

ECEC in England: Increasing affordability – but at what cost?



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Abstract

This report provides a case study of Early Childhood Education and Care (ECEC) in England. It sets out the way the English ECEC system functions, looking at access to services, their quality and their cost, while paying particular attention to inequalities between children from different backgrounds. It identifies key strengths of the English system including an integrated play-based curriculum and a state-maintained nursery sector which has historically ensured teacher-led provision in disadvantaged areas. However, cost and quality remain key weaknesses. The decision to pursue a mixed market childcare economy, rather than developing direct state provision, created a fragmented ECEC environment funded by a complex combination of demand and supply side subsidies. Outside of state nursery classes there are minimal requirements regarding staff qualifications, and pay and conditions are often poor. The last decade has seen considerable new investment, but policy has centred strongly on ECEC as childcare for working parents, with less interest in quality or in the role of ECEC in reducing inequalities at school starting age. Funding changes have squeezed the state and voluntary sectors, while private provision has grown. The recent extension of 30 ‘free’ ECEC hours per week for all children of working parents from 9 months upwards is likely to make ECEC significantly more affordable but carries potential risks both for quality and for equity, given few families in the bottom third of the income distribution are expected to benefit.

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About the paper

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Index

1. Introduction	p.04
2. Availability, access and use of services	p. 07
2.1 Enrolment and attendance rates for children of different ages	
2.2 Supply-side factors	
2.3 Expansion of the 30 hours policy: likely implications	
2.4 Variation in the nature of provision: patterns of enrolment by family background	
2.5 Summary	
3. Quality	p. 22
3.1 Structural requirements: Ratios	
3.2 Structural requirements: Qualifications and wages	
3.3 Structural requirements: Space	
3.4 The Early Years Foundation Stage Curriculum	
3.5 Ofsted inspections	
3.6 Data and monitoring of children's outcomes	
3.7 Summary	
4. Costs and financing	p.32
4.1 Overview of the funding system	
4.2 Fees	
4.3 Fees and household income	
4.4 From settings perspective: supply-side funding, quality and deprivation	
4.5 Summary	
5. Policy discussion and conclusions	p. 44
References	p.46

1. Introduction

This report provides a case study of Early Childhood Education and Care (ECEC) in England. It sets out the way the English ECEC system functions, looking at availability, access to and use of services; their quality; and their cost. As well as describing the system overall, the report seeks where possible to highlight any inequalities between children from different backgrounds. It also aims to provide an understanding of recent trends and policy changes over time, to provide some context for the existing system and its current challenges. The case study covers England alone: ECEC is a devolved responsibility in the UK and there are significant differences across the four UK nations which we do not cover here. This introductory chapter gives a brief overview of the system and discusses recent changes and current challenges, all themes that are further developed in later chapters.

Compulsory schooling in England starts at five years old, but in practice there is a strong norm for children to start school in primary school reception classes in the September after they turn four. Our core focus here is therefore the years from 0-4.

ECEC in England is provided through a classic mixed economy which includes private and voluntary sector day nurseries and playgroups, state-maintained nursery schools and nursery classes in primary schools, independent schools and childminders. Before starting school, almost all children will have attended at least one of these settings for at least a year, and many will have experienced more than one. The different types of ECEC providers in England vary from each other in a number of ways, including the hours and weeks they are open, the ages they cater for, the fees charged, and the requirements in relation to adult: child ratios and staff qualifications. Thus, children's pre-school experiences may be quite different depending on the type of provision they attend as well as the length of time they spend there. For example, one child may enter a private day nursery at nine months and attend 8am-6pm five days a week until starting school. Another child may be looked after by a childminder three days a week and their grandparents on two days, moving to a day nursery for three days a week aged two and to school-based provision aged three. A third child, with one parent not working, may enter formal provision for the first time after turning three, attending a school-based nursery class part-time until entering reception class.

Despite these variations, there is a unifying curriculum framework which applies across all types of formal provision and ensures some degree of common experience. All registered ECEC settings must follow the Early Years Foundation Stage (EYFS) framework, which sets standards for learning, development and care for children across England from birth to age five, up to and including reception class. All settings are also subject to regular inspection through Ofsted (the Office for Standards in Education, Children's Services and Skills).

In addition to regulation, the state has an important role in providing funding for ECEC providers. It does this through a combination of demand-side and supply-side funding. On the supply side, all registered providers can receive per-pupil funding to deliver 'free' childcare hours for children aged between nine months and four, with the exact entitlement depending on parental income and employment hours. There are also two demand-side mechanisms helping parents with the costs of additional hours and for younger and older children: a reimbursement of up to 85% of childcare costs for working parents receiving means-tested

benefits, and a 20% top-up to childcare savings accounts for other parents. These subsidies can be used with any registered provider.

In terms of governance, ECEC services in England are primarily the responsibility of the Department for Education, though the Department for Work and Pensions delivers demand-side funding through the benefit system. There is also an important co-ordinating and provisioning role for local authorities, who have a statutory responsibility for ensuring both sufficient provision to meet the free entitlements and enough childcare places for working parents. Local authorities also have some control over the internal allocation of the ECEC funds received from central government and can choose to allocate additional funds to early childhood services themselves. For example, Sure Start children's centres, which provide parenting support and opportunities to play and learn for children under five and their parents and carers, including in some cases childcare, are entirely under local authority jurisdiction. However, the period since 2010 has seen both reductions in the formal discretion available to local authorities and cuts to budgets which have largely restricted decision-making to choices about what to cut.

This is a broad description of the current state of play, which itself reflects both continuity and change over more than two decades – a period that saw real-terms spending on ECEC increase more than four-fold from £1.6 billion in 2001-02 to £6.6 billion in 2018-19 (2023-24 prices), before falling to £5.6 billion in 2022-23 (Drayton et al., 2023). Despite these increases, ECEC spend remains less than one-quarter of a percent of national GDP.

England's first ever National Childcare Strategy was published in 1998. The decision made by the then Labour Government to expand childcare provision through a regulated mixed economy rather than direct state provision has shaped the landscape ever since. The following 25 years have seen on the one hand steady and substantial expansion of state involvement in ECEC which has further embedded this mixed economy, and on the other significant changes over time in the relative emphasis given to alternative policy goals for the sector: childcare for working parents, child development, and tackling inequalities.

Alongside an emphasis on choice for working parents, the Labour administrations showed both a clear understanding of the role of ECEC in child development, and a commitment to ensuring ECEC helped to level the playing field for children starting school. The entitlement to a free part-time early education place for all three- and four-year-olds dates back to their time in office (1997-2010), as do the EYFS, Sure Start and investment in better staff qualifications. The Conservative-led Coalition Government from 2010-2015 continued some of these policies, notably extending free early education places to disadvantaged two-year-olds, though also making cuts to funding for Sure Start and staff qualifications. But the Conservative administrations from 2015-2024 presided over a clear shift towards a vision of ECEC services as predominantly about facilitating parental employment. The free entitlement was extended from 15 to 30 hours for three- and four-year-olds of working parents, meaning greater investment in the sector overall, but with a squeeze on provision for less advantaged children and for investments in quality. The expanded entitlement was accompanied by a series of increases in job conditionality for parents in the benefit system, underlining the broad policy goal.

Before being voted out of office in 2024, the Conservatives passed legislation to extend funded provision down to younger children, starting with 30 hours for two-year-olds of working parents in April 2024, with a planned later extension to nine-months olds (to coincide with the end of paid maternity leave). The incoming Labour Government promised to honour the pledge, and indeed children aged 9 months old became eligible for 15 funded hours in September 2024 and for 30 hours in September 2025. However, there is widespread concern that the policy is insufficiently resourced and may put pressure on the viability of many providers.

More generally, Labour is widely accepted to have inherited a long list of spending demands after years of low investment and below-needs increases in funding for key public services including health and education. Successive cuts to social security benefits for working-age families with children led to increases in child poverty, particularly in families with three or more children, even while parental employment rates rose. At the same time, the birth rate has been falling since 2012: there were 605,000 live births in England and Wales in 2022, down from 730,000 a decade earlier (ONS, 2023). Having fewer young children to cater for could in principle free up funds and create the scope for greater investment. But by default the current per-child funding mechanism poses a threat to many providers when demand is falling, especially in a context in which providers are already squeezed.

In line with the other reports in this series, we start by considering the availability of ECEC services and access to them. We look at numbers of places and at take-up rates for children of different ages, paying attention where possible to variations by family income and ethnicity, geography and children's disability. Because of the complex nature of ECEC provision in England, as described above, we also look at trends in the shares of children going to different types of setting. This paves the way for a discussion of the quality of provision in Chapter 3. Chapter 4 considers the costs facing parents and also discusses the design of the ECEC funding system more broadly. The report concludes with a discussion of policy tensions and trade-offs going forward.

Throughout, the report aims to capture developments in England as a whole; but to give a sense of variation we provide some regional breakdowns as well as illustrations where possible for three very different local authorities: Redcar and Cleveland, a relatively deprived local authority in the North East (ranked 23/144 for the share of local areas in the most deprived 10% in the country, with a population that is 98% White and 97% UK-born); Hackney, an economically and ethnically diverse borough in Inner London (ranked 56/144 on deprivation, with a population 36% White, 23% Black/Black British and 11% Asian/Asian British, with 61% UK-born); and Buckinghamshire, ranked 130/144, an authority combining rural areas and relatively prosperous small towns in the South East of England (population 80% White and 82% UK-born).¹

¹ Deprivation rankings are based on the Index of Multiple Deprivation 2019. The rankings given here use the share of Lower Super Output Areas in the local authority that are ranked in the most deprived 10% in the country. Demographic data are from the 2021 Census, as reported by the Office for National Statistics (2022).

2. Availability, access and use of services

In this chapter we consider the availability of ECEC services and look at data on access at different ages, providing information on differences by social group where possible. We also consider variation in the nature of ECEC provision (e.g. the balance between state-maintained and private, voluntary and independent sector provision) and the way this is changing over time.

2.1 Enrolment and attendance rates for children of different ages

We begin by setting out ECEC enrolment rates, starting with older children and working downwards. From the September after they turn four, nearly all children attend reception classes in primary schools for a full school day (generally 9am - 3.30pm). These classes are headed by a qualified teacher.

All children in England are entitled to a free part-time place in early education from the term after they turn three, equivalent to 15 hours/week, 38 weeks/year. This entitlement can be taken up with any registered provider. Overall there is very high, although not fully universal, take-up of these places. Nine in ten three-year-olds enrol, and this figure has barely moved across a decade (though with a drop at the time of the pandemic), while the share of four-year-olds is between 95-98% other than in the pandemic years (see Figure 1).

While coverage is close to universal for this age-group, there are three caveats. First there is continuing variation by geography, income and ethnicity. For example, in our three case-study areas in 2023, take-up among three- and four-year-olds was 97% in Redcar and Cleveland, 96% in Buckinghamshire and 85% in Hackney.² Lower take-up in Hackney is typical of London and is likely to be linked to much greater ethnic diversity. Research has found that children from minority ethnic backgrounds and those with English as an Additional Language (EAL) are less likely to attend funded early education places: one study finds that almost one in five three-year-olds did not take up their place in the term in which they became eligible, and the rate was nearly three times higher among EAL children (39%) compared to children with English as a first language (14%) (Campbell, Gambaro, and Stewart, 2018). There is also significantly lower take-up among some minority ethnic groups: e.g. 51% of Bangladeshi children, 44% of Gypsy/Roma/Traveller children and 37% of Black African children did not access places straight away, compared to 14% of children from White British families. Finally persistent poverty is also associated with lower take-up: 29% of among children from persistently poor households (those who would go on to receive free school meals in the first three years of primary school) did not attend straight away, double the rate for children from never-poor families.

² Unless otherwise stated, data on the case study local authorities comes from the Childcare Sufficiency Reports which authorities are obligated to publish annually. The most recent available reports are used here: Buckinghamshire Council (2023); Redcar and Cleveland Borough Council (2023); and Hackney Council (2023). Where DfE (2024) is cited, we have calculated figures for the three years using Department for Education statistical spreadsheets that are available online.

Second, children take up their places in a very wide range of settings, with different quality requirements, so their experiences may be very different. In practice, children from lower income families are historically more rather than less likely to have access to higher quality provision, as measured by staff qualifications, in large part because of the geographic concentration of school-based nurseries, though this is changing over time, as discussed below. Geographical variation in what is on offer is underlined by our case-study areas: 88% of three-year-olds taking up a funded place in Redcar and Cleveland did so in a school-based nursery (and therefore in a classroom headed by a qualified teacher), compared to 36% in Hackney and 23% in Buckinghamshire (DfE, 2024).

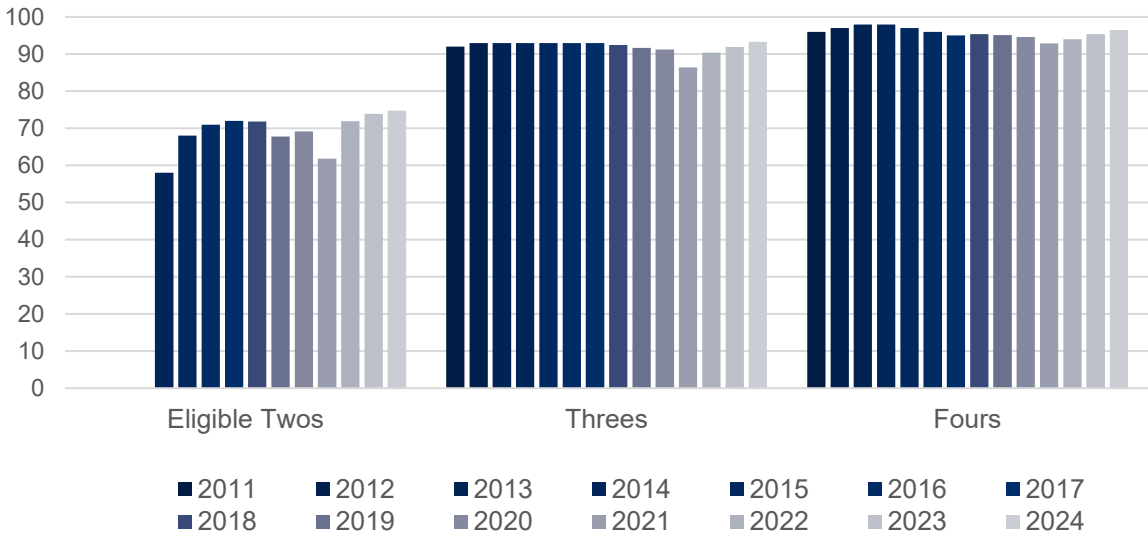
Third, overall take-up rates for three- and four-year-olds mask differences in hours attended. Since 2017, children have been eligible for 30 hours free provision, 38 weeks/year (i.e. double the previous entitlement) if both parents (or a lone parent) earn the equivalent of at least 16 hours per week at minimum wage, but not more than £100,000/year. While concentrating more subsidised provision on working parents makes sense in terms of childcare provision it also risks entrenching inequalities: children of parents who are not working may be among those with the most to gain from high quality ECEC and yet these children are entitled to a shorter day only. Data for 2023 show that 45% of children registered for 15 hours were also registered for the extended day in England overall (DfE, 2024). Rates in Buckinghamshire (43%) and Hackney (41%) were similar, but the share was considerably lower in Redcar and Cleveland (34%), likely reflecting weaker labour market opportunities.

For some relatively disadvantaged groups of children, the extended hours policy may actually have meant a *reduction* in entitlement compared to what they otherwise would have got, as available provision and funding was re-oriented towards working parents. Until 2017, some local authorities prioritised longer days in school-based provision either in a targeted way for children with particular needs, or for all children (e.g. those who had already turned four). This is difficult to document comprehensively, as the provision was funded from local early years budgets and not recorded for national accounting purposes in the same way as the statutory entitlement. From what we know, most of the lost provision was concentrated in London. Analysis by the magazine *Nursery World* identified 12 local authorities with discretionary schemes that were cut back or abolished as a result of funding cuts and/or the 30 hours policy, 10 of them in London. Of our three local authority case studies, only Hackney appears to have had such a scheme, which provided 800 children per year free full-time places based on individual needs (criteria included low income, special educational needs or coming from a large family). In 2017 this was reduced to less than 5% of the previous offer with just 45 places and in 2024 it no longer appears to exist at all. (See Crown, 2018 and Archer and Merrick, 2020, for a full list).

For children aged under three, enrolment rates are lower, and there is also less information. Because data are collected on all children taking up a government funded place (meaning funded through supply side mechanisms), we will soon have better data on children from nine months onwards, as the coverage of funded hours is extended, as explained further below. For now, we do have administrative data on the share of eligible two-year-olds taking up their two-year-old entitlement (Figure 1). Children in this age group have had the right to access a free part-time early education place since 2013, provided they meet certain eligibility criteria. The main one is income-based: children qualify if their families fall into roughly the bottom 40% of the income distribution, assessed through receipt of means-tested benefits. Looked after

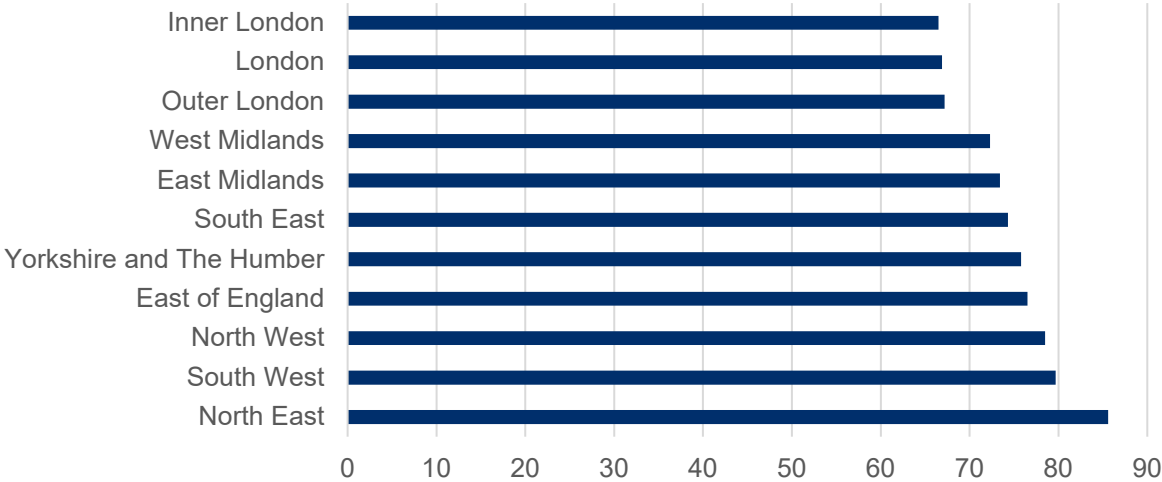
and adopted children and those with recognised disabilities or special educational needs are also eligible. The policy was introduced with the specific aim of reducing the early years attainment gap and increasing school-readiness. There has been a steady increase in the share of eligible children taking up their place, reaching 75% in 2024 (DfE, 2024). There are some substantial differences by area, however: as Figure 2 shows, take-up is relatively low in London at 66%, rising to 85% in the North East. In our case study areas, Hackney reports take-up of 69% for the two-year-old offer in 2023, Buckinghamshire 79% and Redcar and Cleveland 84%. Patterns of take-up are therefore similar to those for three- and four-year-olds but lower across the board.

Figure 1. Take-up of free universal part-time early education for three- and four-year-olds and targeted offer for two-year-olds, 2011-2024



Source: DfE (2024) and previous iterations, from Early Years Census of pupils.
 Note: Two-year-old entitlement is targeted at more disadvantaged 40% of children. It was introduced in September 2014. Data are measured at January of each year (so 2021 is first Covid-affected year).

Figure 2. Two-year-old enrolment (as a share of eligible two-year-olds) by region, January 2024



Source: DfE (2024).

What drives incomplete take-up of these funded entitlements? One factor may be lack of awareness. Farquharson and Olorenshaw (2022) find that 85% of eligible families knew about the two-year-old offer compared to 96% of eligible families who knew about the three- and four-year-old offer. Information gaps could also help explain differences by ethnicity: Albakri et al. (2018) find that only 61% of minority ethnic parents had good knowledge about the free entitlements, compared to 85% of White parents. The researchers note that reliance on informal networks for information can be a barrier for parents who are not well-connected, such as new migrants.

Studies have also identified cultural and religious factors, and concern about the quality of ECEC and the benefits to children, as other determinants of non-take-up. Analysing qualitative interviews with parents not taking entitlements up, Albakri et al. (2018) point to five overlapping explanations, three of which are related to a positive preference for home care: parents saw ECEC places fundamentally as childcare, and therefore not necessary or valuable where a parent was able to be at home; parents wanted to look after children themselves, and felt they could provide better input than was available in ECEC settings; and parents wanted to teach children their own language, culture and religion, and therefore preferred extended family members as carers where needed. A parent of a three-year-old in Outer London, who knew about the entitlement, said “I’m not really ready to put him out into the wide world yet, I just want him to have a better understanding of himself and our culture, and just kind of give him a stronger grounding before he goes out” (p.44).

In addition, issues around trust were important, especially where children were too young to express themselves. There were also questions about quality, with some parents assuming that the childcare places were low quality because they were free. This included concerns about other children. One parent of an eligible two-year-old in Outer London said: “It’s not really the nursery, it’s the children in the nursery. So I don’t want my son picking up the habits of other children in the nursery” (Albakri et al., 2018, p.46).

The social innovation organisation Nesta ran a Randomised Controlled Trial incorporating insights from behavioural science to try to encourage higher take-up (Kelly et al., 2023). They sent different letters to treatment and control groups to test the impact of different kinds of messaging. They found no significant changes in either applications or enrolment, and conclude that small nudges of this kind have little impact, and that the government should consider either auto-enrolment or a move to a simpler universal offer. It is interesting, however, that while the experimental letter included a social norms message (“Join thousands of parents like you who have already taken up this offer...”) and a plan for implementation intention (“Think about when you’ll have ten minutes in the next day or so to apply...”), it did not say anything about the value of enrolment for children’s development, and (like the control letter) called the policy “15 hours of funded childcare”. In contrast, the control letter, based on best practice among existing local authority communications, did include some text on what children would gain: “Childcare is a great way for children to learn, play and have fun with children their age.” Those receiving the control letter were actually more likely to apply, though the differences are barely significant. In light of the findings from Albakri et al.’s study, it is not surprising that the messaging made little difference, and possible that the parents targeted might have responded more positively to a message focused on benefits for children. Workshops carried out with parents of enrolled children as part of the same Nesta study found that parents largely saw the value as letting children play with others and take part in activities they couldn’t do at home like messy play, but did not see it as important for learning (Kelly et al., 2023).

It is interesting in this context to note that settings with an ‘Outstanding’ Ofsted rating had significantly higher attendance rates than other settings, with some evidence from qualitative data that this reflects stronger relationships built between practitioners and parents. Attendance among enrolled children is an overlooked but important factor in children’s exposure to ECEC: registered two-year-olds funded by the targeted offer attended on average 79% of their scheduled hours, significantly lower than higher income children (Kelly et al. 2023).

The free entitlements are available to all children who qualify on grounds of age or (for two-year-olds) income or special needs, including refugee and asylum seeker children. However there is no data on how many of these children are in practice accessing their free place, and no specific mention of refugee and asylum seeker children in the Childcare Sufficiency Assessments for any of our three case-study authorities.

For information on enrolment beyond the free entitlements, including for children below two, we are reliant on survey data - in particular the Childcare and Early Years Survey of Parents. Farquharson and Olorenshaw (2022) show that in 2019, 36% of children aged one, 57% of twos and 85% of three- and four-year-olds were reported by their parents as using some formal childcare (note that for three- and four-year-olds some parents may not have interpreted the question as including the free entitlement, while others are likely to have done so). Pollard et al. (2023) examine the number of hours attended by those who do attend, breaking down by family income. As shown in Table 1, children of higher income parents are accessing longer hours, as would be expected.

Table 1. Median hours per day and per week accessed by families of different income levels who are using ECEC provision for a 0-4 year old

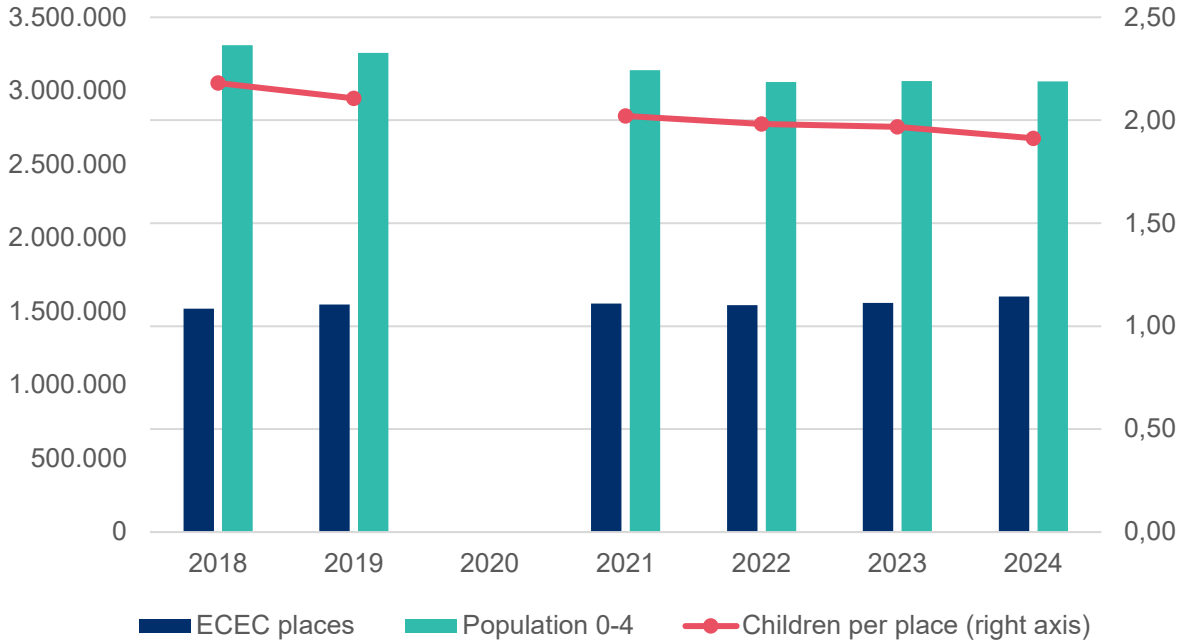
Family annual income					
	Up to £9,999	£10,000 - £19,999	£20,000 - £29,999	£30,000 - £44,999	£45,000+
Median hours per day	5.0	5.0	6.0	6.5	8.0
Median hours per week	15.0	15.3	18.0	23.1	30.0

Source: Pollard (2023) Table 1, using Childcare and Early Years Survey of Parents 2022.

2.2 Supply-side factors

What do we know about how far attendance is restricted by available supply? Figure 3 shows recent trends in the population aged 0-4 (from ONS) and government estimates of total ECEC places (based on the annual Childcare and Early Years Providers Survey). The total number of places has remained fairly steady at just over 1.5 million, while the population has fallen slightly. The population decline has meant that we see a steady reduction in the number of young children for each available place, although this ratio remains close to two.

Figure 3. ECEC places and population aged 0-4 in England 2018-2023



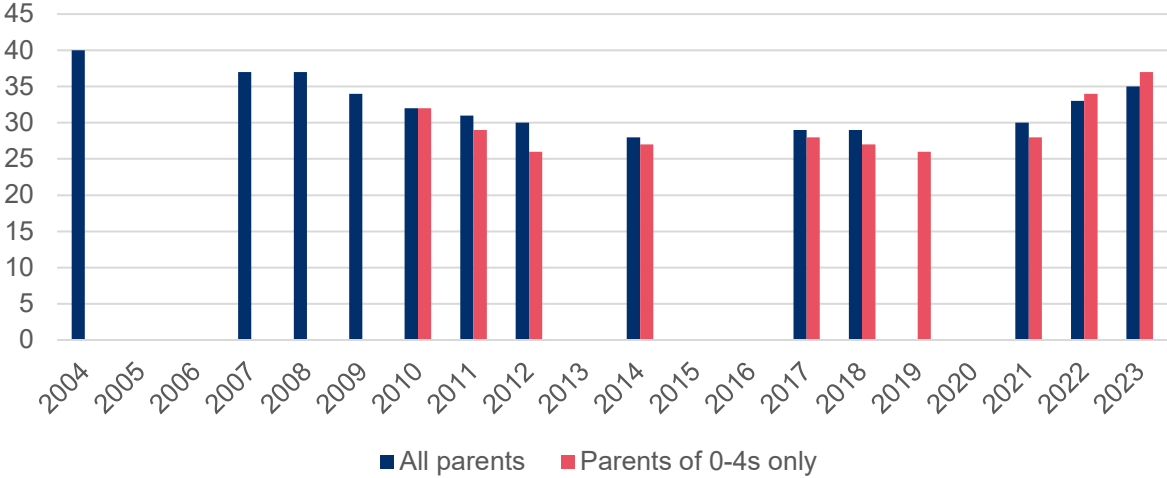
Source: Population data from Office for National Statistics population estimates. ECEC data from DfE (2024b) Childcare and Early Years Providers Survey.
 Note: No data were collected in 2020.

However, the market for ECEC in practice is highly localised, so the total number of places available in the country may be of little relevance. It is a local authority responsibility to provide early childhood services for parents, prospective parents and children, including ensuring there are sufficient places to meet the free entitlements. Local authorities also have a responsibility to identify families who would benefit from available services and encourage them to take them up. But the Local Government Association points to frustrations with limited powers - in particular the inability to provide financial support to new providers to set up in areas of disadvantage, alongside the inability to stop large chains setting up in areas where there is already sufficient local provision (LGA, 2023). Further, cuts in local authority funding since 2012, and reductions in the share of early years budgets that they can retain (discussed in Chapter 4), have meant cuts in staff in local early years teams, meaning less ability to provide support (ibid).

It is a statutory responsibility for local authorities to publish an annual Childcare Sufficiency Assessment reporting on the local situation. These assessments are one of the sources we draw on for our three case-study local authorities. All three published a report in 2023, though they vary considerably in the level of useful information they provide, and we identified other local authorities that have not published one since 2021; this variation is likely to be a reflection both of shrinking local budgets and of differences in the strength of early years teams in local authorities across the country.

Figure 4 shows the share of parents in England responding to the Department for Education's Childcare and Early Years Survey of Parents who, when asked about the availability of local childcare places, say there is 'not enough' provision. A longer series is shown for all parents 0-14 as well as the figures for parents of children aged 0-4 back to 2010. Unfortunately, further breakdowns (e.g. by income or ethnicity) are not published. We see an improvement in the early part of the figure, but quite notable increases in the share reporting not enough availability in recent years. This may possibly be linked to the entitlement to more funded hours from 2017; more parents may now be looking for formal childcare places and not able to find them. By 2023 well over one third of parents say there is not enough availability. Separate analysis by Pollard et al. (2023), looking at the Early Years Register, supports the conclusion that availability is a concern in many areas: they suggest that 44% of children in England in 2023 lived in local authorities that the report defines as 'ECEC deserts' - meaning there are more than three children of this age for every registered place. The half of local authorities that meet this definition are much more likely to be those that have higher levels of deprivation.

Figure 4. Parents reporting that there is ‘not enough’ local childcare availability



Source: DfE (2024a). Childcare and Early Years Survey of Parents. 2023 download.
 Note: 1. 2010 data corresponds to 2010-11, 2011 data corresponds to 2011-12, 2012 data corresponds to 2012-13, 2014 data corresponds to 2014-15. No available data for missing years as no survey collected

A further useful source of data is Coram Family and Childcare’s survey of local authorities, in which authorities are asked to report whether they have sufficient childcare provision. Table 2 shows the share of local authorities responding ‘yes, in all areas’. Data are shown for 2023 and 2024. Significant levels of insufficiency are apparent in relation to all the groups shown, but there are particularly striking inadequacies in relation to disabled children, where only 6% of authorities surveyed in 2024 have enough provision, and parents working atypical hours. Only one third of local authorities say they have enough provision for all parents working full-time. Further, we observe very sharp falls in sufficiency between 2023 and 2024.

Table 2. Share of local authorities in England saying they have sufficient childcare in all parts of the local authority for different groups

	2023	2024
Children under two	50%	35%
Two-year-old free entitlement	62%	45%
Threes and fours entitlement	73%	62%
Disabled children	18%	6%
Parents working full-time	48%	34%
Parents working atypical hours	15%	9%
Families living in rural areas	30%	16%

Source: Hodges, Shorto and Goddard (2024) using the Coram Family and Childcare Childcare Survey 2024.

Note: London is excluded from figures for rural areas.

We examined the latest Childcare Sufficiency Assessments (2023) for our three case-study local authorities, with an eye on what they tell us about the adequacy of provision. All three review the number of places and providers, take-up, quality and costs, but there is inconsistency in the approach taken to reaching conclusions about sufficiency. Both Hackney and Redcar and Cleveland include information on occupancy rates, though this could overlook the needs of specific groups. Both these authorities maintain that there is sufficient childcare in the local authority and no obvious gaps. Hackney presents data showing no more than 75% occupancy across the borough in any age group, with analysis also showing vacancies at ward (small local area) level. For Redcar and Cleveland, the report says that “Overall the picture for childcare sufficiency in Redcar and Cleveland is healthy. There are sufficient places and the quality is good” (p.3). An occupancy audit demonstrated sufficient childcare places across the Borough although there has been a decrease in the number of spare childcare places compared to 2022. Redcar and Cleveland appears to be the only one of the three boroughs to have surveyed parents as part of its analysis, finding that 87% of parents in Redcar and 92% in East Cleveland said childcare was available in the areas where they needed it (cost was a bigger issue, with 67% and 70% saying childcare was not affordable). However in the Greater Eston area of the borough there appeared to be more gaps, with only 70% saying places were available in the right area. The qualitative responses to the survey point to cost, lack of flexibility for those working early or late shifts, and less availability for children with special needs. The report notes that while the Early Years team has to date always been able to identify a childcare option for a child with designated Special Educational Needs or Disabilities (SEND), they have sometimes found it challenging to find a suitable placement, and in 2023 four 3-4 year olds with more complex needs were placed in a neighbouring local authority due to lack of spaces in the borough.

Buckinghamshire provides the most limited information with no mention of occupancy and no clear statement on sufficiency. They say they monitor vacancies but do not provide further information. The only data from provider reports relates to changes in pressure on places between Jan 2022 and Jan 2023: overall, there has been an increase in demand for places for children under two and for SEND provision, and lower demand for children aged 3 plus. In relation to SEND, the report says simply that “Buckinghamshire settings offer inclusive provision and providers’ admission policies, alongside local offer statements, evidence their desire to meet all children’s needs including those with SEND” (p.9). A possible conclusion is that, unlike the other two boroughs, Buckinghamshire has insufficient provision to meet demand, and hence is reporting more opaquely – though it is also possible that it is simply less effective in including all relevant information in the report. It is also clear from Redcar and Cleveland’s parent survey that an overall assessment of adequacy can sit alongside pockets in which insufficient places are available.

2.3 Expansion of the 30 hours policy: likely implications

In 2023, the Conservative government announced a substantial extension of the 30 funded hours policy, with the ultimate goal that all children from the age of 9 months would be able to access 30 hours/week of free childcare if their parents were in work (using the same criteria as the existing policy for working parents of three- and four-year-olds). From April 2024 the policy covered 15 hours for two-year-olds, and from September 2024 15 hours for children from 9 months upwards. This should improve affordability (discussed further below) but may also further entrench inequalities. Analysis by Pollard et al. (2023, Figure 1) shows that less than 20% of those in the bottom third of the income distribution qualify, including just 2% in the bottom decile, compared to nearly 80% of families in the ninth richest income decile. (In the top decile only 50% of the top decile are eligible, reflecting the earnings cut-off of £100,000.)

As discussed further below, the expansion will double spending on funded entitlements, from around £4 billion to £8 billion in 2023/24 prices. Yet on Pollard et al.’s estimate most of the bottom third of the income distribution will receive no benefit from this spending.

A further concern about the approach is that the funded hours may actually put supply at risk, even while stimulating further demand. One of the reasons is inadequate funding per hour, discussed further below. Particularly in light of this funding deficiency, it is not clear where new places will come from. A survey of local authorities by Coram Family and Childcare showed substantial variation in how confident local authorities feel to meet the new requirements (Hodges, Shorto and Goddard, 2024). Around two-thirds (63%) of authorities felt confident that they would have enough places for the April 2024 policy providing 15 hours for two-year-olds but only 28% felt they would be able to extend to 15 hours for children from 9 months in September 2024. The biggest barrier to successful delivery of the expansion, identified by 87%, was the local childcare workforce. Adequate provision for children with special educational needs and disabilities was also identified as a major concern by 63% of authorities.

All three of our case study boroughs refer to the extension of the funded hours in their childcare sufficiency reports, but limited attention is paid to what this will mean. Buckinghamshire and Redcar and Cleveland list the new requirements but say little more, though Buckinghamshire makes it a priority to assess parental demands for childcare places in light of the new policy.

Hackney presents a detailed local assessment of predicted shortfalls in provision, concluding that these are concentrated in three of 22 wards, with only 1% increase in places overall needed to meet the increased demand. They point to substantial uncertainty over how demand will respond in practice to the new entitlements, but say they are confident that they can meet the expected increase. Possibly, all our case study authorities are among those who told Coram Family and Childcare that they feel confident about meeting the extended entitlements. But it is also plausible that responses are different in an anonymised survey than they are in a Childcare Sufficiency Assessment published on the local authority website as part of local accountability mechanisms.

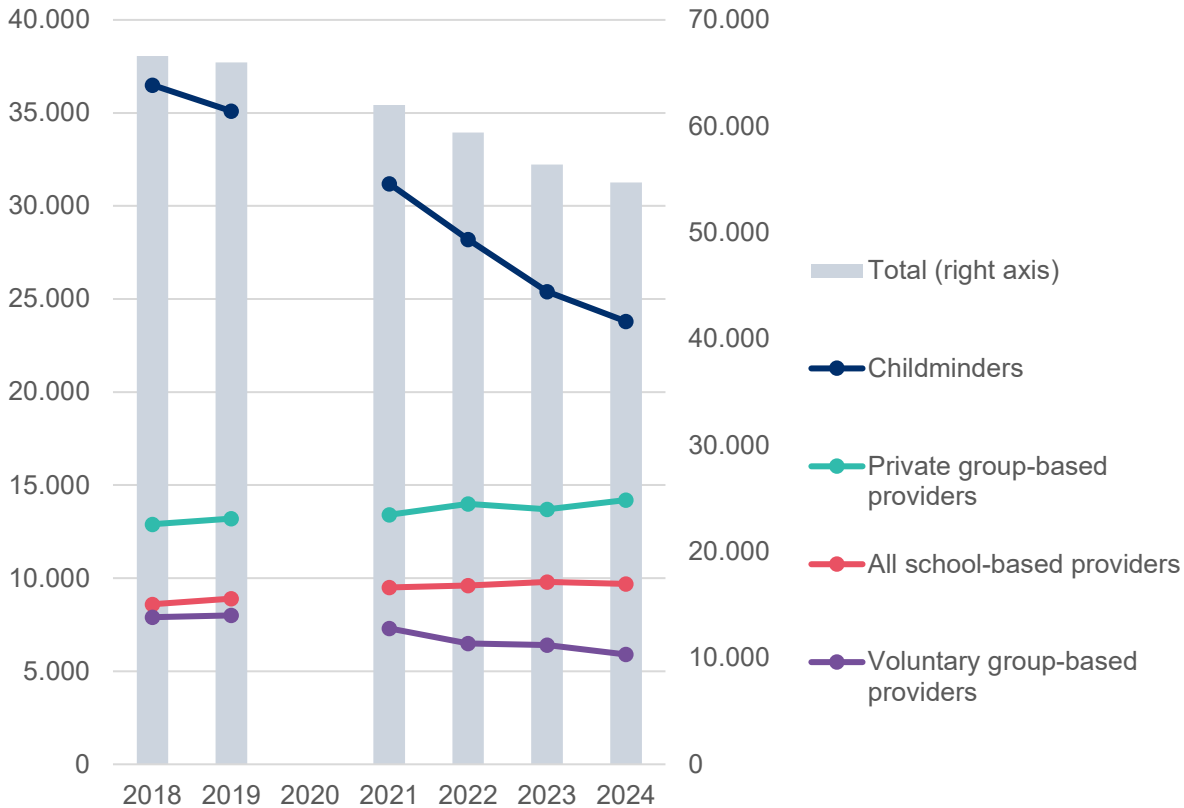
2.4 Variation in the nature of provision: patterns of enrolment by family background

So far we have discussed total take-up, enrolment and number of places. But, as noted in the introduction, there are substantial differences across types of provision, so it is important also to consider *where* children take-up their place and how this is changing.

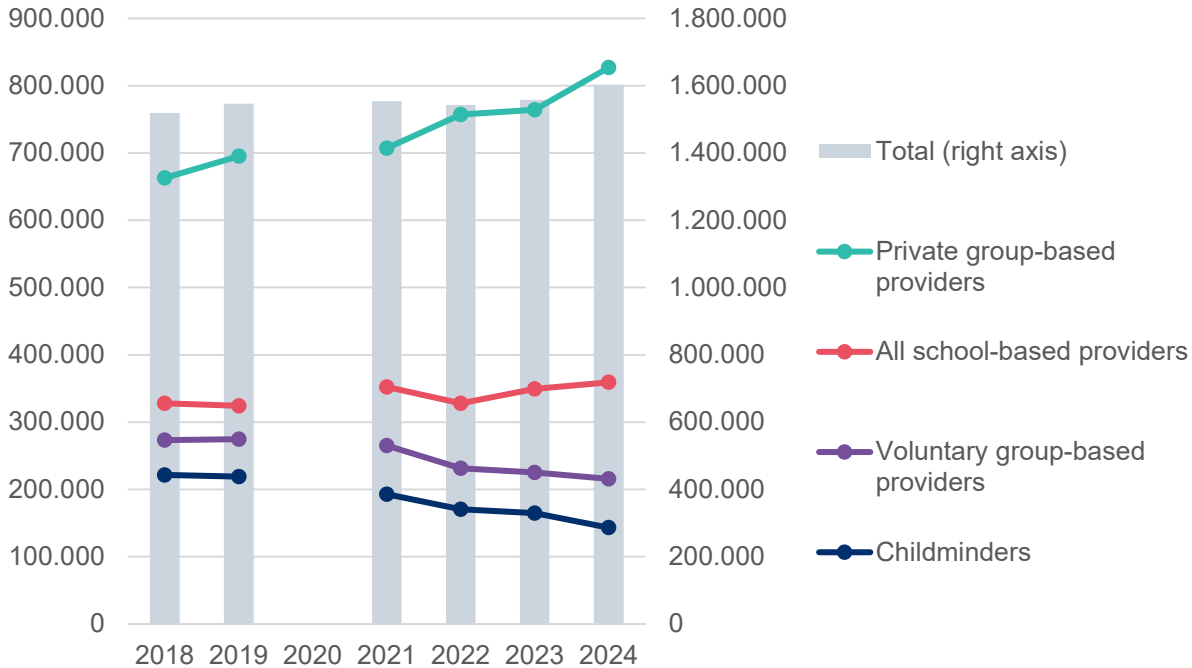
Figure 5 presents evidence on change over time in the total number of providers and places over the last five years, as estimated by the Department of Education using the annual Childcare and Early Years Providers Survey. School-based providers include state nursery schools and nursery classes attached to state primary schools, in contrast to places in private, voluntary sector and independent providers. The total number of early years *providers* has fallen over a five-year period, driven by a decline in childminders and voluntary sector providers, while the number of private and school-based providers has risen slightly. As discussed above, however, we know that the number of *places* has increased, and the second panel of the figure shows that this has been driven primarily by the private sector. The logical conclusion is that we are seeing an increased prevalence in larger private providers, consistent with evidence that big companies are becoming increasingly dominant players in England's childcare market. In 2018, 44% of all childcare places were in private group-based providers, and by 2023 the share had reached 49%. This is the continuation of a longer run trend which is steadily reshaping the nature of the ECEC landscape in England: the private sector provided just 30% of funded three-year-old places in 2009, rising to 40% over the subsequent decade (Stewart, Gambaro, and Reader, 2025). A report for the Local Government Association found that within the private sector there are fewer single-site nurseries, with many consolidated into larger private nurseries and chains (Reed and Parish, 2024). Over one third of private group-based providers were found to be part of a chain, with the largest 25 chains (including some not-for-profit companies but also a significant share backed by private equity) collectively accounting for around 9% of Ofsted registered early years places – so still a minority, but a non-negligible one.

Figure 5. ECEC providers and places in England

Panel a: Providers



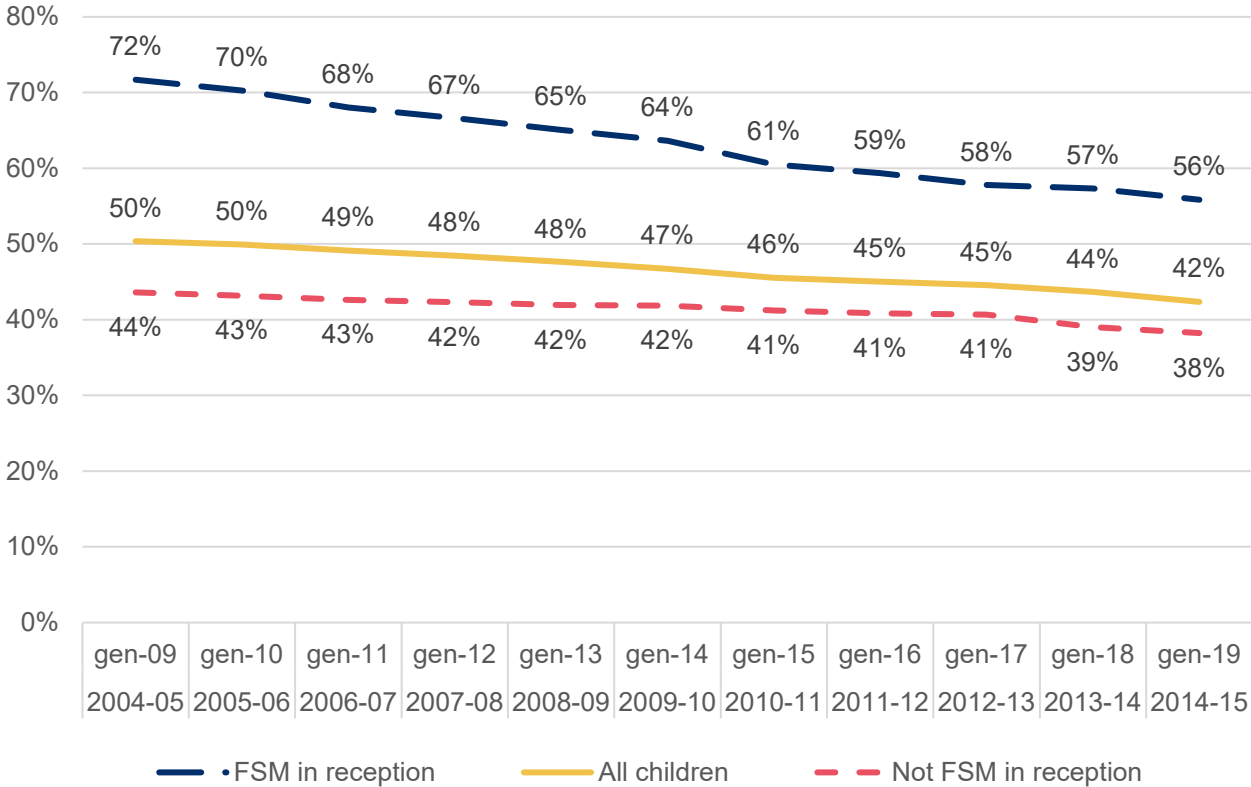
Panel b: Places



Source: DfE (2024b) Childcare and Early Years Providers Survey.
 Note: No data were collected in 2020.

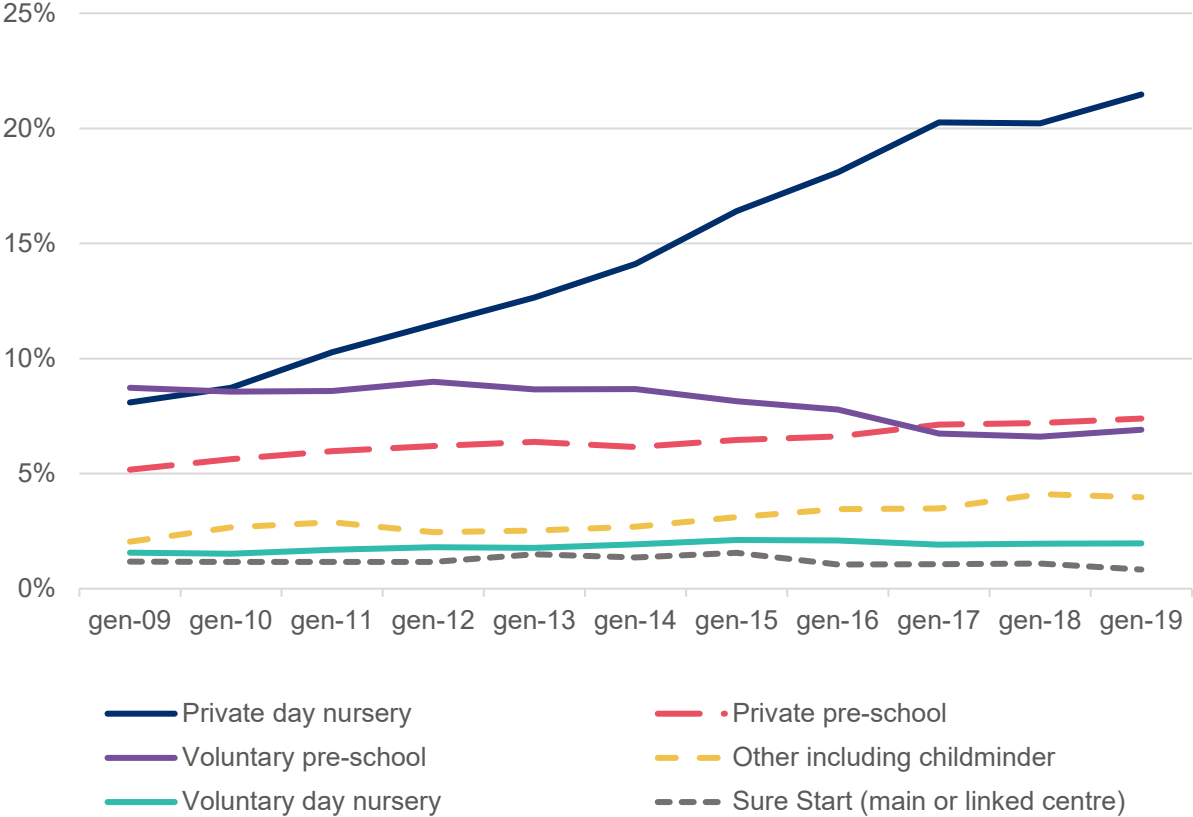
Focusing just on three- and four-year-olds in their pre-reception class year, Figures 6 and 7 allow us to see how this changing landscape is affecting lower-income children in particular (Stewart, Gambaro, and Reader, 2025). Figure 6 shows the share of children taking up their early education place in the state-maintained sector (i.e. in a nursery class in primary school or a nursery school). The requirement to have a qualified teacher heading the class means these places are generally considered better quality. As shown here, children from lower income households – those who will go on to be eligible for free school meals in reception class – have historically been much more likely to attend these settings, largely because they tend to be located in inner city areas. But this is changing. We see not only the decline in the share of all children who go to the maintained sector, but also a sharper decline for lower income children. These children are instead becoming increasingly likely to attend a private sector day nursery for their free entitlement, as shown in Figure 7.

Figure 6. Share of children accessing a funded early education place who take up their pre-reception place in the maintained sector



Source: Stewart, Gambaro and Reader (2025) using the National Pupil Database.
 Note: Horizontal axis shows census time point (January of the given year) and the birth cohort of children captured at that point. Children observed in their pre-reception year in January 2019 were born between September 2014 and August 2015. With some exceptions, they entered reception as ‘rising fives’ in September 2019.

Figure 7. Share of children attending different PVI settings in their pre-reception year (FSM registered children only)



Source: Stewart, Gambaro and Reader (2025) using the National Pupil Database.

Examining the change over this decade for our three case study authorities reminds us that what is available depends on geography. Between 2009 and 2019, the share of three-year-olds attending early education in the state-maintained sector fell from 67% to 53% in Hackney, remained fairly steady at 98% and 96% in Redcar and Cleveland, while rising in Buckinghamshire from 29% to 35%. (These numbers come from our own analysis of the National Pupil Database and may not be fully aligned with those published by the DfE for 2023 – 36%, 88% and 23% respectively – due to possible differences in methodology, but they should be internally consistent.)

A variety of factors appear to be driving these changes, including reforms to funding which have made maintained provision less viable in many areas (while more wealthy areas, like Buckinghamshire, have been able to expand provision), and shifts in the geography of poverty which mean that more poverty is concentrated outside of the inner city areas that have historically had a strong state-maintained sector (Stewart, Gambaro and Reader, 2025). Some responsibility can also be placed at the feet of the targeted two-year-old places, as the vast majority of these places were provided in the private and voluntary sector. Children who took up these places at age two turn out to be very likely to remain in the same setting, as might be expected; this in turn means they were less likely to attend a maintained sector at age three (ibid). The consequences of this shift is discussed further in the chapter on quality.

2.5 Summary

Funded entitlements to early education ensure relatively high rates of enrolment for children in the year before they enter reception class at aged four, though there are still some groups, particularly children from some ethnic minorities and those from persistently poor households, who are not benefiting from their full entitlement. Further, the longer hours available to children of working parents (30 hours rather than 15 per week) builds in an inequality which may deepen gaps at school starting age. A targeted free part-time offer for more disadvantaged two-year-olds reaches around two-thirds of intended beneficiaries.

Information on enrolment in formal childcare among younger children is much less complete, but evidence points to much lower rates, to wide inequalities in enrolment by income level, and to particular gaps for children with disabilities or special educational needs and for parents who work atypical hours or live in rural areas. The extension of funded childcare entitlements to children from aged nine months up is likely to transform the landscape in the next few years and to lead to significant increases in the use of formal childcare by under threes. But in the short-run the policy may run up against a shortage of places, and in the long-run it may further reinforce inequality as the policy only covers children with working parents. A further development of significance is the rapid rise in the share of ECEC places offered by private sector nurseries, and a corresponding decline in the share of children attending state-maintained nurseries, particularly among lower-income children. This is of concern given the much higher qualification requirements on staff in the state-maintained sector.

3. Quality

The quality of ECEC in England is enforced through three main mechanisms: structural requirements in relation to ratios, qualifications and space; a required curriculum; and regular inspection by the Office for Standards in Children's Services, Education and Skills (Ofsted). Some of these requirements differ by type of provider. In this chapter we discuss each mechanism in turn, also considering wider aspects of staffing as well as qualifications. We go on to discuss indicators and monitoring of children's outcomes.

3.1 Structural requirements: ratios

Until 2023, group-based providers of all types were required to have one adult for every three children aged under two, and one for four two-year-olds. In September 2023, ratios were increased for two-year-olds from 1:4 to 1:5. The government argued that this measure would reduce costs for families, pointing to a potential reduction of 15% (£40/week on a childcare place for a two-year-old) if providers adopted the changes and passed the cost onto parents.³ Relevant wider context is the introduction of 15 hours per week of funded childcare for working parents from April 2023, which created both increased demand for two-year-old places and a direct interest from government in providing them at lower cost. The change in ratios met strong resistance from practitioners and parents, but the government pointed to international examples, and also to Scotland which already had a 1:5 ratio for twos (Foley, 2023). Childcare campaigners countered that countries have different ways of counting adults (for example, some countries do not include auxiliary staff, who help with physical tasks like changing nappies, in the ratios) and that other systems including Scotland's have higher qualification requirements, which may balance out higher ratios. In Scotland lead practitioners must be qualified to degree level while all staff must have the equivalent of a level 2 qualification – both are tougher requirements than in England, as explained below. There is limited empirical evidence yet on the impact of the two-year-old ratio change, but in the context of no upgrading of practitioner qualifications, it must be seen as a dilution of quality in order to reduce the cost of provision.

At age three ratios become more relaxed: 1:8 or 1:13 depending on staff qualifications (see below). Where ratios for under-threes are relatively tight by international standards, the ratios for older children appear to be fairly average (Farquharson and Olorenson, 2023). Meanwhile childminders can look after up to six children under eight, of which only one can be a baby (under one year) and three in total can be under five, unless they are the childminder's own children or siblings of those already looked after, in which case (as of 2023) the restrictions on the number of young children is lifted.

Ratios appear to be generally binding in practice, with most settings operating at the maximum. Farquharson and Olorenson (2023) find that in 2022 11% of group-based providers in practice were operating below the statutory requirement for under two-year-olds (i.e. they had fewer

³ https://www.gov.uk/government/news/drive-to-reduce-the-cost-of-childcare-for-parents?utm_medium=email&utm_campaign=govuk-notifications-topic&utm_source=306c0628-b747-476e-9569-98daee56ad9a&utm_content=daily

children than would be allowed), 22% for two-year-olds and 39% for 3s/4s. Meanwhile around 5% of settings were operating at illegal levels for under-twos.

3.2 Structural requirements: qualifications and wages

Qualifications differ by sector. The manager of every registered group provider in private, voluntary and independent (PVI) settings must have at least a level 3 vocational qualification, while half the staff must have at least a level 2 vocational qualification. There is no minimum requirement for any individual staff member, nor for the staff in any individual room. In contrast, state-maintained nurseries (both nursery classes and standalone nursery schools) must have a graduate with qualified teacher status (QTS) in each classroom, though staff:child ratios are higher – 1:13 for three- and four-year-olds, rather than 1:8 in PVI settings. A typical maintained nursery class of 26 children might have one QTS and one level 3 nursery nurse. Thus children attending a state nursery class will experience larger group sizes but in classrooms led by significantly more highly educated staff. In addition, pay in the maintained sector is more tightly regulated, so wages tend to be higher than in the private sector, where the only binding constraint is minimum wage legislation.

There have been only very limited changes to these qualification requirements over the last two decades. The Labour Government introduced a new graduate qualification, the Early Years Professional (EYP), in 2007, with the aim of eventually getting graduate staff into all PVI settings. They also required Sure Start Children's Centres in disadvantaged areas to offer graduate-led childcare, and created a dedicated funding pot – the Graduate Leader Fund – to support settings with the cost of training and employing graduate staff. This resulted in an increase in graduate numbers in PVI settings, especially in disadvantaged areas (Stewart, 2013). However, EYPs were never given Qualified Teacher Status (QTS), meaning status, pay and conditions remained below that of primary school teaching staff, and the policy has therefore been criticised as a missed opportunity to establish an early years route to QTS (Bonetti, 2020). Analysis of the impact of EYPs on children's outcomes has found only small and short-lived impact, reinforcing a sense that the policy fell short of creating transformational change (Blanden, Hansen, and McNally, 2017).

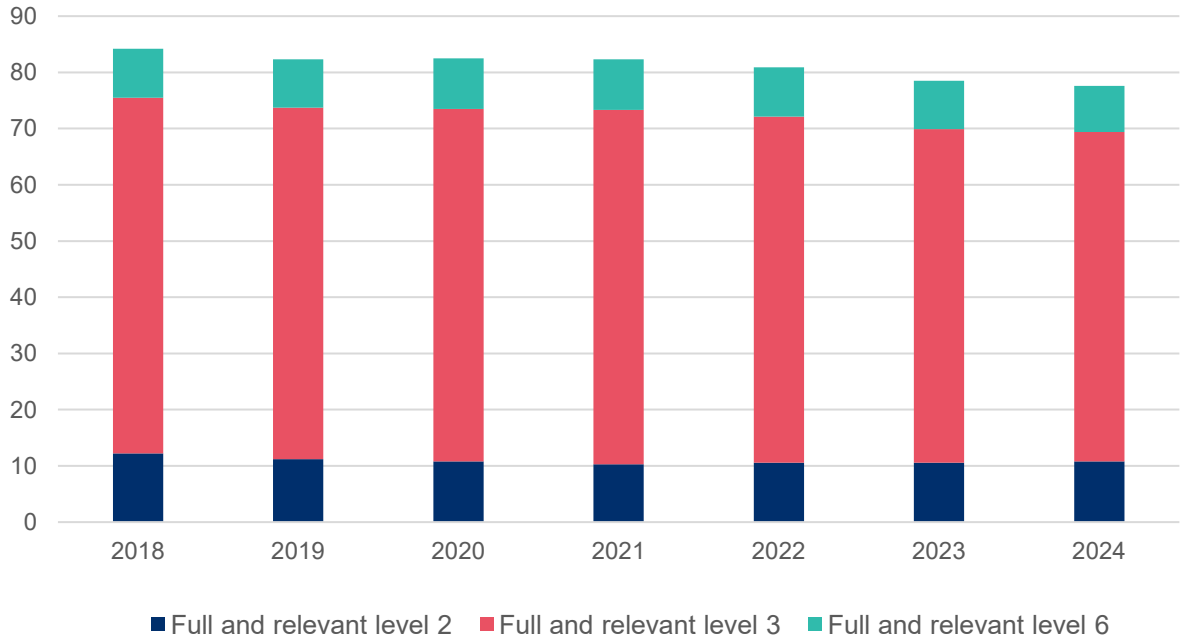
After the change in government in 2010, there was a shift away from a concern with qualifications. EYPs were renamed Early Years Teachers (EYT) but without being granted QTS. The duty on Sure Start Children's Centres was lifted and the Graduate Leader Fund abolished. Some local authorities continued with their own similar funding policy for some years, but the squeeze on local authority budgets meant these were all ultimately cut.

Meanwhile there has also been very little attention to the quality of vocational qualifications, and to requirements for non-graduate staff. In 2012 a government-commissioned review of the workforce underlined the need to address vocational qualifications as well as graduate staff (Nutbrown, 2012), but the findings were effectively ignored. The most significant attempt at change was the 2014 requirement of a pass in Maths and English GCSEs for candidates to begin training for a level 3 early years qualification. As childcare remains a popular career option in England for young women who have not done well in school ('hair or care', as it is

sometimes summarised), this was followed by a sharp decline in applicants for level 3 training and the requirement was removed in 2017 (Stewart and Reader, 2020).

Figure 8 shows the share of staff in private, voluntary and independent settings qualified to level 2, level 3 and level 6. It is clear, first, that level 3 is the modal qualification, with only around one in ten staff holding a level 6 (graduate) qualification. Further, there have been small declines over time in the share of staff holding each of these qualifications, so that the share holding no relevant qualifications at all has increased across this six-year period from 16% to 22%.

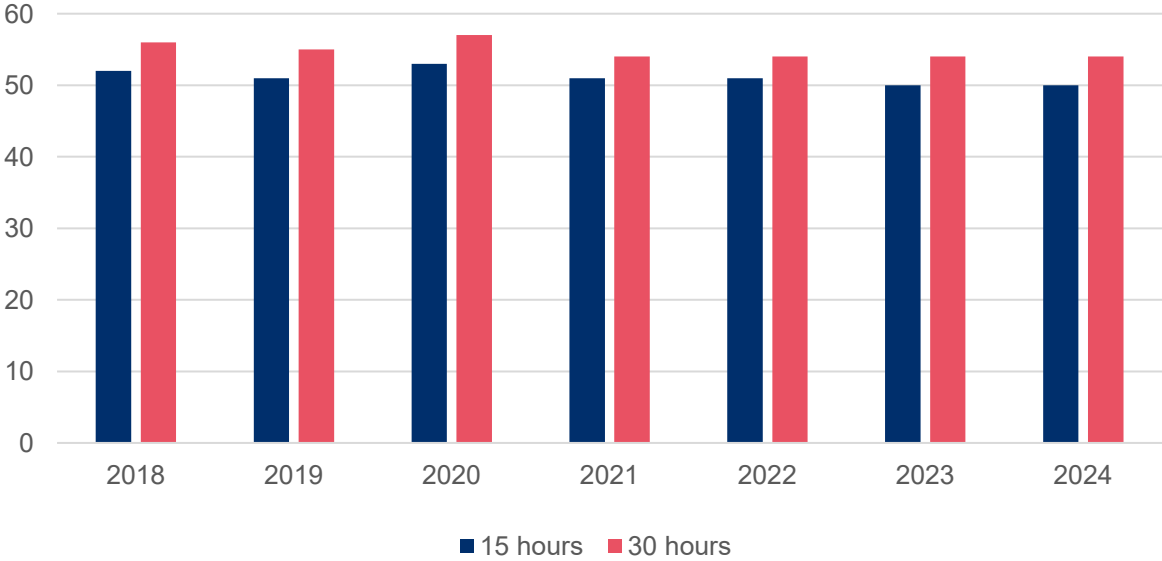
Figure 8. Percentage of staff holding particular qualifications in PVI settings in England



Source: DfE (2024)

Figure 9 presents the data from the child’s perspective: it shows the share of children accessing funded hours in a setting where there is at least one accredited graduate staff member (though we do not know whether the staff member works directly with the children or not). This figure also shows a small decline over time, such that in 2024 close to half of children take up their funded entitlement – meant in theory to provide early education – in a setting where no graduate is employed. Further, we can see that the chances of attending a setting with a graduate is higher for children taking up 30 hours (i.e. children of working parents) than for children taking up 15 hours only.

Figure 9. Share of children registered at providers with at least one accredited graduate staff member



Source: DfE (2024)

Where they are located in the PVI sectors, these graduates are almost certainly Early Years Teachers rather than staff with qualified teacher status, with the increased pay, status and conditions this brings. This is why the data we presented in Figure 6 above is troubling: falling shares of children (and lower income children in particular) accessing state-maintained nursery classes means falling shares of children in classrooms headed by a qualified teacher.

Analysis of the wages of early years workers underlines these concerns. Using the Childcare and Early Years Providers Survey for 2021, Haux et al. (2023) find that median hourly pay in school-based providers (i.e. maintained sector settings) was £12.67, compared to £9.46 in voluntary sector providers and £9.29 in private providers. Nearly one quarter (24%) of workers in the private and voluntary sector are paid at or below minimum wage, compared to 11% in school-based providers. Being paid at or below minimum wage was more common for workers at single site providers (26%) but also true of one in five workers (20%) at nursery chains. The 2023 survey shows that 15% of voluntary sector staff and 10% of private sector staff are paid below minimum wage, along with 5% of workers in the maintained sector (DfE 2024b).

Turnover is also much higher in PVI settings than in the maintained sector. In 2021, Haux et al. (2023) show that more than two-thirds (69%) of private providers and more than half (55%) of voluntary providers had had a staff member leave in the last year, compared to 26% of maintained settings. Average turnover (the share of staff leaving during the last year) was 17% in the private sector, 12% in the voluntary sector and 6% in the maintained sector. In qualitative interviews, managers of PVI settings noted that incoming staff were often not prepared for the reality of the job. As one manager put it, “They were just pinpointed towards childcare but it’s not what they wanted to do. They thought that it was all about playing with toys and glitter” (cited in Haux et al., 2023, p.56). Low pay was also underlined as a key factor: “They can do the same in the supermarket and get more per hour” (ibid). Analysis of the Labour Force Survey has indeed found that retail workers and childcare workers have very similar levels of

pay, with one in four workers leaving childcare citing pay as the cause, compared to one in six retail sector workers (Akhil, 2019). A lack of flexibility and poor work-life balance also emerged as issues in the interviews with childcare centre managers. In contrast, school-based managers believed that relatively low staff turnover was linked to good working conditions, including pay and holidays, opportunities for career development and progression, and links with the wider school that meant staff felt supported in their role (Haux et al., 2023). It is notable that, at the median, private sector workers are working 40 hours per week compared to 32.5 in the maintained sector (ibid).

Across all setting types, recruitment appears to have become more difficult than it was before the Covid-19 pandemic. Carrying out their own online surveys of early years staff in the summer of 2023, the Early Education and Childcare Coalition referred to a “recruitment crisis”, with respondents in all sectors saying the difficulties of recruiting staff had roughly doubled since before Covid (Hardy et al., 2023). According to the survey results, the number of level 3 vacancies in the sector increased from an average per setting of 1.9 to 2.2 between 2022 and 2023 with an average length of 10 weeks to fill a vacancy. These problems appear much worse for PVI providers. In the 2023 Childcare and Early Years Providers Survey, 49% of PVI settings and 25% of schools had a current vacancy, while 34% of PVI settings reported receiving no applications per vacancy, with a further 32% receiving only one or two applications (Adams et al. 2023). These numbers were much lower – 7% and 28% – for school-based providers.

3.3 Structural requirements: space

Minimum space requirements govern ECEC provision in England: useable indoor space (excluding storage, cloakrooms, kitchens etc) must offer at least 3.5m² square meters for each child under two, 2.5m² for each two-year-old and 2.3m² for children aged three to five years old. There must also be access to some outdoor space, or if that is not possible, outdoor activities must be planned and taken on a daily basis. Non-statutory guidance for outdoor spaces recommends at least 5m² per child, including at least 1m² of hard play surface and 2m² of soft play surface (e.g. grass or woodchips). There should be a separate baby room for children under two (except in the case of childminders) but very young children should also have contact with the older children. The nursery space must be “safe and suitable” and have enough toilet and handwashing facilities (Ofsted, 2022). There is no requirement that ECEC premises are purpose-built and many are located in converted buildings formerly used for other services or even as domestic premises.

In light of the declining birth rate, which means school rolls are set to fall over the next decade, guidance was issued in 2024 encouraging schools to consider setting up a school-based nursery: “Opening or expanding school-based nursery provision can be an effective use of surplus space in school buildings or on a school site, where this space is not needed in the immediate future for other provision” (DfE, 2024d). In addition to setting out statutory requirements, the guidance document suggests additional considerations based on best practice. It is recommended that the nursery is located at ground-floor level, with direct access to an enclosed play area and near other school learning opportunities (e.g. a horticulture area). It should also be close to the reception class area if possible, with good visibility and clear sightlines to enable staff to observe activity indoors and outdoors. It should have a safe and welcoming arrival route and reception area. The main indoors area should have a range of layout options, including for example a reading corner, a cosy area, a role play or dressing up

area, a creative area, sand and water play, a construction area and a music area. Outdoors, recommendations include play areas that provide natural materials; access to wildlife and interaction with nature, such as a wormery or raised kitchen garden; playground equipment; a space for bicycles and scooters; and features to encourage imaginative play such as a mud kitchen, mini-amphitheatre or sandpit. To some extent, these non-statutory guidelines provide an illustration of the wide differences that exist in children's experiences of ECEC, where a basement nursery space on a busy road with a small, paved backyard can meet minimum requirements.

3.4 The Early Years Foundation Stage Curriculum

All settings catering for 0-5 year olds, including childminders, are bound by the Early Years Foundation Stage Curriculum (EYFS), which is a distinct curriculum for young children extending into the first year of primary school (reception class). Initially introduced in 2007, the EYFS specifies learning and developmental objectives across seven areas: communication and language; personal, social and emotional development; physical development; literacy; mathematics; understanding the world; and expressive arts and design. Despite early concerns about "schoolification", once rolled out the EYFS was received favourably as play-based and child-centred: respondents to a government-commissioned review into the EYFS gave it strong support, though with some concern about the jump from reception class to the more formal requirements of Year 1 (Tickell, 2011). There was also concern about the demands on ECEC workers in terms of paperwork (e.g. the need to provide evidence of development in relation to multiple learning outcomes in a personal record kept for each child), taking them away from engagement with children. In 2012 the EYFS was slimmed down in response to the Tickell review, replacing 69 learning outcomes with 17, reducing the administrative burden. A further reform in 2021 increased the focus on early language and extending vocabulary, and sought to reduce reporting requirements further.

Since 2012, three of the seven EYFS areas have been labelled as "prime areas of learning": communication and language; personal, social and emotional development; and physical development. The prime areas are considered "particularly important for learning and forming relationships. They build a foundation for children to thrive and provide the basis for learning in all areas" (DfE 2024c p.8). The EYFS also contains four guiding principles to shape practice in the early years: in summary, that every child is a unique child; that children learn to be strong and independent through positive relationships; that they need enabling environments with adults who respond to their individual interests and needs and help them build their learning; and that they develop and learn at different rates (DfE 2024c).

Despite some criticisms of some of the 2021 changes, which some regard as narrowing the curriculum, the EYFS continues to command widespread support and to be perceived favourably – and even with pride – as a strength of England's ECEC system (Brooker et al., 2010; Pascal, Bertram, and Rouse, 2019; Arnerich, 2020).

3.5 Ofsted inspections

The Office for Standards in Children's Services, Education and Skills (Ofsted) is responsible for ensuring standards in education, training and childcare services. In relation to ECEC, Ofsted inspects and regulates all forms of provision to ensure that standards meet the requirements of the EYFS. Services are inspected at least once every four years, with little warning – the manager (or childminder) will usually be informed by midday the day before – to try to ensure that inspectors see the setting as it really is. Inspections are governed by the 'Early Years Inspection Handbook' (Ofsted 2024a). The inspectors spend a day visiting the ECEC setting, including speaking to staff, managers and parents; observing children, care routines and interactions between practitioners and children; conducting a 'learning walk' and examining paperwork (e.g. checking compliance with employment regulations and safeguarding requirements). Inspectors are looking for evidence of how provision supports child development, including for example how well staff engage with, listen and respond to children; how well they encourage children to express their thoughts and use new words; how well they support independence and confidence; and how well they behave as a role model for children (these are among a number of examples listed in the inspection handbook). Inspectors will also discuss children's learning and development with staff, with a particular focus on communication and language, reflecting the additional focus on communication in the EYFS since 2021. The handbook notes that much of this discussion "will be through incidental conversations prompted by observing the children at play and the interactions between them and adults" (Ofsted 2024a, para. 95).

Providers are graded on four key areas: quality of education; behaviours and attitudes; personal development; and leadership and management. Inspectors also assess whether safeguarding is effective. For nursery classes in state-funded schools, early years provision is given its own judgement as part of the overall inspection of the school. At the end of an inspection the findings are discussed with the leadership of the nursery, and a report setting out and explaining the judgements made is then made public on the Ofsted website. Until September 2024 all settings were given a single word overall judgement of 'outstanding', 'good', 'requires improvement' or 'inadequate', and this remains the case for PVI settings. Single word judgements were abolished for all schools and for school-based nursery provision when the new Labour Government took office in 2024, in response to serious concerns about the way these judgements raised the stakes and created pressure on headteachers.⁴ It is likely that this change will also be applied to PVI settings in the future, with a 'report card' approach suggested. As things stand, a judgement of 'inadequate' triggers another inspection within six months, and a 'requires improvement' judgement will lead to another inspection within a year.

In addition to its inspection role, Ofsted is also the regulator of the early years sector, with a range of powers to act against anyone providing childcare without the appropriate registration, or registered providers not meeting their legal requirements under the Childcare Act 2006.

As of August 2024, 98% of settings had been judged good or outstanding at their most recent inspection, an increase of 1% on the year before (Ofsted, 2024b). Analysis by the New

⁴ One particularly tragic case involving the suicide of a primary school headteacher whose school was given an 'inadequate' rating drew extensive public attention to the issue. See 'Ruth Perry: Ofsted inspection "contributed" to head teacher's death', BBC News, 7 December 2023 <https://www.bbc.co.uk/news/education-67639942>.

Economics Foundation shows slightly lower rates of outstanding in the most deprived quintile, and similarly higher rates of provision that requires improvement or is inadequate, but variation is slight, with some 95% of settings in the most deprived quintile judged to be good or outstanding (Pollard et al., 2023). Yet despite these near-universal rates of 'good' or better provision, it is clear that there is very wide variation in standards. Pollard et al. (2023) argue that Ofsted primarily carry out a safeguarding function that protects against very low quality, but that its judgements are not fine-grained enough to be effective at identifying and promoting very high quality practice. A report for the Joseph Rowntree Foundation reaches a near-identical conclusion, arguing that Ofsted is successful in identifying very poor quality childcare, but a more intensive assessment of quality is needed to evaluate whether settings are meeting the standards needed to improve outcomes and narrow gaps (Jarvie, Ollerearnshaw, and Goddard, 2023).

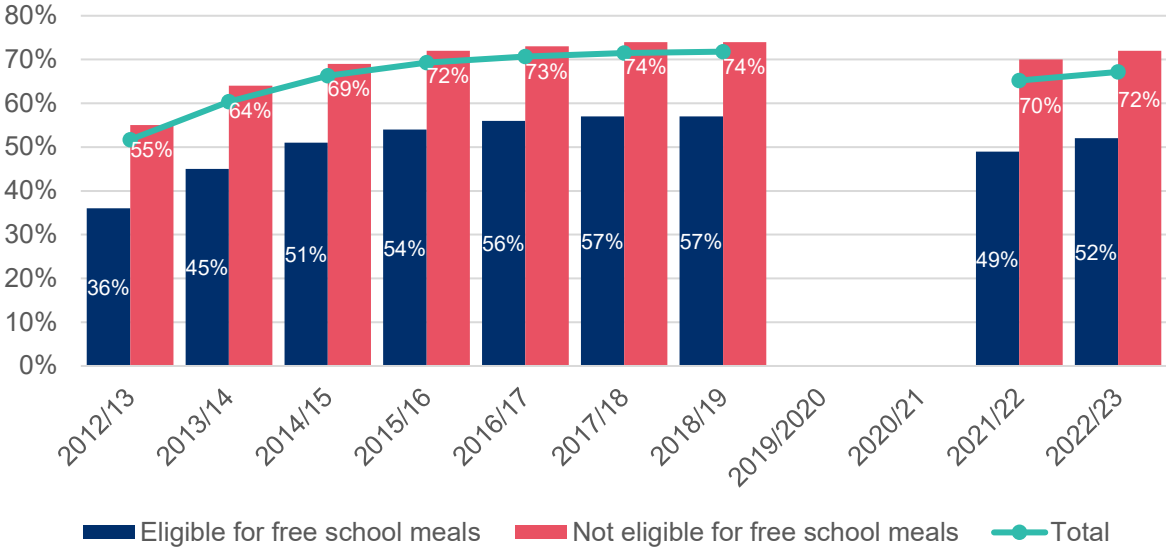
One serious weakness with the English system is that Ofsted is officially denoted 'the sole arbiter of quality in the early years', and between its four-yearly inspections there is no systematic provision for supporting quality improvements. It is notable that in all three of our case-study Childcare Sufficiency Assessments, quality is reported on exclusively in terms of Ofsted ratings – the share of settings that are ranked 'good' or 'outstanding'. In the past, things were different: local authorities had a responsibility to provide ongoing support and continuing professional development (CPD) to early years settings. In 2014 the Department for Education removed this duty, arguing that local authorities were duplicating Ofsted's work, and that funding would be better spent directly by settings themselves. Critics of the change responded that the ongoing support and development provided by local authorities was very different to Ofsted's infrequent monitoring and inspection visits and highlighted the important role CPD can have in boosting quality (see discussion in Stewart and Obolenskaya, 2015). There was undoubtedly unevenness across the country in the effectiveness of local authority practice in this regard, but many authorities had strong and well-established early years teams supporting quality improvements across their areas, while also providing a career pathway for outstanding practitioners. One project based at Oxford University, for example, worked with multiple local authorities to provide training in applying the well-established early childhood environment rating scales, ECERS and ITERS, in order to assess process quality in local ECEC settings and provide support (Mathers, Singler, and Karemaker, 2012). Alongside the abolition of the formal local authority role in supporting quality, changes to funding formulae (discussed in Chapter 4 below) tightly restricted the funds that can be held by the local authority and not passed straight to nursery settings, decimating early years teams and making this kind of work much more difficult. These developments are very likely also to have increased inequalities, because larger chains have the economies of scale to provide their own systems of training and CPD which single nurseries simply cannot.

3.6 Data and monitoring of children's outcomes

At the end of reception year (age five), teachers complete an 'Early Years Foundation Stage Profile' for each child. The child's development is assessed as 'emerging', 'expected' or 'exceeding expectations' on each of the 17 EYFS goals, and an overall judgement is made of whether the child has a 'good level of development' (or is still 'emerging'). A 'good' level requires a child to be at the expected level in the 12 goals relating to communication and language; personal, social and emotional development; physical development; literacy; and

maths. These judgements are communicated to parents and used as a baseline for assessing children’s later learning in primary school. The EYFS profile results also provide a check on how well each cohort of children are doing, and a way to examine gaps in development by socio-economic background, gender, ethnicity and geography. For example, the annual report from the independent government advisory body, the Social Mobility Commission, reports on EYFS gaps as a way to understand early differences in outcomes by social background. Figure 10, showing gaps by free school meal status, comes from the 2024 report (SMC, 2024). Note that changes in the framework in 2012 and 2021, referred to above, mean results are not directly comparable across all years. No data were collected in 2020 or 2021 due to the pandemic.

Figure 10. Percentage of students achieving a ‘good level of development’ at age 5 years by eligibility for Free School Meals in England, from 2012/13 to 2022/23



Source: SMC (2024) Figure 2

Note: Free School Meal eligibility is linked to parental low income.

Because the EYFS profile is captured in reception class, i.e. after the first year in primary school, it is not treated as an accountability mechanism for early years providers, although it has been used by researchers as a way to try to understand the impact of aspects of nursery experience on EYFS scores, including length of time in nursery (Blanden et al., 2016), nursery quality ratings (Blanden, Hansen, and McNally, 2017) and social mix (Stewart, Campbell, and Gambaro, 2020). Administrative data which tracks children from the time they first attend funded early education makes this possible. For the most part, these studies have found only small or non-significant effects linked to pre-school experience. For example, looking at children who attended PVI settings only, Blanden, Hansen and McNally (2017) find only very small positive associations between attending an ‘outstanding’ nursery or having a graduate Early Years Professional in the setting and EYFS profile scores. It should be underlined, however, that an acknowledged weakness of these studies is the absence of baseline scores for children, alongside only very limited socio-economic or wider information. Researchers are therefore trying to identify a positive effect of one particular variable (nursery quality) on an outcome (EYFS profile score) which is clearly subject to multiple other influences that the data do not capture.

There has been some discussion over a number of years about collecting earlier developmental data. As part of the 2012 changes to the EYFS, a 'progress check' at aged two was introduced, with the aim of reviewing child development, identifying any areas of concern and helping parents to understand their child's needs and support their development at home. Practitioners are required to provide parents with a short written summary of their child's development in the prime areas (communication and language; personal, social and emotional development; and physical development), and, if there are significant concerns or special educational needs or disabilities, they must develop a targeted plan to support the child in the future. It is a statutory responsibility to conduct the progress check and Ofsted inspectors are likely to ask to see evidence that this is happening. However, the guidance is non-statutory, so reporting to parents takes a number of different formats, unlike the standardised EYFS profile. The data are not collected centrally, and in any case are not created in the consistent way that would be necessary to make them usable as a baseline for later development.

3.7 Summary

Minimum quality standards are assured in the English ECEC system through requirements on physical space, staff:child ratios and staff qualifications; and through the Early Years Foundation Stage curriculum, which all registered settings catering to under-fives, including childminders, must follow. Staff:child ratios are generally tighter than in many comparative countries (though they have recently been relaxed for two-year-olds) but qualification requirements are very low except in the state-maintained sector. Four-yearly inspection by Ofsted is the mechanism that ensures these requirements are met. While this approach seems effective at protecting against very low quality provision, it does not ensure that quality is high or provide a framework for quality improvements. The play-based EYFS curriculum ensures some consistency across settings and is generally popular with practitioners, but evidencing each child's progress creates an administrative burden, and differences in the skills and qualifications of staff, and in the physical environment, mean wide differences in children's experience in practice. In the past, local authorities played an important role in providing continuing professional development for ECEC workers and ongoing support with quality improvements between Ofsted inspections, but their duty to do so was lifted in 2014, while funding for local authority early years teams has also been tightly restricted. This has left no systematic system of support for improving quality in ECEC settings, leaving stand-alone nurseries at a particular disadvantage.

4. Costs and financing

This chapter begins with an overview of the different ECEC subsidies and funding mechanisms used in England, and the way that the balance of government spending on these different subsidies is changing. It goes on to look at costs and fees from the parents' perspective, and then at how supply side funding is allocated from central government to local authorities and from local authorities to individual ECEC settings.

4.1 Overview of the funding system

The ECEC funding system in England is complex, with a mix of supply and demand side funding, and with varying entitlements to free or subsidised provision depending on parents' work status and earnings and on the child's age. These entitlements are effectively uniform across England. While in the past local authorities had some freedom in the allocation of supply side funding in particular, this has been tightly restricted in recent years by reforms to funding formulae.

The main subsidies are as follows:

Supply side subsidies (providing in principle a number of 'free' weekly hours, though see further discussion below):

- Targeted two-year-old offer: 15 hours per week free provision for 38 weeks per year for disadvantaged two-year-olds. When introduced this covered roughly those in the bottom 40% of the income distribution, looked after or adopted children, and children with recognised disabilities or special educational needs. By 2022/23 only an estimated 27% of children were eligible as a result of a tightening in the coverage of the working-age benefits that provide access to the places (see Farquharson, 2023).
- Universal free entitlement: 15 hours per week free provision for 38 weeks per year for all three- and four-year-olds, from the term after the child turns three until starting full-time school, generally in the September after turning four.
- Extended entitlement for working parents: An additional 15 hours per week free provision for 38 weeks per year for all three- and four-year-olds who have both parents (or a lone parent) earning at least the equivalent of 16 hours per week at minimum wage, but less than £100,000 per year.
- As of September 2025, the extended entitlement also covers a funded 30 hours per week (38 weeks per year) for children of working parents from the age of nine months.

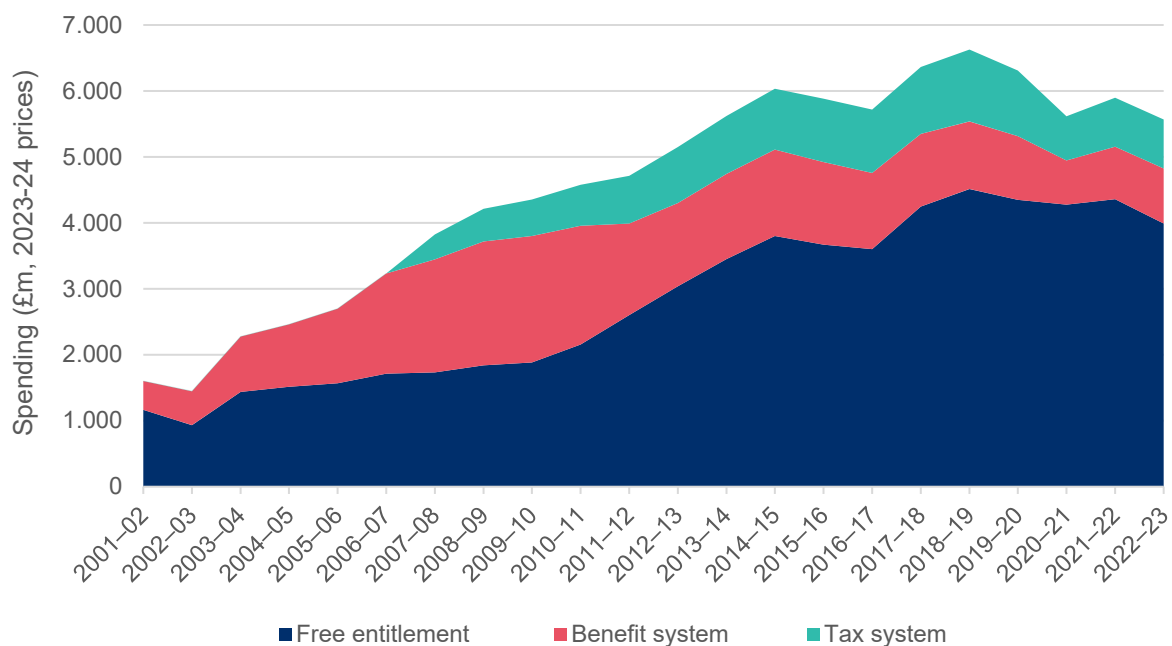
Demand side subsidies (contributing to some of the remaining costs for parents):

- Childcare element of Universal Credit: Families in receipt of the means-tested benefit Universal Credit can reclaim up to 85% of childcare costs, up to a maximum of £1,015 per month for one child and £1739 for two or more children.
- 'Tax-free childcare': Families not receiving childcare support through Universal Credit can save into an account for childcare expenses and receive a government top-up of 20%, up to a maximum of £2,000 per year. The scheme is called tax-free childcare because it does the equivalent of providing relief from basic rate tax. Prior to this scheme, an employer voucher scheme allowed employees to take some salary as

childcare vouchers, reducing tax and national insurance liability, but this has been replaced by tax-free childcare. This part of the system has much lower recognition and take-up than other parts and there has been significant underspend every year since its introduction (LGA, 2023). Only 23% of eligible families were reported to have applied for tax-free childcare in 2019, with a number of apparent reasons for low take-up including lack of interest and confusion around the rules (Farquharson and Olorenshaw, 2022).

Figure 11, taken from the Institute for Fiscal Studies, shows the growth in total real-terms spending on childcare provision over two decades, and the growing share of the total going to funding for the free entitlements. At the start of the period, funding covered a core universal element (15 hours for all three- and four-year-olds) plus targeted support for lower-income working parents (through the childcare element of means-tested in-work benefits). By the end, funding had increased more than three-fold, with most of the increase going to working parents through the extension of funded hours to 30 hours for children of working parents.

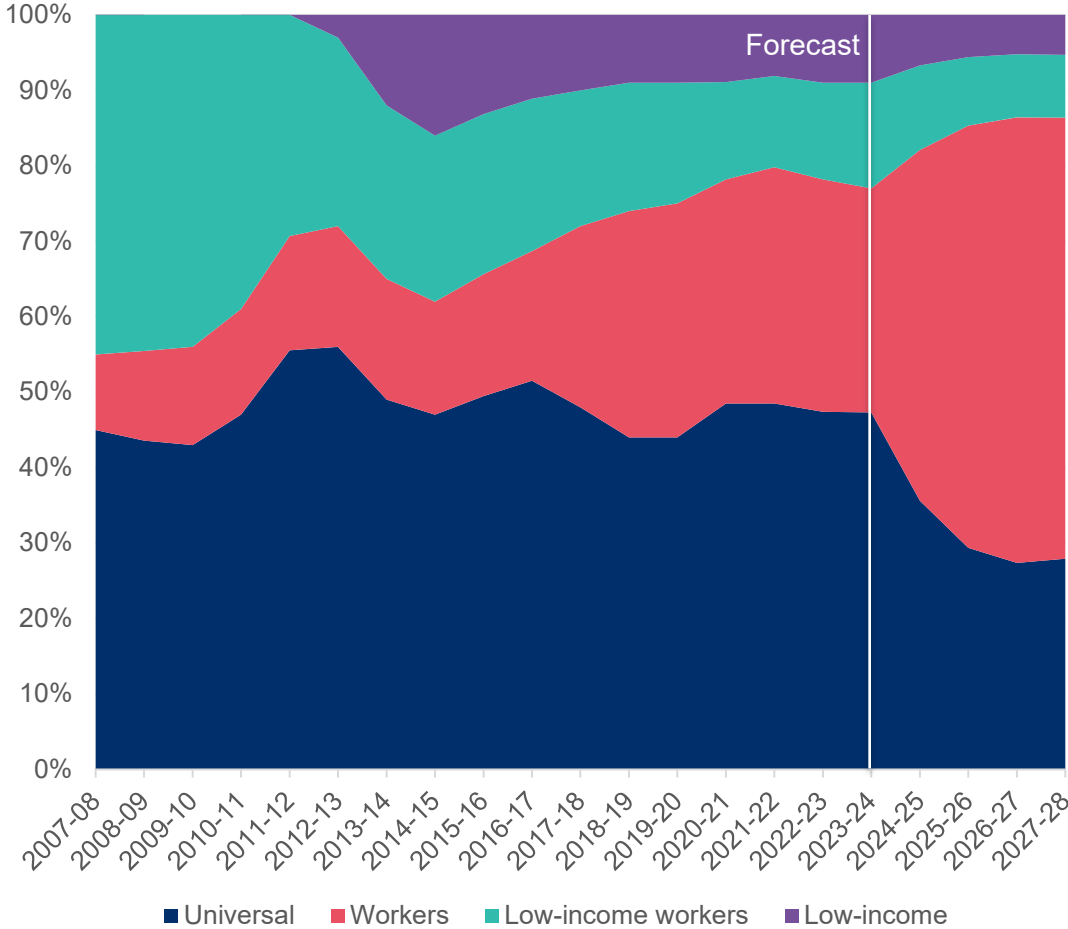
Figure 11. Total spending on support for early education and childcare across two decades



Source: Drayton et al. (2023) Figure 2.1.

Looking ahead, this direction of change is set to continue. By 2027/28, the outgoing Conservative Government projected that they would be spending around £8 billion/year on the funded entitlements in total as a result of the extensions to younger children – doubling the amount spent on the free entitlement in the final year shown in Figure 11 (Foster, 2024). Figure 12, also from the Institute for Fiscal Studies, splits the data slightly differently and includes the forecast spend across the next five years. This underlines the extent to which support is increasingly targeted to working families.

Figure 12. Share of early education childcare subsidies targeted at different groups – including forecast

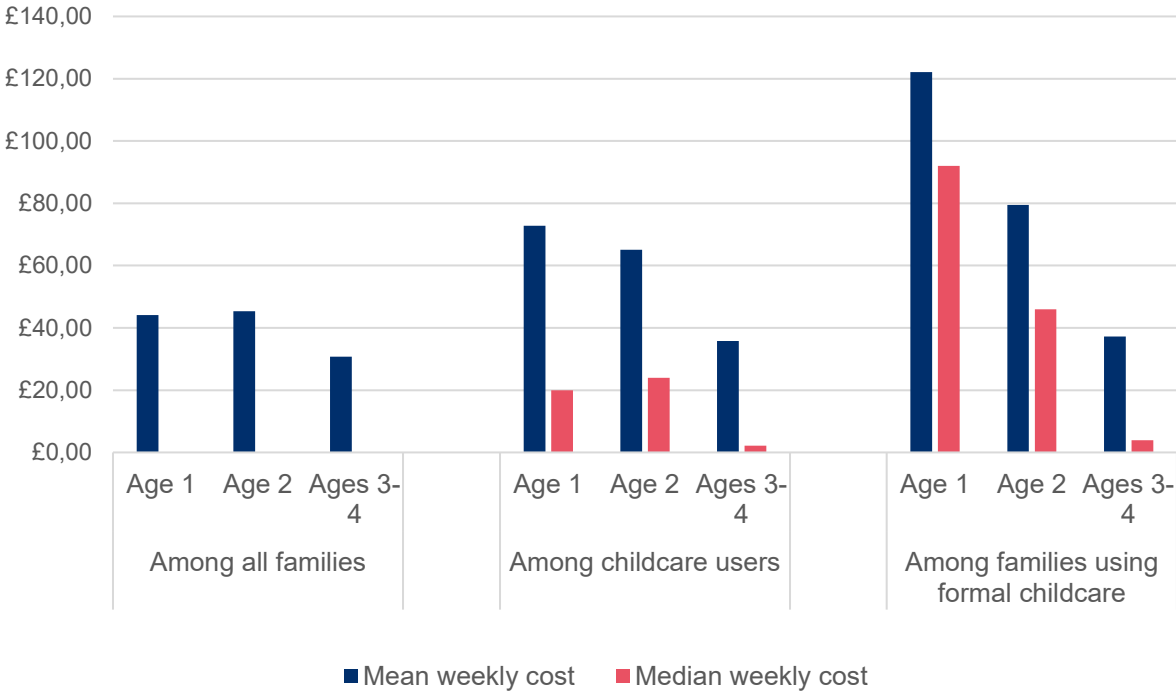


Source: IFS (2024), Figure 4.

4.2 Fees

Up to 2023/24, the shape of subsidies meant that the cost of childcare was much higher before age three (something the new extended free hours is designed to address). Farquharson (2023) describes the situation facing one- and two-year-olds prior to the extended policy as a ‘double whammy’: costs intrinsically higher because staff:child ratios are higher, alongside less government support. Differences in costs by age group are illustrated by analysis in Farquharson and Olorenshaw (2022), reproduced in Figure 13, which shows mean and median weekly costs of formal childcare by age group. Among families using childcare, the mean cost for a one-year-old was more than three times that for a three- or four-year-old, while the difference in median cost is even greater (close to zero for three- and four-year-olds).

Figure 13. Mean and median weekly cost of formal childcare by age group 2019



Source: Farquharson and Olorenshaw (2022), Figure 2.3, using Childcare and Early Years Survey of Parents 2019.

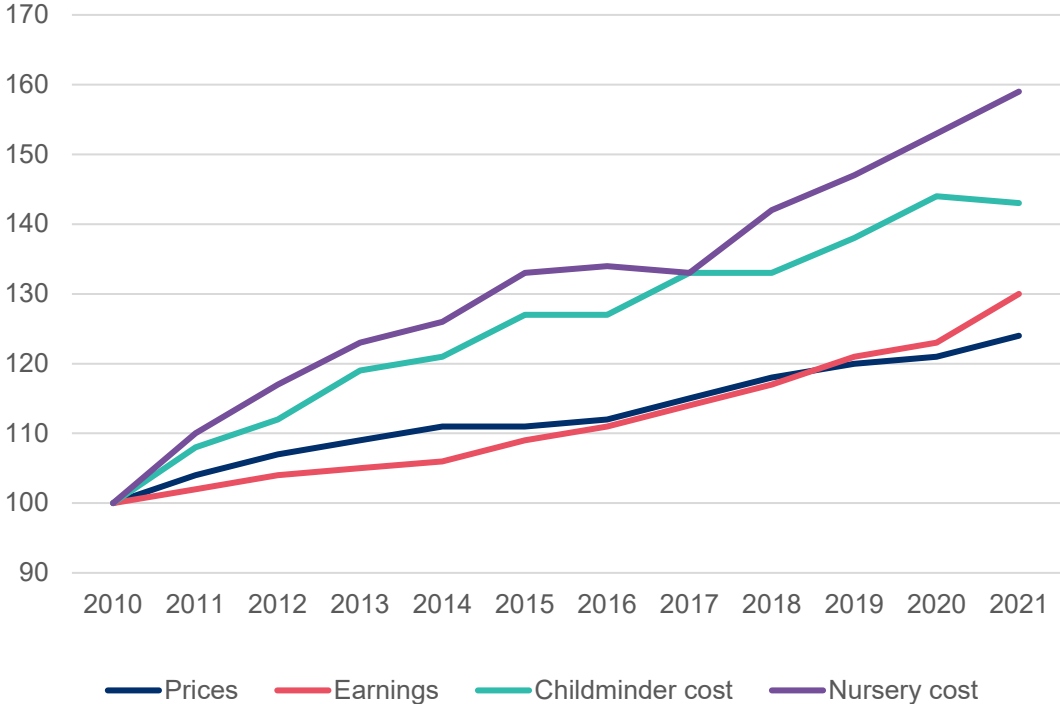
Note: The median family with a child aged 1, 2 or 3–4 (the far-left group on the graph) does not pay anything out of pocket for formal childcare. ‘Among childcare users’ includes families using any formal or informal care (e.g. from grandparents).

These numbers show averages, but there is considerable variation in what families were paying. Around 40% of three- and four-year-olds and 20% of two-year-olds were paying nothing for their formal childcare in 2019 (Farquharson and Olorenshaw, 2022). This will be because many families were taking up their free childcare entitlement and no more. Indeed, only one-third of all 3- and 4-year-olds and 17% of 2-year-olds eligible for the targeted offer take up more than their free entitlement – and actually quite a high share use less (ibid, Figure 3.2). For nearly two-thirds of parents of 3- and 4-year-olds who are using some formal childcare, childcare expenses are typically less than £20 a week (around 3% of median weekly household earnings for families with children this age).

However, a small number of families with younger children are paying much more: 15% of families with a 1-year-old in formal care are spending more than £200 a week (more than £10,000 a year). Among families with a 1- or 2-year-old in full-time formal care (40 hours or more per week), half spent more than £240 a week on childcare fees for their young child. For context, the authors note that even among families with a 1-year-old where all parents are in work, median weekly earnings in 2019 were £900, underlining the extent of pressure some families face.

These rates represent the impact of fee inflation over a decade that has outpaced price and wage inflation, as shown in Figure 14. A part-time (25 hours/week) nursery place increased by 59% across the decade and a part-time childminder place by 43%. In comparison, prices were up by 24% and average weekly earnings up by 30%.

Figure 14. Growth in childcare prices for 0 and 1 year olds



Source: Farquharson and Olorenshaw (2022), Figure 2.10, using the Coram Family and Childcare Childcare Survey and ONS data on prices and earnings.
 Note: Nursery and childminder costs show the cash-terms increase in the cost of part-time (25 hours/week) care for a child aged under 2 in England. ‘Earnings’ shows the cash-terms increase in average weekly earnings (seasonally adjusted). ‘Prices’ shows the increase in general economy-wide prices, as measured by the Consumer Prices Index.

So far we have presented national level figures, but fees vary considerably by area, with London and the South East particularly expensive. Table 3 shows average childcare costs by region for a full-time place for a child under three in 2023, from the Coram Childcare Survey (Jarvie et al., 2023). Prices in a day nursery in Inner London are one third higher than the national average, and prices in Outer London one quarter higher. Many families will be managing the cost by attending only part-time, combining formal care with parental or grandparental care or reliance on other informal provision.

Table 3. Price of 50 hours per week of childcare for children under three in England

	Childcare prices 2023 (per week)				Percentage difference from England average			
	Day nursery		Childminder		Day nursery		Childminder	
	Under 2	2 years old	Under 2	2 years old	Under 2	2 years old	Under 2	2 years old
England	£290	£284	£248	£248				
East Midlands	£243	£242	£209	£208	-16%	-15%	-16%	-16%
East of England	£292	£276	£255	£257	-1%	-3%	+3%	+3%
London, Inner	£395	£373	£355	£353	+36%	+32%	+43%	+42%
London, Outer	£360	£346	£322	£326	+24%	+22%	+30%	+31%
North East	£253	£251	£225	£225	-13%	-11%	-9%	-9%
North West	£255	£247	£215	£215	-12%	-13%	-13%	-13%
South East	£312	£304	£256	£254	+8%	+7%	+3%	+2%
South West	£269	£278	£241	£240	-7%	-2%	-3%	-3%
West Midlands	£285	£275	£235	£229	-2%	-3%	-5%	-7%
Yorks & Humberside	£256	£257	£231	£232	-12%	-10%	-7%	-7%
Hackney (Inner London)	£354	£318	£393	£384	+22%	+12%	+59%	+55%
Buckinghamshire (South East)	£334 *				+15%			
Redcar & Cleveland (North East)	£265		£171		-8%		-31%	

Source: Jarvie et al. (2023) Table 4 for national and regional data. Local authority data from Childcare Sufficiency Reports (Hackney Council 2024; Redcar and Cleveland Borough Council 2023; Buckinghamshire Council 2023).

Notes: Shading shows regions with above average childcare costs. *Figure for Buckinghamshire is the average for all provision and does not distinguish between nurseries and childminders.

Data from the childcare sufficiency assessments for our three case study countries have been added to the table, although only Hackney presents these data in a way that is fully consistent with the regional figures. We see here substantial variation within as well as between regions. Day nursery costs in Hackney are lower than the Inner London average but childminder costs are considerably higher, potentially reflecting the availability of other employment opportunities. In contrast, in Redcar and Cleveland day nursery costs are about 5% higher than the North East region where the local authority is situated, but childminder costs are about 25% lower. The data for Buckinghamshire is not broken down for the two types of provision.

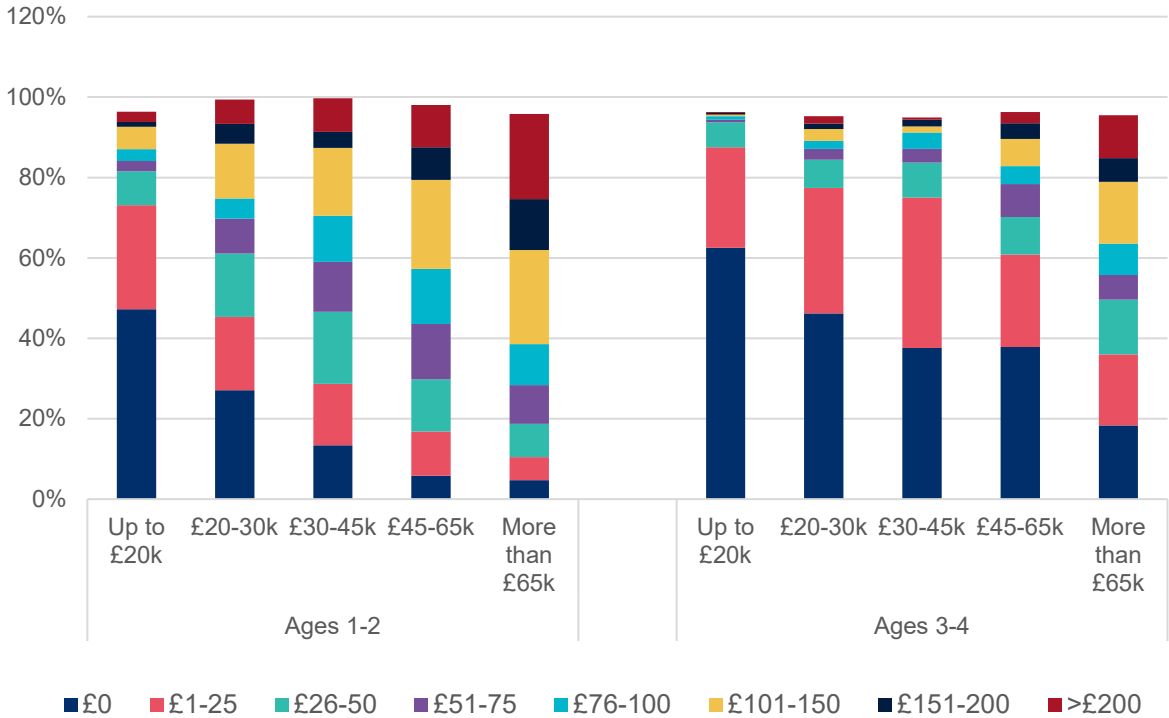
An analysis of regional and local variation in wages would be necessary to get a full sense of how these childcare costs are felt by families in different areas, and this is beyond the scope of the current paper. It is worth noting, however, that despite costs that are well below the national average, respondents to the parents’ survey conducted by Redcar and Cleveland for its childcare sufficiency report repeatedly raise cost as an issue. As already noted, over two-

thirds of parents surveyed said childcare was not affordable, with one respondent summing it up as “a huge burden on working families” (p.21).

4.3 Fees and household income

Higher-income families are more likely to be spending more on childcare, both because they are more likely to be working more and because they can afford higher fees. Nonetheless, even among some lower- and middle-income families high levels of spending (more than £100/week) are not uncommon for families with a one or two-year-old. Farquharson and Olorenshaw (2022) find that 13% of families using formal childcare for their 1- to 2-year-old earn between £20,000 and £30,000 a year before tax, and one quarter of these families are spending at least £100 a week on formal childcare fees (see Figure 15). Even under the most generous assumptions this means childcare fees are more than 17% of their total pre-tax income. In contrast, only around 5% of families in this income bracket are spending this much on formal childcare for their 3- or 4-year-old.

Figure 15. Distribution of weekly spending on formal childcare by pre-tax family income, among formal childcare users



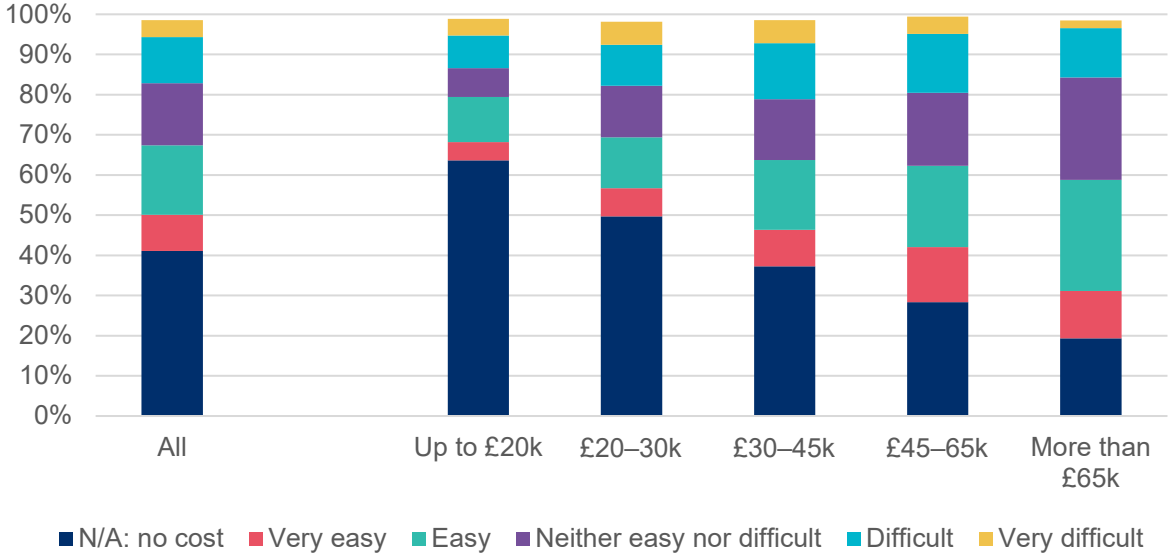
Source: Farquharson and Olorenshaw (2022), Figure 2.5, using the Childcare and Early Years Survey of Parents 2019.

Note: Since some families do not report their childcare costs, columns do not sum to 100% of families. £20,000 of annual pre-tax income is equivalent to £385 a week; £30,000 is equivalent to £577; £45,000 is equivalent to £865; and £65,000 is equivalent to £1,250.

Perhaps not surprisingly, given the existence of more targeted support for lower income families, the highest self-perceived pressures in meeting childcare costs are among middle income families (see Figure 16). Around one in five families in the £30k - £65k bracket report that meeting childcare costs is difficult or very difficult. But rates of difficulty are not much further behind this for lower income families. It may be that many of these families are not

receiving all the support they are entitled to. Pollard et al. (2003) suggest that only 27% of eligible parents of 1-4 year olds take up the support they are entitled to through the Universal Credit childcare element.

Figure 16. Self-reported difficulty in meeting childcare costs among formal childcare users

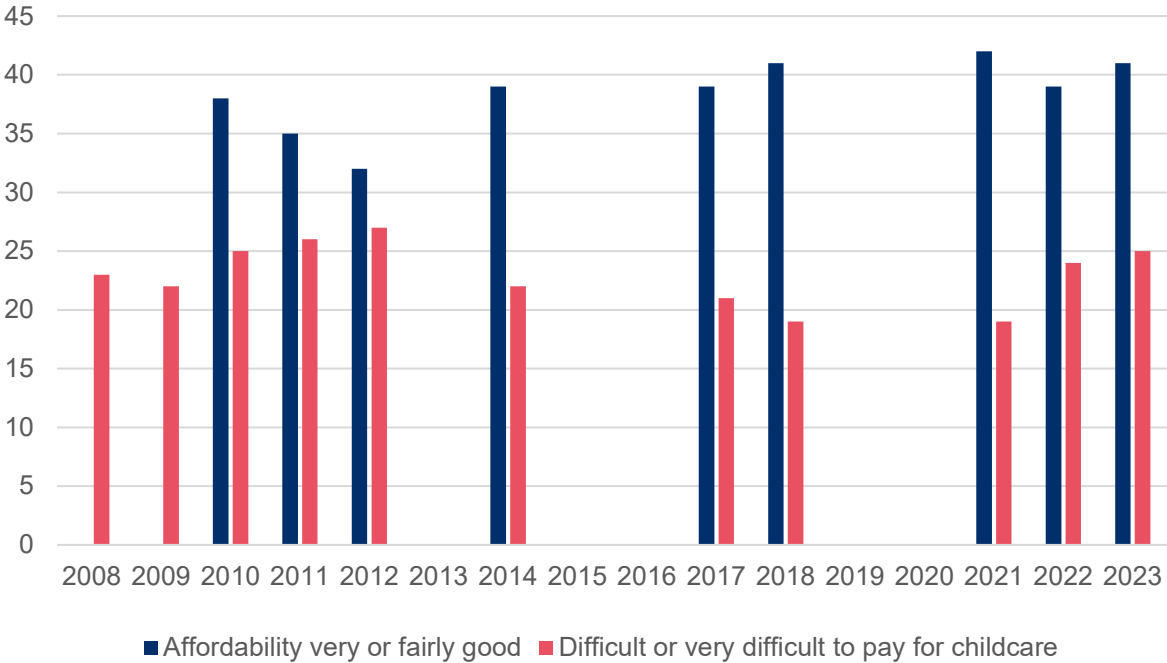


Source: Farquharson and Olorenshaw (2022), Figure 2.6, using the Childcare and Early Years Survey of Parents 2019.

Note: Sample is all families with a child aged 0–4 who use formal childcare (for any child in the household). Families were asked about their difficulty in affording their total childcare costs for all children in the household. Columns do not total 100% because of non-responses.

Time series data from the Childcare and Early Years Survey of Parents (not collected every year) identify no clear trend in parental reports of affordability, as shown in Figure 17. Consistent with Figure 16, in all years more parents report that affordability is very or fairly good than that it difficult or very difficult to afford, but 20-25% of parents report difficulty.

Figure 17. Parents perceptions of childcare affordability 2008-2023, families with a child aged 0-4



Source: DfE (2024) Childcare and Early Years Survey of Parents - data download.

4.4 From settings perspective: supply-side funding, quality and deprivation

Supply-side funding for the funded hours is allocated in two stages: from national government to local authorities, and then from local authorities to individual settings. Local authorities have a small amount of discretion on the allocation, but within quite tight constraints.

Allocation to local authorities takes place as part of the Dedicated Schools Grant (funding for schools); within the DSG there is a specific ‘early years block’. Funding is allocated on the basis of a standard per-hour funding rate plus extra uplifts for deprivation, disability and English as an additional language. Deprivation is proxied using the share of children in primary school receiving free school meals, disability using the share of children receiving Disability Living Allowance, and EAL using the share of EAL children in primary school. There is also an area costs adjustment (ACA) multiplier based on the cost of delivering provision in an area (e.g. employing staff and leasing premises is significantly more expensive in London than elsewhere, leading to an ACA of around 25% for London), and a floor and cap which restrict year-to-year changes (Drayton et al., 2023).

Overall, more deprived areas receive more on average per pupil, but the difference is less than for the school funding system: the most deprived fifth of local authorities receive hourly resources that are 12% higher than the least deprived fifth, while spending per school pupil is around 15-20% higher. The IFS links this in part to the fact that the Early Years National Funding Formula limits spending for more disadvantaged and high needs children to 10% of total spending – with ‘no obvious rationale’ (Drayton et al, 2023, p.40). In contrast, the equivalent schools formula allocates 17% of spending through additional needs factors DfE 2022, cited in Drayton et al., 2023). The 10% is made up of 8% for disadvantage, 1% for

disability and 1% for EAL (Foster, 2024). These fixed percentages mean that increases in the eligible percentage of children nationwide effectively cut the per-child allocation. For example, the share of children on free school meals has risen since 2017/18, resulting in a reduction in the associated uplift from 60% in 2017/18 to 38% in 2023/24 (Drayton et al., 2023).

There are also two extra funds in the early years block: the Early Years Pupil Premium (EYPP) which provides an uplift for children from low-income families, and the Disability Access Fund (DAF). These uplifts were both frozen from 2017/18 to 2022/23 but then rose. In 2023/24, the DAF was 13% higher in real terms than in 2017/18, but the EYPP was 2% below the real value then. In 2023/24 the EYPP is a fixed 62p per hour, rising to 68p in 2024/25 (a total of £388/year for a part-time child). The DAF was £828 per child in 2023/24, rising to £910 in 2024/25 (Foster, 2024). By comparison, standard average funding per child is £3,352 for a part-time child.

Local authorities then face tight constraints in passing resources on: they need to have a standard per-child base rate, but then can allocate a maximum of 12% of funds for supplements which must include deprivation but can also reflect rurality (“to support providers serving rural areas less likely to benefit from economies of scale”), flexibility (for example, wraparound care and out-of-hours provision), quality (“to support workforce qualifications, or system leadership”) and English as an additional language (Foster, 2024). They must be transparent about the metric used and they cannot discriminate between different types of provider – e.g. they cannot give more per hour to a maintained nursery class or voluntary playgroup than a private daycare setting. The shift in 2017/18 to this funding system meant in essence reallocation away from funding for the maintained sector (which traditionally received more, linked to higher staff qualification requirements) towards the private and voluntary sectors. The early years block contains some supplementary funding to support standalone maintained nursery schools, and local authorities have the ability to use ‘lump sums’ to allocate the additional funding (Foster, 2024). However, this funding is uncertain and has to be renewed each year. Local authorities are also expected to have inclusion funds for children with SEND taking up the free entitlements, with control over how much and how the funds are allocated.

A further restriction on local authorities is that since 2018/19 local authorities have had to pass on at least 95% of the early years block; i.e. there are limits on what they can retain for central services and staffing – which has restricted the central support local authorities can provide to settings in their areas, as discussed above.

There are four key concerns about the way this funding system operates, and whether it is well-designed to support high quality provision for all. First, it is worth underlining that the link to deprivation is significantly less than allocated at school level, suggesting that deprivation may not be sufficiently taken into account in early years funding.

Second, there is no link between quality and funding. In the past, there were some attempts to support quality improvements explicitly through funding: notably through the Graduate Leader Fund 2007-2011. This policy was designed with the aim of supporting all PVI settings to employ at least one graduate in every setting by 2015: settings could draw on the fund for the costs of training and employing more highly qualified staff. The 2011 DfE Evaluation of the fund found it did lead to a 76% increase in the number of ECEC workers with a degree, and a 13% increase in those with a Master’s degree, while staff with a level 3 rose by 38% (Mathers et al.,

2011). But the fund was abolished in 2011, and figures presented in the previous chapter show stagnation and even decline in qualification levels.

Third, there are big questions about whether the basic hourly rates are adequate. A Freedom of Information request by the Early Years Alliance revealed that average funding rates were set well below what ministers knew the hourly cost to be – indeed, at just two-thirds of the estimated actual cost (Early Years Alliance, 2021). The National Audit Office also found funding rates between 2019/20 and 2021/22 to be below providers' estimated delivery costs (NAO, 2024). A report by the UK Parliament's Education Committee in July 2023 concluded that the free entitlements were "chronically underfunded" with providers losing £1-2/hour to deliver the funded places (Education Committee, 2023). They claimed this was a significant contributor to settings closing. In the 2022 Childcare Providers Survey, 58% of group-based providers said their income was insufficient to cover costs, with only 28% saying it was enough (Adams et al., 2023).

The shortfall in funding for three- and four-year-olds has been most severe. Taking account of childcare providers' specific costs, the IFS estimates that the rate for children of this age group was 16% lower in real terms in 2023/24 than in 2012/13. The rate for two-year-olds fell less steeply, by around 5% between 2015/16 and 2022/23, and then received a bigger uplift, with the IFS estimating the rate would be higher in real terms in 2024/25 than in the previous peak year of 2017/18 (Drayton et al., 2023).

Until the extension of funded hours to younger children, providers routinely coped with the shortfall by cross-subsiding from higher fees for non-funded hours (a strategy that was clearly harder for settings catering only for toddlers and not younger children – which may have been a factor contributing to closures of voluntary sector pre-schools). Going forward, however, there are real problems with this approach. The new entitlements mean that funded hours will cover 80% of the market (LGA, 2023), leaving little room for cross-subsidy. Planned rates for twos and under-twos are said by the IFS to be "well above market prices", but funding for threes and fours is more aligned with market prices, "posing potential challenges in areas where funding and provider costs diverge" (Drayton et al, 2023, p.28).

Finally, it is striking that there is very limited control over settings receiving public money through the funded hours and other subsidies. There is nothing other than the (imperfect) operation of the market to prevent settings from charging high fees on top of state funding, and nothing to prevent some of this money increasing profits rather than the quality of provision. Minimum standards must be met, of course, in relation to staffing and ratios, with Ofsted inspections the prime enforcement mechanism. But these regulatory requirements are relatively limited. On the one hand, there is evidence of small independent childcare providers closing because of cost pressures and inadequate funding. On the other, some of the big childcare providers operating in England are seen as providing valuable opportunities for external investors (see e.g. AlphaReal Capital, 2023; Beech 2024). This situation should raise concerns about whether enough is being done to attach strings to public funding, as well as whether the money is enough.

4.5 Summary

England is renowned for the high cost of ECEC. In fact, the length of time for which these costs apply is relatively short, as almost all children attend school reception classes from the September after they turn four. Since 2017, an entitlement to 30 hours per week (38 weeks per year) of 'free' childcare for three- and four-year-olds with working parents has meant that very high costs primarily fall on parents of under threes, with middle-income families who do not qualify for means-tested demand-side subsidies feeling the greatest burden. Many families have managed by limiting their use of formal care and relying on informal options, working reduced hours or even leaving the labour market. From September 2024 the right to 15 free childcare hours per week was extended to children with working parents from the age of 9 months, increasing to 30 hours per week from September 2025. This is likely to transform the childcare landscape and reduce costs significantly, though there are concerns about whether supply will be sufficient to meet demand, and about whether government funding to cover the free hours is adequate. A further question relates to the limited strings attached to these supply side subsidies. Quality requirements are fairly limited, as discussed above, and there is no cap on wrap-around fees, with providers able to charge for additional hours, lunches and more. As the private for-profit sector grows, there is a risk that not all the increased public funding will serve to reduce costs to parents, with some leaking out into higher profits. At the same time, the funding system seems well-designed to increase inequalities in provision: settings catering to higher-income parents can charge additional fees, while those catering to lower-income parents cannot. Disadvantaged children attract some additional state financing, but this is small in size compared to equivalent extra funding to children in primary school.

5. Policy discussion and conclusion

The English ECEC system has some clear historical strengths. Children start primary school in reception classes in the September after they turn four, meaning they are in socially mixed classrooms headed by a qualified teacher from this point, with no cost to parents. The Early Years Foundation Stage curriculum, which stretches from birth to the end of reception class, ensures a child-centred and play-based approach in ECEC settings and in this first year of school. Almost all children attend at least one year of pre-school before starting reception, at least part-time, though attendance is not fully universal and there are still some gaps by income and ethnicity. The concentration of state-maintained nursery classes in more disadvantaged areas has in the past ensured that many children from the lowest-income families have had access to some of the best provision for this pre-school year, headed by qualified teachers – though this is changing.

The key weaknesses of ECEC in England are cost and quality. Beyond the funded hours, ECEC is very expensive for parents, with costs that, at least until recently, have been prohibitive for children under three. There are targeted subsidies for low-income parents, but these can be complex to navigate and require up-front payment followed by reimbursement. In terms of quality, requirements on ratios, staff qualifications and the EYFS curriculum, backed by Ofsted inspection, ensure that all settings meet minimum standards. But qualification requirements are low outside the state-maintained sector and there is no framework or systematic system of ongoing monitoring and support which pushes for quality improvements. The nature of what children experience therefore varies widely, despite the EYFS. A third weakness relates to gaps in the availability of places. In general, high costs suppress demand for ECEC, meaning availability is not seen as a central issue, but there are very obvious gaps in provision for disabled children, children with special educational needs, and parents who need to work flexibly and outside of standard 8am-6pm hours.

The last 25 years have seen significant changes in policy and investment. The Labour Government in office from 1997-2010 introduced the very first National Childcare Strategy and took a series of initiatives both to expand the availability of formal childcare provision and to improve its quality, especially for disadvantaged children, for example through investing in graduate-led provision in disadvantaged areas. However, the decision to pursue a mixed market childcare economy, rather than developing direct state provision, created a fragmented ECEC environment funded by a complex combination of demand and supply side subsidies. There were also limits to the investment in staff qualifications: Early Years Professionals were never given qualified teacher status, pay or conditions, and there was much more limited attention to the qualifications and training of non-graduate staff.

Over the last decade, policy has centred very strongly on ECEC as childcare for working parents, with much less interest in either the quality of provision or the role of ECEC in tackling inequalities. Supply side subsidies have been chosen as the key funding mechanism: since September 2017 three- and four-year-olds with working parents have been entitled to 30 hours per week of 'free' ECEC (an extra 15 hours compared to the universal offer), and from September 2025 this right was extended downwards to all children of working parents from the age of nine months. This is likely to transform the landscape and make ECEC significantly

more affordable. It will also double the spending on funded entitlements from £4 billion to about £8 billion in 2023/24 prices, taking ECEC expenditure for England up to around 0.3% of UK GDP. However, there are risks and downsides.

First, there are questions about whether the ECEC sector will be able to meet the new demand created by the extended entitlement. This is likely to depend heavily on whether per-hour funding is adequate to make provision viable. Unlike in other countries, low qualification requirements mean in principle staff can be recruited quickly as long as wages compare favourably with other sectors such as retail.

However, this brings us to the second risk – the quality of provision. Quality has at best stagnated and at worst deteriorated over the past decade, and it is unlikely to improve in the future without serious policy attention. All recent investment has gone into extending subsidised hours rather than quality improvements. Staff qualification levels have declined, while requirements to have graduate-led provision in some centres in disadvantaged areas have been lifted and dedicated funding pots abolished. The roll-out of the extended hours is likely to rely on the recruitment of staff with low or no relevant qualifications. Meanwhile adult:child ratios for two-year-olds were relaxed to 1:5 in 2023 to help keep costs down and create more places. The new ratio is not unusual in international context, but a combination of looser ratios and low qualifications is concerning.

Third, there are particular concerns about equity. Few families in the bottom third of the income distribution are expected to benefit from the £4 billion investment in the extended entitlements. Children from lower-income households where not all adults work remain entitled to at most 15 hours of ECEC from age two (while families where all adults work can access 30 funded hours from nine months). This could increase gaps at school starting age. In addition, we know that the share of lower-income children attending state-maintained nursery classes headed by a qualified teacher is in decline, while those attending private sector day nurseries has risen sharply. This change is in part the result of funding changes designed to ensure adequate places to meet the free entitlements.

Finally, the rise of the private for-profit sector poses risks given relatively minimal quality requirements alongside no cap on fees or charges. There is a danger in this context that the increased state investment in the funded hours will not all be passed onto parents in reduced costs, with some leaking into profits.

Looking ahead, the UK now has a Labour Government, elected in 2024, which pledged to meet the commitments to extended hours while also emphasising the importance of ECEC in promoting children's life chances and equalising opportunity. But the new government inherited a long list of urgent pressures on expenditure of which ECEC was just one. While the falling birth rate could in principle allow for additional per-child spending within a fixed ECEC budget, thereby enabling investments in quality and more support for children of non-working parents, early years policy faces stiff competition for resources from health, education, social security and more. Nonetheless, there are some potentially low-cost reforms which could help to promote quality and ensure the best use of public funds in the short-term, including reforming the funding model to attach much tighter strings to public subsidies, and reviving a local authority role in supporting ongoing quality improvements.

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