REPORT CARE

A new social contract in the childcare system

Driving up standards through ambitious new conditions on public funding for childcare.

Published on: 12 March 2024
Written by: Abby Jitendra

Reading time: 52 minutes

Executive summary

Our early years education and childcare system provides a vital service: the care and education of our youngest children, as well as being a tool to enable parents to work. Westminster's plans to inject billions into the English system mean the taxpayer will have an 80% stake in it by 2025, up from 50% now.

What will we get for our money?

First, while the expansion will lower costs for many parents, it maintains the inadequate funding rates for the 3–4-year-old offer, which has led providers to charge parents more in order to cross-subsidise losses. But just as importantly, by preserving the underlying logic of the system – a lightly regulated market with underfunded subsidies – the changes risk exacerbating existing problems like unaffordable costs, sufficiency gaps, low worker pay and variable quality. This is because simply putting more money into subsidies ignores the dynamics and structure of the market. They are that:

- most providers are privately run, with lax financial regulation, some excess profiteering and risks of sufficiency gaps if precariously financed providers fail
- well-documented issues like variable quality and poor worker pay and conditions will continue without robust and ambitious standards, controls and sufficient funding to ensure they are delivered

- local authorities are unable to manage local markets effectively without the knowledge, resources and powers to do so, which can result in sufficiency gaps and persistently poor-quality provision.

In the main, the expansion will subsidise support for parents already using the system rather than creating new demand, so the Government needs to improve the system we already have rather than rapidly increasing the number of providers within it.

Recommendations

First, the Government needs to fund so-called ‘free hours’ at cost. Then policy-makers should turn to the governance, management and regulation in the market. This means taking seriously the fact that childcare is a market and regulating it like one, in the interest of parents, children and workers, and creating a new framework of obligations and incentives for private providers to be real partners in delivering a crucial public good.

We propose a new **social licensing model** for the early years education and childcare market, where ambitious standards for all providers are a condition of receiving public funding. These should be designed through engagement with providers, parents, local authorities and workers, and should focus on:

- worker pay and conditions

- driving up quality standards, including for children with special educational needs and disabilities (SEND)
- value for money, including financial transparency and potential profit caps.

Responsibility for monitoring and enforcing conditions would lie with the Office for Standards in Education, Children's Services and Skills (Ofsted) and local authorities, and conditions would be placed on providers who deliver the Government's 'free hours' scheme. Local authorities would take on a stronger 'market shaping' role, managing sufficiency and helping improve quality locally, while Ofsted would take on more financial monitoring powers.

This is a **5-year vision** for the childcare system, to ensure there is enough time to engage the groups affected and mitigate the risk of providers exiting the market and leaving unintended sufficiency gaps. Transitional arrangements like common-sense financial controls on the largest providers, measures to increase pay for the poorest paid, and bolstering local authority resources, should be implemented sooner.

There is significant precedent for this system here and abroad, from the common-sense controls placed on non-profit providers in the childcare market, to the prudential regulation the Care Quality Commission (CQC) and Ofsted are undertaking in care markets, to the 'Partnership for the Public Good' reforms in Ireland that match ambitious conditions with enough funding to act as an incentive.

What will this cost?

The costs of this new system will depend on the minimum standards the Government thinks providers should be achieving. Expecting providers to bear the costs of conditions without financial support will undoubtedly lead to unaffordable parental costs, closures and sufficiency gaps. Many new conditions, like **prudential regulation, will have no cost** and will increase value for money as profits are ploughed back into the system, while **higher worker pay across bands would cost an estimated £2.3 billion per year**. Funding better management of the market will also incur costs – around £250 million to ringfence local authority early years budgets and £10 million to resource a prudential regulation function within Ofsted.

Initial funding in support of market reforms could be made cost-neutral by reinvesting existing spending currently committed to tax-free childcare, expected to be around £600 million in 2023/24 but likely to rise to more than £1 billion a year (in today's prices) over the medium term. This could fund at least a top-up of the lowest-paid workers to the Living Wage, implement reforms to boost inclusion for children with special education needs (SEN), resource local authorities and fund an expanded prudential regulation team at Ofsted.

As the Government becomes the primary funder of childcare over the next two years, there is a distinct opportunity to take the reins of the market and unleash social value – and a real risk of the problems not being addressed and worsening, with effects on sufficiency, quality, worker outcomes and value for money.

1. Introduction

The early years education and childcare system has been the source of heightened scrutiny and debate in the last 18 months. Experts and practitioners have observed that:

- childcare costs for many are unaffordable – in part due to the need for providers to cross-subsidise the cost of so-called ‘free’ hour offers (Early Years Alliance, 2018)
- ‘sufficiency’ is variable – that is, there are insufficient places for children, particularly for children with SEN and rural families (Coram Family and Childcare Trust, 2023)
- worker pay is very low, with high churn and little opportunity to progress (Weale, 2020)
- quality is variable and poor in many settings (Melhuish and Gardener, 2019).

Calls to make childcare more affordable reached fever pitch ahead of the March Budget, with the Chancellor responding in kind by increasing subsidies to working parents, valued at over £5.3 billion by the end of the full rollout (HM Treasury, 2023). The change, rolling out in stages over the next 18 months, means that by 2025, the Government will be funding the majority of early education and childcare, significantly expanding their (and taxpayers’) stake in the system (Institute for Fiscal Studies, 2023a).[1]

For many parents, this means cheaper childcare bills, though some low-income working parents will see little measurable difference and non-working parents are excluded from support (Coram Family and Childcare Trust, 2023a). The expansion will also create new risks around sufficiency as providers will no longer be able to cross-subsidise underfunded ‘free hours’ as readily, potentially threatening their financial viability.

Government underfunding has been a significant driver of issues of access, cost and quality. This will be partially alleviated by the cash injection announced in the Budget but remains significant – particularly for the 3–4-year-old offer where delivery costs still outstrip funding. The cost of all ‘free’ hours must, at the least, be funded at the cost of delivery to put the sector on a stable footing.

However, there has been a dearth of debate about other drivers of these problems, including whether the system is being properly run and regulated ahead of a significant cash injection, and how we might redesign the market to drive up standards. Nor has there been attention on the perverse outcomes that underfunding of the system gives rise to in a dysfunctional market. Furthermore, in the main the English expansion will subsidise the childcare costs of those already using childcare rather than dramatically increasing demand – so the problem that needs to be solved is not how to increase the number of providers in the market, but rather how to ensure the existing pool of providers is suitable, sufficient and high quality enough (Early Education and Childcare Coalition, 2023a).

In this report we outline the dynamics of the current early education and childcare market, focusing on group settings that make up the bulk of the system, before looking at the precedent for higher controls in UK care markets and considering examples from comparable childcare markets overseas. We then set out an ambitious programme of regulation and reform to drive up standards. Finally, we set out how this system would be run, and the transitional arrangements the Westminster Government should consider to phase in reforms.

2. The system we have

The additional billions announced by the Chancellor flow into a childcare system that is plainly a consumer market, 70% of group-based providers are run privately (Department for Education, 2021). Many nurseries are small, women-led businesses, but the market has seen a growing percentage of larger, private equity-backed providers and the growth of chains (Aguilar García, 2023). For example, research suggests that the proportion of single-site providers has declined from 85% in 2016 to 62% in 2019 (Simon et al., 2022). Other kinds of provision are not immune from market forces – the news that Prime Minister Rishi Sunak's wife was an investor in private childcare agency Koru Kids, coincidentally one of the beneficiaries of additional funding in the Budget, was not a surprise for those in the sector who have seen increasing amounts of private financing in the market.

The ownership and governance of providers in the early education and childcare market matters. Most obvious are the economies of scale that arise for multi-site chains – one benefit being the ability to price childcare differently, make up losses and increase profits. Sufficiency also seems to be influenced by who owns a provider – evidence suggests low levels of sufficiency for SEND children are related to the ownership of providers. 'Standard' needs can be well met by private providers, who have no requirements to accept children with additional needs, while more complex (and expensive) needs are better met by school-based or local authority provision, of which there are significantly fewer providers (Coram Family and

Childcare Trust, 2016).

The Department for Education (DfE)'s own provider survey points to higher workforce churn at private for-profit providers and a lower proportion of spend on staffing (Department for Education, 2022). And quality (which is closely related to workforce characteristics, pedagogy and ratios) was linked to ownership – there is good evidence showing both non-profit and for-profit providers deliver poorer quality provision than state-maintained provision (Melhuish and Gardiner, 2019).Pay is likely to play a significant part in the above trends, and there is supplementary funding given to maintained nursery settings, though more evidence is needed to explore the relationship between quality and ownership of settings further.

Additionally, there is emerging evidence that the involvement of private equity financing in the market, particularly in larger chains whose finances are opaque, sometimes precarious, and whose central goal is to deliver fast shareholder returns, is causing problems (Simon et al., 2022). Their characteristics include:

- lower spend on wages and professional development, which could bleed into lower quality provision
- poor value for money to the consumer and taxpayer, as an outsized percentage of fees and government subsidy is going to servicing debts or returns to shareholders
- reduced choice for parents as non-profit and smaller providers are bought out (Weinstein, 2023)
- increasing the risk of sufficiency gaps if firms fail (Gaunt and Morton, 2022).

The ownership of providers in the market would not have such a determining influence on outcomes if the system was regulated and managed robustly. But unlike other care and consumer markets where an essential service is bought and sold and consumers are protected from the worst excesses of market forces, childcare has limited regulation and public funding comes with few strings attached for providers, both at a local and national level.

Ofsted’s role is to oversee quality and safeguarding. It does this by inspecting settings and childminders in line with the principles and requirements of the Early Years Foundation Stage, a framework set by the DfE which includes guidance for inspectors on judging the quality and standard of Ofsted-registered early years settings (Department for Education, 2024). This includes assessing providers' approach to learning as well as a list of criteria like appropriate staff–child ratios and checking the suitability of the named leaders of settings. When a provider is assessed to be requiring improvement, Ofsted will notify the local authority who will then work with them to make improvements or recommend to Ofsted that they should no longer operate. While inspections cover more holistic aspects of development and curriculum – particularly during the ‘learning walk’, where the setting’s approach to learning and development is assessed – they are generally only carried out every six years, and experts have queried whether poor practice is addressed consistently. For example, Ofsted has the power to strike providers off the Early Years Register, but in practice this is a rare occurrence (Penn, 2023).

One key limitation is that Ofsted's role, both in childcare and education, is focused on assessing individual settings. This means they do not – and cannot – assess the quality of larger chains or social franchises where settings have common characteristics and finances are intertwined, despite the growing presence of these types of providers in the market. In recognition of the determining impact of chains in setting standards amongst their nurseries, the regulator is increasingly bringing together intelligence from settings within chains and engaging with the owners of chains, particularly where there are concerns (Ofsted, 2021). However, it does not have the power to do this formally and a stronger focus on chains would require a change to legislation. Finally, as Ofsted is focused primarily on quality, it does not undertake any financial or prudential checks or collect information about the ownership of providers, address sufficiency or assess value for money.

Local authorities have a duty to ensure sufficient early education and childcare in a local area and distribute DfE funding to providers based on predictions of places and take-up of subsidies. However, they do not have the information, resources or powers to do this job effectively:

- **Information:** Local authorities have ward-level data on sufficiency, but as providers are not compelled to share information and demographic changes often happen at a faster pace than the annual reporting cycle, this data can be inaccurate and contain gaps, making it harder to address 'childcare deserts'. Information about a provider's practices is also limited by the local authority's ability to visit or contact a provider, which is largely dependent on the number of members in a local authority's early years team and how stretched they are.

- **Resources:** Larger or more well-financed local authorities, or those with a particular focus on the early years, may have a dozen or more early years professionals managing their local system – to engage with providers who need improvement, to analyse sufficiency and to work with providers to fill gaps where they arise. The funding to pay for these teams comes from a stream taken from the total funding the DfE gives to fund subsidies – it is not ringfenced and can eat into already underfunded per unit funding to providers, and in some cases is reserved for contingency. Beyond this, there is little funding to local authorities other than ad-hoc and limited capital funding – so setting up new provision, or incentivising innovation, choice and higher standards through more funding is challenging.
- **Powers:** The Childcare Act offers a robust statutory footing for local authority power over local markets, but acting on this duty is limited not only by a lack of information and resources but also by a lack of powers. Local authorities face legislative barriers to setting up maintained provision unless as a provider of last resort and do not have planning controls over the location and type of new private provision. Additionally, the limited controls and standards local authorities can currently place on provider contracts can constrain the ability of more ambitious early teams to manage markets. One local authority in this position told us their council's legal team advised against their attempts to increase the requirements on providers to engage with the team as it went too far above the existing terms and conditions.

As we set out below, the English early education and childcare system is an outlier. A lack of controls and insufficient funding interact to create a dysfunctional market: we don't fund private providers enough to pay workers a good wage or personalise support for children with SEN, and so quality, affordability and sufficiency can suffer; larger private providers and chains can better distribute the losses of underfunded public subsidies and so give rise to the closures of smaller providers, and resulting sufficiency gaps; and a lack of capital investment from Westminster means private equity money fills a notable gap in support, leading to untransparent governance and risks of market exits.

More information is needed to understand this fast-changing market. On regulation and market management, the Joseph Rowntree Foundation (JRF) has spoken to a number of local authorities as part of this report to build a clearer picture of the experiences and challenges of running local childcare markets. JRF is funding and convening experts to deepen public understanding of ownership and how it impacts quality, affordability and sufficiency, in the absence of system-wide information about provider finances and governance. This includes supporting The Guardian to build a database of providers by ownership and governance to examine provider finances and profit-making. This database will be a snapshot of the system and would need to be repeated, ideally by Ofsted, to provide a real insight into the dynamics of the market (Simon, 2023a).

However, Westminster cannot afford to drag its feet. As it becomes the primary funder of childcare over the next 2 years, there is a distinct opportunity to take the reins of the market and unleash social value – and a real risk of these problems not being addressed and worsening, with effects on sufficiency, quality, worker outcomes and value for money.

What should the Government do?

One way to tackle these problems would be to continue increasing public funding into the system and bring childcare completely into Government delivery – effectively ‘nationalising’ childcare, removing private provision and echoing the early years education systems in many Scandinavian countries. This is a view shared by some thinkers and experts – but we don’t agree that it is the best path for England (Moss, 2022; Evans, 2023).

Firstly, this would require the Government to dramatically increase its spending on the system, which is far removed from the current political and economic reality where subsidies are not even funded at unit cost. Secondly, there are serious questions about the willingness of local authorities, who would be the most likely to deliver a 'nationalised' system, to take this on. Conversations with local authorities reveal that there is a variable appetite to take on this role and its associated risks and costs – which include significant capital costs. Local authorities would be the natural delivery leads for a publicly funded and delivered system, so this poses a significant challenge.

Additionally, there are significant risks of short-term gaps in sufficiency if private providers feel the system will no longer work for them, which, counterintuitively, would exacerbate the issue we would be seeking to solve. Take the example of the Welsh children’s social care reforms, where the Welsh Government has mandated that private for-profit provision should be phased out by 2027, anecdotally, we have heard from experts and practitioners that there are significant unintended consequences, including sufficiency gaps as private providers exit (or threaten to exit) the market, as well as a reluctance from many local authorities to take on a role they intentionally shed decades ago.

Finally, and most importantly, there are real benefits of flexibility and choice in a market-based system, which we could harness if we redesigned the market. Parental preferences are important, and can vary greatly according to working patterns, children's needs and more – and a market-based system can more readily deliver. Estonia, a country with a school-style early years education system, has ample provision in ordinary working hours in group settings but little support for parents with care needs in irregular hours, or who prefer other kinds of childcare (The Fawcett Society, 2023). Nationalised public services have long tried to harness the benefits that markets can bring, for example through outsourcing specialised activities and competitive procurement (whilst not doing enough to design out negative externalities). Political scientist Jane Gingrich cautions us against homogenising public service markets by detailing a range of types, characterised by a spectrum of controls and oversight (Gingrich, 2011).

The solution to a dysfunctional market should not be to throw the baby out with the bathwater, but to move away from laissez-faire controls to higher expectations. For childcare, this means a market that preserves benefits, like choice and flexibility, while designing out perverse incentives through a culture of high standards, effective oversight and robust controls.

Beyond this, there are a range of measures policy-makers should consider to address these issues, the most important being higher funding to cover the costs of delivering 'free' hours and inflationary rises. Looking at other countries, interventions like sectoral minimum wages, wage boards and changes to the curriculum would be ways to tackle workforce and quality issues. These are important interventions that warrant further analysis and development.

This report, however, focuses on how the Government could use its role as funder and purchaser of childcare to stabilise the market and drive up standards. Throughout, we reflect on real-world examples where interventions have been tried, reflecting on their benefits and potential drawbacks, and setting out the trade-offs.

3. Inspiration for higher standards

International childcare markets

Many international childcare systems with significant privately delivered provision and public subsidies include higher controls on public funding, including ensuring value for money and financial transparency. Ireland and Australia are good examples where governments have balanced incentives to providers with the needs of parents, children, workers and taxpayers, rooted in the vision of early education and childcare as creating a public good.

In **Ireland**, the Government committed to a whole-system reform of the early education and childcare market and appointed a group of experts to design a new system, which focused on balancing affordability, quality and worker outcomes. Unlike England, the system had very little public subsidy to begin with, with lower demand for childcare, so centralised funding could be more readily used as an incentive for providers and mitigate the risk of exits.

The new system consists of three main funding streams, the demand-side National Childcare Scheme and supply-side Core Funding and a provider subsidy to deliver 15 hours of early education and childcare support per week. These sit under the umbrella of the 'Partnership for the Public Good', a strategy to recentre group provision on the outcomes of users and workers, as well as the sustainability of providers. These schemes are overseen and managed by the Department of Children, Equality, Disability, Integration and Youth, with providers making direct agreements with the minister to deliver schemes.

The Department for Education and the Child and Family Agency, also known as TUSLA (the Irish equivalent of Ofsted) both inspect provisions for educational quality. The National Childcare Scheme, which subsidises some of the costs of delivering provision (by hour), expects providers to submit annual accounts. ‘Core Funding’ is a new payment to providers intended to offer incentives and impose controls to drive up quality and sustainability. The funding is calculated by places, not just hours, to support the broader cost of delivery (for example administrative costs, continuous professional development [CPD] for staff) and responds to the actual running costs of each provider. It also provides additional funding to recruit graduate staff (called the ’Graduate Premium’). Providers receiving Core Funding are subject to a number of conditions, including fee caps, financial sustainability checks and the need to develop annual quality plans.

There are early signs that the new system is having a positive impact – fewer nurseries are closing, worker pay has increased and new provision is being set up (Early Education and Childcare Coalition, 2023b). The system continues to iterate – currently, the education department holds relationships with providers, a separate body regulates quality, and local childcare committees manage local systems. In the future this will move to the responsibility of a new central agency and a plan to integrate childminders into the broader system is underway.

In **Australia**, around half of providers are private for-profit. Its central Government subsidises childcare through two funding streams – the Preschool Reform Agreement and the National Childcare Subsidy (Department of Education, Australian Government, 2022). The universal support offers children aged 4 up to 15 hours a week of subsidised childcare, with funding paid per child to states and territories, who decide costs and then directly pay providers – the majority of these governments offer these as 15 free hours. The Childcare Subsidy provides a fee discount or write-off to eligible parents, which is means-tested based on parental income and type of activity/work and is paid directly to providers (Department of Education, Australian Government, 2022; Fawcett Society, 2022). There are also state Government-level subsidies for children aged 4 years and over.

Quality standards are assessed by the Australian Children's Education and Care Quality Authority. Following the failure of ABC Learning, a private equity-backed, for-profit provider, in 2009, concerns were raised about the risky and untransparent behaviour of the provider as well as the lax financial regulations placed on them (Kruger, 2009).

In response, the Australian Government introduced prudential regulations on large providers. Becoming an approved provider to receive subsidies now includes enhanced checks on 'persons with management control' (PMC), including background checks, which include the director of the company and the regional manager. The system also requires fit and proper tests on the PMC, including any past or current debts to the Government and a record of financial management, including any instances of bankruptcy, insolvency or administration (Department of Education, Australian Government, 2023). Large providers (25 or more settings) must provide detailed financial information, including a balance sheet, profit and loss statement, auditor's report if there is one for the reporting period, and information about debt guarantees from a separate entity – all to assess viability. In England there are analogous controls on not-for-profit providers – but no controls for for-profit private provision.

UK care markets

Comparable care sectors in the UK either already have more levers to shape markets and raise standards or are moving towards more managed markets in recognition of the impact on users, workers and the public purse. While there are some important differences, it is worth seeing these sectors as test cases for a more robustly regulated childcare system, given the similarities between them. All formal care services are a public good we all may need to rely on as consumers; they are purchased in part using taxpayer money in units by local authorities for local people; they are primarily private for-profit providers; and are delivered by generally low-paid workers. Much of this care is 'commissioned' by local authorities – that is, the 'strategic activity of identifying need, allocation resources and procuring a provider to best meet that need, within available means', which is not only procuring provision but working with stakeholders, co-production and monitoring outcomes (Local Government Group, 2011).

Adult social care: The adult social care market has shown signs of 'financialisation' for at least 20 years, with increasing private financing and financial performance metrics in the market both in the UK and abroad (Niewijk, 2023). The failure of Southern Cross in 2011, following a succession of private investors managing the provider, led regulators to consider more robust controls on financial health. Fearing sudden drops in sufficiency which would seriously impact users and the wider local community, the CQC on a new market oversight function for very large providers in 2015 and introduced new checks on viability in 2018 (Care Quality Commission, 2022a). This created an enhanced monitoring process of financial sustainability, including the power for the CQC to request a risk mitigation plan or independent audit-style review if a provider's finances were shaky. If providers are at imminent risk of failure, the CQC can now give advance warning to local authorities so they can fulfil their statutory duty to arrange alternative provision (Care Quality Commission, 2022b).

Local authorities can place conditions on commissioned adult social care providers – generally, due to budgetary constraints, care is commissioned based on cost, with the cheapest services chosen. However, some local authorities have taken on more ‘market shaping’ roles – for example, some have signed up to Unison’s Ethical Care Charter, which sets out a commissioning framework grounded in care workers’ rights, while many undertake outcomes-based commissioning that centres on care worker autonomy and consumer outcomes. The Government has released advice and support on how local authorities could take on more active roles in shaping local markets – with no equivalent in the childcare market (Department for Health and Social Care, 2017).

It is not straightforward to assess the impact of these interventions because sufficiency in provision and financial stability are also contingent on broader systemic factors, like government funding and income from self-funders – both of which are well-documented to be inadequate and/or volatile (National Audit Office, 2021). Care homes have continued to close, with evidence suggesting closures have accelerated during the Covid-19 pandemic (LaingBuisson News, 2021). Anecdotally, experts tell us that private equity firms are less interested in investing in the market and are looking at opportunities in other public service markets, including childcare, but there is not clear evidence to suggest increased controls are the reason. More evidence is needed to examine whether market oversight is having its intended effect, and adequate funding is a necessity to ensure providers can continue to operate.

Children’s social care: The children’s social care sector is dominated by private for-profit providers, with a high degree of consolidation – the 10 largest private owners of remaining children’s homes deliver 30% of places. Just one in seven private children’s homes (15%) is a single provider that is not in the ownership chain of a larger company.

The Competition and Markets Authority (CMA) opened a market study into children’s social care in 2022, and their findings set out the negative consequences of a poorly regulated and managed market – children’s needs not being met, private providers profiteering and risks of placements being affected by the failure of highly leveraged providers (CMA, 2022). It called for more robust local authority commissioning of services, changes to the regulatory restrictions to increase provision, a new regulator like the CQC to oversee the market and requirements for providers to have contingency plans in case of failure. The MacAlister Review similarly identified the pernicious impact of the profit motive in the market, with serious gaps in sufficiency, children housed far from family and networks, and limited power for local authorities to intervene in local markets (Department for Education, 2023a).

In response to the CMA's market study and MacAlister Review, in February 2023 the Government announced a new strategy that rebalanced the market towards users and local communities. Two central pillars of this are new financial oversight controls on the largest providers, led by Ofsted and beginning as a voluntary commitment from providers and then moving to a statutory footing, and the establishment of Regional Care Co-operatives to enable local authorities to commission and plan services holistically. The Government acknowledged the need to raise sufficiency, address excess profits and a lack of transparency from providers around debt and dividends, and stated they would be learning from the CQC's role in the adult social care market (Department for Education, 2023b).

In **Scotland**, private providers in the childcare market already operate through a social licensing model, where the National Standard sets out the framework by which providers are commissioned to run early years education and childcare services in a local area. The standard applies to all providers and includes requirements about providers' financial viability, fair work practices, and places limits on the ability of settings to charge for additional services like snacks and outings (Early Learning and Childcare Directorate, Scottish Government, 2022). Local authorities can refuse to contract with a provider unless they meet these requirements – in practice, however, the system needs to be strengthened as local authorities do not have a legal basis to reject a provider's offer to operate, so there have been instances where they have been subject to legal action by rejected providers.

Finally, the **English education system** already runs a quasi-social licensing model in the form of the conditions placed on academies (including free schools and academy trusts) in exchange for public funding. Academies enter into funding agreements directly with the Secretary of State, and the DfE sets out the responsibilities that these entail, including:

- governance requirements around members (akin to shareholders) and trustees, including their skills and statutory duties around safeguarding, estates management and health and safety
- requirements about the staff leaders of the academy, including the requirement to have an accounting officer bound by public service standards and a chief financial officer
- financial planning responsibilities, including requirements for trustees to have oversight of budgets and prudential principles around any investments the academy holds.

(Education & Skills Funding Agency, 2023)

They are also subject to stringent quality assessments by Ofsted. Critics worry about the marketisation of the education system as academies are exempt from local authority standards on curriculums, but compared with the early years education and childcare system, where settings are subject to limited controls on governance or financial processes, a shift to this kind of system would be a sea-change and represent a much stronger voice for users and workers in the system.

4. Building a better childcare market

The early education and childcare system has a range of roles, most notably the twin (sometimes conflicting) aims of making it easier for parents to work and educating children at a pivotal early stage. The current market does a fair job of helping parents to work, though not for all parents, and a variable job at the second, though educational inequalities present early on. The common framing of childcare as care and not early education and childcare is both a symptom and a driver of this. The system also pays workers poorly, with knock-on impacts on quality, and gives private providers outsized independence to self-govern, at the expense of the needs of parents, children, workers, the local community and the taxpayer.

The end goal should be a childcare system in which provision is available, flexible and affordable for all families – not only for middle-class parents and children without SEN, but for everyone. Providers in this system could operate through a range of models – private, non-profit, maintained, and make modest returns if they wish or need to, but all would adhere to high standards of quality and good governance. Small settings and larger chains should be able to thrive in this market, as should innovative and purpose-led providers such as cooperatives.

It is clear that to achieve this system we need an overhaul. The market needs a root-and-branch review of its structure and regulation and a new framework to regulate and manage the system to improve outcomes for users and workers. It will also necessitate a new approach to funding, which matches high expectations with ambitious funding to cover costs and act as an incentive for providers to deliver high-quality services and uphold high standards of transparency and accountability.

We think this could be achieved through a **social licensing model**, where public funding to providers comes with ambitious, enforced expectations to adhere to. This would balance the justifiable wish for companies to remain viable and make modest profits with the need to deliver for parents, workers and the taxpayer. It maintains the benefits of a market where parents can benefit from choice and flexibility and allows the Government to share the benefits (and risks) of delivering a public service while driving up standards and boosting the social value that the system creates.

To do this right and ensure all workers and parents benefit, all providers would need to agree to conditions on their operations as a requirement to do business and receive public funding. This would build upon the current system of Ofsted registration, where quality is assessed by Ofsted for all providers delivering early education and childcare services, adding conditions to those providers receiving 'free hours' public subsidies.

Below we begin to sketch out what obligations, governance, compliance, enforcement and market shaping would look like in an early education and childcare market focused on the public good.

Which public funding should come with conditions?

We think there are 3 main options available to policy-makers when designing a social licensing system for funding the early years education and childcare market: a separate stream funding model, like Ireland's Core Funding; conditions on existing funding; and conditions on a section of subsidies.

1. Conditions on existing funding (preferred)

We've shown that in comparable markets and systems, the Government expects more from providers in return for government funding. Now that per-unit funding of 'free hours' is more closely aligned to the actual cost of delivery, at least for care for the very youngest children, there is a good case for attaching conditions to the main funding streams providers receive (for example 'free' hours subsidies). This would act as the strongest incentive to change provider behaviour as most providers receive them. While this option poses the most risk of market exits and sufficiency gaps, due to providers feeling unable or unwilling to change their practices, sufficient funding to cover the cost of delivering higher standards would mitigate this. Some providers may entirely opt out of subsidies, though this risk is low – in Ireland, less than 5% of providers have opted out of funding.

2. Core funding mode or similar

Like Ireland, here conditions would be attached to a new funding stream which is not related to hours, is focused on secondary delivery costs and viability, and can be used to drive up standards in the market without risking sufficiency. However, unlike in Ireland where the Irish Government pays for less childcare and Core Funding can be used as an incentive to drive up standards, there will be little slack left in the English system once the Government is the primary funder of childcare. To illustrate – in 2022/23, the funding allocated to the Irish Core Funding stream (€259 million) far outstripped the National Childcare Scheme subsidies (€200 million) – replicating or even echoing this system would require several more billion pounds in the system not attached to increasing subsidised provision. Without this kind of financial support, the funding could not act as a meaningful incentive to drive up standards (Houses of the Oireachtas, 2022).

3. Conditions on parts of subsidies

One way to mitigate the risk of exits would be to split subsidies to providers to 'base' and 'top-up' funding – this way, providers can still receive some funding with fewer obligations, and then can choose to take up additional top-up subsidies or rely on parent fees/other funding. This could be applied to the per-hour subsidy (eg 50p 'base' plus 50p 'top-up') or to the totality of entitlements (eg existing entitlements seen as 'base' subsidies, expansion seen as 'top-up' subsidy with additional conditions). While offering more security to providers in the short term, this could be complex to administer or lead to unintended consequences – for example, a twotier system could emerge where providers who can more readily rely on parent fees sidestep drives to improve standards, or where providers are wary to deliver the English childcare expansion because it would incur additional responsibilities.

Our preferred model is for pragmatic but ambitious minimum conditions to be applied to all 'free hours' funding to ensure the widest group of parents and workers can benefit from reforms. However, as we set out in the following section, a transitionary stream of funding specifically to raise wages could be created as a stepping stone to wider conditions.

A change to the structure of subsidies, for example, if Westminster moved to a progressive system of co-payment (as in Ireland), may necessitate a different approach as public funding might represent a less compelling incentive for providers to change behaviour.

Ambitious standards for a better market

There are a number of areas where the Government should consider higher obligations from providers as a condition of receiving government funding. We propose these are managed and delivered primarily by Ofsted, with some role for local authorities where appropriate. Many of the conditions in practice will necessitate higher per-hour funding and transitional support, and we set out in the next sections what this might look like and how we might pay for it.

We can learn from policy-makers' attempts to put in place the new funding formula in 2013, which set out how local authorities could manage and control funding to providers, seeking to both level funding between the maintained and private, voluntary and independent sector as well as drive up standards in quality, sufficiency and flexibility. Initially, local authorities were asked to give a base rate to all providers, with supplementary funding to incentivise quality, sufficiency and flexibility. The system was ambitious in trying to balance controls and incentives to drive up standards, however, providers of different sizes were concerned by the additional requirements they would need to meet to get the supplementary funding and the inadequacy of the supplementary funding streams, and there was fierce resistance from the sector.

Eventually, the Government proposed a simpler funding stream, which covered all the unit costs of delivering childcare and differentiated by setting rather than by activity. From this we can learn how important it is to ensure requirements are pragmatic, well understood and agreed upon by the sector, and that providers are resourced to deliver them. These elements will be crucial to the success of a new settlement.

Below we have listed those that speak most directly to the problems we have in the market now, these are focused on group-based provision rather than childminders, they either build on existing requirements or are novel and do not represent an exhaustive list.

1. Tackling variable and low-quality provision

- A requirement for all providers to have appropriate support in place for children with SEN (see worked example below).
- A requirement to create and submit quality action plans, using the more in-depth Early Childhood Environment Rating Scale).
- Higher minimum training requirements for managers and leaders – expecting leaders to be graduates or have minimum experience which would translate to expertise.

Worked example: Minimum requirements for SEND provision

Every child should be able to access appropriate early education and childcare – both to help their development and to help their parents work. We need high standards for settings, backed by appropriate resources from the Government to achieve them, and robust enforcement to ensure compliance.

There is a wealth of evidence setting out what children with SEN need to thrive in early years education and childcare settings, and DfE agrees that early intervention is ‘fundamentally important’ (House of Commons Education Committee, 2023). The Government has set out the expectations for settings in the SEND Code of Practice and the Early Years Foundation Stage (EYFS) (Department for Education, Department for Health and Social Care, 2015; Department for Education, 2014). These requirements include:

- Making arrangements to clearly identify and support children with SEND, for example using the Early Years Outcomes guidance as a tool to assess expected development levels.
- Identifying a Special Education Needs Coordinator (SENCO) in a group setting and allocating time for them to plan effective SEND provision.
- Working in partnership with the local authority and other services working with the family.

Yet, the system is failing many families. Less than one in five local authorities in England report sufficient childcare for children with disabilities. Parents report being turned away from settings with places once they mention their child has a SEND. These problems in the system are being driven by several factors:

- More young children are being identified as having SEND, increasing the demand for suitable places, with risks of further sufficiency gaps with the childcare expansion (Coram Family and Childcare Trust, 2023b).[2]
- Funding streams to help settings support children with SEND are plagued with complexity, inadequacy and delays (Department for Education, 2023c). Settings can also use the Early Years Pupil Premium (EYPP) to support children with SEND, however, the EYPP is far lower than the Primary Pupil Premium (£342 versus £1035 in 2023). The Government has acknowledged delays with all funding streams, which can result in settings receiving funding after a child has left.

- A shortage of specialist early years settings for children with SEND where mainstream provision is not suitable, even if deemed high quality by Ofsted.

Conditions should evolve existing requirements on expectations and training around SEND provision. While some recent progress has been made on upskilling, more needs to be done (House of Commons Education Committee, 2023). This should start with reviewing and updating the SEND code of practice to ensure **obligations on private settings** match those currently placed on the maintained sector. The Government should also amend the EYFS statutory framework to make training in identifying and supporting SEND a **mandatory training requirement.** This will place a requirement on settings to upskill their existing staff (especially if they qualified before SEND criteria were strengthened) to be compliant with a new framework.

To help providers achieve this, the Government needs to make an annual commitment to **funding the training of SENCOs** to take account of staff turnover, new settings and gaps in the initial roll out. Additionally, they should consider increasing the rate of EYPP to match the rate in primary schools and widen eligibility to support more disadvantaged children.

To monitor and improve standards, Ofsted inspectors should be trained to recognise and understand inclusive SEND practice and change the Ofsted inspection criteria to put more emphasis on quality SEND practice. Early years teams should also have enough capacity to speed up the processing of applications for SEND Inclusion Funds and assessments for Education Health and Car) plans and include sufficient SEND specialists to provide good support and challenge to settings in their area.

2. Worker outcomes and quality

- Requirement to pay workers an agreed higher minimum wage (see below for worked example and costings).
- Development plans for workers to increase their skill and expertise – including dedicated time for CPD and training.

Worked example: Minimum requirements for worker pay

Early years workers are some of the poorest-paid workers in the labour market (Resolution Foundation, 2023). Like other care markets, this workforce faces high vacancy rates, low pay, high churn and few opportunities to progress. Despite repeated calls and attempts to professionalise the workforce and offer opportunities to progress and upskill, low pay within the sector has prevented meaningful change.

Low pay means settings can't attract more experienced workers or graduates – with resulting negative impacts on quality. An unhappy workforce also means the Government's ambitious expansion plans risk unravelling as there will not be enough qualified staff to deliver them (Early Education and Childcare Coalition, 2023a).

Raising pay in the early years workforce won't be possible without more funding from the Government unless parents are willing to pay more. Given the 2023 Budget reforms were largely a response to anger from parents about unaffordable childcare, it is unlikely that policy-makers would be willing to do this. Furthermore, raising the pay of the lowest-paid workers would be a positive step but would not address the issue of retention, as progression opportunities are squeezed while pay differentials reduce up the pay scale. Reforms should look to increase pay across the pay scale.

In Ireland, a Joint Labour Committee (a wage board comprising of worker and employer representatives) independently sets minimum levels of pay by band. Employment Regulation Orders are the legal instruments that apply to employers in the early years childcare system, and the Workplace Relations Commission handles complaints and breaches. In England, these bands could be set by a new body, through Fair Pay Agreements, or the Low Pay Commission, and enforced by HMRC or at the local level by local authorities.

The Early Education and Childcare Coalition has modelled what a new pay scale could look like for England, accounting for additional headcount to deliver the expanded offer, and estimates the cost of these reforms to be around £2.3 billion per year (see detail below) (Early Education and Childcare Coalition, 2023b). An interim measure would be to raise only the pay of the lowest paid workers (for example up to Level 2), which would cost around £250 million – though this would reduce progression incentives to higher bands.

Total workforce costs by 2025

	Current pay levels 2023 (current workforce)	Real Living Wage 2024 (and expanded workforce)
Level 2	£564,202,164	£814,507,105
Level 3	£3,883,787,467	£5,439,995,998
Level 4	£283,668,310	£387,639,256
Level 5	£438,683,974	£523,196,829
Level 6	£1,150,121,634	£1,321,083,164
TOTAL	**£6,834,290,520**	£9,146,338,421

3. Democratic governance (to be managed by Ofsted)

- Each provider to have a board (like non-profits), with the exception of single-setting providers.
- Parental and worker representation on boards, this could be in the form of minimum requirements on board membership, or a requirement for key strategic plans to be signed off by worker and/or parent committees.

4. Value for money and prudential regulation

- Transparency around the finances of providers, including in-depth detail of debt agreements and private equity ownership.
- Affordability guarantees, either through bans on 'hidden costs' like paid lunches, or more broad requirements around fee caps or lower costs for low-income families.
- Caps on excessive profits (which would require additional auditing requirements) as defined by the CMA.

5. Who would administer, monitor and enforce these controls?

Responsibility for the childcare market is distributed amongst a range of actors, with significant gaps in regulation – most notably financial viability and prudential regulation. The enhanced role of collecting, monitoring and enforcing these conditions could sit either at the level of Ofsted, DfE or local authorities.

There is precedent following the Government's announcement on children's social care, which would place Ofsted in a strong position to undertake financial monitoring. Providers are already registered with the agency, and Ofsted is building in-house auditing capacity to do viability checks in the children's social care sector which can be duplicated for early years childcare providers. The regulator also showed its ability to evolve and iterate when it took on regulatory oversight of early years education and childcare. The Government should expand powers for the regulator to allow inspections of chains at the level of ownership as well as setting level, in recognition of the role the chain's standards and finances play in the operation of individual settings.

Ofsted should also hold providers accountable for driving up quality, and any conditions around governance and transparency, as they are already making quality assessments. Local authority resources should be bolstered to give them more capacity to help providers increase quality and maintain sufficiency in their local area, including for children with SEN. We think this is a more pragmatic approach than having governance for the system sit centrally with DfE, or with a new umbrella body or bodies:

- **DfE:** As in Ireland and Australia, and with academies, this registration and compliance role could be centralised. However, given that DfE has little direct engagement with providers on standards or funding, this may be administratively challenging.
- **New institution(s):** As in children's social care, there have been calls to create new regional bodies to manage the regulation and oversight of the system. While there are benefits – particularly given nursery chains span local authority boundaries – we think this would create unnecessary new administration during a time when Ofsted is already taking on analogous powers and where there is good practice already ongoing within local authorities to build on and replicate.

5. Moving to and sustaining the new system

Balancing controls and incentives

While a market system allows the Government to push some risk onto providers and therefore lower overall costs on the Exchequer, a market with high standards and high expectations needs to be backed by sufficient and ambitious government funding. This is, first, to cover the cost of delivering reforms, for example ensuring the cost of higher wages is not borne by providers, who otherwise might have to drive up prices for some parents to make ends meet. Some conditions will be more costly than others, additional inclusion funding and wage boosts being the highest cost, while prudential regulation should only entail limited administrative costs for Ofsted (which are already in motion with reforms in the children's social care market).

One stream of funding is reinvesting spend on Tax-Free Childcare, which provides subsidies for working parents and is now significantly harder to justify given its low take-up rate and the increased subsidy going to higher earners after the planned expansion (Institute for Fiscal Studies, 2023b).[3] Initial funding in support of market reforms could be made cost-neutral by reinvesting existing spending currently committed to the policy, which is expected to be around £600 million in 2023/24 but likely to rise to more than £1 billion a year (in today's prices) over the medium term. This could fund at least a top-up of the lowest-paid workers to the Real Living Wage, implement reforms to boost inclusion for children with SEN, resource local authorities and fund an expanded prudential regulation team at Ofsted. The impact on eligible parents would be limited given they are the target of increased subsidies in the childcare expansion – the Office for Budget Responsibility has already estimated that the childcare expansion will replace £400 million of the spend on Tax-Free Childcare (Office for Budget Responsibility, 2023).

Finally, to further ensure sustainability in the market, DfE should put in place a new capital funding programme to help providers fund improvements and maintenance in settings. This could build on the £100 million grant announced in November 2023 or could take the form of a loan programme with affordable repayment rates, with controls on eligibility, including compliance with financial monitoring.

Shaping fair and thriving local early education and childcare

Currently there is no one body capable of advising providers, monitoring compliance and enforcing these requirements. Despite its challenges, we think it is right that responsibility for managing the system is distributed between local authorities and a regulator, with local authorities responsible for engaging with providers on sufficiency and sustained engagement with providers, and Ofsted independently assessing quality, and in our proposed system, prudential regulation and transparent governance. Unlike new regional boards, as are being trialled in the children's social care market, this affords more agency to local authorities who know their communities best, as well as being less administratively time-consuming.

Practically the system would work similarly to the current one, where the DfE allocates local authorities' funding for childcare subsidies based on predicted numbers of eligible children, and local authorities commission against this funding. The key difference would be that a condition of entering a contract with the local authority to deliver 'free hours' would evolve to include new requirements. This would necessitate more information sharing between local authorities and the regulator, to ensure that local authorities have the best possible information about the practices of providers in their local areas.

For the **regulator,** which could be an evolution of Ofsted or a new body charged with managing the childcare system across a range of measures, this would mean evolving the requirements providers already have to operate in the market with more robust monitoring and more proactive engagement. This would look like more of a CQC-style role in the market, conducting financial checks and having a more hands-on approach to quality and the workforce. To succeed, Ofsted (or an Ofsted-style body) would need additional resourcing, to fund monitoring and compliance teams and hire financial experts to examine company finances.

For **local authorities**, this would mean procuring, allocating and commissioning childcare more strategically, with a focus on value for money and social value. It would also mean an increased focus not only on sufficiency but appropriate and high-quality provision, for example, for children with SEND and children in rural areas, through more sustained engagement with all providers, not just those deemed as requiring improvement.

Many local authorities are already modelling this kind of role. Our conversations with local authorities raised some of the key features of good market management:

- well-resourced early years teams, either in one department or spread across sufficiency and quality improvement teams
- yearly or termly quality ratings of providers to prioritise where to place engagement resource
- termly visits to settings that have been deemed needing improvement or underperforming, with fortnightly visits and/or contact with settings consistently underperforming
- regular conversations between early years teams and local Ofsted lead, including warning from either if a provider is deemed to have issues with quality or financial viability
- a local joined-up response to provider failure or sufficiency gaps, including proactive contingency conversations with providers to find those willing to expand or offer places if a nearby provider was to fail
- financial oversight, either built into contracts or ad-hoc monitoring when concerns arise.

Not all local authorities we spoke to were able to do this due to their financial position, with some early years teams dwindling in number or just consisting of one part-time worker engaging only with the most challenging providers.

The Government should be enabling all local authorities to manage their markets more actively, without this, we are unlikely to see meaningful improvements in sufficiency and quality. The wheels are already in motion, delivering the Government's proposed expansion of entitlements will necessitate more engagement from local authorities, as a host of new providers previously out of local authority purview who did not deliver 'free hours' start requirement support and monitoring. The Government recently announced new capital funding to support the expansion, but this is not focused on funding staff (Department for Education, 2023d).

The first step is to ringfence the amount local authorities receive from the Government to manage their local system and separate it from the total funding stream intended to pay providers to deliver entitlements. We estimate this will cost £250 million. The next is to increase the amount local authorities get to resource early years teams, most local authorities we spoke to told us that delivering on the ambition of a thriving and quality local early years system would require twice the funding they currently receive. The overall funding local authorities ill receive will increase anyway as subsidies rise, but the Government should consider increasing the percentage local authorities can retain.

However, we think the Government could be smarter with funding rates to local authorities. Currently, DfE funding rates vary by local authority in part due to the deprivation levels of a local area. We think funding should go one step further to recognise the resources needed at the local authority level to engage with consistently underperforming providers, this would mean funding for local authorities would be linked to the assessments Ofsted makes of providers, with a higher percentage of funding going to local authorities with a number of more challenging (and resource-intensive) providers.

Finally, the Government should look to harness the good practice ongoing in local authorities, as they have with Stronger Practice Hubs, and give more leeway to local authorities to manage their market through new guidance. There is a wealth of expertise and good ideas at the local level, despite funding constraints, as well as a real appetite to expect more from providers. To do this well we need to share good practices as well as ensure existing regulations and contracts don't hamstring local authorities trying to do more.

Putting the market on a stable footing

In practical terms the imposition of a raft of new conditions on funding could have unintended consequences like sudden drops in sufficiency if providers exit the market. Conditions as limited as requirements for financial transparency could, in theory, have this effect, as the finances and ownership of private equity investors can be hard to trace.

We propose a two-phase approach to conditions on funding – ahead of a more ambitious change to the contract between providers and the Government, an interim phase will seek to bring regulation in line with reality and place the market on a stable footing without threatening sufficiency in the near term.

The framework for designing the first phase focuses on the basic expectations we should have from our early education and childcare market today and can be put in place at little or no cost. They also reflect common sense controls that not-for-profit providers already have to abide by, like having a minimum amount of financial reserves (Simon, 2023b). The key rationale would be to:

1. **Ensure sufficiency:** Insufficient suitable childcare places, variable sufficiency in different local areas and nursery closures are already affecting parent's ability to take on work and leading to worsening outcomes for some children. Currently, the Government has little knowledge about provider finances and so sufficiency gaps can be sudden and harder to manage. As providers consolidate and chains grow, this problem could be exacerbated if a large provider fails. We need a system where parents can have a reasonable expectation of continuity of care, and in the long run, enough choice locally to make meaningful decisions about where to send their children to be cared for.
2. **Deliver value for money:** Where significant sums of public funding are being paid to private providers, the Government should expect a basic level of transparency to ascertain public funding is being used responsibly. This is important given expanding private equity ownership in the market, where company finances are not transparent and there is a risk of excessive profiteering.

Prudential regulation – or controls on providers that seek to monitor and maintain financial viability – is desperately needed in the childcare market. This should apply only to the largest providers (for example those with 20+ settings) where sufficiency gaps would have the most impact and include requirements to:

- **submit annual accounts**, with clear information about profits, loss and any debt guarantees, to help assess financial viability and risk of failure
- be subject to **fit and proper persons** tests on any leaders of providers, including providing a history of financial management.

To address the risk of significant sufficiency gaps if larger providers fail, these suppliers should also engage with local authorities where they operate to set out a **'supplier of last resort'** plan to redistribute places in case of a sudden exit.

Non-compliance with these conditions should trigger an engagement process with the provider, with repeated noncompliance (for example, over a year) resulting in public funding for subsidies being withdrawn, and ultimately the provider being removed from the Early Years Register. This is broadly in line with accounting controls placed on not-for-profit providers and monitored and enforced by the Charity Commission. The Government should look to giving a transitional period of six months to providers to submit accounts before the oversight regime comes into effect.

Moving to the new system

Learning from previous transformations of the childcare market and comparable systems, it's clear that Government will need to make a concerted effort to design conditions that are **both** ambitious and achievable, work with providers well ahead of conditions being imposed to inform and support change and leave a lead-in time for the market to catch up with standards.

A proposed timeline for transformation could look like this:

- **Autumn and winter 2024–5:** Engagement with providers to understand problems and the potential impact of conditions.
- **Spring 2025:** New prudential conditions on the largest providers come into effect, with enforcement action not starting until December.
- **Spring 2025:** Consultation published to gather views from the sector on potential conditions and funding to deliver.
- **July 2025:** Interim funding put in place to boost worker wages and resource local authority teams better. Potential bringing in of less resource intensive conditions like financial oversight.
- **September 2025:** Government response and strategy published; communications campaign on conditions begins.
- **January 2026:** Wider conditions come into effect, with 12 months of lead-in before they are enforced.

In Ireland, the Government signalled an intention to work closely with stakeholders to develop and refine processes ahead of setting standards to increase buy-in. This should be replicated here, alongside a concerted campaign to help providers understand their obligations when conditions are imposed. Market signals should also encourage new provisions to lessen some of the medium-term impact of closures and exits where they arise.

6. Conclusion

We have set out a vision for an early years education and childcare system that looks both familiar and distant – rooted in learning from comparable systems and markets here and abroad while tracing a path to a system where standards and expectations are high. In this future, providers are real partners in delivering a crucial and fundamental public good, funding matches ambition, and we can all benefit from the benefits of both a market and a centralised system. The real winners will be parents and children, whose childcare will be of a higher quality; providers whose finances will be more stable and who can better serve the needs of children and their communities; and early years professionals who will finally see their work valued.

There is no way to achieve this system without putting more money into it, even above the billions the Government has already promised. We will not see higher standards in quality or solve the recruitment and retention crisis in the workforce without this. But marrying higher funding with more robust controls will ensure that the greatest social value is generated – and the ever-growing risks of extractive finances and sufficiency gaps are tackled.

We're very grateful for the experts who have taken the time to reflect and feedback on our proposals:

Eva Lloyd, Neil Leitch and Shannon Pite, Gareth Bryant, Samantha Crème, Lucie Stephens, Helen Penn, Megan Jarvie, Matthew Horne, Rebecca Montacute, Jonathan Broadbery, Mel Wilkes, Meghan Meek O’Connor, Flora Wilkie, Jodie Reed, Vivek Kotecha, Antonia Simon, a number of early years leads at local authorities, and contacts at Ofsted and the DfE.

I’m also very grateful for internal review, feed-in and feedback, from Graeme Cooke, Alfie Stirling and Louise Woodruff.

7. Notes

1. Estimates range between the IFS who say taxpayer funding will cover 80% of subsidies, up from around 50%, to London Economics, who estimate in a forthcoming paper that taxpayers will cover 50% of subsidies, up from 30%.

2. Settings can receive additional funding from local authorities for children with an Education Health and Care plan; apply for Disability Access Fund to make reasonable adjustments; access SEND Inclusion Funds for children with lower level or emerging SEN.

3. There is a small risk of working parents needing full-time care seeing significant childcare cost increases if providers increase fees for non-funded hours to cross-subsidise losses. In this case Tax-Free Childcare would be a helpful way to offset these costs, and its termination would mean working parents losing out. One way to mitigate this would be to add caps on fees as a condition of taking public funding.

8. References

Aguilar García, C, Goodier, M, Topping, A and Stewart, H (2023) Childcare sector in England must not become 'playground for private equity', experts say (https://www.theguardian.com/money/2023/aug/04/childcare-sector-england-not-playground-private-equity-experts-say)

Care Quality Commission (2022a) New guidance on assessing the financial viability of providers applying for registration (https://www.cqc.org.uk/news/providers/new-guidance-assessing-financial-viability-providers-applying-registration)

Care Quality Commission (2022b) Market oversight of 'difficult to replace' providers of adult social care: quick guide (https://www.cqc.org.uk/guidance-providers/adult-social-care/market-oversight-quick-guide)

CMA (Competition and Markets Authority) (2022) Final report (https://www.gov.uk/government/publications/childrens-social-care-market-study-final-report/final-report)

Coram Family and Childcare Trust (2016) Social mix in London early years provision (https://www.familyandchildcaretrust.org/file/1122/download?token=lrtnn82e)

Coram Family and Childcare Trust (2023a) Tackling disadvantage through childcare (https://www.jrf.org.uk/report/tackling-disadvantage-through-childcare)

Coram Family and Childcare Trust (2023b) Childcare survey 2023 (https://www.familyandchildcaretrust.org/sites/default/files/Resource%20Library/Childcare%20Surv

The Coram Group (2023) Coram survey finds childcare shortages nationwide with the most disadvantaged children missing out (https://www.coram.org.uk/news/coram-survey-finds-childcare-shortages-nationwide-with-the-most-disadvantaged-children-missing-out/)

Department for Education (2014) Statutory framework for the early years foundation stage (https://www.gov.uk/government/publications/early-years-foundation-stage-framework--2)

Department for Education (2021) Childcare and early years providers 2021 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/fi

Department for Education (2022) Childcare and early years provider survey, reporting year 2022 (https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-provider-survey/2022)

Department for Education (2023a) Independent review of children's social care (https://www.gov.uk/government/groups/independent-review-of-childrens-social-care)

Department for Education (2023b) Children's social care: stable homes, built on love consultation response (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/fi

Department for Education (2023c) Early years leadership national professional qualification (https://www.gov.uk/guidance/early-years-leadership-national-professional-qualification)

Department for Education (2023d) Childcare expansion capital grant (https://assets.publishing.service.gov.uk/media/65673a71d6ad75001302fcba/Childcare_Expansion_

Department for Education (2024) Early years foundation stage statutory framework: for group and school-based providers

Department for Education, Department for Health and Social Care (2015) SEND code of practice: 0 to 25 years (https://www.gov.uk/government/publications/send-code-of-practice-0-to-25)

Department of Education, Australian Government (2022) Preschool reform agreement (https://www.education.gov.au/early-childhood/preschool/preschool-reform-agreement)

Department of Education, Australian Government (2023) Become an approved child care provider (https://www.education.gov.au/early-childhood/approval)

Department of Health and Social Care (2017) Adult social care market shaping (https://www.gov.uk/government/publications/adult-social-care-market-shaping/adult-social-care-market-shaping#oversight-detail)

Early Education and Childcare Coalition (2023a) Retention and return: Delivering the expansion of early years entitlement in England (https://www.earlyeducationchildcare.org/early-years-workforce-report)workforce-report)

Early Education and Childcare Coalition (2023b) Ireland's early years reforms (https://www.earlyeducationchildcare.org/ireland-reforms)

Early Education and Childcare Coalition (2023b) Early years workforce model, 2023. Shared December 2023.

Early Learning and Childcare Directorate, Scottish Government (2022) Funding follows the child and the national standard for early learning and childcare providers: Interim guidance (https://www.gov.scot/publications/funding-follows-child-national-standard-early-learning-childcare-providers-interim-guidance-update-requirements-early-learning-childcare-settings-local-authorities-august-2022/pages/3/)

Early Years Alliance (2018) Parents pay the price for the 30-hour offer as childcare providers are forced to limit 'fully free' places, new survey reveals (https://www.eyalliance.org.uk/parents-pay-price-30-hour-offer-childcare-providers-are-forced-limit-fully-free%E2%80%99-places-new-survey)

Education & Skills Funding Agency (2023) Academy trust handbook 2023 (https://assets.publishing.service.gov.uk/media/64f1e2a99ee0f2000fb7bdbf/ATH_2023_FINAL_010

Evans, K (2023) Believing market competition will improve care services is a false hope (https://www.jrf.org.uk/blog/believing-market-competition-will-improve-care-services-false-hope)

The Fawcett Society (2022) Childcare and early education systems: A comparative literature review of liberal welfare states (https://www.fawcettsociety.org.uk/Handlers/Download.ashx?IDMF=69a72e4c-0231-4b42-8b41-35b6148f4f4d)

The Fawcett Society (2023) Transforming early childhood education and care: sharing international learning (https://www.fawcettsociety.org.uk/transforming-early-childhood-education-and-care-sharing-international-learning)

Gaunt, G and Morton, K (2022) Welcome Nurseries' debts estimated to top more than £3m (https://www.nurseryworld.co.uk/news/article/welcome-nurseries-debts-estimated-to-top-more-than-3m)

Gingrich, JR (2011) Making markets in the welfare state: the politics of varying market reforms (https://www.cambridge.org/core/books/making-markets-in-the-welfare-state/D7DD02DB50BB0C8A346E21168BD27E3B)

HM Treasury (2023) Spring Budget 2023 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/fi

House of Commons Education Committee (2023) Support for childcare and the early years, fifth report of session 2022–23 (https://committees.parliament.uk/publications/41066/documents/200023/default/)
(https://committees.parliament.uk/publications/41066/documents/200023/default/)

Houses of the Oireachtas (2022) Departmental funding – Thursday, 26 May 2022 – parliamentary questions (33rd Dáil) (https://www.oireachtas.ie/en/debates/question/2022-05-26/307/)

Institute for Fiscal Studies (2023a) Childcare reforms create a new branch of the welfare state – but also huge risks to the market (https://ifs.org.uk/news/childcare-reforms-create-new-branch-welfare-state-also-huge-risks-market)

Institute for Fiscal Studies (2023b) Early years spending update: Budget reforms and beyond (https://ifs.org.uk/publications/early-years-spending-update-budget-reforms-and-beyond)

Kruger, C (2009) Lessons to be learnt from ABC Learning's collapse (https://www.fawcettsociety.org.uk/Handlers/Download.ashx?IDMF=69a72e4c-0231-4b42-8b41-35b6148f4f4d)

LaingBuisson News (2021) Acceleration of care closures and contract handbacks, survey finds (https://www.laingbuissonnews.com/care-markets-content/news/acceleration-of-care-closures-and-contract-handbacks-survey-finds/)

Local Government Group (2011) Understanding commissioning: A practical guide for the culture and sport sector (https://www.local.gov.uk/sites/default/files/documents/understanding-commissioni-fc3.pdf)(https://www.local.gov.uk/sites/default/files/documents/understanding-commissioni-fc3.pdf)

Melhuish, E and Gardiner, J (2019) Structural factors and policy change as related to the quality of early childhood education and care for 3–4 year olds in the UK (https://www.theguardian.com/money/2020/aug/05/one-in-eight-childcare-workers-in-england-earn-less-than-5-an-hour)

Moss, P (2022) Labour's early years focus should be on education, not childcare (https://www.theguardian.com/politics/2022/nov/07/labours-early-years-focus-should-be-on-education-not-childcare)

National Audit Office (2021) The adult social care market in England (https://www.nao.org.uk/wp-content/uploads/2021/03/The-adult-social-care-market-in-England.pdf)

Niewijk, G (2023) New findings show private equity investments in healthcare may not lower costs or improve quality of care (https://www.uchicagomedicine.org/forefront/research-and-discoveries-articles/private-equity-investments-in-healthcare-may-not-lower-costs)

Office for Budget Responsibility (2023) Economic and fiscal outlook (https://obr.uk/docs/dlm_uploads/E03004355_November-Economic-and-Fiscal-

Outlook_Web-Accessible.pdf)

Ofsted (2021) How early years multiple providers work (https://www.gov.uk/government/publications/how-early-years-multiple-providers-work/how-early-years-multiple-providers-work#:~:text=Ofsted%27s%20role&text=We%20focus%20on%20registered%20persons,entities%20in%

Penn, H (2023) Ofsted presiding over a broken market – its role needs to evolve with the system (https://www.jrf.org.uk/care/ofsted-presiding-over-a-broken-market-its-role-needs-to-evolve-with-the-system)

Resolution Foundation (2023) Who cares? (https://www.resolutionfoundation.org/publications/who-cares/)

Simon, A (2023a) The big debate – does the rise in private equity investment in England's childcare sector put nurseries at risk of closure? (https://www.nurseryworld.co.uk/news/article/the-big-debate-does-the-rise-in-private-equity-investment-in-england-s-childcare-sector-put-nurseries-at-risk-of-closure)

Simon, A (2023b) We should be suspicious of the growth of private financing in childcare (https://www.jrf.org.uk/care/we-should-be-suspicious-of-the-growth-of-private-financing-in-childcare)

Simon, A, Penn, H, Shah, A, Owen, C, Lloyd, E, Hollingworth, K and Quy, K (2022) Acquisitions, mergers and debt: The new language of childcare (https://www.nuffieldfoundation.org/wp-content/uploads/2022/01/The-new-language-of-childcare-Main-report.pdf)

Weale, S (2020) One in eight childcare workers in England earn less than £5 an hour (https://www.theguardian.com/money/2020/aug/05/one-in-eight-childcare-workers-in-england-earn-less-than-5-an-hour)

Weinstein, N (2023) 2022 was a 'golden year' for nursery mergers and acquisitions, finds report (www.nurseryworld.co.uk/news/article/2022-was-a-golden-year-for-nursery-mergers-and-acquisitions-finds-report)