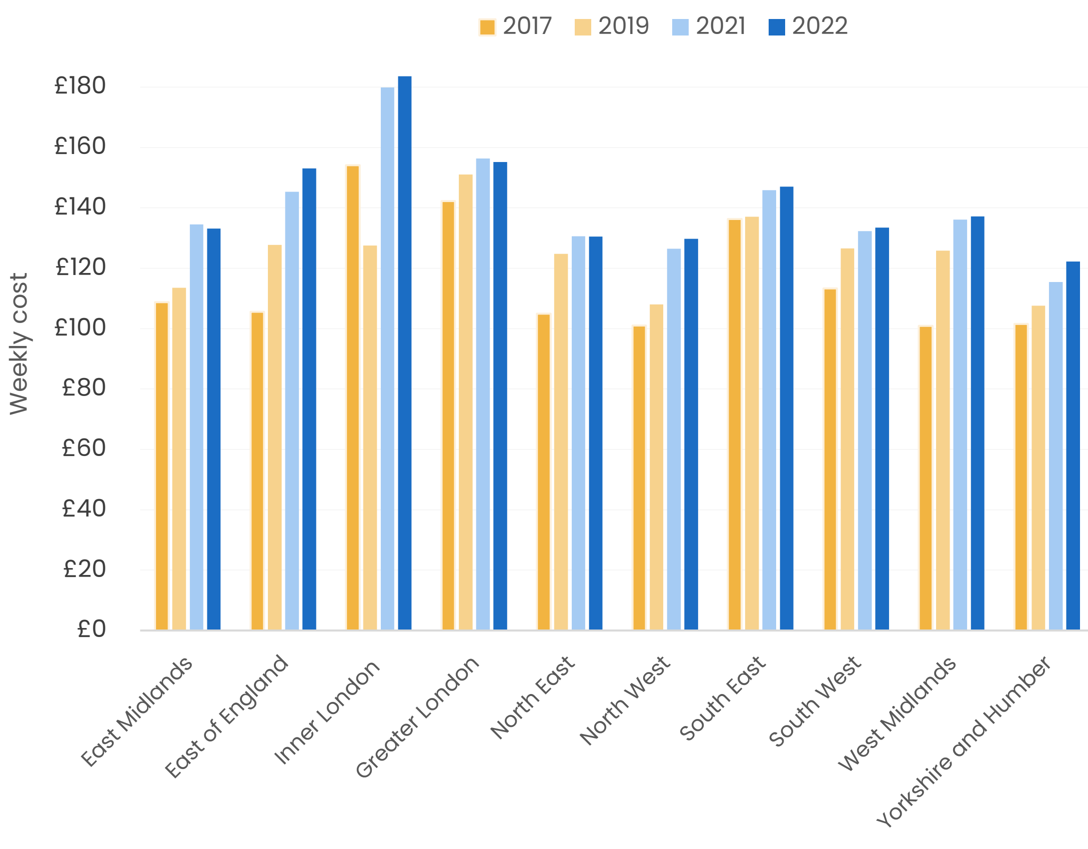
These costs have also been rising faster in the UK than in other countries. According to OECD data, the share of household income that single parents have spent on childcare has risen from 15% of household income in 2018 to 20% in 2021, the sharpest increase of any country in the developed world in that period.[9] While single parents in the United States spend, on average, 22% of their income on childcare by the OECD measure, their costs have fallen by more than half in the last four years.[10]

Costs are particularly high for certain places and types of provision

Looking at a national level also obscures wide regional variation. In Inner London, the cost of a part time nursery place (25 hours a week) for a child under 2 has risen by 19% from £154.08 per week in 2017, to £183.56 in 2022. This means that parents in Inner London are now paying £1,533 more a year than they were in 2017.[11] As a result, parents in Inner London now pay 50% more than parents in Yorkshire & Humberside for a nursery place.

Figure 5: Weekly cost of a part time nursery place for a child under 2, by region

Source: Family and Childcare Trust, 2022



As we have seen, there is also significant variation between the cost of different types of formal childcare. Despite the common perception that childminders are a cheaper option, families are paying more for them than any other formal option, perhaps in part because of the lack of government funding targeted towards childminding agencies and childminders, compared with the available subsidies for families using maintained nurseries.

There has been comparatively little attention given to the role and costs of informal childcare. The Nuffield Foundation points to a foundational reason as to why this might be - defining precisely what is meant by informal childcare is "far from straightforward".[12] And a lack of government regulation and policy means that there is little data available, particularly on the prevalence and profile of family members providing informal care. However we do know that informal care is relatively common: 33% of families with a child aged 0-4 used some form of informal care in 2019, with most of them drawing on the support of grandparents (29%). Among one year olds, 43% of parents use informal care, including 38% who use grandparents. Among working single parents, this figure is even higher: over half of single parents (51%) relied on some form of informal care in 2019 - the majority using grandparents or another relative to support them.[13] This kind of informal childcare appears to be beneficial: one major longitudinal study found a small positive impact of informal childcare between the age of two and the start of school on children's verbal ability, with no negative impacts.[14]

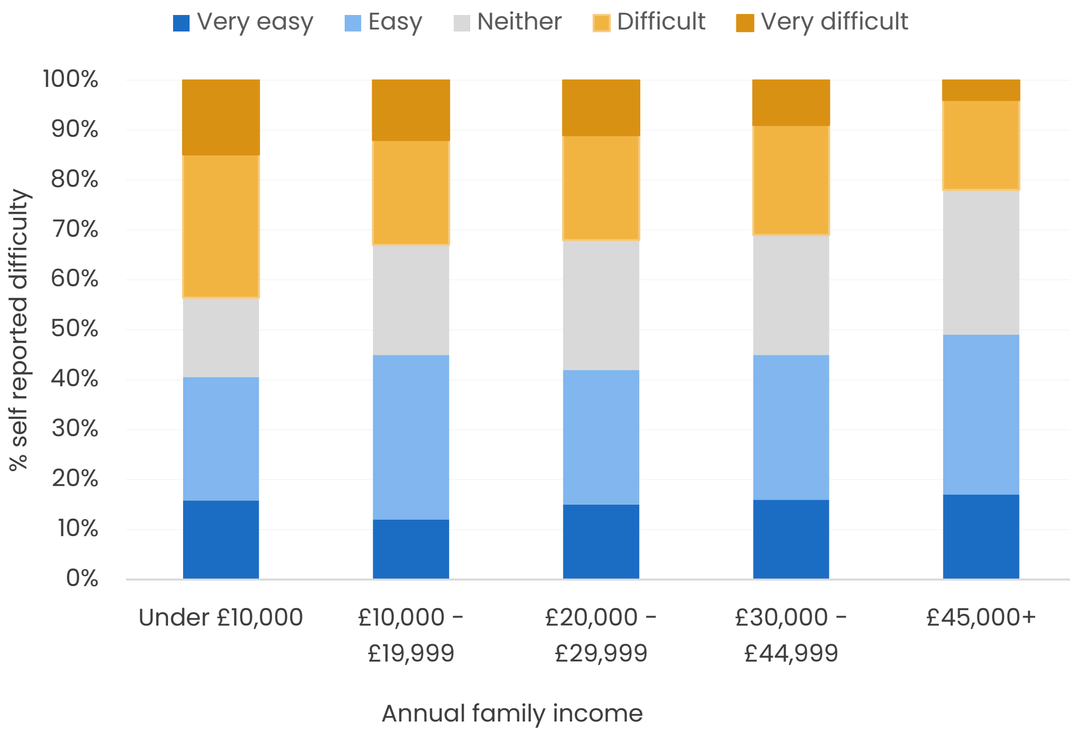
High childcare costs undermine family security and prevent parents that want to from returning to work

These costs have real consequences for families, especially at a time of rising financial pressure. A 2021 survey of over 20,000 parents conducted by Mumsnet in partnership with a coalition of parenting and campaigning groups offers insight into the impact that childcare costs are having. In total, 92% of parents who responded said that childcare costs had impacted their standard of living, with 50% describing childcare as "completely unaffordable". Research by Mumsnet has suggested that as many as four in ten single parents say they have turned to credit cards to pay for essential items.[15] In a recent 8,000 sample poll by JL Partners for Onward, 51% of respondents agreed that "the costs of childcare are putting people off having children until much later in life".[16]

According to the 2019 Childcare and Early Years Survey of Parents, 44% of households with an income under £10,000 a year said they find it "very difficult" or "difficult" to cover the costs of childcare, and a third (33%) of households with an income of £10,000 to £20,000 say the same. But it is not just a problem for low-earners. Among households with a self-reported income of more than £45,000, more than a fifth say they have difficulty paying for childcare.[17]

Figure 6: Self-reported difficulty in paying for childcare, families who paid for childcare in the last week

Source: Childcare and Early Years Survey of Parents, 2019

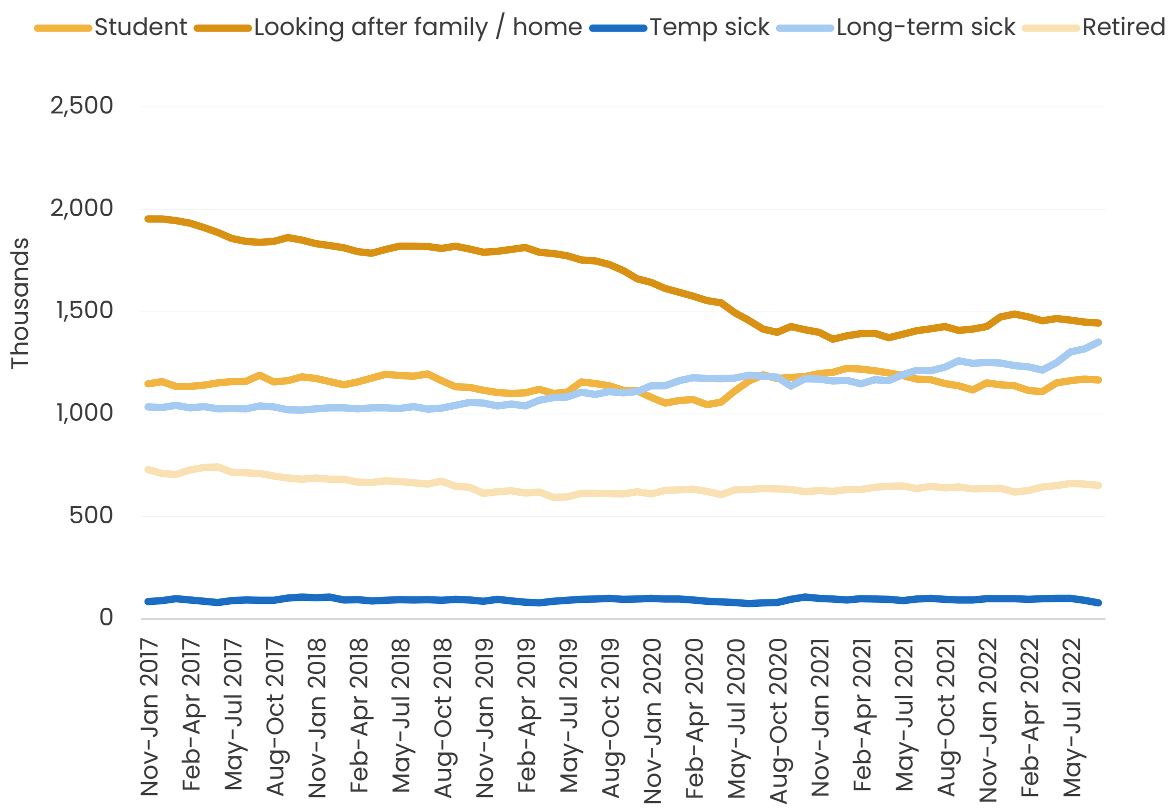


Childcare costs feed into a wider climate of financial insecurity for parents. The Bank of England's latest money and credit data estimates that credit card borrowing increased at the fastest annual rate since 2005 in May 2022, by 12.5% month-on-month.[18] Meanwhile, savings have fallen to their lowest level in more than five years and households struggle to put away anything after they have paid the bills. These trends themselves are strongly correlated with income, with higher income households better able to access savings and lower income households more at risk of falling into debt.

Access to affordable childcare also impacts working hours, particularly for mothers. In 2019, 54% of mothers who were working part time but wished to increase their working hours or work full time stated that the biggest barrier to doing so was being unable to afford suitable childcare. This was followed by an absence of relatives or friends who were able to help with childcare (25%), and being unable to work flexitime (22%).[19]

The pressures of childcare not only affect the choices of women already in work, but also the number of women in work in the first place. The number of economically inactive women aged 16-64 who are not working specifically in order to look after the home or their family rose to 27.4% in July-September 2022. This is compared to 7.4% of men (this has risen from 6.9% at the end of 2021).[20] This trend may reflect a post-pandemic realignment in working patterns, but recent ONS data shows that for women aged between 25-34, the number leaving the workforce to look after family rose by 12.6% in the last year alone.[21] If these trends reflect a conscious decision by women to leave the workforce to spend time with their family then that would not be a problem. But the survey responses above indicate that costs of childcare are the major driver for a significant number of newly economically inactive women.

Figure 7: Number of economically inactive women aged 16-64, by reason Source: ONS Labour Force Survey, November 2022, seasonally adjusted



The high childcare costs facing parents in the first few years of their children's lives are undermining family security and causing unnecessary strain on family finances. They are paying significantly more than their international counterparts, and these costs are impacting wider society and the economy too. In the next chapter, we will explore how the extent to which these costs are reflected in public opinion.

Parents know best

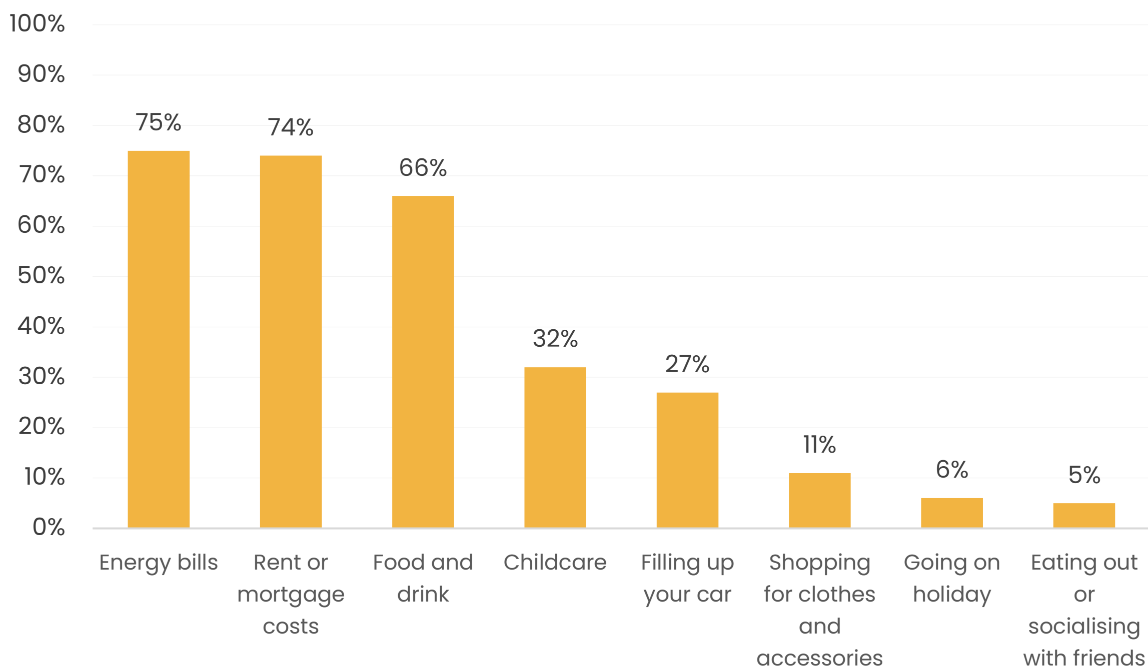
Public opinion on childcare

To understand how the public feel about childcare, Onward commissioned a 1,037 person poll of parents with children under 5 during October 2022. This is a summary of the results.

Costs of childcare

Nearly a third of families say that childcare is one of their most expensive costs (32%), behind only energy bills (75%), housing costs (74%), and food and drink (66%). Nearly one in ten (8%) of respondents say childcare is their most expensive cost each month, compared to nearly half (46%) who say they spend the most on mortgage or rent, and 19% who spend the most on energy bills.

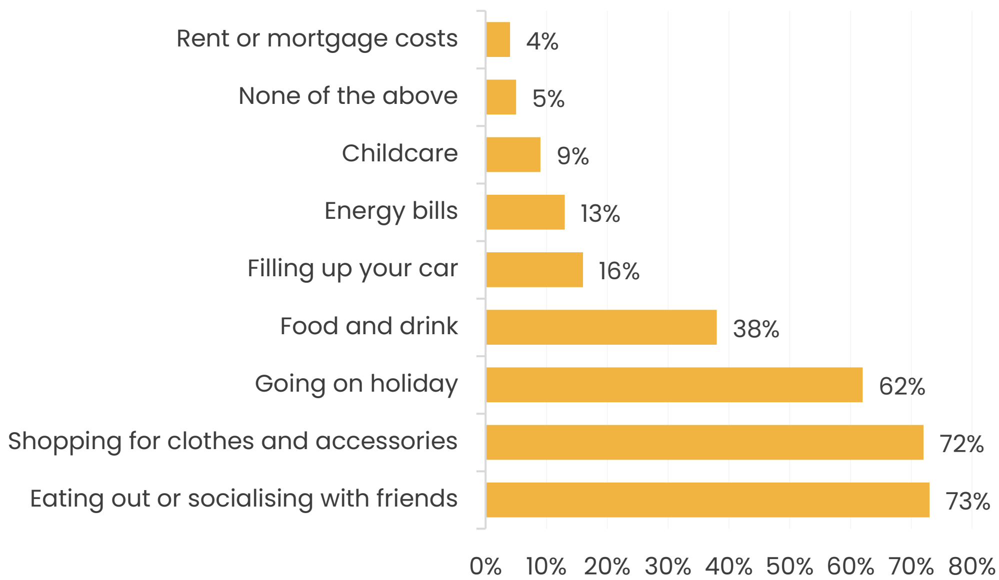
Figure 8: Thinking about the cost of living, which of the following do you currently spend the most of your family income on each month? Top 3 choices
Source: J.L Partners Polling, October 2022, Onward analysis



Half of people (50%) say that childcare costs have risen a little (31%) or a lot (19%) in the last year, compared to just 3% who say that costs have fallen. This varies considerably by region and by income level. 74% of people in the East of England say that costs have risen, considerably more than the 39% of people in the South West who have seen prices rise. Meanwhile, 57% of high earners say costs have risen in the last year, compared to 42% among low earners.

Unlike other costs, parents have not substantially cut back on childcare to make ends meet - demonstrating the extent to which it is essential for many households. Just 9% of respondents say they have cut back on childcare, compared to 73% who have cut back on socialising with friends, 38% who say they have cut back on food and drink, 62% who say they have cut back on holidays and even 16% who have cut back on filling up their car. Londoners (14%) and Scottish parents (13%) are most likely to have cut back on childcare to save money.

Figure 9: Thinking about the cost of living, which of the following (if any) have you cut back on to save money in the last year? Top 3 choices
Source: J.L Partners Polling, October 2022, Onward analysis

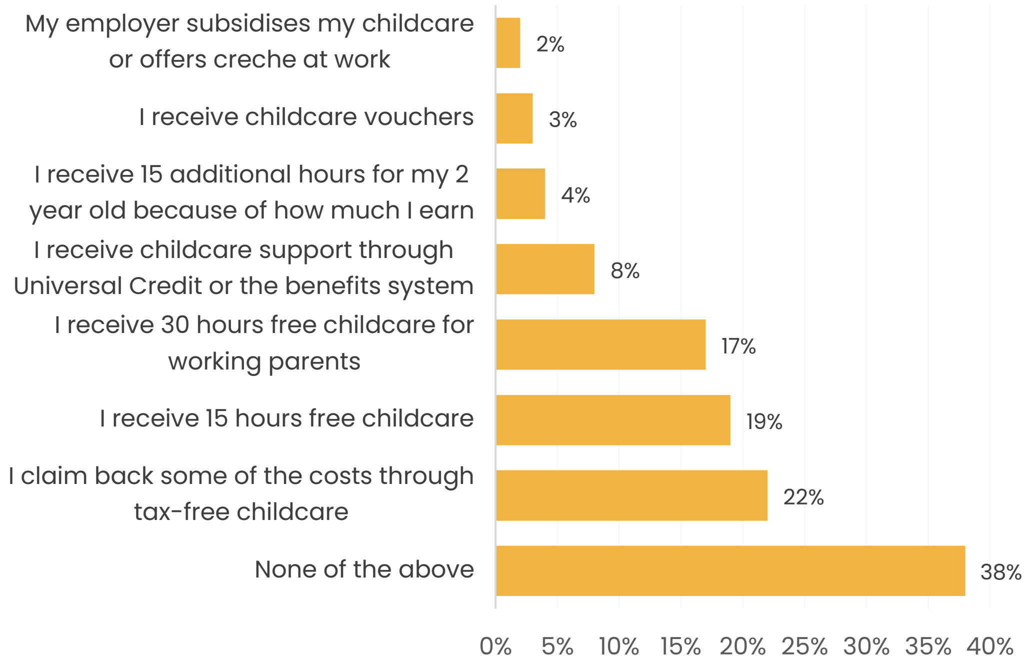


Use of childcare support programmes

Our polling suggested that the most common form of childcare support accessed by parents is Tax Free Childcare (TFC). 22% of parents say they claim back some of the costs through TFC, compared to 19% who claim 15 hours free childcare and 17% who claim 30-hours free childcare. 8% of parents receive UC-related childcare and 4% claim 15 additional hours for their two year old. Only 2% of parents have childcare subsidised by an employer and 3% get childcare vouchers. 38% of parents receive no support.

When it comes to eligibility, most parents (61%) agree it is easy to check what they are eligible for, with one in four parents disagreeing (25%). 61% of parents say it is straightforward to claim childcare support each month, versus 20% who disagree. Low income parents are less likely to say that it is easy to claim, with 51% of parents agreeing compared to 64% among high income parents.

Figure 10: Thinking about the different types of childcare support available, which (if any) of the following do you currently benefit from?
Source: J.L Partners Polling, October 2022, Onward analysis



53% of parents overall say that childcare support is flexible enough to adapt to my work or family life, while 22% say that it is not. Skilled working class (C2) voters are particularly affected by a lack of flexibility, with just 42% saying that childcare is flexible enough compared to 58% among C1 lower middle class voters.

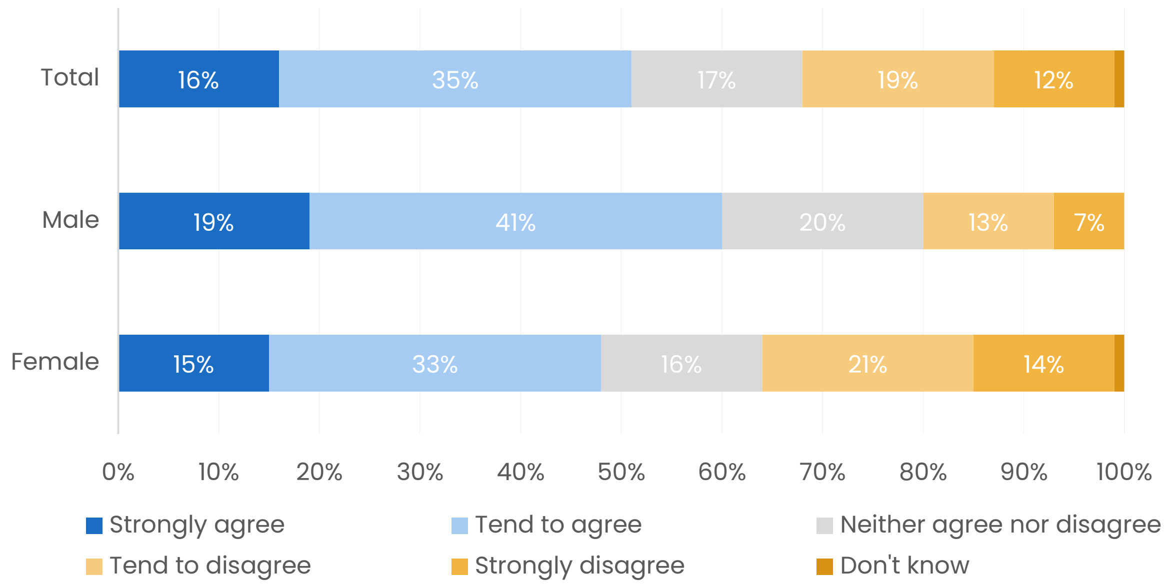
Fewer than half of parents we surveyed agreed that "the amount of support I receive each month makes the costs of childcare manageable" (47%), while 33% disagreed including 13% who strongly disagreed. Men are much more likely to agree (59%) than women (42%). There are no meaningful differences by income or class. Single parents are much less likely to agree: just 37% compared to 47% for couples.

Only 51% of parents agree that "the type of childcare that is best for my family is covered by the support I receive", with 31% disagreeing. Again there is a big gender gap: 60% of men agree, compared to 48% of women.

53% of parents agree that "the childcare support I receive covers childcare at the times of day and year that I need it most", compared to 29% of parents who disagree. The same gender gap exists: 64% of men agree, vs 49% of women. Low income voters (48%) are less likely to agree than medium (55%) or high income voters (54%).

Figure 11: Thinking about the types of childcare support you receive, how much do you agree to disagree with the following statement? – "The type of childcare that is best for my family is covered by the support I receive"

Source: J.L Partners polling, October 2022, Onward analysis



Only 29% of parents agree that "the costs of childcare in this country are manageable for an average working family" and 56% disagree. There is an enormous gender gap: 21% of women agree vs 51% of men. There is also a large income gap: 63% of high income voters say that childcare is not manageable for an average family, vs 44% of low income voters.

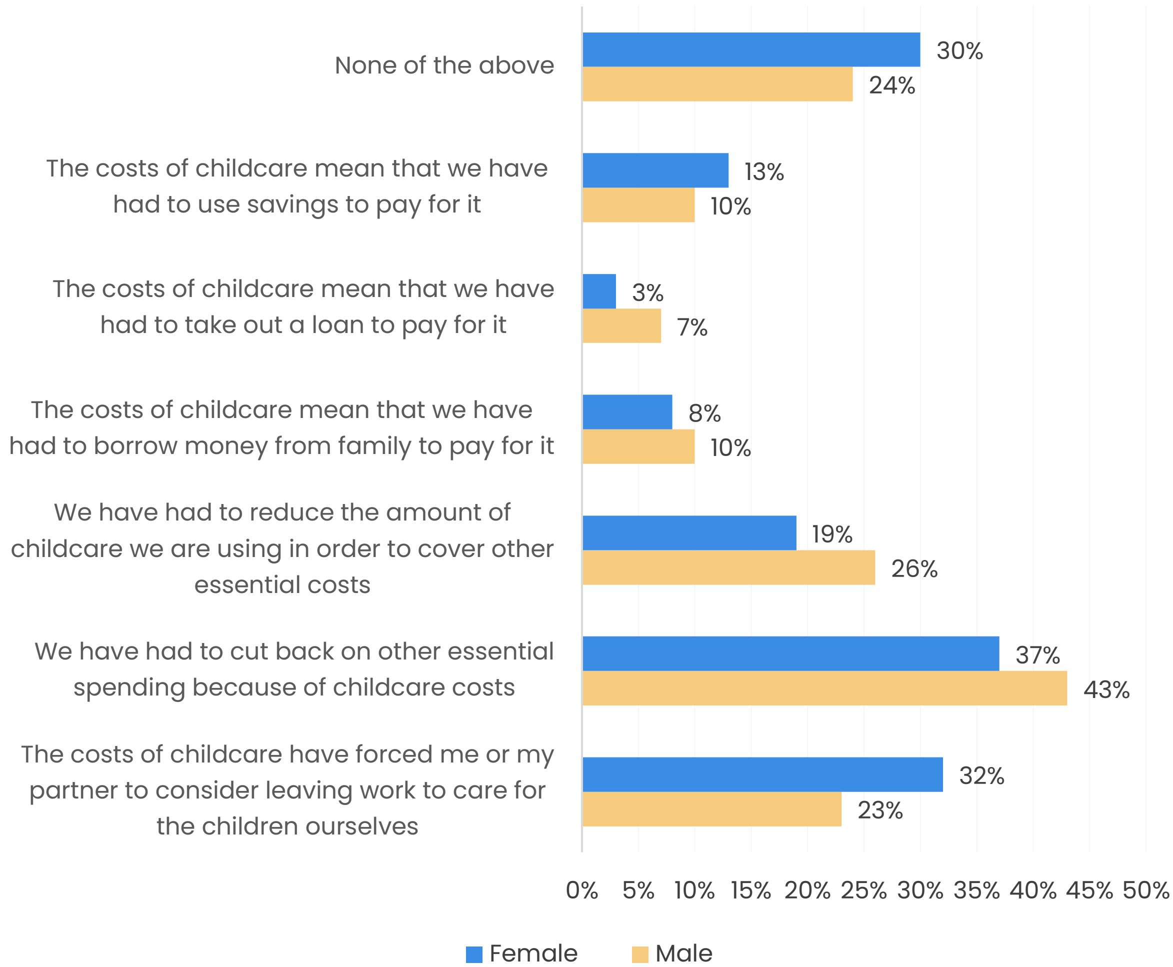
When parents were asked to estimate the cost of their childcare, the mean cost estimated is £387.45 per month. But this varies considerably. In London, the average cost is £597.33, more than double the £283.97 in Yorkshire and Humber. There was also variation within income level. High income families estimated that they spend £500.32 on average on childcare, compared to £168.67 for low income families.

Impact of the cost of childcare

Overall, 30% of parents say that the costs of childcare have forced them or their partner to consider leaving work to care for their children. For women this figure was around a third (32%) compared to around a quarter of men (23%). This impact is much higher among high income families: 31% of high income parents have considered leaving work, compared to 13% of low income families. 27% of graduates have considered leaving work compared to 6% of those with no qualifications.

Figure 12: Thinking about the cost of childcare, which of the following apply to you?

Source: J.L Partners Polling, October 2022, Onward analysis



38% of parents have had to cut back on other essential spending because of childcare costs. This is much higher among richer families: 45% of high income families have cut back, vs 25% of low income families. 41% of graduates have vs 13% with people with no formal qualifications.

12% of parents have used savings, 8% of parents have had to borrow money from family and 4% say they have taken out a loan to pay for the costs of childcare. Single parents (13%) are considerably more likely to have borrowed from family to support childcare costs. Medium and high income parents are more likely to have used a loan or savings to pay for childcare.

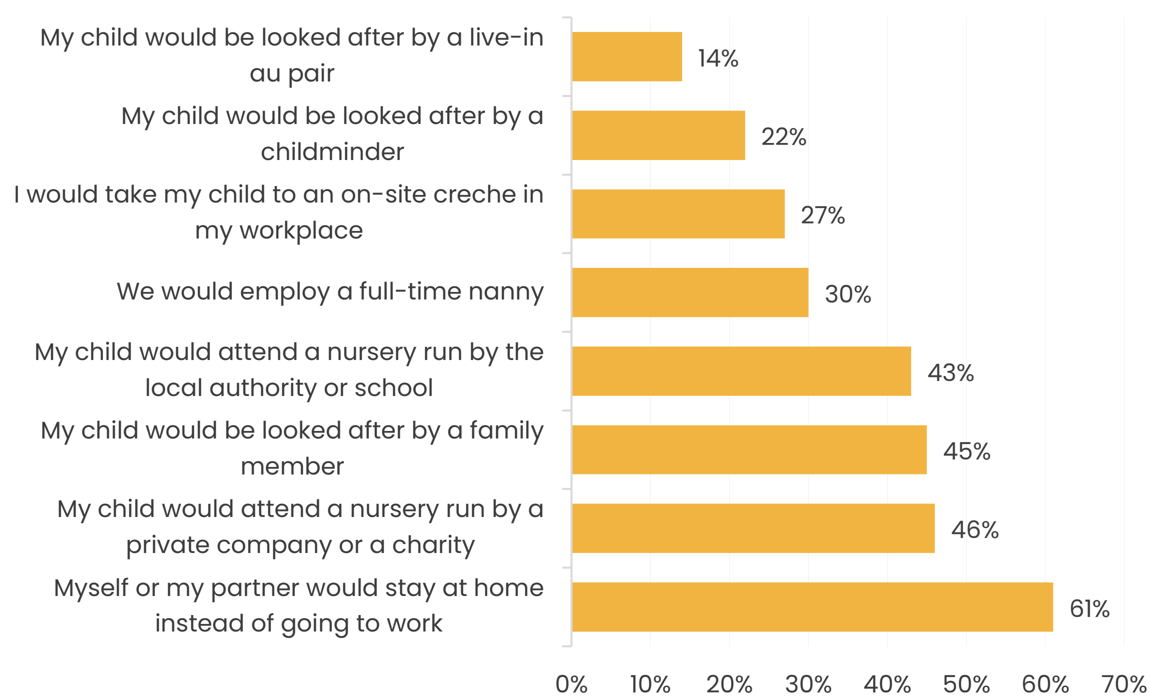
How parents organise childcare

The most common type of childcare is a parent staying at home (39%) instead of going to work, followed by a family member providing childcare (35%), going to a private nursery (33%), and school-based nursery (18%). But this varies considerably by social and economic background. Low income parents are considerably more likely to use parental care (46%) than high income parents (33%), while high income parents are more likely to use a private nursery (44%) or family (40%) than low income parents (16% and 23% respectively).

But this is not how parents want to organise their childcare. 61% of parents, and 62% of mothers say that if money were no object, they would prefer them or their partner to stay at home and look after their children, instead of going to work and paying for childcare. This does not vary markedly by income, socio-economic status, education, tenure or whether the parent is single or in a couple. This is shortly followed by 46% who would like to send their children to a private nursery, 45% who choose a family member and 43% who choose a school based nursery. Ten times as many parents (30%) would employ a full-time nanny as currently do (3%) if money was not an issue.

Figure 13: In a world where money was no object, which (if any) of the following would you ideally use? Top 3 choices

Source: J.L Partners Polling, October 2022, Onward analysis

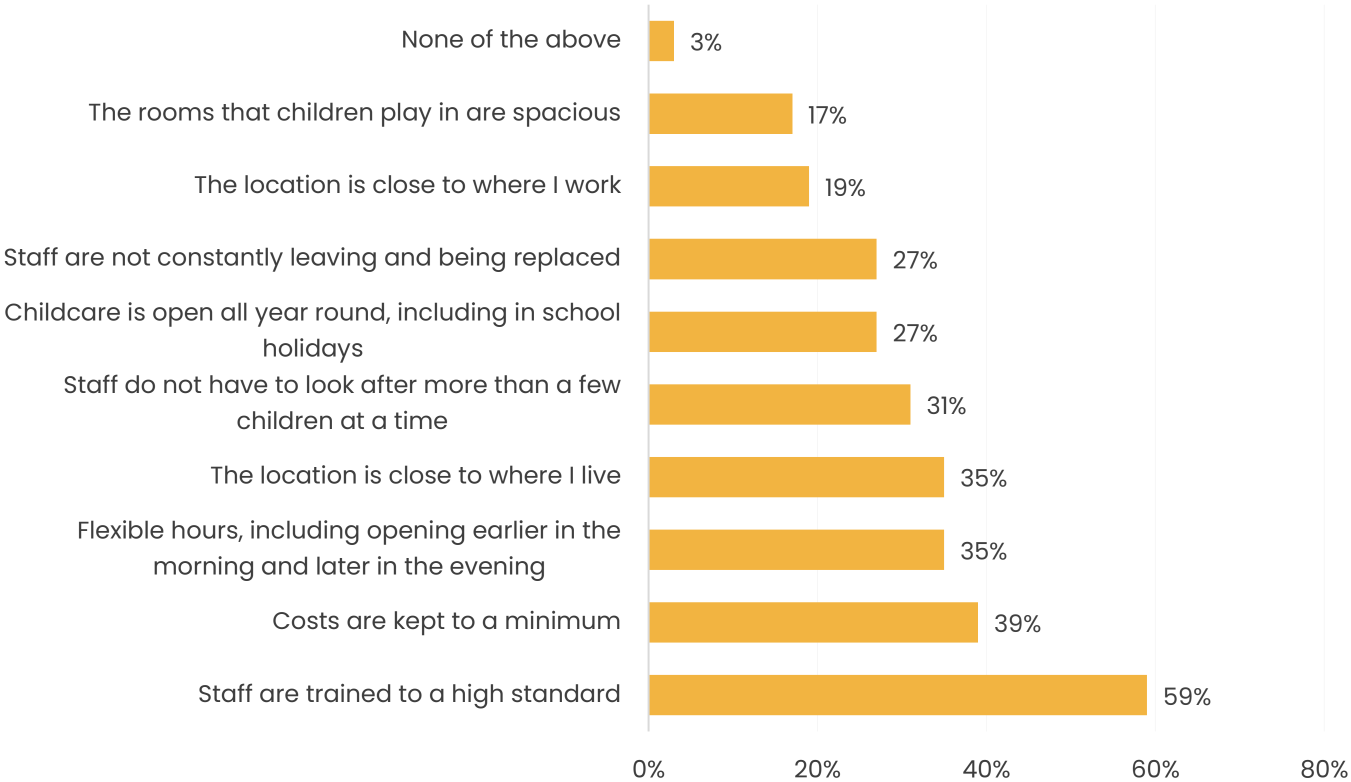


Priorities for childcare

The most important priority for parents is that staff are trained to a high standard. 59% of parents say this is a priority, compared to 39% who say costs are kept to a minimum. 35% of parents say that flexible hours should be the priority and 35% say the proximity of the location. The size of the childcare facility is the least important factor for parents, with just 17% naming it in their top three priorities. This does not change markedly between groups.

Figure 14: Thinking about how childcare is delivered in the UK, what is the most important to you? Top 3 choices

Source: J.L Partners Polling, October 2022, Onward analysis



When asked about specific statements regarding the reform of childcare:

- 59% of parents agree that "the Government should spend more taxpayers' money on childcare support for families, even if it means higher taxes for everyone", compared to 19% who disagree. There are strong majorities for more taxpayer investment among parents of all income and socio-economic groups, all education levels, and parents who vote for all political parties (60% of Conservative parents agree).

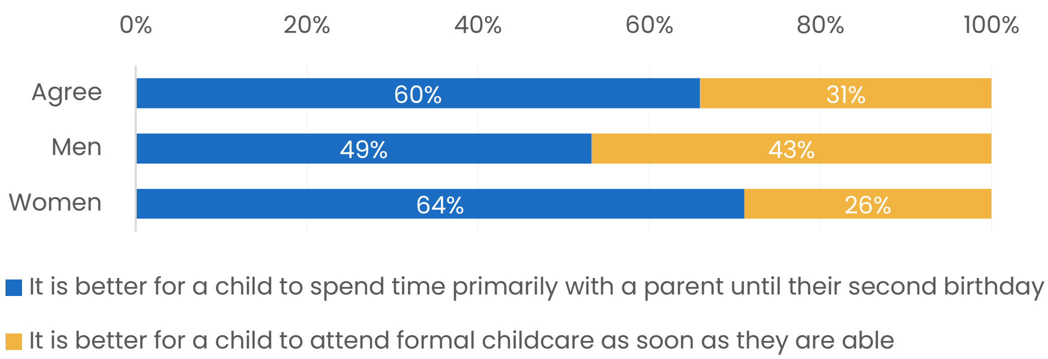
- 65% of parents agree that “it would be desirable for childcare staff to be better paid and trained to a higher standard, even if that increases the cost to taxpayers and parents”, compared to 13% who disagree.

- 72% of parents agree that that “employers have a responsibility to support staff members with the costs of childcare”, compared to just 10% who disagree. High income parents (73%) are more likely to agree than low income (65%) parents.

When asked to choose, 60% of parents agree that “it is better for a child to spend time primarily with a parent until their second birthday” versus 31% who say “it is better for a child to attend formal childcare as soon as they are able”. Men (43%) are much more likely to favour childcare than women (26%), as are Conservative parents (47%) compared to Labour voting parents (29%).

Figure 15: For each of the following pairs of statements, please indicate which statement best reflects your views?

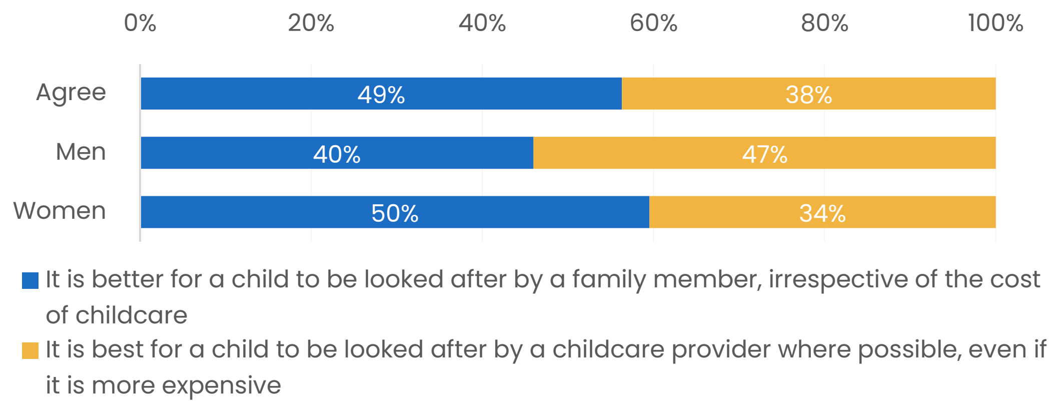
Source: J.L Partners Polling, October 2022, Onward analysis



A similar share of parents say it is better for the parent themselves. 62% of parents agree that “It is better for a parent to be the primary caregiver to their children until their child's second birthday”, compared to 28% who say “It is better for a parent to go back to work as soon as their child is able to attend formal childcare”. Men are twice as likely to support work (44%) than women (22%) as are Londoners (41%) compared to parents in the North East (22%).

Figure 16: For each of the following pairs of statements, please indicate which statement best reflects your views?

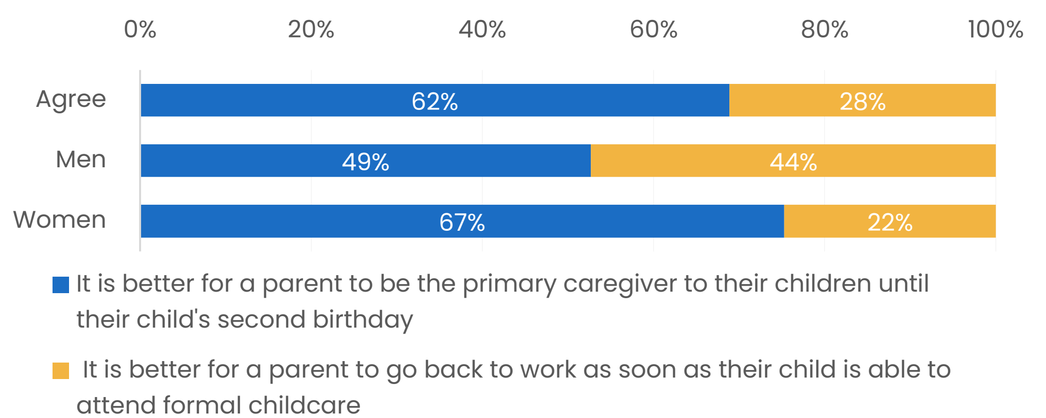
Source: J.L Partners Polling, October 2022, Onward analysis



Parents are more likely to agree that "it is better for the child to be looked after by a family member irrespective of the costs of childcare" (49%) than "it is best to be looked after by a childcare professional where possible, even if it is more expensive" (38%). Women are 10 percentage points (50%) more likely than men (40%) to say family members are better, and low income parents are 14 points more likely to say family members (55%). Graduates are more likely to say childcare professionals are better (41% to 33%) while those with only GCSEs are the opposite (45% to 35%).

Figure 17: For each of the following pairs of statements, please indicate which statement best reflects your views?

Source: J.L Partners Polling, October 2022, Onward analysis



Parental responsibilities

Parents strongly agree with the statement "It would be *better* for society if mothers and fathers split the demands of childcare equally" (65%) as opposed to "worse for society" (19%). Men are less likely to agree (57%).

Parents do not, on average, agree that "it is right that mothers receive substantially more generous parental leave than fathers". 40% of parents agree, while 51% of parents agree that "It would be better if both mothers and fathers received equal parental leave". Men are more likely to agree that parental leave should be equal (58%) and 18-25s are also strongly in favour (62%). Low income parents (54%) and non-degree holders (56%) are disproportionately likely to support equal parental leave.

Parental choices

65% of parents not in work agreed with the statement: "The main reason I do not work is because the demands of childcare are too great" versus 16% who disagreed. This was highest among high income parents (71%) and lower among low income parents (58%).

Of those in work, 74% of parents of under-5s agree with the statement: "I would rather solely look after my child/children myself, but feel I have to work" compared to 15% who disagree. Low income (81%) and C2 (80%) parents are most affected, as well as non-white parents (81%).

Policy options

We tested a variety of specific policy options to understand parents relative support for different interventions:

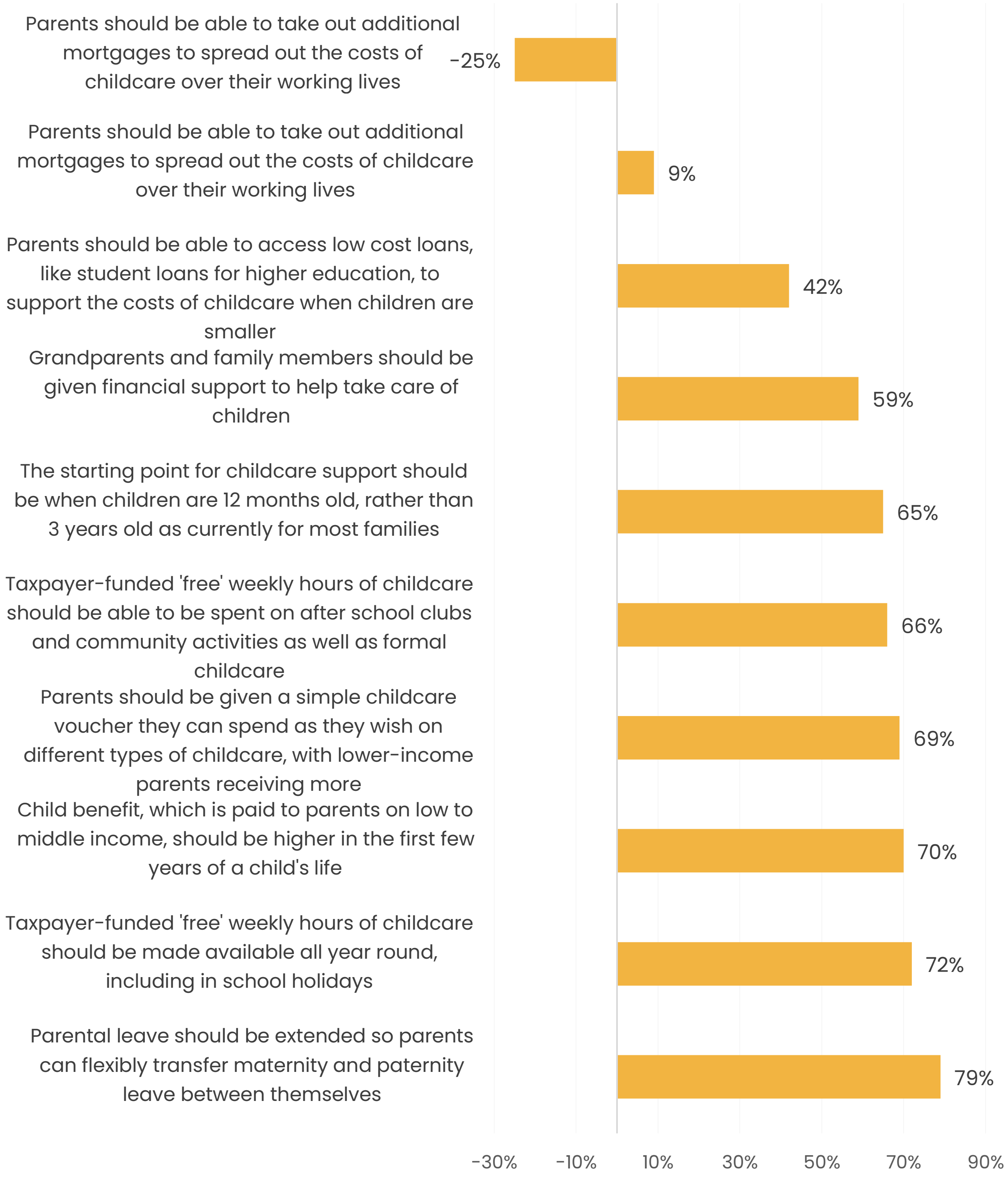
- The most popular policy is extending parental leave to allow parents to transfer leave flexibly between themselves. 83% of parents support this policy, compared to just 4% who oppose it (net +79%). High income parents are particularly supportive (+87%).
- This is shortly followed by the extension of taxpayer-funded free weekly hours of childcare being made available all year round, including in school holidays, which was supported by 79% of parents, against 7% opposed (net +72%) and child benefit being higher in the first few years of a child's life (net +70%).
- Other popular policies include: "Parents should be given a simple childcare voucher they can spend as they wish on different types of childcare, with lower-income parents receiving more" (+69%) and "Taxpayer-funded 'free'

weekly hours of childcare should be able to be spent on after school clubs and community activities as well as formal childcare" (+66%).

- The least popular policy - and the only policy with net opposition - is "childcare professionals should be able to look after more children at the same time, as they do in other countries" which is opposed by 52% of parents and supported by only 27% (-25%). Mothers are particularly opposed (-39%) although Conservative voting parents (+8%) are the only political group who support this measure.
- There is also limited support for parents being given low cost loans to spread out the costs of childcare (+42%) and the ability to take out larger mortgages to support the costs of childcare (+9%).

Figure 18: Thinking about different childcare policies, to what extent do you support or oppose each of the following proposals?

Source: J.L Partners Polling, October 2022, Onward analysis

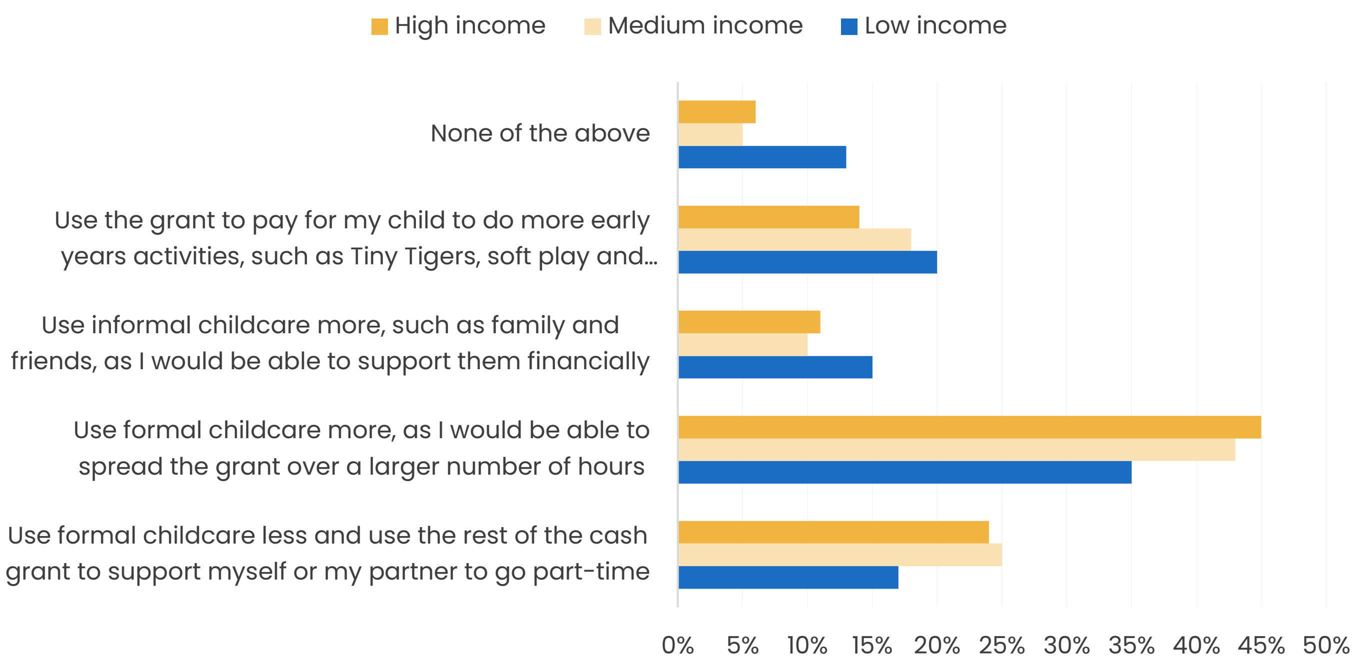


When asked what they would do if government support for childcare was given as a cash grant rather than in free hours, parents choose a range of different options. The most popular option is to increase the level of formal childcare, spreading the grant over a longer period (42%). However nearly one in four parents say they would use the grant to reduce childcare hours and go part-time (23%). Both options are more popular among higher income groups, reflecting their higher use of formal childcare.

Lower income groups are more likely to use informal childcare more, using the grant to support family members financially (11% for all parents, 15% for low income groups), and also to use the grant to pay for early years activities (17% for all parents, 20% for lower income groups).

Figure 19: If free hours of childcare were replaced with a simple cash grant to support the costs, which of the following do you think you would be most likely to do?

Source: J.L Partners Polling, October 2022, Onward analysis



Political importance

Among parents with children under 5, childcare is rated the 4th most important issue facing the country. 19% of parents rate it as a top 3 issue facing the UK, after the cost of living (77%), the economy (48%) and the NHS (47%). 18% of Conservative parents rate it as a top 3 issue facing the UK, compared to 20% of Labour parents.

When asked how well the government is doing on the issue of childcare, 59% of parents say badly, and only 14% say well. Even among current Conservative voters, 42% say the government is handling the issue badly, against 28% who say they are handling it well.

Drivers

The reasons why childcare
is so expensive

So both the data on the UK's childcare system and the views of parents point to major challenges. But how did we get here? What are the root causes of our dysfunctional system, and how can we start tackling them?

This chapter explores why the UK's childcare system has such high costs for parents, including low rates of public subsidy, complex and poorly understood government funding systems, a dysfunctional marketplace of provision, and problems training, hiring and retaining staff.

The UK taxpayer subsidises childcare support to a lesser degree than other countries

As a share of GDP, the UK spends considerably less on support for childcare relative to international comparators. The latest OECD data, which calculates public expenditure towards formal day-care services and pre-primary education services, estimates that the average level of spending across the developed world is around 0.7% of GDP. The UK sits nearly 20% below this OECD average, spending 0.56% of GDP on early childhood education and care.

The OECD average conceals a broad range between developed countries. On one end of the scale, spending in the Nordic countries is particularly high, with Iceland (1.81%), Sweden (1.58%) and Norway (1.36%) all spending a considerable share of national income in childcare support for parents. By contrast, the United States (0.33%), Portugal (0.38%) and the Czech Republic (0.44%) all spend less than 0.5% of GDP on childcare - and proportionally less than the UK. But the UK's spending on childcare has fallen as a share of GDP more quickly than other countries, as shown in Figure 20.

Figure 20: Public expenditure on childcare and early education as a % of GDP, selected OECD countries (2017, or latest data available)

Source: OECD Family Database

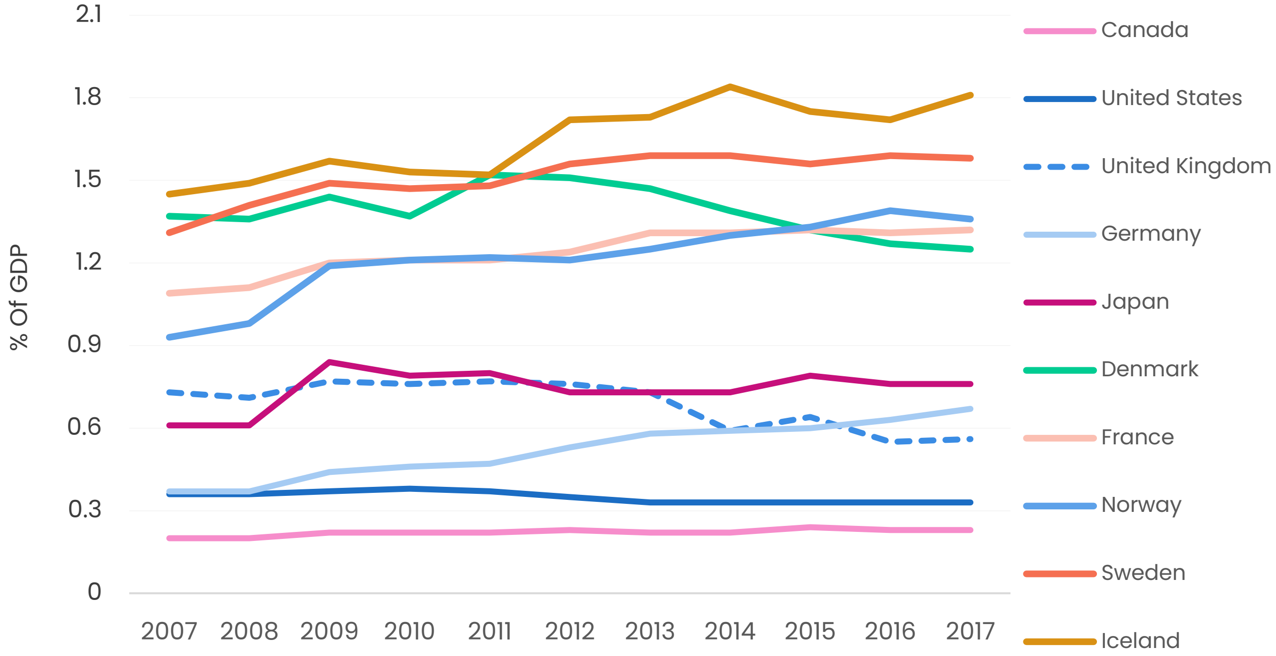
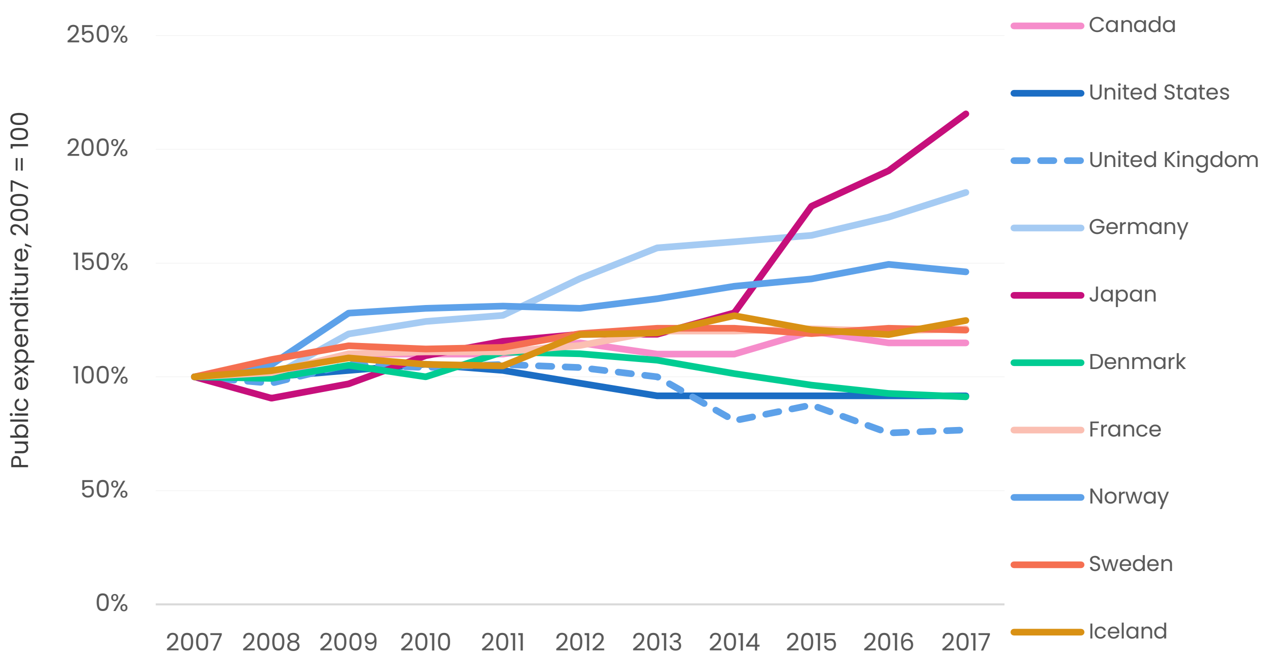


Figure 21: Change in public expenditure on childcare and early education as a % of GDP, selected OECD countries (2017, or latest data available, indexed at 2007)

Source: OECD Family Database



By taking a closer look at the distribution of public spending on early childhood education and care across the OECD, it is clear that the UK's relatively low spending on childcare stems from a lack of investment in the first 2 years of child's life compared to later years, whereas other countries invest heavily in the provision of care consistently over the first few years of a child's life.

As Table 1 demonstrates, Nordic countries tend to front-load expenditure over the first few years of a child's life. Children in Sweden, for example, receive the equivalent of $15,600 USD in the first two years of their lives, then half that amount from the ages of 3 to 5. In contrast, children in the UK receive the equivalent of $900 USD in the first two years of their lives, but around $6,200 USD from the ages of 3-5.

Table 1: Public spending on early childhood education and care per child, by age (USD PPP, 2017)

Source: OECD Family Database

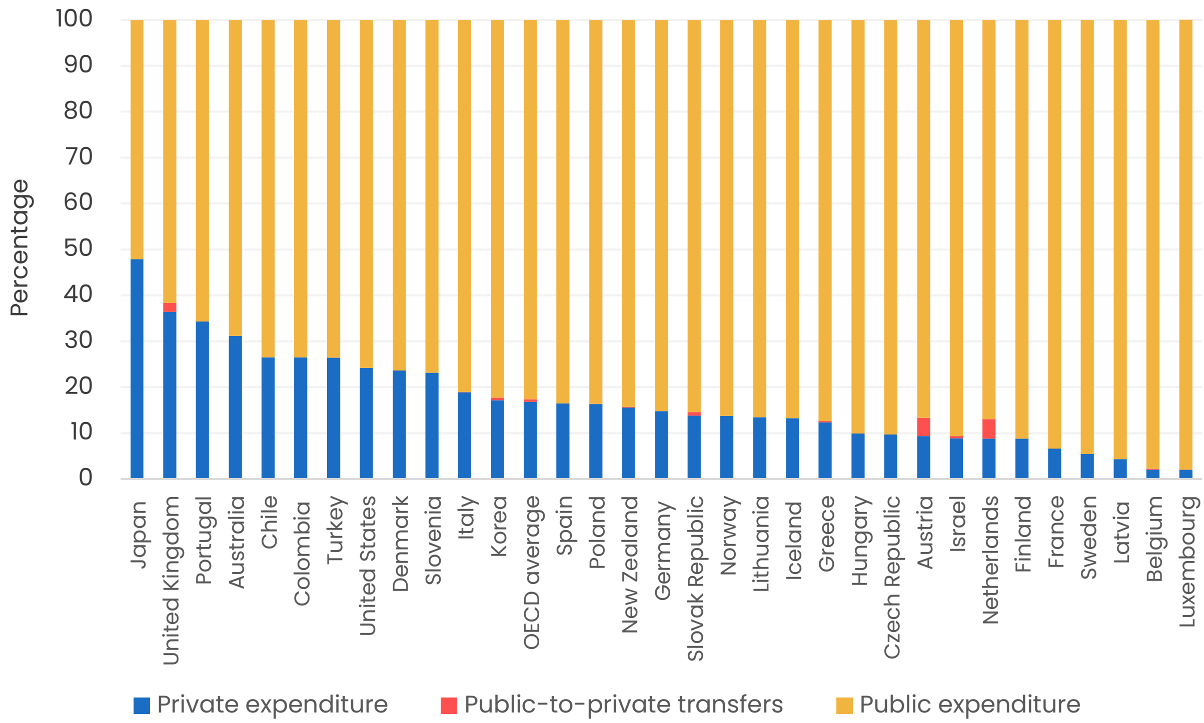
Country	**Spend on childcare, per child, aged 0-2** (USD PPP)	**Spend on pre-primary education, per child, aged 3-5** (USD PPP)
Sweden	15,600	7800
Iceland	13,700	12,800
Norway	11,900	12,700
Finland	8800	7200
France	8100	8700
Korea	8000	5900
Netherlands	5500	6100
Australia	5500	2800
Germany	4400	8900
Belgium	2000	10,000
Italy	1400	7500
United Kingdom	**900**	**6200**
New Zealand	800	9200
United States	700	4600
Spain	300	5900

This balance of spending stands in contrast to the consensus view that the first two years of a child's life are the most important. As the Rt Hon Andrea Leadsom MP wrote in her introduction to her review, *The Best Start for Life,* "Two is too late!".[22] The building blocks for lifelong emotional and physical health are constructed in the period from conception to the age of two.

The relatively low level of public expenditure on childcare and early education in the UK is currently balanced out by a high level of private expenditure compared to our international counterparts. Against other developed countries, the UK is second only to Japan in terms of the share of private expenditure within the pre-primary education market, with UK households contributing 36% of expenditure towards childcare, compared with an OECD average of 17% and Japan's 46%. Here, pre-primary education is defined by the OECD as the initial stage of organised instruction of children aged 3 and above.[23]

Figure 22: Distribution of public and private expenditure on pre-primary education, 2018

Source: OECD, Education at a Glance, 2021



The UK's childcare system is unnecessarily complex, reducing take-up and targeting

The UK Government operates at least 8 schemes to subsidise the costs of childcare in the UK. These include "free hours" entitlements for parents, which vary according to income and the age of the child, tax credits in the form of Tax-Free Childcare, support through the benefits system, vouchers (which are being phased out) and VAT subsidies for some types of childcare providers. This is confusing for parents, complex and costly to administer, and leads to perverse outcomes in the form of low take up and poor targeting of support. The net cost of welfare-supported childcare and the VAT subsidy to childcare providers are not publicly available, but the total costs of the remaining programmes totalled over £5 billion of recurring revenue spending in 2021.[24]

Table 2 below sets out the differing entitlements available to parents of children under the age of 5 years old. These programmes, designed to subsidise the cost of childcare and early education, are targeted in different ways: some subsidies aim to help disadvantaged children, others assist working parents, and some are restricted to pre-school age children rather than a broader age range.

Table 2: Summary of selected programmes designed to support early education and childcare in England

Sources: Various

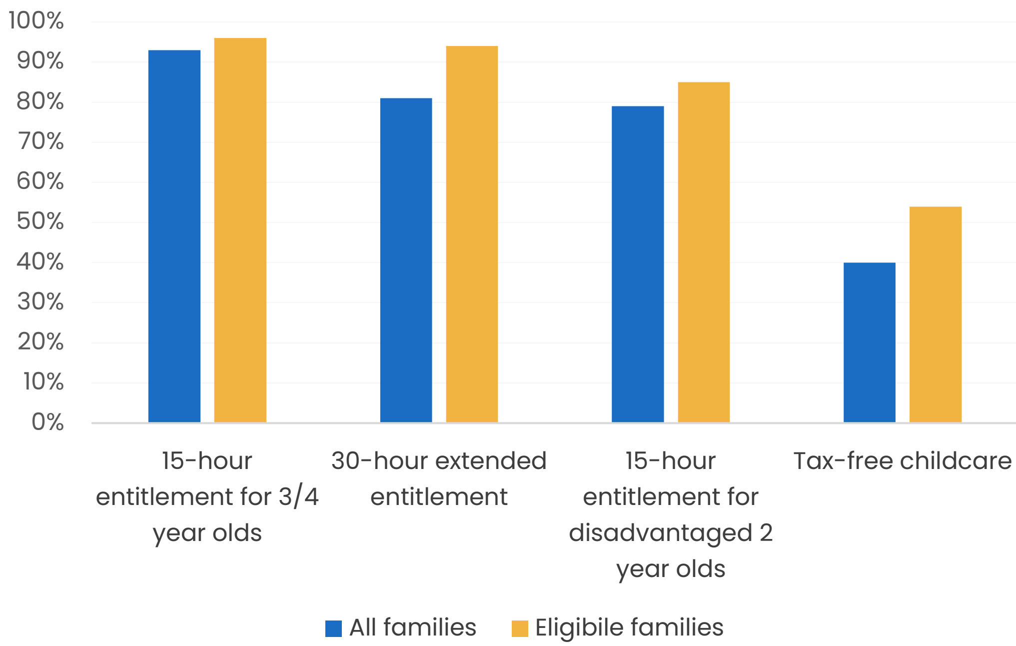
Type of policy	Programme	What?	Who?	Government spend (2021)	Take up (2021)
Free entitlement	Universal	15 hours per week, 38 weeks per year	All 3- and 4-year-olds	£2.3bn	1.2 million children
	Extended	15 hours per week, 38 weeks per year	All 3- and 4-year-olds with working parents earning under £100,000	£900 million	330,000 children
	2-year-olds	Additional 15 hours per week	40% most disadvantaged 2-year-olds	£400 million	125,000 children
Tax reliefs	Tax-Free Childcare	£2 governmental top up per £8 parental spend, up to £2,000 per year	Children aged 11 and under, whose parents earn under £100,000	£411.3 million	260,350
Subsidy via benefits system	Childcare support: Universal Credit	Reimbursement of up to 85% of childcare costs	Children aged 15 and under, low-income working families	Spending on UC element of childcare is not available, but 13% eligible households were paid the childcare element in February 2022	70,000 families

These different schemes are intended to target support to the parents that need it. But in practice a complex web of entitlements and credits can leave parents feeling confused. The process for applying for childcare support can be labyrinthine enough, but once an application has been approved, parents are issued an 11-digit code, which has to be renewed via the same original application process every three months. Payments are often made in arrears, forcing parents to pay upfront and claim back the costs each month.

This complexity is contributing to low take-up rates. Awareness of the universal, extended, and disadvantage entitlement is relatively high - with 96%, 94% and 85% of eligible families respectively being aware of the support. But when it comes to Tax-Free Childcare, only 54% of eligible families are aware of the programme, and just 40% of all families had even heard of it. Poor public awareness of Tax-Free Childcare is reflected in the take-up rates: up to 1.3 million families are estimated to be eligible for Tax Free Childcare, but latest figures indicate that just 316,000 families are using the scheme.[25]

Figure 23: Awareness of main programmes, all vs. eligible families

Source: Childcare and Early Years Survey of Parents, 2019



Tax-Free Childcare

What is it? Who is eligible?

Tax-Free Childcare is a relatively new scheme. Introduced in 2017, it was designed to help working families with a collective income of under £100,000 and children aged 0-11 with childcare costs. For every £8 parents pay into an online account, the taxpayer will add an extra £2, up to £2,000 per child per year. This scheme cannot be used if you are receiving tax credits, Universal Credit, or childcare vouchers, and was designed to replace the popular employer-supported childcare voucher scheme, which was closed to new entrants in October 2018.

Employer-supported childcare vouchers were phased out for 3 key reasons. First, it provided support on a per employee basis, rather than per child, meaning that large families were not receiving adequate support. Second, self-employed parents were not eligible. Third, the scheme relied on employers offering vouchers, which was not always reliable. Tax-Free Childcare was designed to fix these deficiencies. It is available on a per child basis, thereby better supporting large working families, self-employed parents can benefit, and the support doesn't rely on employers offering the scheme, meaning that more working parents can benefit.

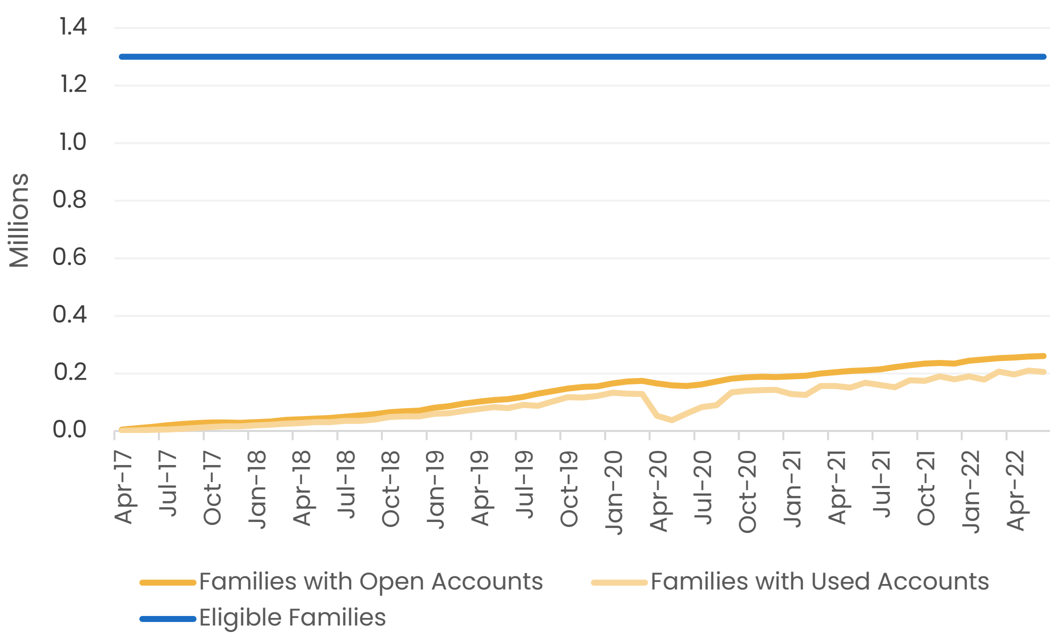
What are the issues?

One of the main issues plaguing Tax-Free Childcare is that since its introduction in 2017, take-up has been minimal. 1.3 million families are estimated to be eligible, but less than a third of those eligible (260,350) have open accounts.[26] Research by the IFS found that potentially eligible parents for Tax-Free Childcare who *did not* plan to apply for the programme were driven by a belief that they were ineligible - 50% of families cited one or more reasons related to this, suggesting that stronger public messaging around eligibility for the programme would be beneficial. [27]

Not only is there a notable gap between the total number of eligible families and those with open accounts, but there is also a difference between the number of open accounts and those that are actually being used. Since the beginning of the pandemic, the number of used accounts has not recovered in tandem with the number that are being opened. As of June 2022, there are 55,530 families across the country with open Tax-Free Childcare accounts that are not being used.

Figure 24: Number of families with Open and Used Tax-Free Childcare Accounts, vs. Eligible Families, April 2017 to June 2022

Source: HM Revenue & Customs, Tax-Free Childcare Statistics, June 2022

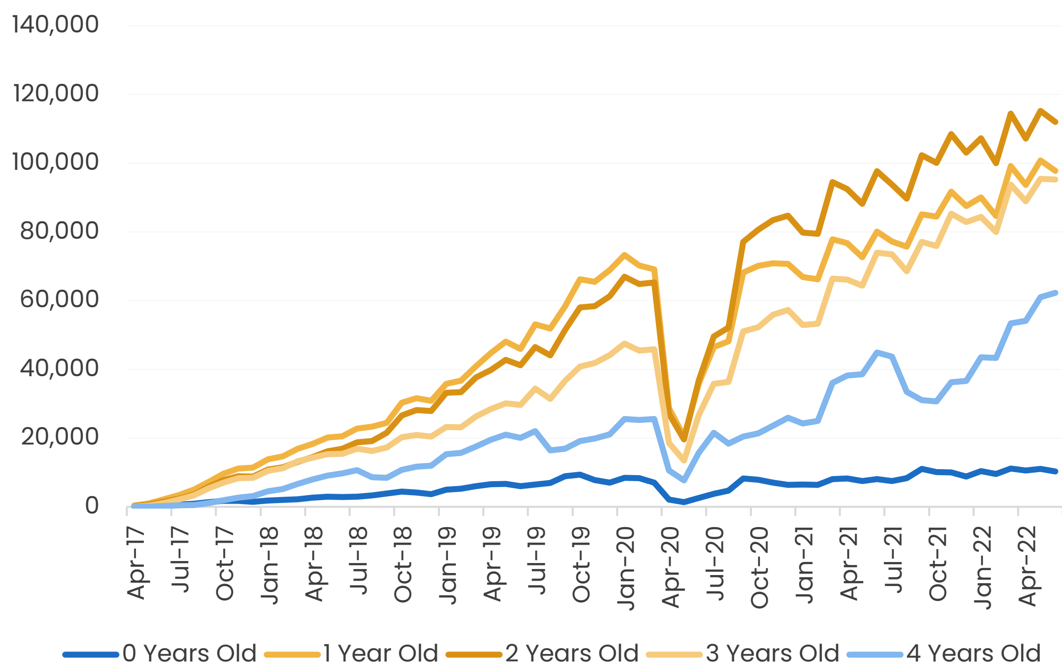


So why might parents be opening Tax-Free Childcare accounts for their children, but not actually using them? Aside from the administrative burden of having to re-apply for the scheme every three months, one factor behind the difference between open and used accounts could be that the programme also requires providers to have signed up to receive those payments too. Although the proportion of providers signed up to receive these payments has risen since the programme was first introduced, they still remain relatively low, particularly for school-based providers. In 2021, only 48% of school-based providers had signed up to receive Tax-Free Childcare payments, compared to 90% of group-based providers (up from 85% in 2019), and 87% of childminders (up from 76% in 2019).[28] If families are limited in their choice of local childcare providers, they may not be able to access the support they need.

This matters because Tax-Free Childcare is most popular among parents of 1 and 2 year olds, who we know spend the highest percentage of their income on childcare costs due to the lack of government support until the start of universal entitlement at age 3.

Figure 25: Number of children with in use Tax-Free Childcare accounts, by age of child

Source: HM Revenue & Customs, Tax-Free Childcare Statistics, June 2022

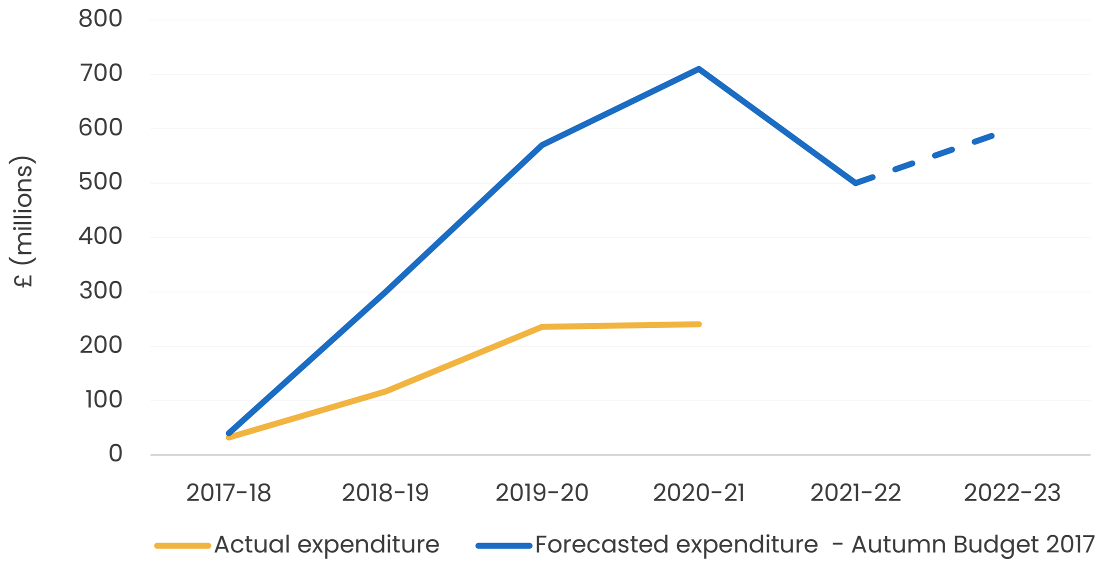


What does it cost?

Government spending on Tax-Free Childcare for the financial year 2021-22 was £411.3 million.[29] But figures show that since its introduction in 2017, the Government has knowingly underspent on the scheme by £2.3 billion cumulatively. Awareness of this underspend became apparent just over a year into the scheme when in 2018, Labour accused the government of failing to support families after it emerged that their initial £600 million underspend would be reabsorbed into the Treasury, rather than allocated to support other childcare policies.[30]

Figure 26: Forecasted expenditure vs. actual expenditure on Tax-Free Childcare

Source: HM Revenue & Customs, Tax-Free Childcare Statistics, June 2021



Entitlement for disadvantaged 2 year olds

In 2013, the Government introduced 15 hours of free childcare per week for the 20% most disadvantaged 2 year olds in England. This was extended to cover 40% of the most disadvantaged 2 year olds in 2014. The thinking behind the extension and targeting of free hours to disadvantaged children was a sensible one: by providing support and narrowing the gap between disadvantaged children and their peers, the transition to 3 and 4 year old placements is easier because any development issues are likely to be picked up earlier, and the effects of poverty on life chances are likely to be reduced.

Awareness of the offer is high, with 85% of eligible families stating that they are familiar with it,[31] and most recent estimates suggest that 72% of eligible 2 year olds are registered to receive the entitlement.[32] On the surface, this does not seem to suggest that the policy is ineffective. But looking at the proportion of eligible 2 year olds who are actually taking up the 15 hour disadvantage entitlement, it appears that there is little to no relationship between those who are living in areas that rank most highly on the Income Deprivation Affecting Children Index (IDACI) deciles, and the proportion of eligible 2 year olds taking up the disadvantage entitlement.

There are significant restrictions on public subsidy which are driving up costs for parents

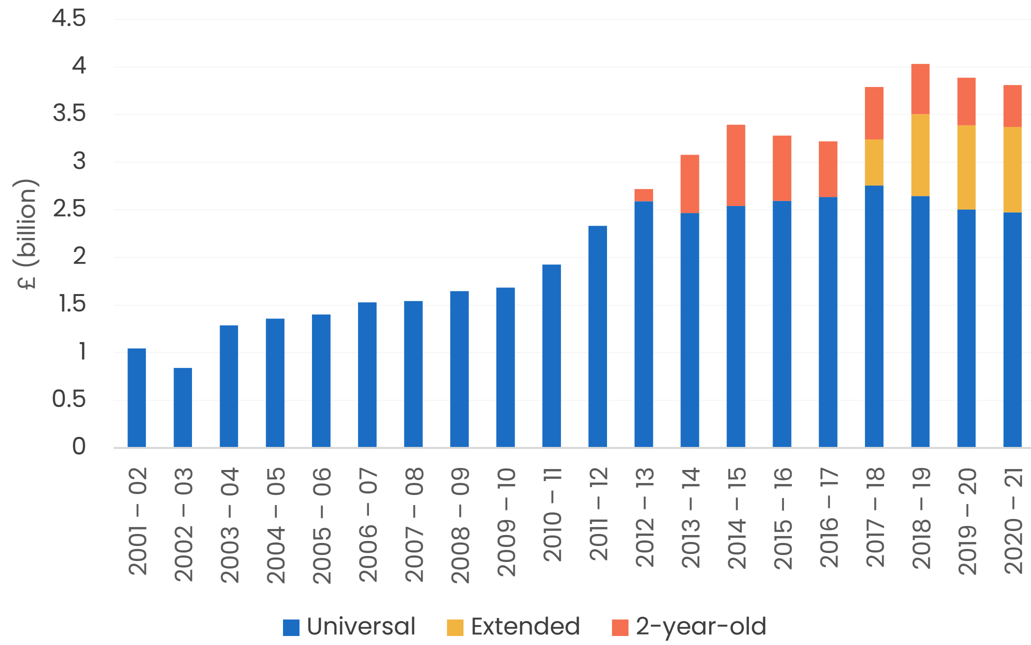
One key driver of rising childcare costs for parents stems from restrictions on public subsidy for the universal and extended entitlement, specifically *when* this money can be used throughout the year. The Government is also underfunding the free entitlement schemes, which has led to further cost rises for parents, as providers have looked to charge parents more to balance the books. Under the universal entitlement, 3 and 4 year olds are eligible for 15 hours of free childcare a week, for 38 weeks of the year, amounting to a total of 570 hours. The extended entitlement, which was launched by David Cameron in 2015, provided parents with 30 hours of free childcare per week, under the same term time restrictions as the universal entitlement. The childcare must be provided by an approved childcare provider, such as a registered childminder, nursery, nanny or playscheme, and excludes all forms of informal childcare. Parents also pay extra for any meals, nappies or trips.

Universal hours are only available from the beginning of the next term after your child's 3rd birthday. Children born after 1st April are therefore ineligible for 15 hours free childcare until the next school year, meaning that they only receive one year of support before starting primary school the following September.

The majority of providers in England look after children who receive the extended 30 hours free entitlement. In 2021, 76% of all school-based, 92% of all group-based, and 85% of all childminders looked after children who received the entitlement.[33] Under the current system, providers receive money from their local authority according to the Early Years National Funding Formula (EYNFF), which is designed to cover the hourly cost of delivering the universal and extended entitlement for 3 and 4 year olds. Local authorities receive funding *per child,* and because they often have children attending from several different local authorities, there is a significant administrative cost at the end of every month. Some early years practitioners have argued that funding should go straight to the provider and skip the local authority 'middleman', but this would require putting burdensome administrative support in place for providers who are already struggling.

Figure 28: Total real-terms spending on free childcare hours in England (2021-2022 prices)

Source: Institute for Fiscal Studies, Education Spending



Money given to providers from their local authority does not come close to covering the cost of providing early years education. In 2021, the Early Years Alliance revealed that ministers had been knowingly underfunding the early years sector in England, driving up costs for providers and parents. Their investigation found that the government had been underfunding the 30 hours scheme by an average of £2.60 per child, per hour for every available place - this was supported by independent analysis from Ceeda, and shows the funding rate for 2020/21 to be less than two-thirds of what officials estimate to be the true cost of fully funding the scheme.[34]

The document obtained by the Early Years Alliance also acknowledged that underfunding of the 30 hours policy was likely to result in price increases for parents, stating that with the introduction of the policy, "we will strip out funding for consumables (food, nappies) - and set an expectation that providers charge parents for these."[35]

Looking at the cost of childcare to providers in 2018 versus 2021, it is evident that this expectation has become a reality. Private group-based providers have seen their staff costs and rent or mortgage payments rise significantly over the last 4 years, but are spending less on materials to provide childcare, and only marginally more on staff training costs. Food costs, which are passed onto parents, have increased by £2,652 since 2018.

Table 3: Breakdown of annual costs of childcare to providers in England, 2018 vs. 2021

Source: Department for Education, Survey of Childcare and Early Years Providers, 2021

Cost	**School-based provider offering nursery** (Mean)	**Private group-based nursery** (Mean)	**Childminder** (Mean)
Staff costs (inc. wages, NI payments and pensions)	£137,832	£128,002	£1,964
	£131,464	£173,120	£2,883
Rent or mortgage payments	£4,423	£14,043	n/a
	£1,694	£23,140	n/a
Materials used in the provision of care (books etc.)	£6,090	£6,310	£1,175
	£4,372	£5,249	£1,169
Staff training costs	£2,110	£2,161	£280
	£1,461	£2,448	£321
Food costs	£2,630	£6,425	£2,427
	£3,349	£9,077	£2,433

The current system of public subsidy has two further shortcomings, both of which force providers to increase prices for parents.

Firstly, the universal and extended entitlement are only available in term time (38 weeks per year). This means that the majority of parents who do not work within those parameters and need childcare in the school holidays are faced with extortionate costs during the remaining 14 weeks of the year. Given that providers don't receive adequate funding for free entitlement hours, they are forced to push up costs even more outside of term time to make up for those losses, and there is a reduced incentive to operate outside of core times, making it difficult for parents who do not have regular working hours.

Recent research shows that costs for childcare outside of term time have risen by 5% since 2021, with parents in Britain now typically paying £148 per week for childcare outside of term time. This means that six weeks worth of childcare during the holidays could cost working parents nearly £890 on average, compared to six weeks of term time childcare, which would cost parents around £400 on average.[36]

A comprehensive early years system should relieve pressure on parents. Instead, childcare costs outside of term times are mounting pressure on household budgets, and are forcing some families into a position where childcare costs are so high that parents cannot afford to work full-time, because the cost of full-time care in school holidays on top of term time care is so excessive that they would effectively be "paying to work".[37] In the Childcare and Early Years Survey of Parents 2019, almost half (49%) of families reported that they would like childcare provision in the summer holidays to be improved in order to meet their needs.[38]

Local authorities are also feeling the strain when it comes to providing comprehensive childcare outside of term time. The Family and Childcare Trust recently surveyed the proportion of local authorities reporting sufficient holiday childcare 'in all areas' of the local authority, in England.

Table 4: Local authorities reporting sufficient holiday childcare "in all areas" of the local authority, in England, 2022
Source: Family and Childcare Trust[39]

Region	4-7 year olds	8-11 year olds	12-14 year olds	Disabled children	Parents working full-time	Parents working atypical hours	Rural areas[40]
East of England	0%	0%	0%	0%	0%	0%	0%
East Midlands	14%	14%	0%	0%	14%	0%	0%
Inner London	9%	27%	9%	9%	27%	18%	0%
Outer London	25%	31%	19%	0%	19%	6%	0%
North East	33%	22%	22%	13%	33%	11%	0%
North West	45%	45%	30%	10%	40%	16%	27%
South East	31%	38%	6%	6%	31%	0%	9%
South West	30%	20%	0%	0%	20%	0%	0%
West Midlands	33%	22%	22%	22%	22%	22%	20%
Yorkshire & The Humber	46%	46%	17%	8%	38%	23%	50%

The second major restriction on the public subsidy directed at the universal and extended entitlement is related to the type of childcare that it is permitted to be used for. To receive the 15/30 hours free childcare, the care must be delivered through an "approved childcare" provider, such as a registered childminder, nursery, nanny or playscheme, who will need to be on an Early Years Register with Ofsted, or a registered early years childminder agency. You cannot claim it if the childcare is provided by a relative, for example a grandparent or a partner.

Having a list of approved childcare providers helps parents to choose what kind of formal care will be best for their child and helps the Government to regulate the quality of care being provided through Ofsted inspections. But the exclusion of informal care from the subsidy means that formal arrangements are often prioritised, despite many parents not actually preferring that type of care. 68% of parents with preschool age children, when asked why they had not used any childcare in the last year, responded that they would rather look after their children themselves.[41]

England has a restrictive regulatory framework

At present, legal requirements in England decree that for children under 2, there must be one member of staff for every 3 children. For children aged 2, there must be one member of staff for every 4 children, and this rises to 8 children per member of staff when children are aged 3 and above.

In a bid to tackle the high costs of childcare facing parents, successive Governments have suggested that staff-to-child ratios should be relaxed in order to reduce costs. In 2013, the Liberal Democrat and Conservative coalition attempted to relax ratios as part of a package of reforms. Then Minister for Education and Childcare, Liz Truss MP, proposed that nurseries should be allowed to exercise their "professional judgement and enjoy greater flexibility" around staff-to-child ratios, and announced the Government's plan to relax ratios for 2 year olds to rise from 4 children per adult to 6.[42] She faced fierce backlash from early years leaders and industry professionals, and the policy was eventually dropped after the Deputy Prime Minister blocked the plans on the basis that it would not drive down costs for parents, nor would it improve standards.[43] In April 2022, it was reported that Boris Johnson was considering proposals to relax ratios as part of a drive to cut down the costs of living, and the Institute for Economic Affairs also published a report which suggested that ratios should either be relaxed, or ideally, removed entirely.[44] In exactly the same way as it had done in 2013, the proposals prompted immediate backlash from the early years sector.

Johnson and Truss are right: England *does* have stricter ratios in comparison to other countries. For children aged two, the ratios range from 1:8 in France and Canada, to 1:5 and 1:6 in Australia and Japan respectively, and there are no limits in Denmark, Germany or Sweden.

But the strict ratios we have in England are currently justified because of our comparatively under-qualified workforce. You can start working in a childcare setting with no specific qualifications, but must have a Level 2 Early Years qualification (roughly GCSE level) to be an assistant nursery nurse, assistant early years practitioner or a childminder. To be a manager or official Early Years educator, you must have a Level 3 Early Years qualification. In contrast, teachers in France looking to enter the Early Years profession require Masters level qualifications at

ISCED Level 7, and other comparable countries require the early years workforce to hold higher qualifications than we set in England, as seen in the table below.[45]

Table 5 Staff-to-child ratios and staff qualifications for the early years workforce in selected countries (*ISCED: International Standard Classification of Education)
Sources: Various, ISCED: International Standard Classification of Education

Country	Staff to child ratios	Staff qualifications
England	1:3 for under 2's 1:4 for 2-year-olds 1:8 for 3 years +	ISCED* Level 3 for all managers ISCED Level 2 for at least 50% of other staff
Canada (varies by province)	1:3 for under 18 months 1:8 for 2–4-year-olds	Most require ISCED Level 6 for kindergarten. This is a bachelor's degree. ISCED Levels 3-5 for majority of other staff
New Zealand	Between 1:3 and 1:5 for under 2s Between 1:4 and 1:10 for 2 years +	ISCED Level 6 for 50% of staff in centre-based services. Managers need an additional certificate. ISCED Level 3 needed for leaders in playcentres
Australia (variation by state)	1:4 for 0–2-year-olds 1:5 for 2–3-year-olds 1:11 for 3 years +	ISCED Level 5A for teachers, Level 3C for teaching assistants There are also rules that require 50% of staff to be working towards a higher qualification.
Japan	1:3 for under 1 year 1:6 for 1–2-year-olds 1:20 for 3 years +	ISCED Level 5 for all childcare staff.

The early years workforce in England is also under-qualified in comparison to the wider teaching workforce and general female workforce too. Research into the early years workforce in 2019 found that just over 25% of childcare workers held a degree as their highest qualification level. In contrast, 93% of teaching workers and 37% of all female workers hold a degree or equivalent qualification. [46] There is a danger that qualification levels might be even lower in the future as the workforce ages and fewer employees are upskilling. The proportion of childcare workers studying towards a higher qualification fell by around a third between 2008 and 2018, from 22.7% to 14.9%.[47]

Other countries have more relaxed ratios in part because their workforce are more qualified to do so. It is therefore wrong to assume that if ratios are relaxed, nurseries in England will be able to take in more toddlers *without* employing more staff, because our current workforce is not qualified to a high enough standard to look after those children. Child-to-staff ratios could also not be changed without also adjusting the space ratios, as set in the Early Years Foundation Stage (EYFS). Many providers are already at capacity with the amount of children they can have in the space, and so relaxing staff-to-child ratios would not automatically result in providers being able to care for more children. Nurseries would be forced to look for alternative premises, or expand their current ones, and many are struggling to make ends meet as it is.

Public opinion also does not support relaxing ratios. As noted above, the least popular childcare policy with parents - and the only policy with net opposition - was “childcare professionals should be able to look after more children at the same time, as they do in other countries” which was opposed by 52% of parents, and supported by only 27%.[48]

It is not just a lack of qualifications that is challenging the workforce either. There are severe problems surrounding recruitment, staff turnover, esteem and progression, which are hampering a productive childcare market in England and forcing prices up for parents.

The early years workforce is plagued by challenges of recruitment, leavers, low esteem and poor training

The early years workforce faces a number of challenges that limit its ability to function as effectively as it could. A recent study into the stability of the early years workforce in England found that the six most salient barriers are: low income, high workload and responsibilities, an over-reliance on female practitioners, insufficient training and opportunities for progression, low status and reputation, and negative organisational culture and climate.[49] An over-reliance on female practitioners within the early years workforce matters because, as the Social Mobility Commission observes, it makes the sector particularly vulnerable to gender-specific causes of instability such as parental leave and career breaks among young, low-income parents.[50]

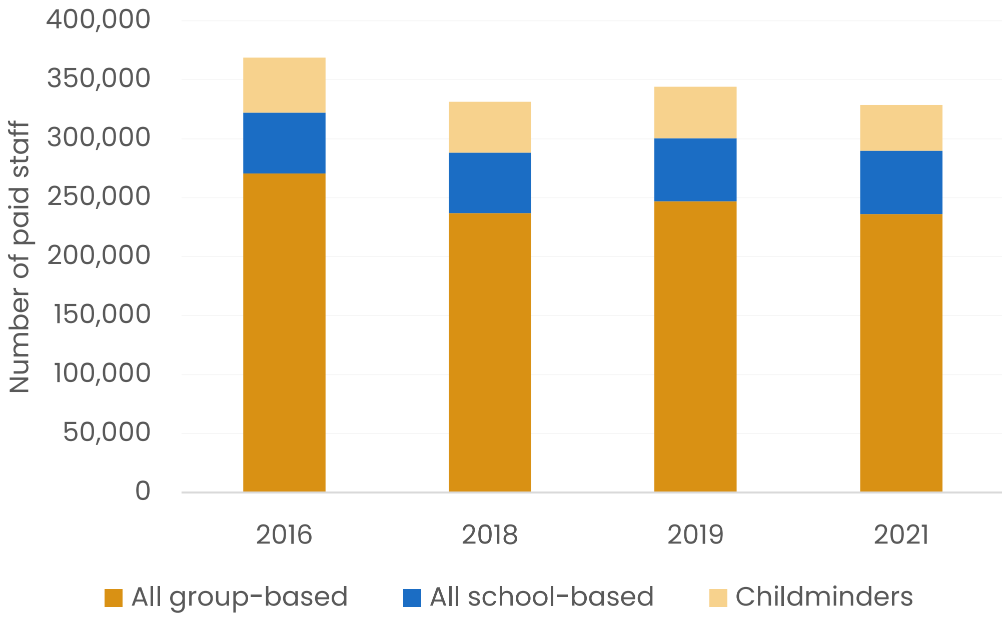
Of the six barriers, there was strong evidence that the first four issues impact the workforce nationwide, and weak or no evidence that these barriers vary at a local level, for example between urban and rural areas or between affluent and deprived areas. In other words, a targeted local solution will not be effective and it will require a nationwide solution.

Early years practitioners are leaving the workforce at an unprecedented rate. In 2019, the National Day Nurseries Association (NDNA) annual survey reported that the early years workforce in England was witnessing a “full blown crisis”,[51] due to a staff turnover rate of 24%. Whilst some turnover is always to be expected, the average UK employee turnover is around 15-18% a year, putting the early years sector well above the national average. The NDNA calculated that a turnover rate of 24% cost the sector an estimated £879 million in 2019.[52]

Crucially, employee shifts within the workforce are not spread equally across different settings. The annual Survey of Early Years Providers in England shows that from 2016 to 2021, whilst there has been an overall reduction in the number of early years staff, there has actually been a small increase in the number of staff in school-based settings. This has not been enough to offset an overall reduction in the number of paid staff in the sector, due to a sharp decrease of staff in group-based settings and childminders.

Figure 29: Total number of paid Early Years staff in England, 2016-2021

Source: Childcare and Early Years Providers Survey 2019

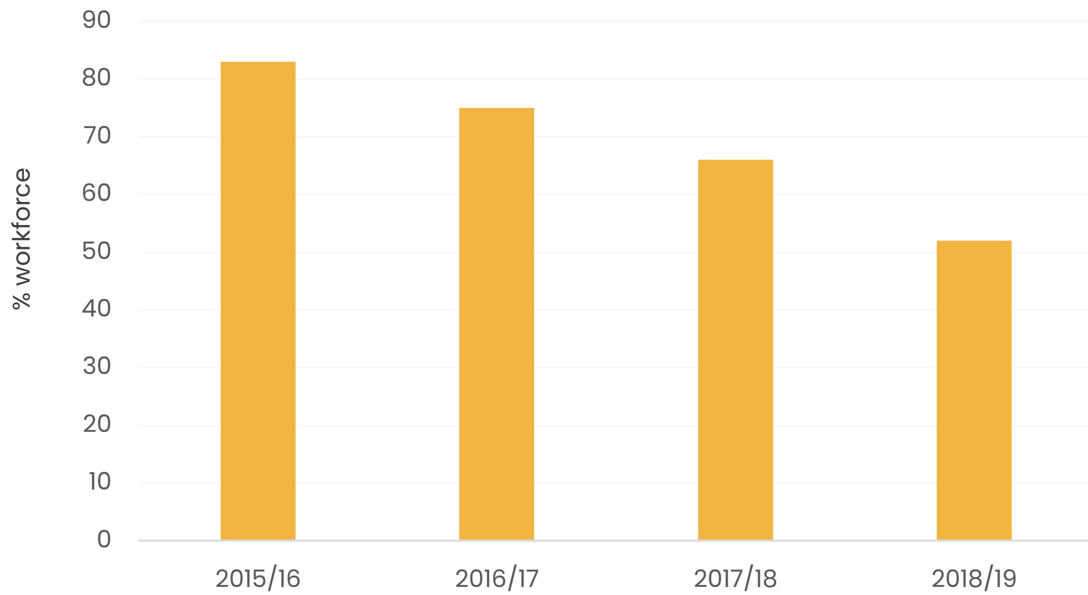


Decline in the childminding profession is particularly acute - over the last 10 years, the number of childminders has halved, and a recent Policy Exchange report calculated that if the number of childminder places had stayed constant over the last decade, there would be nearly 70,000 more childcare places in the early years market.[53] Organisations like tiney, the UK's fastest growing childminder agency, are attempting to disrupt this trend by offering affordable childcare for parents, high quality education for children and careers for childminders who have access to education, training and Early Years experts.[54] Childminders have access to a 'one stop shop' of training, support and financial advice, and parents are rewarded with childcare that is rooted in the local community.

The challenge is not just the number of staff leaving the workforces, but also the qualifications held by those leavers. There has been a significant reduction in the proportion of early years staff who are qualified to at least Level 3, which is needed for managerial positions. In 2015/16, 83% of the workforce was qualified to at least Level 3 - in 2018/19, that proportion dropped to just over half (52%).

Figure 30: Change in proportion of Early Years workforce qualified to at least Level 3, 2015 – 2019

Source: NDNA Workforce Survey



A reduction in the number of Level 3 qualified staff has coincided with an increase in the percentage of unqualified staff, which rose by 16% between 2017/18 and 2018/19.[55] This shift matters because without a well-qualified workforce there will not be the appropriate knowledge, skills or experience to deliver high-quality early education to young children in the years that matter most for their development.

So why are early years staff choosing to leave the profession? Two key barriers to a stable early years workforce are low income and an absence of training opportunities. The average wage across the early years workforce is £7.42 per hour - slightly higher than the average wage in the retail sector (£7.09), but much lower than the average pay across the female workforce (£11.37). There is also an over-reliance on female practitioners, who make up 96% of the entire workforce. It is a similar story with training opportunities too - only 17% of early years workers receive job-related training. These disparities must be addressed if there is to be progress on the professionalisation of the early years workforce - they should be paid a decent wage, given clear opportunities for progression and manageable workloads.

There are lessons to be learned from other countries who have faced similar challenges. In Canada, the Government has recently provided $420 million in 2021-22 for provinces and territories to attract and retain early years workers through initiatives such as grants and bursaries for students studying early childhood education. In Australia, many early years settings require at least 50% of their staff to be working towards a higher qualification, ensuring clear progression routes and opportunities for higher pay.

These drivers have led to entire market dysfunction and a declining number of providers has caused a rise in private equity that pushes up prices further

The issues explored so far have undoubtedly led to overall market dysfunction, including a decline in the number of providers. Recent Ofsted figures show that between April 2021 and March 2022, the overall number of registered providers has fallen by around 4,000, the largest annual decline since 2015/16.[56] In total since 2015/16, the number of providers has decreased by 22%.

This trend was accelerated during the pandemic, with nursery closures increasing by 35% in the year between April 2020 and March 2021, compared with the 12 months prior.[57] Importantly, these closures have disproportionately affected children in deprived areas. Closure data obtained by NDNA shows that during the height of the pandemic, 35% of all closures were in areas that are among the most deprived 30% places in England, compared with 27% of all closures that were in the 30% of least deprived areas.[58]

But the decline in providers has not translated into a fall in the number of childcare places offered, which has remained broadly stable since August 2015. This means that there are a similar number of children requiring childcare as there were in 2015, but far fewer providers and staff to supply that service. Owing to under-funded public subsidy, workforce challenges and a restrictive regulatory framework, providers are therefore forced to charge parents more.

An overall decline in providers has coincided with a rise in private equity ownership, which is now estimated to make up 61% of providers in the Early Childhood Education and Care (ECEC) sector.[59] Whilst the provision of ECEC in the UK has always been through a mixed economy of for-profit and not-for-profit providers, research by UCL Social Research Institute states that there is “a very clear account of extensive growth by large childcare operators” over the last 20 years, which is not matched a growth in the number of childcare places.[60] Large companies are expanding their market share by acquiring smaller childcare businesses across the country.

In a similar way to the privatised elderly care sector, the state has relied on private corporations to provide public services, and for-profit companies have used global and national investment to finance their expansion. Market-based ECEC systems are argued to have several advantages, including the ability to expand supply quickly in line with demand.[61] But others argue that the private sector has been accepted as a way to provide ECEC without evidence that it is delivering on government aims, particularly for disadvantaged children.[62]

The UCL Social Research Institute argues that while shifting ownership models in the elderly social care market are relatively well tracked, little is known about market reach of the ECEC sector, how public funding is used, or the financial structure and practices of medium to large childcare companies. The first key finding of the report is that estimates of the size of the private sector vary significantly - the leading market research organisation for the childcare sector, LaingBuisson, estimates that 53% of providers are in the private sector, but does not cite its sources or methods.[63] This is lower than the DfE provider survey, which estimates 61% of providers are in the private sector.[64] A lack of definitive estimate means that it is difficult to monitor the number of providers and places, and movement within the market will inevitably be missed.

What should be of concern for policymakers is that the rise in private-for-profit childcare companies has not contributed to a growth of places for children, and the report's discovery that staff costs in private-for-profit providers are as much as 14% lower in comparison to staff pay in the not-for-profit sector.[65]

Conclusion

This chapter has set out the key drivers of the dysfunctional childcare system in England. In particular, children aged 0-2 suffer from low levels of public subsidy compared to later in their lives and their international counterparts. Restrictions on public subsidy are hampering parents' ability to afford childcare all year round, and under-funding for free hours entitlements is forcing providers to make up the costs elsewhere in the business. Alongside this, significant workforce challenges mean that staff are becoming more stretched, less qualified and underpaid for the service they are providing.

But while we know the drivers of the dysfunction, policymakers are much less well-versed in solutions. The next chapter will set out a practical and politically feasible plan for reform.

Recommendations

The UK's childcare system has grown up in fits and starts over many years, with the best of intentions from successive governments. But the net result is one of complexity, bureaucracy and unnecessary constraints on parental choice. This has enormous effects for families and hinders our national productivity. Almost everyone - left or the right, committed to familial or formal care, parent or provider - agrees that the system needs reform. And children who receive high quality care and education in their early years are almost eight months ahead in their literary development compared to children who do not. Early investment can pay long dividends.[66]

This chapter sets out a five point plan to fix the childcare system, which will empower parents, reduce complexity, increase quality and cut bureaucracy. These reforms are both pro-family and pro-growth, and would have lasting effects on the life chances of the children who benefit. It is important that these reforms are not taken in isolation. For example, adopting the Childcare Credit system *without* introducing comprehensive provider side reforms might lead to providers closing at a faster rate due to the change in income mechanisms, and this could exacerbate existing workforce challenges. This should not deter ministers from enacting these reforms, but reinforce how needed wholescale reform of the system is.

1. Support parents through a new system of Childcare Credits
2. Front load child benefit payments
3. Reform parental leave
4. Expand Family Hubs
5. Introduce provider side reforms, including boosting childminding agencies

Reforming our childcare system should be seen as an opportunity to spread economic and social opportunity, particularly for those on middle and low incomes, and should be prioritised by the Government as a key part of the growth agenda.

Whilst our five point plan for reform has been designed to fit within the current spending constraints, ministers should recognise that there is strong support from parents for more investment in childcare - our polling found that 59% agreed that "the Government should spend more taxpayers' money on childcare support for families, *even if it means higher taxes for everyone*", compared to 19% who disagree. There are strong majorities for more taxpayer investment among parents of all income and socio-economic groups, all education levels, and parents who vote for all political parties (60% of Conservative parents agree).

Supporting Parents

Recommendation 1: Empower parents through a new system of Childcare Credits for children aged 1-4, paid monthly in advance, to radically simplify the market and empower parents. Low income families would be supported with an Additional Childcare Credit.

The current system of "free hours" of childcare is not working. The hours are not actually free, in that the loss providers make on subsidised hours increases costs outside subsidised hours. Nor do they cover the hours when many parents actually need childcare, given they do not apply during evenings, weekends or holidays. The low take-up of Tax Free Childcare further exacerbates the parenting penalty. Overall, the system doesn't work for parents or taxpayers.

A much better solution would be a single, flexible Childcare Credit. This would aim to improve value for money, increase flexibility for parents, and improve the resilience of providers. Under such a system, *all* parents of 1-4 year olds would receive the 'Childcare Credit'. Under the Credit, the funding allocated to the main programme of childcare support - 15 hour free universal entitlement - would be rolled into a single grant paid to parents on a per child basis. The extended 30 hour free entitlement, Tax-Free Childcare and support for disadvantaged 2 year olds would be rolled into an "Additional Childcare Credit", for parents who have a joint income of under £100,000, also on a per child basis.

The Childcare Credit and Additional Childcare Credit would replace all existing childcare entitlements except the childcare element of Universal Credit. It would be paid in advance on a monthly basis to parents in the form of an online voucher, and employers could be encouraged to top up the voucher for staff, reviving the contributory system that pre-dated Tax-Free Childcare. This voucher could be spent on a variety of qualifying activities from registered providers.

The exact amount this would cost the Treasury would differ depending on how many children are born each year. If the parents of every 3 and 4 year old that are currently eligible for the 15 hour universal entitlement got an equal share of what is spent on the universal entitlement, using 2020 population estimates, this would allow £140 per child per month for the standard Childcare Credit. Our recommendation is that this should be extended to cover all 1-4 year olds, but this would cost more to the Exchequer.

The Additional Childcare Credit for parents who have a joint income of under £100,000 with children aged 1-4 would equal an additional £140 per family per month. This figure is reached by combining what is currently spent on the targeted measures of the extended 30 hours entitlement, Tax-Free Childcare and 15 hours disadvantage entitlement with the current underspend on Tax-Free Childcare, and splitting this evenly with the families eligible. We recommend this is ultimately allocated on a per child basis, however a detailed breakdown of the number of eligible children is not publicly available. Again, there would be significant benefits from making this scheme more generous but this would increase costs to the Exchequer. In time, we recommend that the Universal Credit childcare support is rolled into this system too, to streamline the system further. There are currently three government departments involved in the support and subsidy of early education and care in England, but we believe there is a clear benefit to streamlining all programmes into one government department who would be responsible for supporting early childhood education and care. We suggest this should be the Treasury.

There may be some parents with three and four-year-olds covered by 15 and 30 hour entitlements and Tax Free Childcare who are eligible for less financial support under the simplified Childcare Credits system. Similarly, families with 2 year olds who are currently eligible for the 15 hour disadvantage entitlement may get fewer hours of childcare. But crucially, eligibility is not translating to actual support payments for parents - only 16% of families eligible for Tax Free Childcare take it up, and we know that targeted schemes such as the 15 hour disadvantage entitlement are not reaching those children most in need of support. To ensure that the faults in these schemes are not repeated in the future, the Government should model the impact of the new system before rolling out the Credits, to confirm that lower income families are receiving support and disadvantaged children are benefiting from the new system. A simplified system would help to deliver more support directly to parents, and by streamlining the system will help to drive down overall costs.

This would give parents the flexibility and choice they want. It would enable them to decide how and when they use their childcare entitlement. This might include formal childcare, such as nurseries or school-based provision as is the case currently, but also registered childminders, Ofsted-registered nannies, and even after school activities. Importantly, it would create a functional market in childcare, whereby parents would be able to choose between a range of providers based on their needs. In the long-term this should drive down cost through competition - which is currently completely absent for government-subsidised hours and distorted for non-subsidised hours. This might include after-work provision for parents working two jobs, for example, or weekend provision for those in the gig economy.

The Childcare Credit would not cover informal childcare from grandparents, family members and friends. A system that accepted vouchers for these groups would be too open to implementation challenges around both fraud and safeguarding. But there are other elements of our plan, detailed below, that support informal care. Front-loading child benefit would give parents greater flexibility to stay at home or pay relatives to provide care if they wanted to. Expanding Family Hubs would allow for more community-focussed support, including neighbours and local charities. And simplifying the process of becoming a childminder could give an easier route for friends or relatives to take up childcare for their loved ones and receive payment.

This would direct funding directly to providers, removing some of the burdens of the current process and allowing them to budget appropriately. Formal providers currently have to go through a complicated registration and claims process to offer 15 or 30 hours free hours to prospective parents, causing considerable bureaucracy which discourages providers and increases costs. Under the Childcare Credit system they would be able to choose how many hours of childcare they offer, responding to the demand locally. We do not recommend this should replace the need to register with the local authority, but it should be a much more straightforward process.

If implemented alongside the reforms below, this would help to drive down the costs of unsubsidised childcare by increasing supply and helping providers manage their budgets. Under the current system, local authorities have control over the funds going to providers. If the local authority has underspent at the end of the year and there is excess from the Early Years Pupil Premium budget, that money is often moved into an area of the local authority where there has been an overspend, meaning not all of the money allocated for providers is reaching them. Secondly, because funding is given to local authorities *per child,* and nurseries often have children coming to them from 3 or 4 different local authorities, providers have to constantly negotiate what they are owed by local authorities and the administrative burden at the end of each month is huge. Funding should be given straight to providers from parents for them to administer, skipping the local authority middleman and reducing complexity.

Recommendation 2: Front load child benefit. Parents should have the option to front-load payments, in exchange for lower payments when the child is older. This should be capped a minimum of a third of the whole entitlement over the first three years of a child's life.

Compared to the UK, other countries invest heavily in the provision of care specifically for the first few years of a child's life. The importance of supporting parents and children through these first few years has been recognised by the Scottish Government, who have introduced the Scottish Child Poverty Payment, which supports low-income families with children under sixteen years of age.

Learning from this and other successful schemes abroad, ministers should provide recipients of child benefit payments with the option to front load the payments when a child is younger, in exchange for lower rates when the child is older. Currently, the payments are paid at a flat rate throughout childhood until the age of 16. Eligible parents receive £21.80 a week (£87.20 per month) for the eldest/only child, and £14.45 a week per additional child.

Front-loading child benefit payments would give parents greater flexibility and choice about how they care for their children in their early years, where state support is currently the most sparse. Greater flexibility was the driving reason behind Lord Farmer's recent Private Members' Bill, which would "enable the Treasury to give parents the option to have their child benefit front-loaded, putting more money into their pockets at this frighteningly expensive life stage".[67]

This Bill provides the Government with a legislative lever not only with which to help parents in those first crucial years of parenthood, but also around which the Government can build more detailed and targeted policy in the future. Appetite for this reform has been long-standing; in 2009, Policy Exchange recommended paying half the child's total entitlement to child benefit during the first three years, and the other half over the remainder of childhood.[68] Similarly in 2005, Lord Field argued that a quarter of the lifetime entitlement should be paid during the first two years of a child's life.[69]

When thinking about how to administer this reform, amendments should be made to the current Child Benefit claim form (CH2) to give parents the opportunity to front-load their child benefit payments, making it clear that if parents do opt for this, it will be in exchange for lower rates when a child is older. There should be clear guidance around the process to ensure that parents are clear about what drawing down an increased rate during the first three years of their child's life means for future payments.

Instead of allocating a specific amount of money to the first few years, this Bill would provide parents with the flexibility to make their own choices about how they use childcare allowance. They can continue to receive a flat rate if they wish, or shape the benefit to reflect their changing circumstances. This should be capped at a third of the whole entitlement over the first three years of a child's life, equating to a maximum of £5580.80 over the three years, or £1860.26 per year - this would allow parents to receive £813.86 per year a more than they are currently receiving through child benefit. This would be transformative for those parents who are struggling to afford childcare. As discussed in Recommendation 1, there is strong support from parents to increase investment in the early years of a child's life to match our international counterparts. In the future, if the fiscal situation becomes more flexible, increasing Child Benefit throughout children's lives should be considered.

What would parents receive monthly?

Scenario 1: Universal Credit childcare cost payments / Childcare Credit + Advanced Childcare Credit / Front loaded child benefit payment

- Universal Credit childcare cost payments [70]: £646.35
- Childcare Credit (£140) + Advanced Childcare Credit (£140) = £280
- Front loaded child benefit payment: £155.02
- Total: £1,081.37 per month

The number of hours of childcare that families could buy with this figure would depend on where they lived, because of the significant regional differences in childcare costs. Similarly, there are currently differences in the cost of childcare depending on the age of the child, but this is due to the current system of subsidy only becoming available when a child turns 3. Under a new system of Childcare Credits, support would be available from the age of 1, which would lead to a more even distribution of prices. At current cost levels, for a family in Yorkshire and Humber with a child under 2, this would allow them to fund a full time (50 hours per week) nursery place. For a family in inner London, they could comfortably afford a part time (25 hours per week) nursery place for a child under 2. If our five point plan for reform was implemented fully, we would expect the cost of childcare to fall noticeably, however.

Scenario 2: Family with one child aged 3 earning under £100,000 / Front loaded child benefit payment

- Childcare Credit (£140) + Advanced Childcare Credit (£140) = £280
- Front loaded child benefit payment: £155.02
- Total: £435.02 per month

Scenario 3: Family with one child earning over £100,000 / Front loaded child benefit payment

- Childcare Credit (£140) – would not qualify for Advanced Childcare Credit
- Front loaded child benefit payment: £155.02
- Total: £295.02 per month

Recommendation 3: Reform parental leave by abolishing separate maternity and paternity leave in favour of a single parental leave scheme. Parents would have a shared entitlement to 12 months, which they could draw down however they wanted.

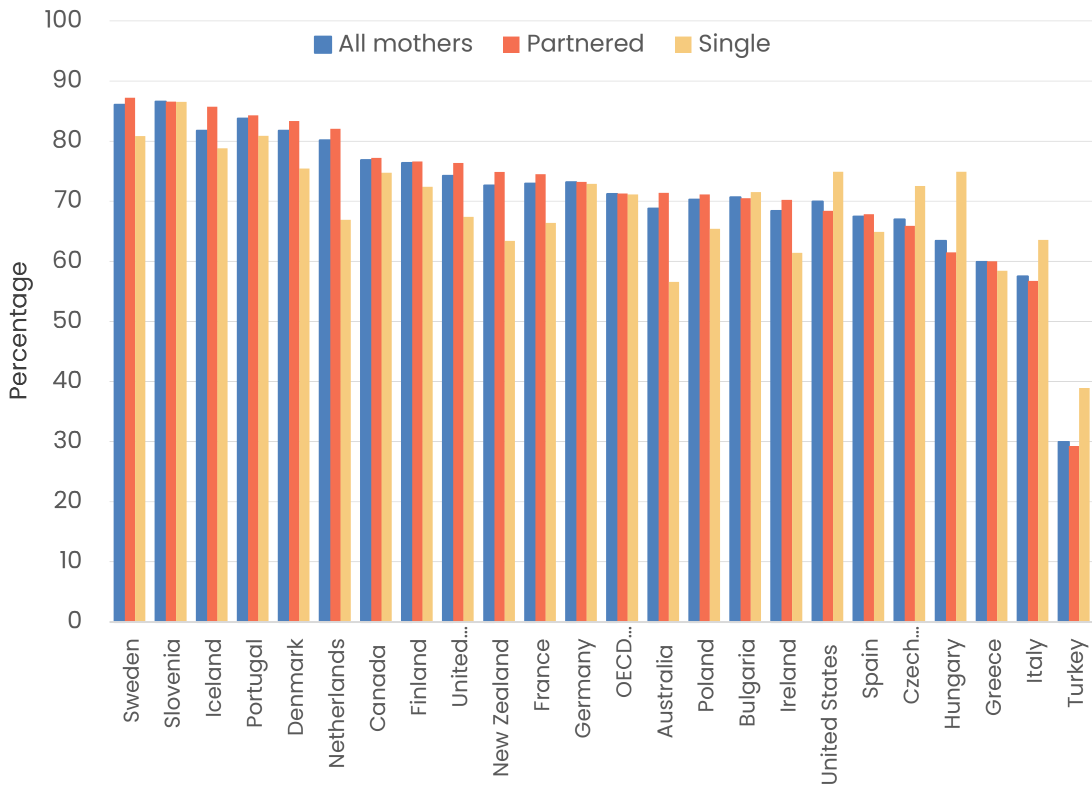
A key area in need of reform is parental leave. Under the current system, mothers can take up to 52 weeks' maternity leave. The first 26 weeks are known as 'Ordinary Maternity Leave', and the last 26 weeks as 'Additional Maternity Leave'. Fathers are eligible only for 1 or 2 weeks of paternity leave. Shared Parental Leave was introduced in December 2015, where parents can share up to 50 weeks of leave, but are only able to receive 37 weeks of pay between them.

We propose that separate maternity and paternity leave should be abolished in favour of a single parental leave scheme. In such a scenario, parents would have a shared entitlement to 12 months leave from work, which they could draw down however they wanted. For example, the father could take three months, the mother nine, or both could take 6 months each. Or they could do alternate days of the week. Both parents' employers would pay 6 weeks of 90% pay (the current employer obligation for maternity pay) into a shared pot. The state would also put in 9 months worth of statutory maternity pay (£156.66 a week). For single parent households and self-employed parents who do not currently qualify for Statutory Maternity Pay, alterations would need to be made to ensure the system was sufficiently generous so that they did not lose out under this scheme compared to the status quo.

Our polling found this to be the most popular policy with the public, with 83% of parents supporting it, compared to just 4% who are opposed (net +79%). High income parents are particularly supportive (+87%). Not only would the introduction of a flexible parental leave scheme be politically popular, but it would also lead to a boost in productivity and fertility rates, both of which are declining notably in the UK. A recent study *A new era in the economics of fertility* (2022) found that OECD countries with more progressive parental leave policies and higher GDP on childcare have higher female employment rates.[71]

Figure 31: Employment rates (%) for women aged 15-64 year olds with at least one child aged 0-14, by partnership status (2019 or latest available, selected OECD countries)

Source: OECD Family Database



The study, which was the focus of an article in the *Financial Times,* finds that classic models of fertility no longer explain ultra-low fertility rates in high-income countries, where the compatibility of women's career and family goals are now a key driver of fertility decisions.[72] The authors highlight four factors that facilitate combining a career and childbirth: family policy, cooperative fathers, favourable social norms, and flexible labour markets. In countries such as Belgium, Norway and France, where fathers contribute more to childcare, fertility rates are notably higher. Similarly, countries with more progressive parental leave systems, such as Nordic countries, fertility rates are much higher than those countries with more regressive systems of parental leave.

Streamline funding pathways and adopt a more unified approach

Recommendation 4: Expand Family Hubs to enable easier access and better outcomes for families.

One existing area of policy which could be strengthened and expanded in order to support families navigating the early years of their child's life is Family Hubs. Pioneered by Lord Farmer, Family Hubs are community-based centres which enable easier access and better outcomes for families, more effective delivery service and smarter use of local authority budgets and resources. The Family Hubs Network has grown out of one of Labour's flagship policies in 1998 - Sure Start centres - which initially aimed to deliver services and support young children and their families in the 20% poorest wards in England.

In 2019, the Conservative Manifesto committed to "champion[ing] Family Hubs to serve vulnerable families with the intensive, integrated support they need to care for children - from the early years and throughout their lives".[73] This commitment has manifested itself in funding, with £82 million announced in the 2021 Autumn Budget specifically for the expansion of Family Hubs, as part of a £300 million package to support families.[74] This is something Onward called for in a previous paper - *Age of Alienation* - in 2019. In April 2022, 75 local authorities who had submitted a bid for a share of the fund were announced by the Department for Education and each will receive a share of the £82 million ring fenced for Family Hubs in their area.

According to the Family Hubs Network there are currently around 145 Family Hubs across England. Comparing the number of Family Hubs with the Supporting Families programme, which supports some of the most vulnerable families in society, it is clear that Family Hubs could be better targeted to those areas with a higher proportion of vulnerable families. For example, there are 17,400 vulnerable families across Greater London, who only have access to 2 Family Hubs. In contrast, there are 47 Family Hubs across Essex, serving just 6,875 vulnerable families.[75]

Onward's previous work on the *State of our Social Fabric* found that many of the places with the weakest social fabric score are also characterised by less resilient families and flexible early years support.[76] The expansion of Family Hubs therefore matters because they provide a 'one stop shop' for families who need active support from the community, allowing them to better participate in their community and build social capital with their neighbours. There is also wide-ranging evidence to show that Family Hubs have a unique ability to spot child vulnerability[77] and help improve cognitive and social development of young children,[78] therefore helping to reverse both the causes and effects of low social mobility.[79]

The expansion of Family Hubs would also benefit children living in disadvantaged areas most. An IFS report in 2019 found that Sure Start centres in the "poorest 30% of areas saw the probability of hospitalisation fall by 10% at age 10 and 19% at age 11".

Those in more affluent areas saw smaller benefits, and those in the richest 30% of neighbourhoods saw practically no impact at all. They attributed this to the services that Sure Start centres offer, and the fact that children in disadvantaged areas were more likely to attend a centre where professionals could spot any issues.[80]

Whilst there have been case studies on individual Family Hubs that show their efficacy, there is no system-wide monitoring system on how useful Family Hubs are, the number of families they are helping, and their outcomes. This should be introduced as Family Hubs are expanded, to give local authorities and central government a firmer indication of their success. Their expansion should be linked to the Troubled Families Programme and according to Levelling Up metrics, to target those areas most in need, and their expansion should be accelerated under the current Government, so that families in every local authority can access a Family Hub.

Every effort should be made to co-locate Family Hubs with other services, so that families can be signposted to other services within the same building. In addition, Family Hubs should promote guidance on the childcare element of Universal Credit, and help families to access this extra support.

Family Hubs should be part of a wider “Cradle to Career” approach. Ministers should take notice of organisations like The Reach Foundation who are supporting communities to develop an integrated pipeline of provision and support for children and families, with cross-sector community partnership to improve outcomes for children and young people.[81] Their work in Feltham has enabled an all-through school, serving pupils from the ages of 2-18. Encouraging multi-academy trusts to set up a nursery as well as a primary and secondary school, as they have done in Feltham, means that educators can reach out to parents that perhaps already have children in the school when they are pregnant, which would allow for better rounded childcare and support from the get go.

Other examples of good practice include SHINE, who have partnered with the public, private and charity sector to provide a Cradle to Career model that aims to boost literacy skills, support families and create opportunities for families in North Birkenhead.[82]

Provider side reforms

Recommendation 5: Prioritise childminders and childminding agencies

Ministers should encourage and prioritise a reinvigoration of the childminding profession in order to stabilise and grow the early years market. Childminders can be less expensive, hyperlocal, qualified and much more flexible than formal providers. In June 2022, the Government announced their intention to "encourage the growth of childminder agencies", which are central bodies designed to remove the individual administrative and regulatory burden on childminders.[83] More than 20,000 childminders have left the profession since 2014, due to a lack of early years funding, frustration around the lack of recognition that childminders are established educational professionals, and an inability to cope with the administrative and financial burden of running a business.[84]

To support existing childminders and encourage others to consider the profession as a viable career path, childminding agencies like tiney should be studied as best practice and replicated.[85] Regulated by Ofsted, tiney are licensed to train, support and regulate childminders to start and run successful businesses, and have recently received Ofsted's highest grading. Their app is designed for both childminders and parents to use. Childminders can access educational and financial guidance, keep track of payments and connect with a community of childminders in their local area. For parents, the app can be used to find local childminders, pay for childcare (tiney is linked to childcare funding schemes like Tax Free Childcare), and communicate with their childminder. Their success is evident, with the community of childminders growing tenfold since 2021, and a staff turnover rate of less than 0.5%.[86]

Childminding agencies should be championed if the early years education system is to flourish. Given that they are able to support childminders on everything from administrative processes to the Early Years Framework, it is wrong that agencies currently receive no government fiscal support or subsidy, compared to Ofsted who receive over £1,000 a year in government funding per childminder.

To incentivise a shift towards a childminder agency led system, the Department for Education should mirror what they currently give to Ofsted, and give childminding agencies £1,000 for each childminder that they register who start trading. Ofsted Quality Assurance should be applied to make sure that agencies are not compromising on quality in order to boost quantity. Given that childminders are often a less expensive and more flexible form of childcare for many families, this would drive down the cost of childcare for families across the country.

Whilst childminding agencies should be encouraged to expand, childminders themselves should not be forced to register with an agency over being able to register with Ofsted directly. A recent survey by Childminding UK, a charity which has supported childminders for over 30 years, found that childminders had concerns over the costs of registering with an agency, which are currently more expensive than registering with Ofsted and buying additional support and training as needed.[87] If the Department for Education adopted our recommendation to give agencies £1,000 for each childminder that they register who start trading, agencies could afford to lower the registration costs and remove that concern for potential childminders.

Ministers should be creative in unlocking new premises for childminders, perhaps supporting steps to transform the 57,000 empty high street shops across the UK to located creches, under the guidance of childminding agencies. Ministers should also reconsider how the Early Years Framework is applied to childminders. Given that childminders are offering a more informal type of childcare and children are looked after in family homes, there are questions around whether they should be forced to follow what is quite a rigorous curriculum. As long as it is still safe and regulated to a certain extent - childminding agencies should be responsible for enforcing this - childminders should be an affordable form of childcare that parents can choose. Particularly if childminders were linked to an agency, this could be done without diluting standards around qualifications and quality.

More widely, changes should be made to the way that business rate exemption is made to childcare settings. Currently, nurseries attached to schools are exempt from business rates, but private childcare settings have to pay business rates. If these settings were relieved of business rates, the money saved should be reinvested into the business to boost staff pay and provide training opportunities. It is estimated that this could support settings with an extra £11,000 a year.[88]

Recommendation 5.1: Incentivise graduates into the early years workforce

One way to boost the early years workforce would be to focus on incentivising graduates into settings in deprived areas, via a Teach First style programme. Analysis by the Nuffield Foundation found that within the private, voluntary and independent sector, settings with a graduate member of staff scored more highly on all quality measures - including learning for learning, language and literacy, provision for diversity, care routines and health and safety practices.[89] Additional analysis from Ofsted showed that the most highly graded settings had both a graduate and a high proportion of staff qualified to Level 3, exposing the correlation between well-qualified staff and higher quality provision, whether in advantaged or disadvantaged areas. Critically, only graduate leadership was associated with a narrower quality gap between private, voluntary and independent settings located in deprived areas and more advantaged areas, suggesting that the Government should be encouraging graduates into settings in more deprived areas to boost quality.[90]

Training opportunities for the early years workforce should be radically simplified through a centralised Continuing Professional Development (CPD) system. The Early Years Foundation Stage (EYFS) makes ongoing CPD training a requirement for providers, stating in the statutory framework that "providers must support staff to undertake appropriate training and professional development opportunities".[91] There are no specific rules regarding the length of time that professionals should spend on CPD, but it is key for upskilling the existing workforce, reducing recruitment costs and preventing skill shortages. Learning materials including classroom-based courses, workshops, newspaper articles and podcasts should be placed in a single online portal to tackle confusion in the sector around what qualifies as CPD. This would also minimise the administrative burden for providers too, making it easier to track and create targets for their workforce. To tackle low pay rates within the sector, ministers should consider calls from the Nuffield Foundation to match pay in early years with primary teaching and counteract a perception of the early years as a 'springboard' for teaching in primary education.[92]

In October 2021, the Department for Education announced an investment of up to £180 million of recovery support to address the impact of the pandemic on the youngest children, which was welcomed by the sector.[93] Going forward, ministers should take inspiration from the Early Career Framework, introduced in 2019.[94] This entitlement offers early career teachers access to a two year package of high-quality support, structured training and professional development , which is linked to the best available evidence. It was introduced, in part, to improve retention in the sector, and has been incredibly well received by members of the teaching profession.[95] A similar package of support and development should be available to early years practitioners. This would help attract talent to the sector and improve retention rates, which we know are severely hampering providers at the moment.

Given what we know about the rising rates of people leaving the labour market earlier than they previously were, opportunities to retrain should be encouraged in the early years sector. In a speech in September 2020, then Prime Minister Boris Johnson announced plans to introduce a Lifelong Loan Entitlement from 2025 as part of the Lifetime Skills Guarantee.[96] The loan provides individuals with a loan equivalent to 4 years of post-18 education to use over their lifetime. As part of this, there is a Level 3 Diploma available for the Early Years Workforce, the qualification that sets the standards for all professionals working in the industry. When this is introduced in 2025, ministers should ensure a strong messaging campaign around the opportunities and monitor take up rates.

Recommendation 5.2: Assign a Unique Pupil Number from birth

Currently, children are given a 13-character Unique Pupil Number (UPN) when they join a state funded school. They are allocated to each pupil according to a nationally specified formula on the first entry to school - this can be at age 4 or 5 in Reception, or in school-based provision at age 2. If children are in private settings, with childminders, or use informal care, they are not given a UPN until they start school at age 4. It is intended to remain with the pupil throughout the school years, regardless of any change in school or local authority. If pupils do move schools or local authorities, their UPN is transferred electronically in a Common Transfer File (CTF).

Because children are often not given a UPN until they start school aged 4, there are huge gaps in the data surrounding early childhood outcomes, and it is often too late to implement effective interventions for both parents and children. As both the Nuffield Foundation and The Times Education Commission have observed, if children were assigned a UPN from birth, it would be much easier to draw conclusions and create strategies for early childhood education grounded in evidence.[97][98] Linking it with other sources of information, such as demographic and health data would encourage greater data sharing between these services, identify potential problems early and ensure that no vulnerable children fall through the gaps. An alternative approach could be to use a child's NHS number, which is currently assigned at birth, to gather information about a child's development.

This would not be straightforward, and there would undoubtedly be public concern about data privacy. To make this transition as smooth as possible, local authorities should follow and enforce the existing guidelines from the Department for Education. Family Hubs and childminding agencies should also be supported by local authorities, who should be familiar with data protection rules given their role in the current system.

Conclusion

This report reveals that our current childcare system is not fit for purpose. It is too expensive, inflexible and complex, and is not providing the youngest in our society with the high-quality education and care that they so desperately need.

Policymakers must listen to parents. Through Childcare Credits, power would be handed back to parents and they would be free to provide education and care for their children in the way that suits them best. In order to further support families during these first few crucial years, Family Hubs should be expanded, Child Benefit front loaded and policymakers should make workforce reform a priority, through existing models of reform.

Failure to act will mean that parents will be forced to make difficult choices under increasing financial strain over the next few years, providers will close at an increasing rate, and children's cognitive and social development will continue to decline.

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