



Solving the Childcare Challenge

By Elizabeth Dunkley

Executive Summary

A typical two-earner family in the UK spends around 30% of its household income on childcare – the highest level in Europe. Unaffordable childcare is disastrous for equality because it drives mothers away from the workforce, and is a hammer blow to national productivity.

The UK is also facing the worst cost of living crisis in generations, and the costs of childcare are only expected to increase in the coming months. We are also doing ourselves long-term demographic damage as the costs of childcare push people to delay having children, limit the number of children they have or abandon the idea of becoming parents altogether.

It does not have to be this way – not least because a significant part of the problem is just how much red tape the UK in general and England in particular wrap around early years childcare, in a way that is almost unique. This briefing note therefore proposes some common sense proposals that the Government could adopt to lessen the burden on families in England, which could hopefully be useful for the devolved administrations too.

First, England has arguably the strictest staff-to-child ratios in the developed world, particularly for childminders. There is no evidence that such strict ratios improve the quality of childcare, but there is ample evidence that the current ratio rules are responsible for driving up staffing costs for nurseries and consequently the financial burden on parents. **We therefore suggest that the Government should relax childcare ratios and bring them into line with other European countries such as France, as well as relaxing the strictest aspects of their implementation.**

Second, the Early Years Foundation Stage (EYFS) goes far beyond welfare and safeguarding standards, extending into a wide range of Learning and Development Goals. It also asks providers to provide comprehensive written records and other evidence including photographs of children's progress – again in a way that goes beyond what other countries demand. This regime is particularly burdensome for childminders. The Government should study international best practice, which would probably lead it to **consider scrapping the compulsory nature of the EYFS and giving parents the right to choose what type of care they want for their child.**

Finally, the Government should seek to **actively increase informal childcare and the number of childminders** – who were until the late 1990s the largest providers of childcare.



Childminders lack the same overheads as nurseries, and as such are significantly more affordable for parents. However, the number of childminders has more than halved over the past 20 years, from 103,000 in 1996 to 34,800 in 2019. The government should **cut much of the red tape that has led to such a massive decrease in the number of childminders.**

Background

Britain has among the highest childcare costs in the developed world. A typical two-earner family will spend over a third of its after-tax income on nurseries and childminders. This figure is three times as high as in Germany, even though both Governments spend similar amounts more on early years education.¹ British childcare users pay some of the world's highest rates, and they do so twice over: first as taxpayers, and then in their role as consumers.

Over-regulation has distorted the childcare market by making registered and standardised care settings with highly credentialled staff the only way to access government support, pushing out less formal providers and pushing up costs. In particular, England has some of the most restrictive childcare regulations in the world. Currently in England one adult is required for every three babies, four toddlers, or eight children over the age of three. Overall our staff-to-child ratios are just about the strictest in Europe.

All of this means that parents, and in particular mothers, are too often prevented from returning to work or increasing their hours by the expensive trade-off that presents itself to families. The results are socially painful and economically damaging. Year after year, the UK's growth and productivity rates are dramatically cut as the labour force loses trained, talented workers. And of course parents find their career choices, and their family choices, unpleasantly constrained.

We do not have to accept this unfair status quo in which many parents cannot make up lost ground in their careers, are absent from the labour market for more years than they want or never manage to return to it – or do not feel able to have as many children as they might want to.

Politically the need for affordable childcare has never been more pertinent: we are experiencing the worst cost of living crisis in a generation, and polling shows that the cost of living is the most important issue for voters.² With the average full-time nursery place

¹ OECD, *Family Database*. [Link](#)

² TUC, *Nearly three-quarters of people think government "hasn't done enough" to help with rising cost of living - TUC local election day snap poll reveals*. [Link](#)



costing nearly as much as the average monthly mortgage payment,³ it is clear childcare costs are a hugely important component of any approach to the cost-of-living issue.

There is good news, however. With greater flexibility and choice in this sector, we can deliver a dual benefit to change lives in this country for the better: enabling parents to go back to work more easily and allowing nurseries to be more innovative and responsive in what they offer. As well as delivering economic benefits and making us richer, this approach will improve fairness for women and for relatives caring for young children, who are ignored by the present support arrangements. And many of the most important changes we can make need not come at extra cost to taxpayers.

Why reform is needed

The potential gains from improving childcare are vast. Sky-high childcare costs mean that both parents going back to work often doesn't make economic sense, and more often than not it's women who end up staying at home. Research by the Resolution Foundation has shown that increasing female employment raises families' living standards and that effective childcare provision is a vital part in enabling this.⁴

Both Germany and the Netherlands have overtaken Britain in terms of female labour market participation in the last decade and the UK remains behind the Nordics.⁵ Of course, not all parents will choose to return to work after having children, regardless of the support available. But access to and options for good-quality childcare are key for those who would like to but currently cannot make the system work for them.

There is already evidence that availability of options for childcare encourages parents to return to work. In official polling, 69% of working mothers said that having reliable childcare helped them to go out to work.⁶ Majorities of parents said that they would increase their hours worked to qualify for the 30-hour offer, and those who were already taking advantage of it generally welcomed the extra flexibility in terms of which hours they could work and which jobs they could do.⁷ And an independent evaluation of the early implementation and rollout of 30 hours' free childcare found that 23% of mothers (and 9% of fathers)

³ Average mortgage payment is £753 per month. Lloyds Banking Group, *Lockdown leaves first-time buyers £800 a year better off than renters*. [Link](#). Average full time nursery place is £1,143. Women's Budget Group, *Access to Childcare in Great Britain*. [Link](#)

⁴ James Plunkett, *The Missing Million: The potential for female employment to raise living standards in low to middle income Britain*. [Link](#)

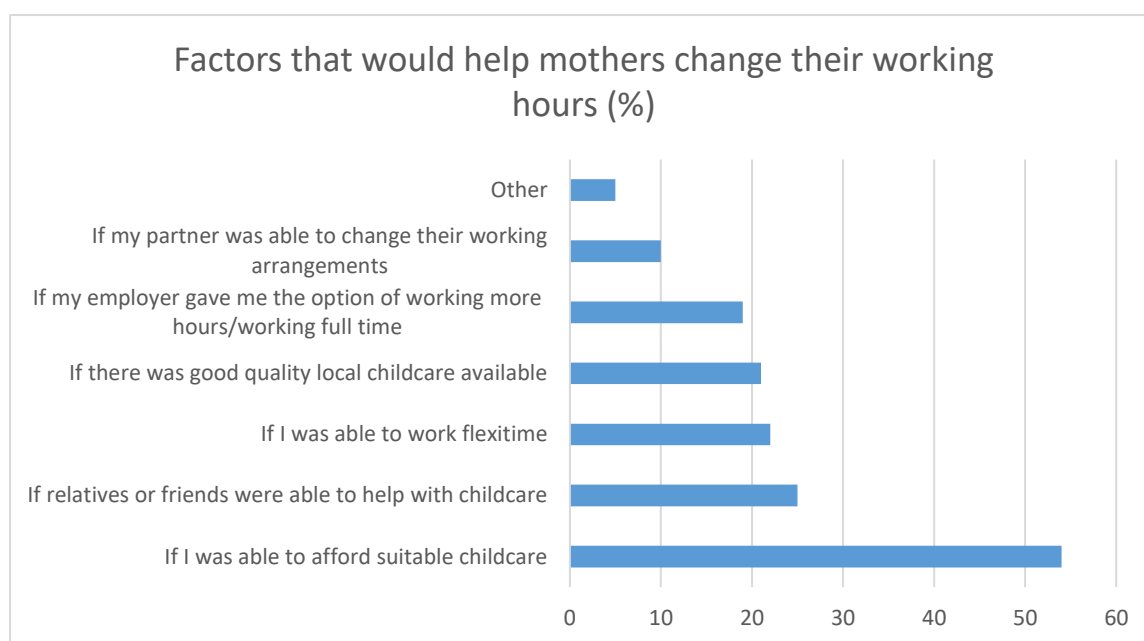
⁵ Eurostat, *Women's employment in the EU*. [Link](#)

⁶ Department for Education, *Childcare and early years survey of parents: 2019*. [Link](#)

⁷ *Ibid.*



participating in the scheme had increased their working hours.⁸ In short, by focusing reforms to childcare on further improving choice and flexibility, the option to return to being a productive member of the workforce can be there for all who want it.



It is also a matter of fairness. For women, hourly wages on return to employment are £2 lower for every year they are out of work.⁹ Even before they have children, women earn about 10% less than men. But that gap then increases rapidly for many women after they have children.¹⁰ Women pay for this time out of work for the rest of their lives. Twenty years after the birth of their first child, a woman's hourly wage will on average be a third lower than the hourly wage of a man with a similar level of education.¹¹

Both the Government and employers have focused closely on the gender wage gap for many years. If we actually want to achieve equality, solving the childcare challenge would go further than any reporting mandate, and end the pernicious choice that has faced women for the last century by no longer forcing them to choose between reaching their career potential and having a family.

This would also bring demographic benefits. In the medium to long term, we are facing a significant economic challenge as people put off having children – despite polls showing that

⁸ Department for Education, '30 hours free childcare: early implementation evaluation', 17 July, 2017, [Link](#)

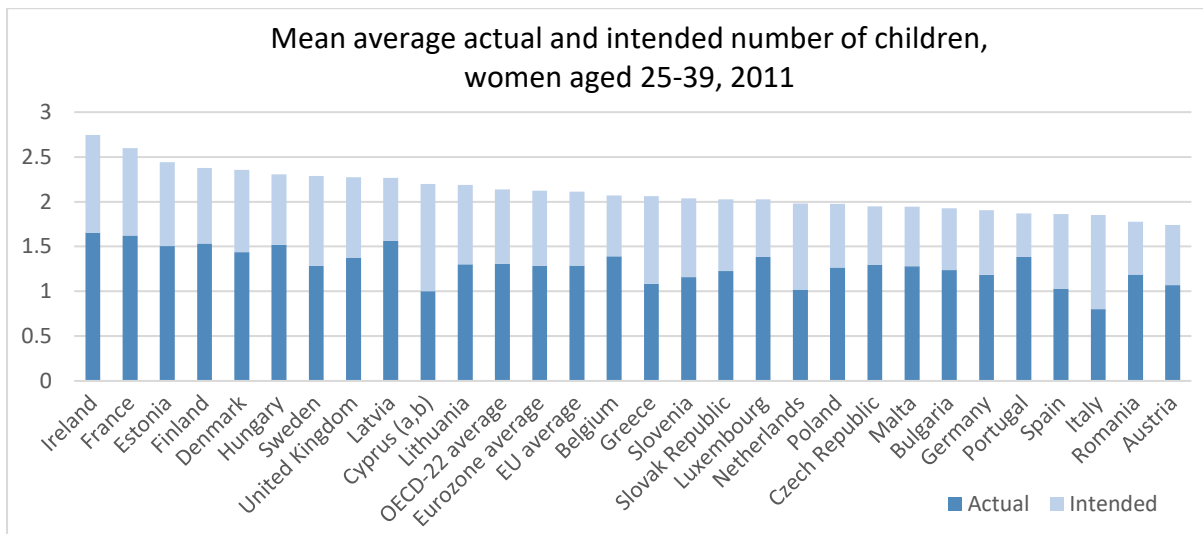
⁹ Treasury Select Committee, 'Childcare', UK Parliament, 2018, [Link](#)

¹⁰ IFS, *Mothers suffer big long-term pay penalty from part-time working*. [Link](#)

¹¹ *Ibid*



having children is the number one thing people want in life, followed by owning a home. The chart below from the OECD is a few years old, but it shows the gap between how many children people in the UK and elsewhere would ideally have, and how many they end up having.¹²



The wider economy also benefits when parents can access affordable childcare. British birth rates have been steadily declining over the last couple of decades, a trend which has been exacerbated by the Covid-19 pandemic. In order for a country to hold a steady population, it needs a birth rate of 2.1 babies per woman.¹³ In England and Wales, that number had fallen to 1.6 in 2020. Research now suggests the numbers could fall even further to 1.45 by 2023.¹⁴

Younger people are feeling increasingly insecure about their future and are anxious about the potential financial cost that having a child would entail. The fact that many do not feel able to start a family, or have a smaller family than they might otherwise wish for, is not only a personal tragedy for those families but a huge demographic challenge. The Government expects that by 2050 more than 30% of the population will be over 60, placing a greater burden on the economy as the elderly are more likely to need medical assistance as well as drawing pensions.¹⁵ A further decline in birth rates would see fewer people paying taxes and a smaller revenue base supporting a greater portion of the population.

¹² OECD, *Family Database*. [Link](#)

¹³ TRT, *UK seeks ways to address the falling demographic crisis*. [Link](#)

¹⁴ Ibid

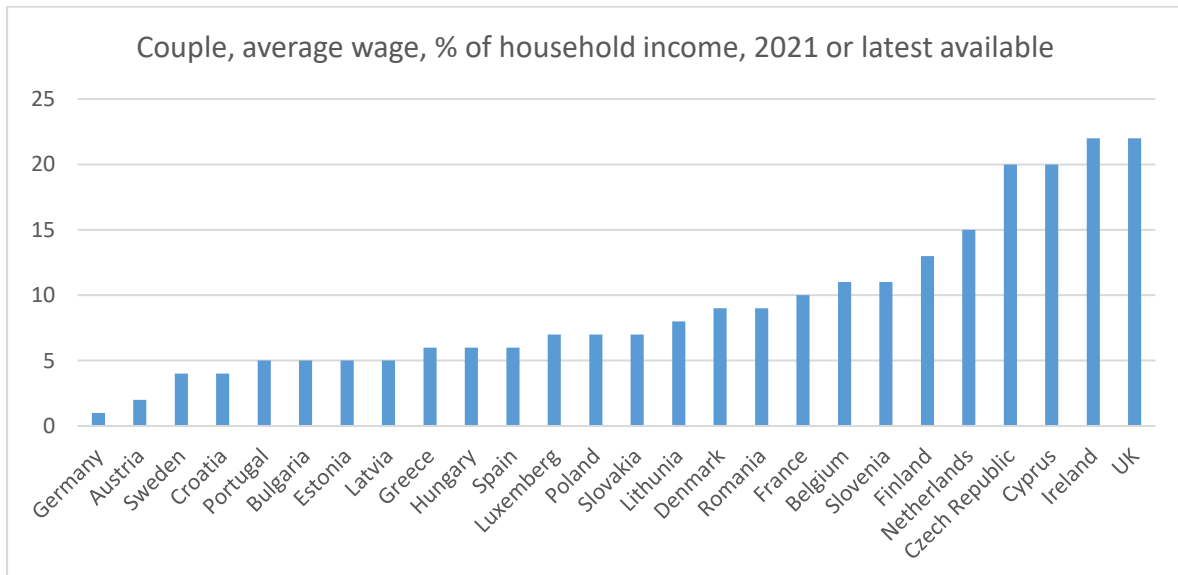
¹⁵ Ibid



Of those young people aged 18-34 who don't plan on having children, a quarter say that cost is the primary reason.¹⁶ For those who do want children, having a single child is fast becoming the most common family unit.¹⁷ Of course, young people face a range of economic insecurities, and childcare costs will not be the only consideration when deciding whether or not to have children. But it is not unreasonable to suggest that provision of affordable childcare would alleviate some of the financial and psychological pressure.

The cost of childcare

Childcare and pre-school education has been a growing area for government spending over the last two decades. The state now subsidises childcare to the tune of £7.1 billion annually. OECD data shows that the UK's public spending on childcare is similar to the average for developed countries, at 0.7% of GDP.¹⁸ Yet as the graph below shows, British parents are spending the highest proportion of household income on childcare in Europe.¹⁹ In fact, despite their governments spending a similar proportion of GDP, British parents face a bill twice that of French parents and more than four times that of German parents.



Over the last 10 years, free childcare for working parents has steadily been extended from a very low base, but there are still significant barriers in the system to exclude parents from taking up the offer. The only universally available offer is 15 hours per week for 38 weeks for

¹⁶ YouGov, *Why do people choose not to have children*. [Link](#)

¹⁷ Camilla Cavendish, *The only child is becoming the norm*. [Link](#)

¹⁸ IEA, *Getting the state out of childcare*. [Link](#)

¹⁹ OECD, *Family Database*. [Link](#)



three- to four-year-olds. Two-year-olds can also get 15 hours of free childcare if their families receive certain income-related benefits or they themselves have special educational needs or disabilities. There is also a newer 30-hour offer, but only for three- to four-year-olds in working families whose parents earn at least £131 per week but individually less than £100,000 per year.

Tax-free childcare is available for all children aged from 0 to 11 years old on the same income-related basis as the free childcare offer for three- to four-year-olds, up to £2,000 per child per year. Similarly, the childcare element of Universal Credit allows for 85% of childcare costs to be claimed back per week, which amounts to £646 per month for one child or £1,108 per month for two or more children.²⁰

However, it is striking that no family receives any free hours of childcare between birth and their child turning at least two: just statutory maternity, paternity or shared parental leave pay. Most families have no free hours until their child reaches the age of three. As things stand, the average cost of sending a child under two to a nursery for 25 hours per week (part-time) has risen to £7,160 in 2022.²¹ A full-time (50 hours) nursery place for a child under two costs on average a little under £14,000 in the UK – around half median female earnings.²²

Childcare costs in Great Britain for children in nursery (per year)	Women's median earnings (per year)	% of earnings absorbed by childcare
< 2-year-olds (part-time)	£7,160	63%
< 2-year-olds (full-time)	£13,718	49%

Removing barriers to choice and flexibility

England has some of the most stringent regulation relating to childcare in Europe (with similar schemes existing in the devolved administrations). The nature of this over-regulation can be broken down into three core elements: settings, staffing and standards.

First, parents can only receive financial assistance through the free hours offer for registered childcare settings that meet Ofsted regulations. The Early Years Foundation Stage

²⁰ DWP, *Universal Credit and Childcare*. [Link](#)

²¹ Women's Budget Group, *Access to Childcare in Great Britain*. [Link](#)

²² *Ibid.*



(EYFS), which Ofsted imposes on all those providing childcare for the under-fives, is almost unique internationally in that it is mandatory for children below the age of compulsory education. It goes far beyond welfare and safeguarding standards, extending into a wide range of Learning and Development Goals. Ofsted also burdens staff with requirements for comprehensive written records and other evidence including photographs of children's progress.

These registered places and the accompanying financial help, of course, exclude grandparents or other relatives caring for children. Similarly, friends or neighbours looking after someone else's children in their home are excluded. This issue has been particularly important during the current Covid-19 pandemic as families could not get financial support for informal childcare in the community while nurseries were shut or if they were unable to travel to their usual provider safely.

Second, the rules for ratios of children to staff and the maximum number of children in each childcare setting are also extremely complex and burdensome. England has the strictest child:staff ratio in Europe for two-year-olds, with a mandated three children to every adult, despite government financial support not being available for all those using childcare at this age.

Third, staff must also meet high qualification standards that fit in combination with other members of staff at the provider in order to meet the ratios.

Individually, these regulations are ill-conceived. Together, though, they amount to economic harm for families.

Proposals for reform

Relax ratios

England has the strictest ratios in the developed world, particularly for childminders. Current ratio rules are responsible driving up staffing costs for nurseries and consequently the financial burden on parents. Nurseries are forced to charge higher prices as a result of the high level of staffing costs mandated by the ratio rules, in terms of both staff numbers and the necessary qualifications. This is wrong. As long as health and safety standards are maintained, people should be free to choose higher ratios if they want to and pay a lower price.



History of policy developments¹

1989 Childcare voucher scheme introduced: employee gets tax relief on salary sacrifice.

1990 Tax relief on employer-provided childcare 1992 Local authority inspection of daycare

1997 £1100 free voucher proposed for nursery education for 4-year olds

1998 First National Childcare Strategy emphasised raising quality of childcare, making it more affordable and more accessible

1998 Sure Start programme began with emphasis on outreach and community development

1998 Free part-time nursery places (initially 12.5 hours per week for 33 weeks per year) for 4 year-olds

1999 Childcare Tax Credit: many subsequent changes

2001 Ofsted took over registration and inspection of daycare and childminding from local authorities

2004 Free nursery places extended to 3 year-olds: numerous subsequent changes of detail

2005 Sure Start switched towards Children's Centres

2006 Childcare Act defined new responsibilities for local authorities to ensure integrated childcare services to support disadvantaged children

2008 Early Years Foundation Stage introduced, setting out detailed learning and development framework for under-5s for all nurseries, playgroups, Children's Centres and childminders

2010 Free childcare places extended to 15 hours per week

2013 Free places extended to 20% of 2 year-olds

2014 Regulations concerning new Childminder Agencies; new early years education qualifications; free childcare places extended to 40 per cent of 2-year-olds

2015 'Tax-free Childcare' scheme begins; Early Years Pupil Premium introduced

2016 Childcare Act extends free childcare places for most working parents to 30 hours per week.



Technically speaking, if one parent is running 15 minutes late to pick up their child, and the nursery has hit the maximum ratio, any other parents should be forced to wait outside before they can drop off their children. This has led to some nurseries hiring extra staff to avoid this kind of scenario, which of course puts up prices for all parents. Other countries either do not set such strict ratios, or do not impose them at all.

Maximum number of children per staff ratio²³

Country	Child's age		
	< 2 years old	2 years old	3 – 4 years old
England	1:3	1:4	1:8
Wales	1:3	1:4	1:8
Scotland	1:3	1:5	1:8
Germany	1:(4-8)	1:(4-8)	1:(9-20)
France	1:5	1:8	Not regulated
Iceland	1:3	1:3	1:5
Finland	1:4	1:4	1:8
Norway	–	1:3	1:6
Sweden	Not regulated	Not regulated	Not regulated
Denmark	1:3	1:3	1:6
Japan	1:3	1:6	1:20
Australia	1:4	1:5	1:11
United States	1:3	1:6	1:10
Canada	1:3	1:5	1:8

²³ IEA, *Getting the State out of Pre-School & Childcare*. [Link](#)



The potential gains from relaxing ratio rules, even slightly, are enormous. One study from the US found that relaxing the staff-to-child by just one infant reduces the cost of child care by up to 20%.²⁴ Applying those findings to England suggests that simply by relaxing child-staff ratios to French levels, we could cut childcare costs in half.

Of course, there are other components of childcare costs, such as the expense of finding and renting properties – especially in London and the South-East. But relaxing ratios and letting parents pick which option they preferred would save parents money without jeopardising safety. After all, the children of France, Denmark, Germany et al seem to be doing just as well as ours. We should also be more flexible in terms of grace periods rather than insisting the ratios be obeyed in full at every moment.

We could, for example, follow France, and set a ratio of 1:8 for two-year-olds and 1:5 for one-year-olds.²⁵ Instead of having a staff member who has degree-equivalent qualifications (level 6) at a ratio of 1:8, a parent could choose to have a staff member at level 3 (A-level equivalent) at a ratio of 1:13.

This in turn would allow them to have up to an additional 62% increase in hours (assuming other costs are the same), since the ratio of staff would have shifted in line with this. In France, the average ratio of pupils to staff in all years of pre-primary education is 1:16.²⁶

Indeed, the very fact that a deregulation down to the level of famously interventionist France can feel transformational ought to speak volumes about how difficult our childcare system makes it for families in the UK.

Reassess Early Years Foundation Stage

The Early Years Foundation Stage (EYFS) consists of a range of welfare and safeguarding requirements and a set of Learning and Development goals. The EYFS must be followed by all those providing care for children younger than five. Under the 2006 Childcare Act, childminders, nurseries, kindergartens and pre-school classes are obliged to register and adhere to the EYFS in order to operate.

The Learning and Development targets, which are applicable only in England, cover communication and language; physical development; personal, social and emotional development; literacy; mathematics; understanding the world; and expressive arts and design. Ofsted monitors childcare providers' adherence, and requires detailed and

²⁴ Diana Thomas and Devon Gorry, *Regulation and the Cost of Child Care*. [Link](#)

²⁵ Ryan Bourne, *Getting the State Out of Pre-School and Childcare*. [Link](#)

²⁶ OECD, *OECD Family Database, PF4.2 Quality of childcare and early education services*. [Link](#)



comprehensive written records and other evidence (including photographs) of children's progress, with regular detailed feedback (written and oral) to parents.

The EYFS is unusual – possibly unique – internationally in that it is mandatory for children below the age of compulsory education, and applies to providers which may be entirely privately funded.

Critics have attacked it as overly prescriptive, costly, potentially harmful to children's development and as a breach of parents' rights to have children educated in line with their own preferences.

This and other aspects of provision (such as safety and suitability of premises, formerly the responsibility of local authorities) are overseen by Ofsted. The only types of childcare services not inspected by Ofsted are nannies and au pairs (in the family home), and those after-school services which cater only for children aged eight or over. Even childminders caring for young children in their own homes are subject to all of the provisions of the EYFS.

It is unclear what this extension of the National Curriculum into the early years is meant to achieve. It seems aimed primarily at those in full-time and continuous childcare, but the majority of young children are in part-time or intermittent forms of childcare.

It has no precedent in other countries, with British children already starting formal education much earlier than most other developed countries. And it is not obvious that we need such a highly structured and paper-heavy system, which has few parallels elsewhere.

While there is evidence that structured pre-school may benefit children, and the EYFS does have some value in suggesting appropriate activities for under-fives, the broader case for a heavily bureaucratic curriculum, rigid adherence to which is necessary for a good OFSTED rating – particularly when it comes to more informal care settings, such as childminders – is unproven.

Enforcing the Early Years Foundation Stage curriculum has put costs up for providers while driving large numbers of childminders out of business. The Government should therefore learn from international best practice, and assess whether EYFS ought to be scrapped, made voluntary or restricted in scope.²⁷

²⁷ IEA, *Getting the State out of Pre-School & Childcare*. [Link](#)



Increase childminder numbers

Until the late 1990s, childminders provided the largest number of childcare placements. However, as the regulatory burden increased, the number of childminders fell dramatically, from 103,000 in 1996²⁸ to 34,800 in 2019.²⁹

Childminders provide more value for money for the youngest children in that they do not carry the overheads that nurseries do, which typically account for a third of the cost of a nursery place. In order to become a registered childminder, you have to be a member of a childminding network, often the Professional Association for Childcare and Early Years (cost £159), register with Ofsted (cost £104 for the childcare register and £35 for the early years register), as well as paying for a personal medical check (£90), insurance, training and DBS checks for everyone you live with (£38 per person). Given the limited potential rewards and the paperwork required, it is not surprising that numbers remain low.

Childminders in England are also subject to the same overly restrictive ratios as more formal providers such as nurseries, with a 1:3 ratio being required for childminders looking after under-fives. This number includes the childminder's own children or any other children for whom they are responsible such as, for example, those they are fostering.

Again, this is out of line with the rest of Europe. In the Netherlands that ratio is 1:5.³⁰ For children under one the ratio in the UK is 1:1 while in the Netherlands it is 1:2. In Germany the child to staff ratio for childminders is 1:5 while in Finland the ratio is 1:4 full time plus part-time care for one pre- primary or school aged child.³¹ Other countries have similar ratios.

This regulatory burden on childminders therefore ought to be relaxed in line with other countries. And rather than directly regulating childminders, Ofsted should regulate childminder agencies which can be developed around existing nurseries, childminding network and nanny agencies.

Informal arrangements

Another reform would be to allow family members who are looking after children to be paid the local rate if they take care of children once a parent has nominated them. To prevent abuse of the system, this should only be available after payment has been made via more

²⁸ Liz Truss, *Affordable Quality*. [Link](#)

²⁹ Ofsted, *Main findings: childcare providers and inspections as at 31 March 2021*. [Link](#)

³⁰ Liz Truss, *Affordable Quality*. [Link](#)

³¹ *Ibid*



formal childcare routes. But it at least acknowledges the fact that many family members are looking after children: 40% of grandparents over the age of 50 provide regular childcare for their grandchildren, according to a YouGov poll.³² This contribution should not be overlooked in favour of formalised and regulated care.

Conclusion

Even before the cost of living crisis hit, childcare reform was urgently needed. Affordable childcare is crucial in terms of easing the cost of living crisis for families, and removing significant barriers to women's equal participation in the labour market.

By breaking down the perverse regulatory barriers in the childcare sector described in this briefing note, the country can benefit from greater economic participation and productivity, with enormous potential gains in GDP. And crucially, these reforms would not be a case of deregulation gone too far: they would simply be a matter of bringing the UK into line with other European countries, such as our close neighbour France – a country with famously strong childcare provision. We urge the Government to act.

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³² Age UK, *5 million grandparents take on childcare responsibilities*. [Link](#)