BUSINESS LDN

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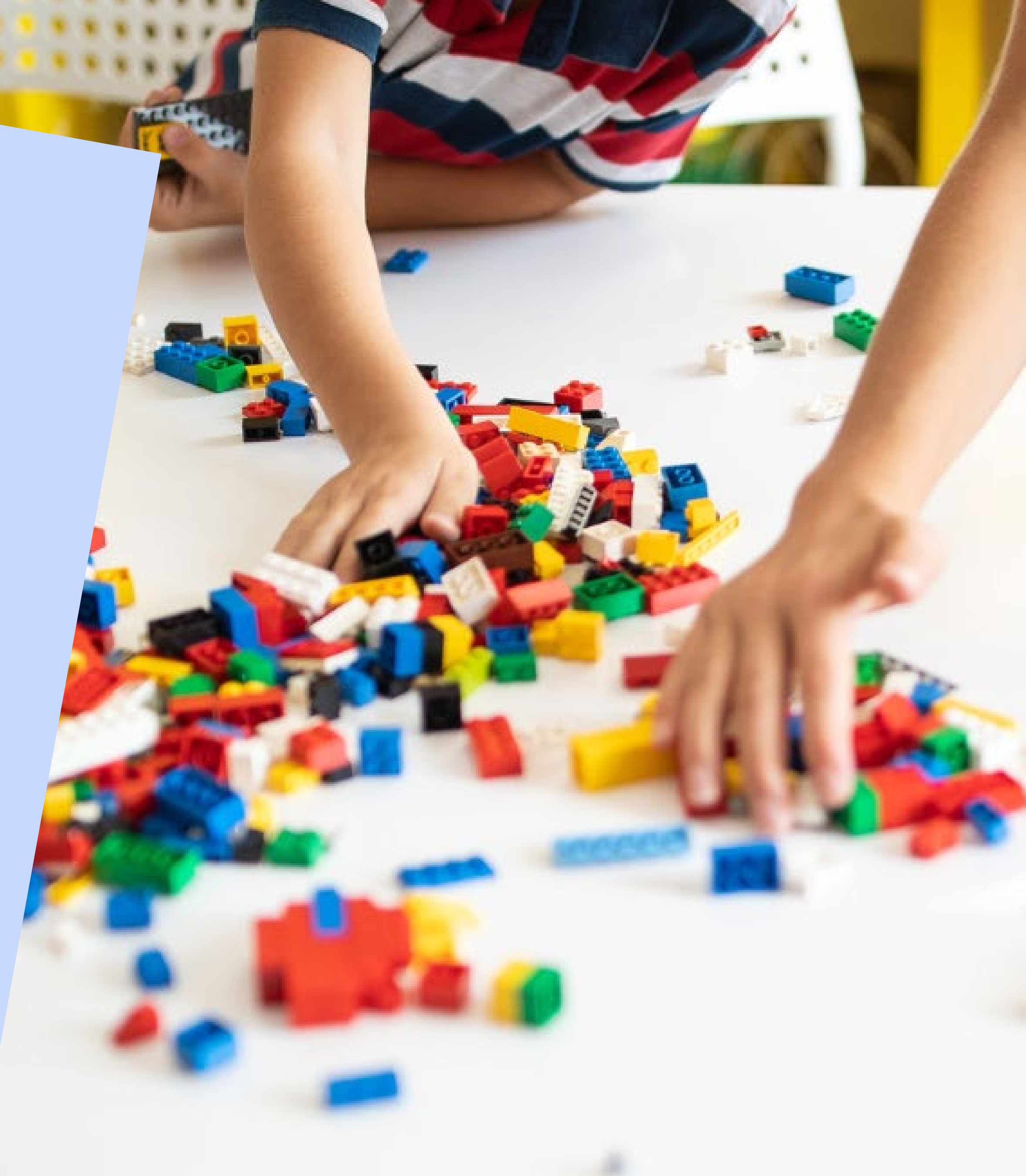
NO KIDDING

HOW TRANSFORMING CHILDCARE CAN BOOST THE ECONOMY

Getting childcare right for parents and employers

CONTENTS



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FOREWORD

> "The size of the prize for getting childcare right is huge: better outcomes and opportunities for our children, and parents better able to progress in their careers, results in substantial benefits to our economy both now and in the longer term."
>
> **ANNA PURCHAS**
> Office Senior Partner and Regional Chair, KPMG UK

The advantages of high-quality, affordable, and accessible childcare have been recognised across the world.

Childcare can improve – even transform – a child's life chances and development, while ensuring their parents successfully progress in their own careers.

I believe there are few services in our economy and society that have the potential to deliver such substantial benefits and positive, tangible outcomes.

Covid changed many things, but one of my strongest reflections on that period, both as a working parent and as an employer, was how invaluable the provision of quality childcare is to children, parents, and businesses. Nurseries and schools closed to non-essential workers, our children joined us around laptops at the kitchen table, and many of us juggled caring responsibilities with work.

In setting out with this research, my colleagues and I wanted to understand the extent to which other developed nations shared our current challenges regarding childcare in England.

The UK has one of the most expensive childcare systems in the world. Only in recent years has policy recognised how effective childcare provision enables economic activity and contributes to overall growth. Significant announcements in the 2023 Spring Budget reflect these principles.

Yet – despite moving in a positive direction – policy still underplays the significance of childcare as an economic enabler.

It is a mark of progress that, in the UK, three in four mothers with dependent children now work. That is up from two-thirds at the turn of the century, but it still remains the case that women are more likely to reduce their working hours or leave the labour market altogether to care for young children.

By tackling the weaknesses of the current system that discourage people from working through a set of measures aimed at reducing the cost, increasing accessibility, and maintaining the high standard of childcare in England, the economic gains could be substantial.

At KPMG, we conducted an economic analysis of the potential gains that could be realised by ensuring more parents can return to the workforce whilst balancing their childcare responsibilities. Having a larger employed workforce – by ensuring more parents who are currently economically inactive are able to work – would significantly boost the economy; it would support greater economic output and correspond to a higher level of total income across the UK, in turn supporting higher expenditure. Our analysis models the potential gains of increasing the labour supply among economically inactive mothers with children under the age of 5. It shows that increasing employment by 62,000 to 250,000 people in this group could increase annual GDP by between £2.8bn and £11.3bn in 2024.

This increase in employment and GDP could generate fiscal revenues of between £0.8bn to £3.2bn each year via higher tax receipts, which could contribute over time towards the cost of financing improved childcare provision.

The size of the prize for getting childcare right is huge: better outcomes and opportunities for our children, and parents better able to progress in their careers, results in substantial benefits to our economy both now and in the longer term.

With our partners at BusinessLDN and the Central District Alliance (CDA), we set out to understand the challenges surrounding childcare in England from the perspective of parents, employers, and providers.

Our colleagues at KPMG and peers across the business community in London have also brought fantastic insights to this research.

We surveyed staff based out of our Canary Wharf headquarters to gather perspectives and understand the specific challenges relating to the cost, availability, and quality of childcare in the capital.

Interviews and focus group discussions with KPMG colleagues based in Australia, Canada, Denmark, Estonia, France, Germany, and Spain gave us local insights into international childcare systems and facilitated an in-depth comparison with early years childcare in England.

These perspectives informed the recommendations for policymakers and businesses, advanced here by our partners BusinessLDN and the CDA, which present a menu of policy options.

I fully endorse the findings set out here and would like to thank our colleagues and partners for their insights and their support.

FOREWORD

> "Fixing our childcare system should be seen as a business and economic imperative, as well as a social one."
>
> **MUNIYA BARUA**
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> Deputy Chief Executive, BusinessLDN

Businesses across our membership tell us time and time again that skills shortages are the number one issue holding them back. The UK's broken childcare system is a major barrier to addressing these skills shortages, boosting labour market inclusion, and recruiting and retaining staff, particularly women.

Families across the country are struggling to afford childcare or even access it in the first place. Parents often find themselves forced to juggle their career ambitions with their family responsibilities, or simply frazzled by the day-to-day stresses of making their childcare arrangements work while holding down a job. This is hampering growth and making employees less productive than would otherwise be the case.

My own experience of being a working mother of three has seen me change careers and reduce my hours at different points in the lives of my children, with my partner and I relying on a mix of formal settings, such as nurseries, playgroups, and after-school clubs, to informal arrangements with grandparents and friends to help manage the childcare challenge. But, as every parent knows, this carefully constructed house of cards can all too easily come crashing down with something as simple as a missed or late running train - or the dreaded phone call from the school office to collect a sick child.

Childcare is a challenge across the length and breadth of the UK. But in London, the problem is particularly acute, where housing and travel costs take up a greater share of income. A recent survey of more than 1000 parents that use childcare services in the capital by BusinessLDN and the CDA found that a quarter of parents said the cost and availability of childcare had negatively impacted their career. More worryingly, over half (53%) said they were struggling to afford childcare, while nearly half (49%) said the cost had pushed them into debt.

That is why we have worked with KPMG and the CDA to publish this report, which sets out practical recommendations to improve the current childcare system and boost labour market inclusion. A bold and comprehensive plan to reform childcare is needed to get more parents into jobs.

Last year, the Government recognised the economic imperative of gripping the issue and made a significant investment to expand funded hours and provide extra funding for providers. It's a big stride forward but needs to be urgently matched by adequate funding to deliver on its promise in time for the first leg of the planned expansion in April.

This report sets out detailed recommendations for further government action and ideas for how businesses can step up and help boost the availability and affordability of childcare in the UK.

Some of these will require additional funding, but there are others where greater clarity and changes to regulation could improve provision. The investment required is substantial, but it would be rewarded with a significant 'size of the prize' boost to the economy. Many businesses are already leading the way. We highlight how others can step up, for example, by offering greater flexibility on working hours and boosting maternity and paternity packages.

Fixing our childcare system should be seen as a business and economic imperative, as well as a social one. There is no single solution to this challenge, but by working together, the public and private sector can improve provision for the benefit of all and, in doing so, drive up productivity and growth.

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EXECUTIVE SUMMARY

High-quality, affordable and accessible childcare leads to better outcomes for children and enables parents to work. In turn, this increases economic activity and the prospects for growth.

But the situation across the UK and London in particular today is quite removed from this. When it comes to childcare, the UK is an expensive outlier compared to other countries. Working parents in the UK experience the third-highest childcare costs among Organisation for Economic Co-operation and Development (OECD) nations, even after the range of benefits and entitlements they receive are considered.[1]

This matters for several reasons, social as well as economic. From a business perspective, it locks parents and carers – particularly women - out of a very tight labour market with lots of skills shortages, hitting UK prosperity.

In recent years, nearly three in 10 mothers (28.5%) with a child aged 14 years or under had reduced their working hours for childcare reasons, compared with one in 20 fathers (4.8%).[2] As more mothers with dependent children now work, there are 16.5% fewer in employment than fathers, and they are more likely to work flexibly, in term time, or at home.[3]

The government – to its credit – has acknowledged the issues and intervened in the market by providing a funded hours offer of 'free' childcare to working parents and is set to deliver a phased expansion of this from April 2024. Unfortunately, the government has willed the ends but not the means to achieve this. The Early Childhood Education Care system in England (ECEC) is already facing significant cost pressures and labour shortages. Many providers also contend that the subsidy rates they are due to receive from government to deliver this expanded entitlement are inadequate.[4]

The situation risks becoming even more acute in those parts of the country with tighter labour markets and higher costs, such as London. Childcare costs for 25 hours of provision for under-2s in the capital are already 25%-33% more than the national average across Great Britain.[5]

Fix all this, and there's a big economic size of the prize to be had. If 250,000 currently economically inactive parents or carers with children under the age of 5 were to return to the workforce, it would boost GDP by up to £11.3bn.

There's no silver bullet. Instead, a series of interventions is required. This report sets out a menu of options for government and business action that collectively could help unlock the prize.

So, what's to be done?

The starting point is to decide, as a society, what we want. There is a strong, clear case for greater government intervention through higher levels of funding to make childcare more affordable, as many European countries have done, helping to drive higher employment and participation rates.

One solution would be to simply increase or re-allocate funding. But this has complications. The public finances are tight. And folding it all into the education spending envelope and prioritising early years at the expense of primary or secondary education would simply amount to robbing Peter to pay Paul and wouldn't be a smart play at a time when skills are at a premium. A subsidy paid to providers, based on local costs and paid at current expenditure levels could be another option for Government but it would run the risk of exacerbating inequality at an early age.

It's going to take a balanced approach.

We'll need better public support, including the right level of financing to provide all working parents with a decent standard of childcare.

We'll need to optimise the benefits and tax system to maximise the prospects of moving parents from being out of work and into work.

And we'll need to think about some direct subsidies into the sector to ensure its viability and maintain enough choice and coverage.

Our report strives to chart a careful path through these issues. It focuses on ways to improve the affordability, availability and quality of childcare.

These recommendations – developed by BusinessLDN in consultation with its members and sector stakeholders – are summarised below and are outlined in further depth in the second half of this report.

Some of the recommendations are relatively simple and low-cost, such as clarifying tax rules for employers looking to set up workplace nurseries. Others, such as bringing more adults in-scope for the funded hours entitlement, changing the way the tax and benefit system interacts with the childcare system, or increasing investment in the early years workforce, will require long-term investment as the public finances allow.

These proposals would need to be fully costed and subjected to a rigorous cost-benefit analysis. BusinessLDN is keen to work closely with policymakers on implementing these measures as the public finances improve, prioritising those which would deliver the greatest return, given some of the measures would have a significant fiscal cost. However, we are confident they can help to achieve substantial economic benefits by unlocking higher rates of labour market participation, especially among women and minoritised groups, which can help to deliver increased economic growth and higher wages.

We also need employers to step up, where they can. This report also sets out a range of actions which businesses could take to support their staff who are working parents to boost their access to affordable, high-quality childcare.

Getting childcare right must be a priority for whoever leads the next government if it is serious about driving forward inclusion – and growth – in the UK.

Key findings

- **Most parents find childcare disproportionately expensive, particularly in London.** A survey of KPMG staff found that most colleagues – 89% based in London and 75% based in the surrounding areas – believe costs are unaffordable. Many are spending over 40% of their household income on childcare expenses.[6]
- **Government funding for providers does not reflect a fair and accurate price for childcare, and the expectation to deliver an expanded 'funded' hours offer risks adding to this challenge.** It is estimated that providers receive £4.80 an hour for providing 'funded' childcare to 3- and 4-year-olds, but in reality, provision costs providers closer to £7.50.[7] These hours are therefore neither fully 'funded' nor free and are effectively a subsidy.
- **This is leading to childcare services effectively being rationed, reducing parents' access and their ability to work.** Providers are leaving the market.[8] Nearly half (42%) of early years providers already had full waiting lists for childcare places in July 2023, and a majority (59%) do not feel that the sector has been given enough time to prepare for the increased demand an expanded funded hours offer will bring.[9]
- **In most English regions, government funding does not cover the average childcare costs.** The difference between the mean hourly fee charged by childcare providers and the government funding rate is growing, and the gap is widest in London.[10]
- **The UK is an international outlier in terms of its childcare costs.** Parents in the UK have the third-most expensive net childcare costs according to the OECD, behind only Ireland and New Zealand.[11] Parents receiving childcare services who work on lower incomes are most impacted through a combination of higher taxes and lost benefits.[12]
- **Childcare challenges have a profound impact on careers, specifically those of women.** Two-thirds (66%) of KPMG respondents – a majority of which were female – said that the combined effect of high costs and limited availability of childcare negatively affected their professional careers.[13]
- **By focusing on reducing economic inactivity among those with childcare responsibilities, major economic benefits could be unlocked.** Research by KPMG in this report identifies potential increases in annual GDP ranging from £2.8bn to £11.3bn in 2024 because of increasing female participation in the workforce by between 62,000 and 250,000, with an associated increase in tax revenues from higher employment levels of between £0.8bn to £3.2bn each year. These higher tax receipts could contribute over time towards the cost of financing improved childcare provision.

Summary of recommendations

The recommendations in this report are aimed at expanding childcare provision and enabling more parents to work more often. Our recommendations are, therefore, designed to increase workplace participation as a direct benefit to the UK economy, with a corresponding impact on GDP, wages, and the public finances.

To illustrate these benefits, we model a situation where the economic inactivity of mothers of children under 5 is reduced. This shows potential annual increases in GDP ranging from £2.8bn to £11.3bn in 2024 because of increasing female participation in the workforce by between 62,000 and 250,000, with an associated increase in tax revenues from higher employment levels of between £0.8bn to £3.2bn each year.

This demonstrates that even mild, incremental effects on participation can lead to substantial economic gains. Furthermore, there are potentially larger GDP effects that this analysis does not consider. Dynamic economic benefits, realised over time, would lead to higher productivity gains, including from skills shortages being met, more people being active in workplace training, and a bigger overall active pool of talent. As such, each of the solutions set out below can be seen as an investment.

Only some of these challenges can be tackled immediate; others will take longer to achieve and will require more robust public finances. The recommendations outlined in this report should be seen as a roadmap to transforming the childcare system.

Reducing the cost of childcare

Our research shows that childcare is becoming unaffordable for parents, specifically those who are receiving services in inner London. The average cost of a full-time nursery place in inner London was £369 a week for children under 2 and £347 a week for children aged 2, making it the most expensive region in Britain for childcare.[14]

As shown above, the net childcare costs facing parents in the UK – those borne after benefits and allowances such as funded hours are discounted – are among the highest in the developed world. These costs are prohibitive and, in many cases, disincentivise work.

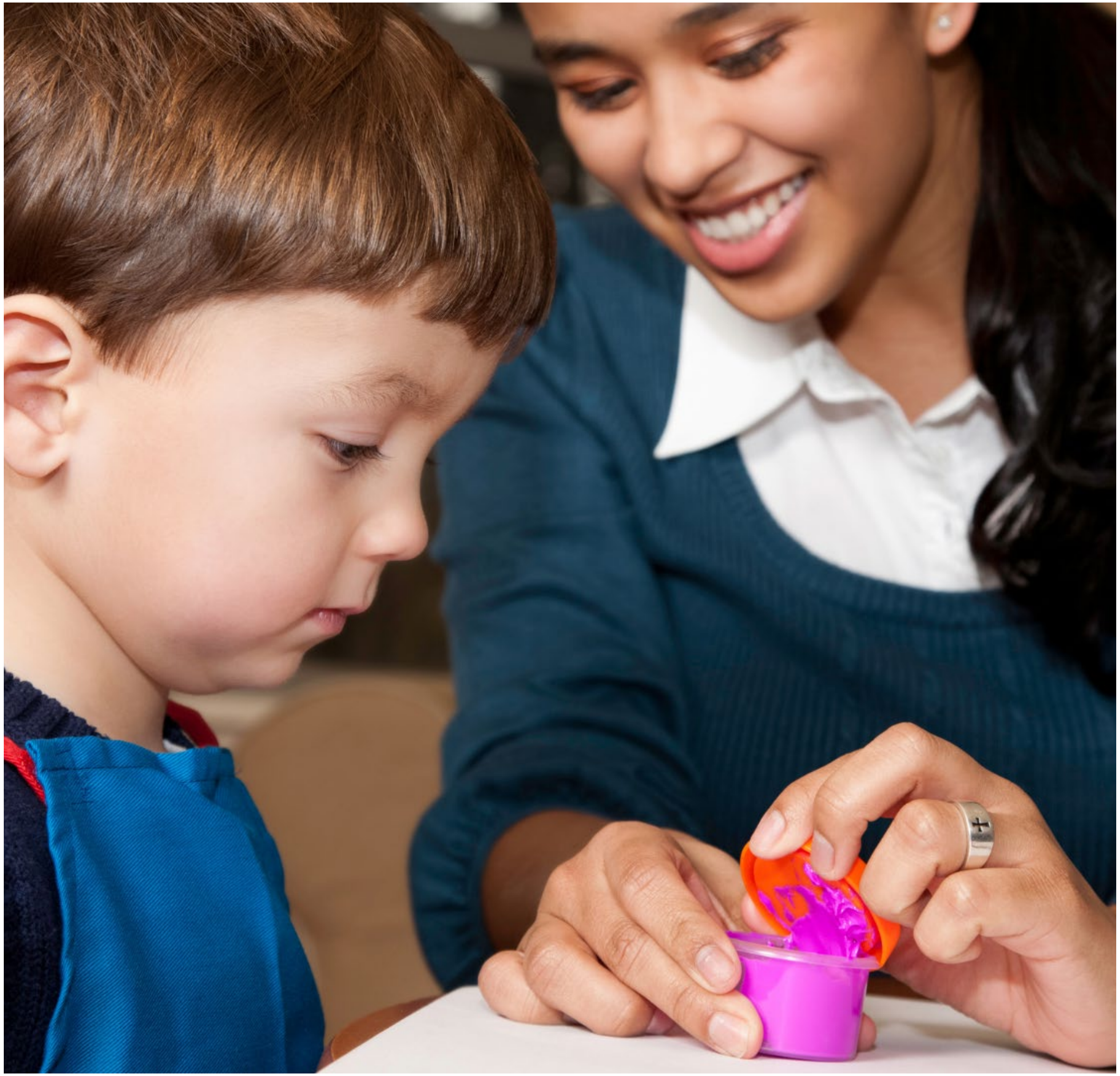
Policy recommendations

Challenge	Solution	Economic benefit
Funded hours are provided on a term-time schedule, meaning the reality is that working parents must either stretch and reduce their benefit over a full year, or independently bridge the gap between statutory annual leave and holiday periods.	**Widen 30 funded hours entitlement so that it is available 48 weeks of the year so that parents of pre-school age children (3- and 4-year-olds) do not have to muddle through the school holidays.**	Parents of pre-school aged children receive a more comprehensive childcare offer, ensuring they have a greater ability to work on their own terms as a result of more financial support rather than part-time or term time.
Parents who want to work – those in training and education – cannot access funded hours.	**Widen the eligibility of the 30 funded hours entitlement so that it captures those in training or education.**	Parents looking to upskill or reskill are better able to pursue and enhance their job prospects, furthering their own careers and potentially leading to productivity gains and reduced skills gaps across the economy.
Eligibility criteria for government funded hours disincentivises work for many working parents. For example, a couple where one partner earns over £100,000 is ineligible for funded hours or other government support. The £50,000 threshold activating the High Income Child Benefit Charge creates a further distortion.	**Smooth the sudden cliff-edges and distortions that are a feature of eligibility for the 30 funded weekly childcare hours and Child Benefit Entitlements.**	A financial barrier to both parents working in a higher income household is reduced. The lower earning parent – statistically most likely to be female – is less disincentivised from working (and less inclined to stay at home caring for their children) by a partner earning over the £100,000 threshold. The Child Benefit Entitlement threshold should be tapered at the top end, so that it does not unfairly impact families with a single income.
Many parents of school aged children struggle with limited or patchy access to wraparound care, making working around school hours difficult. Government is trialling funded wraparound provision through a pathfinder scheme, but its longer-term funding is not secure.	**Bring forward the timeframe for increased funding to primary schools to provide wraparound care, so that it is available from September 2025.**	Parents will have more flexibility to work full time or longer hours rather than having to make working arrangements fit around school hours with costly alternatives.
More employers need to be made aware of their potential to enable parents to access childcare at lower cost, through Workplace Nursery Partnerships.	**Clarify the taxation rules for Workplace Nursery Partnership exemptions.**	By ensuring that more employers can enter Workplace Nursery Partnerships, more working parents will be able to access significant savings on childcare costs through salary sacrifice schemes.

How businesses can support working parents

Many businesses are looking to step up and do more to enhance their support for working parents, to support recruitment and retention, as part of efforts to maximise their approach to diversity and inclusion and to enhance their employee value proposition. This can include:

- Offering on-site childcare through a salary sacrifice scheme via a workplace nursery or with providers nearer to where employees live, giving consideration to offering community access to suppliers and employees of local SMEs.
- Setting up a Workplace Nursery Partnership through a salary sacrifice scheme with existing providers to reduce the cost of childcare, as well as expanding the range of spaces on offer locally to employees.
- Offering an employer-funded childcare allowance or a deposit loan scheme, similar to a season ticket loan, or cover the upfront cost of a nursery or holiday club deposit.



Increasing the availability of childcare

Providers in the sector are facing intense cost pressures, which has ultimately led to an overall reduction in supply between 2022 and 2023, as demand for services is forecast to increase as more government funded hours are made available to parents.

There are concerns from the early years sector about a lack of funding and supporting infrastructure necessary to deliver the expanded funded hours offer to working parents which is being introduced from April.[15] Providers have sounded the alarm on the risk that they will have to ration working parents' access to these expanded hours. For parents who had started to plan their childcare arrangements on the basis of this support, the uncertainty is causing considerable stress.

This is an unsustainable situation, potentially leading to more providers going to the wall, with parents' access to childcare services further reduced. Before any of the recommendations below are considered, there is therefore an urgent need to fix operational issues and clarify funding to providers ahead of the staggered expansion of funded hours from April.

The recommendations below offer further solutions how policy can improve the availability of early years provision to ensure that it can maintain an adequate level of access for parents, who in turn can remain economically active.

Policy recommendations

Challenge	Solution	Economic benefit
Providers are facing significant cost pressures driven by inflation, high energy prices and staffing challenges, as demand driven by an expanded 30 funded hours offer is set to increase.	**Establish a mechanism for annual review to ensure that funding remains sustainable in line with inflation and other economic factors, and nurseries continue to be properly reimbursed.**	Providers are reimbursed for the true cost of childcare rather than at a reduced rate, which threatens the viability of many. Ultimately, the sector is placed on a more sustainable footing as it readies itself to meet increased demand.
	Provide a temporary relief to all early years providers from Business Rates, similar to that offered to other sectors like leisure and hospitality, as a bridge to more fundamental reform of the system.	One of the sector's biggest cost pressures would be reduced, ensuring more providers remain financially viable and able to deliver services to working parents.
Staffing is one of the most significant costs providers are facing, as many struggle to attract and retain staff. The sector is also relying more heavily on unqualified staff.	**Ensure that funding settlements equip providers to offer the pay and conditions required to attract and retain childcare professionals in a sustainable way by index-linking funding settlements to increases in the National Living Wage or average wage settlements in the sector.**	The sector has more capacity to deliver regular, quality services, alleviating staff shortages that reduce parents' access to services.
An information gap exists between the support offered to parents and what ultimately reaches them.	**Ensure the planned public awareness campaign to promote the expansion of funded hours helps working parents to understand the different types of childcare support schemes available to them**	An awareness-raising campaign signposting services in a better supported sector could lead to more people re-entering the workforce or working more hours.

How businesses can support working parents

For those firms looking to do more, options include:

- Facilitating more flexible working practices, including hybrid options, term time working, compressed hours, and accommodating childcare drop offs and pick ups, and use Job Shares to offer more entry points into work for parents managing childcare responsibilities.
- Offering Shared Parental Leave to give parents greater flexibility in how they care for their child in their first year.
- Introducing a backup care programme, which provides employees with a number of days' guaranteed access to a network of childminders or other childcare provision if their initial care arrangements unexpectedly fall through.
- Offering parents the opportunity to build confidence and refresh or renew skill sets for their return to work by offering a returneeship programme.
- Establishing networks for working parents that enable groups of people to communicate, pass on helpful information and share their experiences.
- Offering unused or under-used office space to be repurposed as space for childcare provision, working with local authorities to secure change of use permission.
- Offering childcare provision in co-working spaces to support workers who are freelancers or self-employed.
- Establishing working parents and families' networks that enable groups of people to communicate, pass on helpful information and share their experiences.

Maintaining the quality of childcare

The majority of working parents consulted for this research perceived the quality of their childcare to be good, and this was strongly influenced by their interactions with childcare staff.

It is notable that in countries where the childcare workforce is highly skilled, staffing ratios are lower without any apparent loss in quality. To maintain and enhance the quality of childcare in England, the Government must ensure that the funding providers receive has a positive impact on their ability to invest in upskilling their workforce to support recruitment and retention and to deliver the planned expansion of wraparound care.

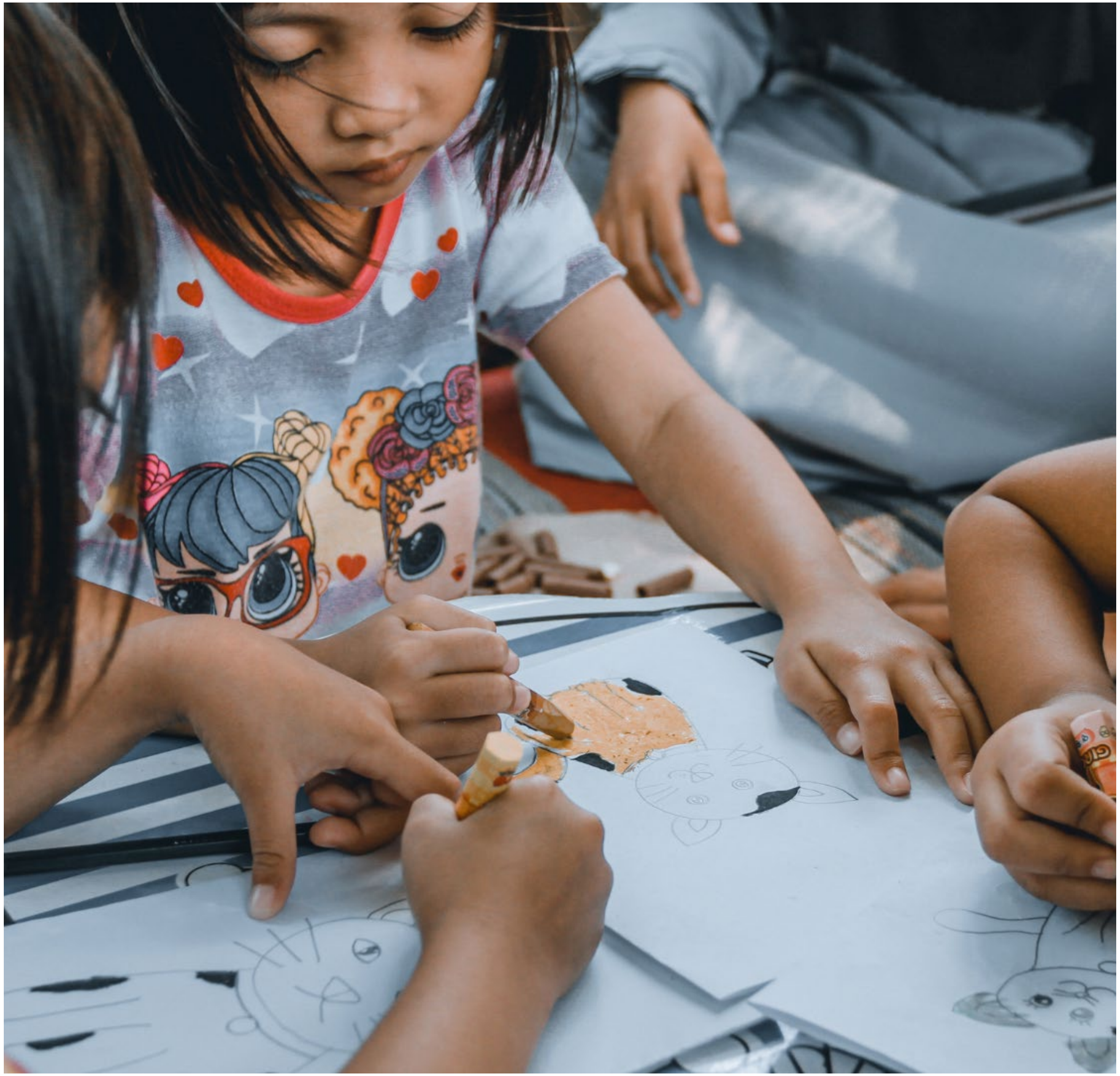
Policy recommendations

Challenge	Solution	Economic benefit
The early years workforce in the UK suffers from high turnover and is relatively underqualified in comparison to many of its international peers.	**Invest in the talent pipeline and develop the career profile of the early years workforce to attract and retain more apprentices and graduates and to support the planned 25% increase in staff to child ratios to one to 5.**	Increase staff retention in the early years sector, ensure better educational and developmental outcomes for children and give working parents confidence in the quality of care their children are receiving.
Childcare in England can be confusing for parents in terms of the range of services on offer, and many may not be aware of the level of support that they are entitled to.	**Work closely with Local Authorities to expand the network of 'one-stop-shop' Family Hubs, which bring together a range of information and guidance for parents, including mental health support, health visits, and parenting classes.**	Increase parents' awareness of the range of services on offer, improving their prospects for work, for example, if they want to increase their hours.

How businesses can support working parents

For those firms looking to do more, options include:

- Supporting or sponsoring local childcare facilities with a view to increasing the range of activities that they can offer. For example, access to digital devices.
- Encouraging parents to become governors at nurseries – and facilitate these commitments alongside work – as an opportunity to impart their experiences to the benefit of other parents.



1. GOVERNMENT'S DIVERSE AND EVOLVING ROLE

in supporting the mixed market for childcare in England

There have been significant, recent developments in childcare policy relating to how services are funded and delivered in England.

The role of government in England's childcare landscape is as a buyer and subsidiser of services. It provides local authorities with a funding settlement, which these councils use to buy services from providers locally.

The state has incrementally taken a more active role in supporting parents who use childcare services, and this has largely developed and expanded over the last three decades through the policy choices of successive governments.

Historically, however, childcare in England has not been delivered through the universal welfare state principles that apply more widely across the education and health systems. A place at a nursery, free at the point of provision, is by no means guaranteed or available to every child. The implications of this are wide-ranging from exacerbating issues around inequality in early childhood education, developmental disparities, with potential long-term educational impact, which impacts on the workforce of the future.

Measures announced by the UK Government during the 2023 Spring Budget included an expansion of the 30 hours offer; a subsidy on the childcare services that working parents and their children receive. While it amounts to a significant investment and will undoubtedly enable more parents to work, it is no silver bullet. Its coverage is far from comprehensive, and ultimately, the sector will struggle to meet the increased demand it will drive. Any exploration of England's market for childcare must consider the significance of this expanded offer.

Key findings

- **The expansion of the Government's 30 hours subsidy will lower the price of childcare for parents, meaning demand will rise and potentially outstrip supply.** It will lead to an estimated 15% increase in childcare usage in England, the equivalent of 100,000 extra children in childcare for 40 hours each week,[16] at a time when a significant proportion of providers already have full waiting lists for places.[17]
- **'Free childcare hours' – as the entitlement is often referred to – is a misnomer. The funding providers receive from government is too low and does not reflect a fair rate.** Most providers are only able to deliver 'funded hours' through a combination of additional fees (for example, for meals) or by charging additional hours at a higher rate.[18] The rate (roughly £4.80) is less than the hourly cost of delivering a childcare place (£7.50).[19]
- **The expansion of funded hours will lead to some of the most severe distortions seen in a tax and benefit system.[20]** It will sharpen cliff edges where families become more financially worse off, and parents paying average London rates for childcare will be severely impacted.[21]
- **Childcare employers face significant challenges in attracting and retaining talent.** Unprecedented numbers of childcare professionals are leaving the sector,[22] which has a turnover rate significantly higher than the UK average.[23] Not only does this have implications for the development of children receiving childcare services, but it also impacts the quality and availability of provision.
- **Government support is weighted towards parents in work rather than those who want to work.** Only parents who are in work will be able to access funded hours, meaning that those in training or those seeking work do not receive this benefit. Nor do those who are economically inactive, meaning the policy does not incentivise this cohort.

England's market for childcare in profile

Most children aged 0 to 14 receive childcare in England. According to the Department for Education-funded Childcare and Early Years Survey managed by Ipsos, almost three in five children (58%) use some form of childcare whether that is in formal settings such as nurseries or breakfast clubs, or informally provided by family or relatives.[24] The majority of younger children, 62% of those aged 0 to 4, receive childcare services in formal settings, and 60% of mothers of these children cite childcare as being something that helps them go to work.[25]

In 2023, there were 56,300 providers delivering in England with at least one child aged 1 to 4 registered with them, delivering services through an estimated 1,558,100 registered childcare places.[26] In terms of providers alone, supply has fallen by 5% as demand for childcare places has risen 1%. In 2022, 59,400 providers delivered childcare places for 1,543,000 children aged 0 to 4.[27]

Providers are made up of 21,300 group-based providers, 9,700 school-based providers and 25,300 childminders.[28] As such, English childcare is a mixed market, where services are delivered by a range of providers, public and private (funded through a combination of central and local government subsidies and grants, as well as direct payments from parents).

Providers overwhelmingly operate for-profit (84%), with the private market experiencing significant consolidation in recent years, with the two largest providers in the sector providing over 60,000 spaces now having 8% of the market share.[29] This perhaps reflects a greater capacity of larger providers to absorb cost pressures than their smaller competitors, with those firms more unlikely to survive as conditions tighten.

Within childcare settings, services are delivered by an estimated 337,000 staff in England.[30] The majority of the paid workforce is female (97% in group and school-based settings, and 99% among childminders) and white British (above 80% in all settings).[31]

Only a minority of staff employed by school-based providers (85%) and group-based providers (79%) are reported to hold a Level 3 qualification, which is broadly equivalent to A Level. Those with a Level 6 teaching-related qualification,[32] equivalent to degree-level qualifications, are relatively fewer. In school-based providers, only 38% hold one, which is significantly more than staff in group based settings (11%).[33] This, combined with the relatively high staff turnover rate in the sector, suggests that childcare work does not typically reward staff with pay and progression or require a significant level of specialisation and training. It is notable, for example, that the percentage of staff earning below the National Living Wage is as high as 11% across all providers.[34]

These conditions are tightening the labour market for early years childcare professionals. As the House of

Commons Education Select Committee has noted, unprecedented numbers of childcare professionals are leaving the sector, giving rise to significant recruitment challenges for providers.[35] When surveyed, a significant number of providers themselves have also said that they were actively considering leaving the sector because of hiring challenges specifically,[36] showing how critical the workforce is to the overall sustainability of the sector.

Government funded hours

Demand in the market is largely driven by the provision of subsidised hours, funded by government, which effectively lower the price parents pay for childcare. The funded hours policy is aimed at making childcare more affordable to parents by reducing the prohibitive costs they would otherwise face, which, for many, will disincentivise work. The Government's phased expansion of this policy – detailed in Table 1 – will mean more parents and their children will be eligible to receive funded hours.

As the Institute for Fiscal Studies (IFS) has noted, the average family with a toddler will save over £80 a week on formal childcare, but the expansion of the policy carries 'serious risks'.[44] Survey data from the Early Years Alliance (July 2023) suggests that the sector itself will not meet parents' expectations following the expansion of funded hours. Only 61% of parents are optimistic that availability will meet their needs, and 42% of all providers already have a full waiting list for places.[45] These perspectives are indications from both the demand and supply side of the market that the needs of working parents will not be met.

A specific risk highlighted by the IFS is the one posed by the Government now becoming a price setter for 80% of all pre-school childcare in England, increasing from 50% at the time of the announcement in March 2023.[46] This means that the funding rate at which the Government buys childcare from providers via local authorities must reflect the true cost of childcare. Getting it wrong risks

Table 1: The Government's expansion of 30 funded hours entitlement at Budget 2023

The Government will spend £3.2bn on supporting parents in the remaining Spending Review period (to 2024-25) and a further £15.2bn in the period to 2027-28.[37] Following the 2023 Spring Budget, funded or "free" hours are an entitlement that will soon be more widely accessible to working families and parents in England. Through this arrangement, local authorities are funded by central government for the delivery of childcare places, which are themselves delivered by a number of providers. According to the Institute for Fiscal Studies, the expansion of funded hours will mean government will set the price of 80% of all pre-school childcare in England – increasing from 50%, pre-Spring Budget[38] – which is a level that risks shortages of childcare provision across the sector. The Office for Budget Responsibility forecasts that the extension of the 30 funded hours benefit will add 60,000 people to work an average of 16 hours a week by 2027-28.[39]

Currently, the Government provides support for the costs of childcare for 3- and 4-year-olds with a universal offer of 15 funded hours a week for 38 weeks of the year (the "Universal Entitlement").[40] It also provides an "Extended Entitlement" of a further 15 weekly funded hours to parents in qualifying paid work (though in both cases, the hours must be used with an approved provider, and can be stretched over a period more than 38 weeks). Those eligible must be working at least 16 hours at the National Living Wage (for over 23s) or National Minimum Wage (for under 23s), and with an adjusted net income of under £100,000 a year.[41]

The Government has set a course to phase in the extended 30 hours entitlements to working families, meaning that: 2-year-olds will be able to access 15 hours of funded hours from April 2024 (an arrangement already accessible to some disadvantaged 2-year-olds); children from 9 months to 2 years will have access to 15 hours a week from September 2024; and children from 9 months to 3 years will be able to access 30 hours a week from September 2025.[42]

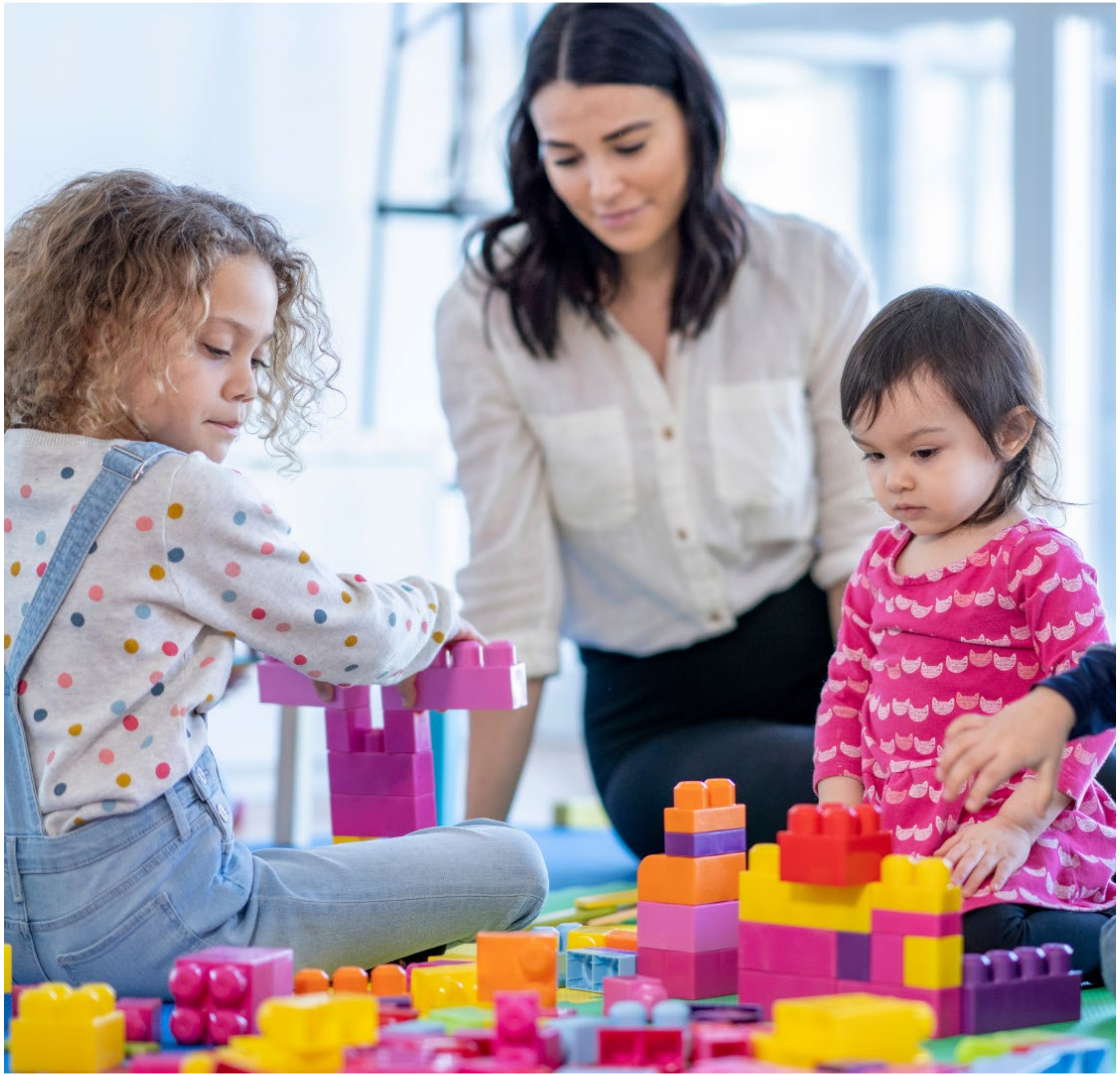
As noted above, the Government estimates this will cost £3.2bn up to 2024-25, and a further £15.2bn in the period to 2027-28,[43] and stated at the Budget that it will raise the hourly rate paid to providers for the existing funded hours schemes to ensure that their expansion is sustainable in the market.

providers opting out of delivering the new entitlement or leaving the marketplace altogether,[47] as the perspectives above show. By extension, families would find it even more difficult to access services because availability is reduced by decreasing supply.

Concerningly, the prevailing view of providers indicates that the Government is not funding childcare at a fair rate. The Early Years Alliance revealed that many providers refute the idea that funded hours are 'free', arguing they actually cost more than the Government pays.[48] The rate (roughly £4.80) is less than the hourly cost of delivering a childcare place (£7.50). [49]

External pressures have been a factor here. Amid a cost-of-living crisis, inflation has eroded the value of childcare subsidies, exacerbating cost challenges at the supply side (such as staffing, as noted above),[50] and thereby putting further upward pressure on prices.

Such pressures commonly lead to 'cross-subsidisation', whereby providers plug the perceived gap in funding with higher prices for services beyond the scope of the term-time 30 hours offering, for example, those delivered outside of term time.[51] This is counter-intuitive, given cost pressures faced by providers are ultimately passed back to parents. It is a situation that will likely intensify as the policy is expanded.



Wider government support for childcare

The 2023 Spring Budget brought forward a significant package of childcare-focused policies that, taken together, would increase the Government's investment in the sector.

Notably, these measures were backed at the time by over 70% of voters for each of the major political parties, reflecting not only the popularity of such interventions but also perhaps changing attitudes and expectations over the role of government in respect of early years childcare policies.[52] Pregnant Then Screwed, a campaign group focussed on securing better support for mothers, found that 96% of families with a child under 3 years old are likely to vote for the political party with the best childcare pledge in the next election.[53]

While the Budget measures did not signal a fundamental reform of how childcare is funded and delivered in England, it provided a clear indication that government would continue to support families indirectly, as a subsidiser of services, through the expansion of its headline 30 hours policy.

A range of other measures also currently support working parents. Tax-free childcare is an income-tested entitlement for working parents, providing up to £2,000 a year to support the cost of childcare with Ofsted-registered providers. Depending on eligibility, this can be used at the same time as the 30 hours entitlement.[54]

Support is more limited to parents who are not in work, or those who are seeking work. The Universal Credit Childcare Element funds up to 85% of childcare costs, and this was uprated at Budget 2023 to a £951 monthly ceiling for one child and £1,630 a month for two or more children, rising in line with Consumer Price Inflation until 2027-28. Parents in education are entitled to a childcare grant and Parents' Learning Allowance. However, these cannot be claimed in addition to other childcare entitlements, meaning their support is comparatively more limited than that of working parents.

A universal Child Benefit entitlement is available to any child – and one parent – through a weekly payment up to the ages of 16 or 20 as long as children remain dependent on a parent and in approved forms of education.[55] Parents with a household income more than £50,000 are subject to a High-Income Child Benefit Charge, however.[56] This creates a cliff edge; as the charge effectively equals 1% of the family's Child Benefit for every £100 earned over the £50,000 threshold.[57] Those households with a net adjusted income of over £60,000 then face a charge equal to the total amount of the Child Benefit. Speaking in January 2024, financial journalist Martin Lewis said: "It seems grossly unfair that a couple can bring in nearly £100,000 - because it's about the individual income - but a single breadwinner loses out once they've earned more than half of this."

The range of childcare support on offer to parents is varied and lacks coherence. Parents may be confused about what they are entitled for in the absence of adequate signposting. This leads to lower uptake of the support that is on offer; this is particularly true of the child benefit process which requires parents to complete a self-assessment. Furthermore, parents can find themselves on the hook for repayments they were not expecting due to a lack of understanding of the childcare benefits and allowances system. In November 2023, a Freedom of Information request found that 6,652 parents had been issued with Failure to Notify penalties in relation to child benefit charges.[58]

As this report explores further, these dynamics compound the challenges brought about by an inherent tension whereby subsidised provision creates immense pressure on the supply side. Only a more comprehensive set of interventions can secure the sector's sustainability.

2. MUDDLING THROUGH:

The impact of high childcare costs and limited availability on parents

To understand the current situation and challenges associated with childcare in England, surveys were conducted with working parents by KPMG, BusinessLDN, and the Central District Alliance. The findings are instructive for understanding the extent of challenges relating to the affordability and availability of childcare, and how tightly these elements are interlinked with the delivery of quality services.

Set out below are the perspectives from a KPMG survey of colleagues who are parents conducted in July 2023,[59] and from a Central District Alliance and BusinessLDN commissioned poll of London's wider parent population in August 2023.[60] When combined, both surveys present a view from a wide cross-section of parents in England.

KEY FINDINGS

- **Childcare is currently disproportionately expensive to most parents.** Most respondents to KPMG's staff survey find childcare costs unaffordable, as do parents who responded to a London-wide poll commissioned by the Central District Alliance and BusinessLDN.
- Most respondents to KPMG's staff survey find childcare costs unaffordable, as do parents who responded to a London-wide poll commissioned by the Central District Alliance and BusinessLDN.
- **Availability is a challenge to varying extents across the country.** Responses from both surveys show that parents are largely split in their perceptions of access, suggesting that availability is a highly localised challenge, evident within and between certain areas of the country.
- **Parents value quality in childcare provision.** Most parents believe they are receiving a quality service, and this is arguably one of the strengths of the English childcare system.
- **Challenges associated with childcare are impacting careers.** It is striking that two-thirds of KPMG's sample noted that childcare cost and availability had negatively impacted the progress of their careers. The fact that this sample was overwhelmingly female (69%) suggests that policy should support more women returning to – and staying in – work.

The high cost of childcare faced by parents emerged as a central concern in KPMG's survey. The overwhelming majority found that the costs of childcare faced by parents were currently unaffordable in London (89%) and across the wider UK (75%). One parent told us that the cost of a full-time place prohibits them from having both of their children in nursery full time, so support from family and flexible working are essential. Some respondents cited paying c£2,000 a month for the childcare services they receive for two children.

In terms of the overall cost to families, the survey responses showed that 32% of participants allocated between 20% to 30% of their monthly household income to cover childcare expenses after benefits. An equal percentage dedicated 30% to 40%, and 15% faced a substantial financial burden, channelling over 40% of their income toward childcare costs.

The CDA's survey reflected how the cost of childcare is a major challenge for parents across London. Of its respondents, 49% cited cost as the most significant factor influencing their choice of childcare services in London, with an overall majority (53%) rating their current childcare services as unaffordable.

Availability of childcare services is a challenge to varying extents within and between areas. The samples of both surveys consisted of parents based in London, either receiving services in the capital or its surrounding areas.

Over half (52%) of respondents to KPMG's survey described the availability of childcare services in London as 'poor' or 'inaccessible', as did the majority of those receiving services outside of the capital (47% said availability was either poor or inaccessible, 14% were 'not sure', and 39% said it was 'good' or 'freely available').

Participants cited hybrid and flexible working patterns as particularly significant in helping them manage limited provision, for example, where a working day starts earlier than nursery opening times. Others said that they would have to book annual leave for the school holidays months in advance and even still faced a situation where day-to-day wraparound care was lacking.

The CDA survey also returned a mixed picture regarding perspectives on availability; 43% said their childcare was accessible, and 39% said it was inaccessible.

Table 2: Summary of responses to the Central District Alliance and BusinessLDN commissioned poll of parents in the capital

53% of respondents rated their childcare as unaffordable, 29% as affordable, with the remainder either 'undecided' or 'don't know'.

49% of respondents reported getting into debt because of their childcare costs, 26% disagreed, while 25% neither agreed nor disagreed.

Among the deciding factors in choosing childcare, respondents rated the following as most important: cost (46%), hours available (43%), distance from home or workplace (37%), quality of provision (36%), range of activities (29%), good quality state provision (24%), and government funded tax breaks (17%). Respondents selected up to three options.

43% said their childcare was accessible, 39% said it was inaccessible, with 18% not having a strong opinion either way.

64% said they were or had worked shorter hours versus 14% who hadn't largely or at all and 22% who neither agreed nor disagreed.

65% reported working earlier or later versus 12% who hadn't made changes largely or at all and 23% who neither agreed nor disagreed.

The Central District Alliance and BusinessLDN commissioned poll was conducted between 18 and 21 August 2023. The sample consisted of 1,002 UK parents or carers, aged 18 and above, that currently use or have used childcare services in London.

Despite these challenges, parents evidently value quality of provision, and in many cases, they believe they are receiving a decent standard of childcare. Of those who receive childcare in the capital, 65% rated the quality of these services as either 'good' (50%) or 'very good' (15%). Colleagues working in London but receiving these services outside of London echoed this; 65% rated these services either 'good' (46%) or 'very good' (19%).

This sentiment reflects the existing evidence base presented in various prominent studies. The UK has the third-highest childcare costs in the OECD,[61] and official statistics show that the majority of parents of children (0 to 4 years) think the number of local childcare places is declining.[62] Perceptions of relatively high-quality provision, however, resonate with Ofsted's June 2023 statistical release which reported that 96% of all Early Years Registered providers reported were judged either 'good' or 'outstanding'.[63]

Arguably, the most striking finding from the KPMG staff survey was the profound impact of childcare challenges on careers, especially women's careers. Two-thirds (66%) of respondents expressed that the combined effect of high costs and limited availability negatively affected their professional endeavours. One respondent said that it simply isn't financially viable for their partner to return to full time work and pay for full time nursery and wraparound care. Another respondent reflected on their situation, which sees both parents working part-time, and the routine associated with this means they simply don't have the capacity to push on in work to progress their career.

These findings correlate almost exactly with a separate poll of 4,000 women carried out by the British Chambers of Commerce in March 2023, which found that 67% of respondents think that their childcare responsibilities over the past decade had meant that they had experienced being overlooked for pay rises, promotions, or career development.[64]

Table 3: In their own words: KPMG staff on navigating the childcare challenge

"Childcare is unaffordable and is a huge consideration for me having a career. The numbers don't add up. Breakfast and after-school care is required, plus school holiday cover."

"Flexibility [is important] - it's difficult when you are working in London and need to get to a different area in time for school pick up, and it's not always easy to make early meetings in the office. It makes working for home increasingly attractive, as you can generally work your hours more easily when you're not factoring in a commute."

"Being a carer, my partner and I have to work part-time and/or flexi as there are no options available to us for respite given we fall in to the category of the "squeezed middle". Having to work flexi does not afford me the mental capacity to push career-wise, which is extremely frustrating therefore I am trapped in a cycle of "routine". The ability to afford being able to relieve my partner from having to work, which would allow her to focus on the childcare, which would allow me to focus on career progression."

"Holiday cover is a significant issue for us, and it is virtually impossible to find full day options with appropriate activities for children aged 7-11. The majority in our area are half day only, or at most, 9-3pm. This makes travelling to the office impossible."

"No [current] funding below 3 years old for most people makes juggling a career with childcare needs very difficult in the early years. Funding should be universal, like the entitlement to 15 hours free care from 3 years old."

"Waiting lists are incredibly long and limited hours available, meaning having to go part time."

3. EMPOWERING PARENTS FOR ECONOMIC GROWTH:

A potential annual boost to the economy and public finances

Childcare policy can improve outcomes regarding a child's development and enable their parents to work. There has been a steadily increasing recognition of the role of childcare as an economic enabler in recent decades, and this is one of the central aims of government childcare policy in England.

As referenced above, however, the net costs to parents of receiving childcare in formal settings remain expensive and, in many cases, prohibitive. Many have no alternative but to rely on family support and networks, and even still, many – including those who live in large cities like London – may be too distant from relatives for this to be practical.

Many parents simply choose to leave work or reduce their hours and look after children at home. Recent ONS data[65] reports that 681,000 parents with children under 5 in the UK are economically inactive due to parenting responsibilities, with 93% (632,000) of them being female. This group of the population are aged 16 to 64 and are not considered to be in the labour force, either because they are not seeking work, or they are unavailable to start work soon.

KEY FINDINGS

- **Measures that encourage more parents of young children into the workforce could provide a boost to the economy and public finances.** A larger employed workforce would support greater economic output and correspond to higher levels of total income across the UK, in turn supporting higher expenditure. Boosting the economy also supports the UK's public finances, as higher expenditure and incomes increase tax receipts.
- **Increasing labour supply amongst economically inactive mothers with children under the age of 5 could provide a boost to the UK's economic supply potential and support the public finances**, although the total net impact on the public finances would depend on the extent to which the direct fiscal cost of any measures offset the indirect fiscal benefits of higher tax receipts.
- **Increasing UK employment by between 62,000 to 250,000 heads by reducing inactivity in those with childcare responsibilities for children under the age of 5 could be expected to increase annual GDP by between £2.8bn to £11.3bn in 2024.** This would give a potential annual indirect benefit to the UK's public finances of between £0.8bn to £3.2bn each year via higher tax receipts and lower borrowing.

Of mothers with children under 5, 72% are economically active, whereas the rate stands at 80% for mothers whose youngest child is of primary school age, and 94% for fathers with children under 5. Limited access to quality and affordable or suitable childcare is a contributing factor to this disparity, making it especially challenging for women with young children to participate in the workforce.

Bridging the eight percentage point gap between the 72% economic activity rate of mothers with children under 5, and the 80% of mothers whose youngest child is at primary school, would represent an additional 250,000 mothers entering work.

While the 80% economically active rate currently prevailing amongst mothers of children aged 5 to 10 should not be seen as a ceiling or a target for employment rates amongst mothers more generally, it helps to define reasonable bounds or provide a sense of the scale of potential labour supply effects that could be yielded. To account for scenarios with a smaller effect, Table 1 also presents estimates on the impact of reducing the gap in employment rates between these groups by half, a third and a quarter.

Table 1: Potential increases in maternal employment rates and associated increases in the UK workforce.

Description	Increase in employment rate, mothers with youngest child aged under 5 (percentage points)	Associated increase workforce (headcount)
Full equivalence in employment rates with mothers of children aged 5 to 10	8.0%	+250,000
Gap in employment rates reduced by a half	4.0%	+125,000
Gap in employment rates reduced by a third	2.7%	+83,000
Gap in employment rates reduced by a quarter	2.0%	+62,000

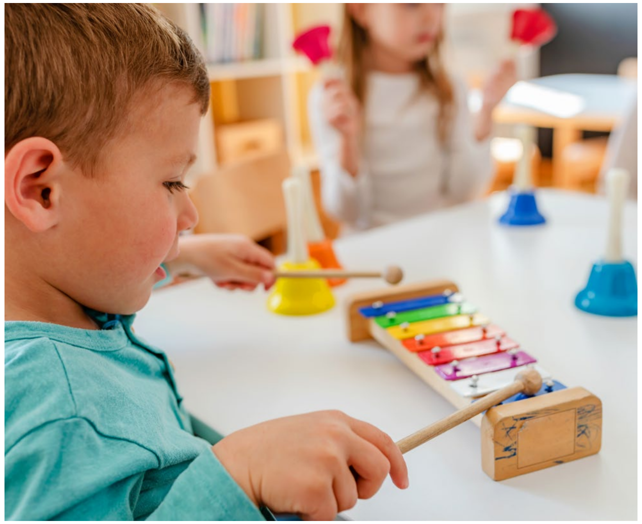
Furthermore, measures that encourage more parents of young children to enter or re-enter the workforce could provide a boost to the economy and public finances. A larger employed workforce would support greater economic output and correspond to a higher level of total income across the UK, supporting higher expenditure. Boosting the economy in this way also supports the UK's public finances, as higher expenditure and incomes increase tax receipts.

Enabling more people – and in this case, women specifically – to join the labour market can improve the UK's economic supply potential and support the sustainability of the public finances. However, the total net impact on the public finances would depend on how much the direct fiscal cost of any measures to enable women to work offset the indirect fiscal benefits of higher tax receipts.

High-level estimates for the potential economic impacts, under several scenarios, are set out here, using official data and building on the work of the Office for Budget Responsibility. Using the scenarios for potential increases in maternal employment rates set out above in Table 1, Table 2 shows that increasing UK employment by between 62,000 to 250,000 heads, by reducing inactivity in those with childcare responsibilities for children under the age of 5, could be expected to lead to an increase in annual GDP by between £2.8bn and £11.3bn in 2024. This change in labour market participation is estimated to benefit the UK's public finances by between £0.8bn and £3.2bn each year via higher tax receipts, although the net fiscal impacts, taking account of the costs of any publicly funded measures to improve childcare provision to support this increase in labour market participation, would need to be assessed.

Table 2: Estimated impacts due to an increase in maternal employment (change relative to 2024 pre-policy baseline).

Workforce headcount	Total hours worked	Real GDP level		Wages and salaries		Government revenues
+250,000	+0.73%	+£11.3 bn	+0.44%	+£5.7 bn	+0.44%	+£3.2bn
+125,000	+0.36%	+£5.7 bn	+0.22%	+£2.8 bn	+0.22%	+£1.6bn
+83,000	+0.24%	+£3.8 bn	+0.15%	+£1.9 bn	+0.15%	+£1bn
+62,000	+0.18%	+£2.8 bn	+0.11%	+£1.4 bn	+0.11%	+£0.8bn



There are then larger potential – and positive – longer-term impacts that can benefit the economy. Parents who can work part-time when their children are young could further increase their participation in the workforce when their children enter primary school, for example. Evidence suggests that mothers working part-time miss out on the wage progression seen by full-time workers,[66] so if increased accessibility to high-quality childcare enabled mothers to re-enter full-time work faster and at a higher rate this may help to reduce the gender wage gap and provide a further boost to the economy.

A larger workforce can alleviate, to a certain extent, labour shortages across the economy, potentially contributing to productivity gains by filling key roles without necessarily having the worry of childcare arrangements. There are then likely to be a multitude of dynamic, persistent productivity benefits that accrue to specific individuals from being in employment such as from training and the opportunity to learn new skills.

The size of the prize is, therefore, significant in economic terms, widening the labour supply, contributing to growth, increasing government revenues, and potentially driving productivity in the longer term. The associated social externalities of supporting working parents must not be understated either; more women would have the option to work, and the gender disparity in wages and overall economic activity potentially can be reduced.

4. AN INTERNATIONAL OUTLIER:

Our pricey childcare system

Childcare provision in England can be better understood when compared to the systems of other developed economies. The principles of affordability, availability, and quality are an effective point of comparison, being largely universal in terms of their potential to impact or challenge parents, providers, and policymakers.

Comparing Early Childhood Education and Care (ECEC) systems internationally can be challenging as the nature of provision can differ significantly from country to country. Services can differ structurally in how they are organised, funded, and resourced or in the day-to-day interactions that children, staff, and parents experience. For this reason, the research presented here was informed and supplemented by interviews with Heads of People and focus groups of parent colleagues across KPMG's International member network in Australia, Canada, Denmark, Estonia, France, Germany, and Spain for wider insights on the key themes of affordability, availability and quality in each jurisdiction. This provided a range of best practice examples and a strong sense of the strengths and weaknesses of childcare systems in a cross-section of developed economies, though it should be noted that no single country has fully met the challenges of cost, availability, and quality.

While none of the countries we explored has a system that can be replicated directly in English childcare provision, we can conclude that funding needs to match policy ambition and rhetoric, and this is absolutely critical at the supply side of the sector. There is a clear correlation between better trained staff being able to deliver quality childcare to a greater proportion of children, for example, across the countries we explore. While the staff-to-child ratio has increased from 1:4 to 1:5 in England, the international case studies present an interesting lesson for English childcare, given the potential for higher ratios to ease staffing, cost and availability pressures.

At a macro level, trends across the OECD show that the proportion of 3- to 5-year-old children enrolled in ECEC education rose 8% between 2005 and 2020, currently standing at 83%. Yet by

- **Childcare systems across the world provide more support to parents of pre-primary school aged children than younger children.** In this respect, the UK is among international peers that focus services and support towards children aged 3 to 5 years rather than 0 to 2 year-olds, though this in itself presents challenges for working parents.

- **Certain countries alleviate pressures on the system with a wider range of policies and by incentivising at-home care.** For example, a greater reliance on childminders and nannies, thereby tackling availability challenges. Again, availability is a mixed picture internationally (as it appears to be across England). There are, however, countries with more comprehensive systems, such as Australia, France, Germany, and Spain, where a wider range of policies and a wider range of options are available for parents.

- **Child-to-staff ratios provide only a limited reference point when comparing staff-to-child rules in England, but those with higher ratios typically have more qualified childcare professionals.** England's ratio is one adult to five children but developed countries with higher ratios tend to have more teacher-led and higher qualifications among staff.

- **In terms of affordability, the UK is a clear outlier, having some of the highest childcare costs in the developed world.** The UK has the third highest net childcare costs facing parents in the OECD, after Ireland and New Zealand.[67] Costs borne by parents represent the widest point of comparison between England and its international peers.

contrast, children under 3 years old are most often cared for at home or outside of ECEC settings; only 27% of this group receive formal childcare.[68] In the UK, children under 3 receiving care in ECEC settings stands at 18%,[69] though this figure rises to 59% when that group extends to 3- and 4-year-olds.[70]

Regarding uptake of services, the UK and within it, England, is therefore by no means an outlier in terms of its ECEC provision being focused principally on pre-primary aged (3- to 5-year-olds) children, as opposed to very young children (of 0 to 2 years). The widening of the 30 hours offer by the UK Government, which will be extended from 3- and 4-year-olds to children from 9 months, therefore has significant potential to shift the dial in terms of the weighting and uptake of childcare services in England on the condition that the sector can deliver these services. In principle, it can support families with the cost of services and unlock more flexibility and choice for parents who are keen to return to work sooner when their children are relatively younger.

However, as the examples below (in Table 3) show, there are a range of policy options that can support families with childcare more directly that have wider benefits than helping parents with the costs of childcare.

Availability

Access to childcare and specifically ECEC provision can vary widely between countries – including the countries where KPMG colleagues were consulted – and within them also.

For certain countries, availability did not register as a challenge in the way it does in the United Kingdom. This was referenced by KPMG France in particular, with anecdotal evidence suggesting that except for major cities and remote rural areas, childcare services provided in formal settings are relatively freely available. Moreover, the delivery of childcare services is relatively evenly split between the 0 to 2 and 3 to 5 age brackets,[71] suggesting that the French childcare system delivers a comparatively more comprehensive level of provision than its OECD peers, including the UK.

This might owe to a comparatively wider mix of policy interventions aimed at supporting parents, and particular incentives – including a tax credit for parents that choose stay-at-home au pairs – arguably have the impact of freeing up places in formal childcare settings.

Denmark deploys a similar policy, where grants are offered to families who choose at-home care, who in turn support efforts to reduce the demand pressures on kindergartens and daycare centres. For Denmark, which is among the Scandinavian countries lauded for their extensive and accessible childcare systems, this seemingly reflects the pressures that may follow a more generous level of subsidy and the delivery of high-quality provision and learning in formal settings. This has a particular resonance for England as the childcare sector struggles to meet demand for nursery places. Childminders have left the market at an ‘alarming’ rate, according to the Education Select Committee,[72] so the lack of ‘at-home’ care capacity in the system will put further pressure on the sector.

Germany, Spain, and Australia are examples of countries with comparatively healthier levels of availability across their childcare systems, and this also appears to be a consequence of policy, or at least clear direction from government. Germany, for example, mandated the right to a nursery place for every 1-year-old, though delivery on this principle can vary from region to region. In some areas, kindergartens and daycare centres are underserving, whereas larger cities might experience supply challenges. Colleagues at KPMG Spain also cited the Spanish Government’s Educa3 programme, which aimed to create 300,000 new nursery schools for children until age 3; this has been instrumental in securing an upward trend in wider childcare uptake among 3-year-old children.

In Australia, colleagues told us that policymakers have increasingly leaned into the private sector and signalled their aim to make the working day more flexible for parents. Consequently, many companies have responded by introducing more choice around working hours, which in turn has reduced pressure on daycare centres.

In England, the expansion of subsidised hours is being phased in, and this policy has the potential to rebalance childcare service provision among the youngest children and pre-schoolers. The impact of the policy is therefore yet to be realised, but this will undoubtedly lead to greater uptake of formal childcare. The international comparisons drawn here provide important forewarning, consistent with the risks highlighted in previous chapters, that any policy that stimulates demand should be balanced with measures that can boost supply.

Quality

A theme that runs through the comparative examples is the value that formal or centre-based childcare services bring, particularly from a child development perspective, because of the potential for quality interactions between and among children and care staff. For this reason, children-to-staff ratios are often regarded as a key point of reference, despite the limitations of comparing systems on this measure.

Germany for instance, imposes no ratio, but relies much more heavily on qualified teachers that follow a curriculum in what are most commonly non-profit settings. As such, childcare services may be less personalised, albeit with a greater focus on children's development.

France, as has been noted, delivers a more comprehensive level of provision than most of its international peers, yet its ratios are less stringent at 1:8, this perhaps being a factor enabling wider availability and uptake across the system. The same ratio applies in Canada, though it is notable that childcare staff require a higher level of qualification in formal settings here. This country provides a particularly interesting case study in terms of quality because of what appears to be a two-tier system between formal settings (which put a heavy emphasis on quality provision), and the wider 'unlicensed' childcare sector, which is essentially home-based care and that provided by childminders.

In England, the ratio is 1:5 recently increased from 1:4. It is notable that the English system relies to a greater extent on teaching assistants and support workers (for whom the staff ratio applies as equally as it does to nursery teachers). Parents surveyed for this research reported the level of interaction between children and staff as positive and ensures a good level of quality is maintained in the system (as reflected in various parent surveys). The Government has expanded the ratio to improve capacity in the sector and indirectly influence affordability in the market. Ratios appear to be much more politically sensitive in England and some parents raised the issue of ratios independently as part of the qualitative research carried out for this report, but international experience shows, as noted above, that better trained staff are able to support higher ratios without any impact on parents' perceptions of quality.

Maintaining these perceived levels of quality is, therefore, an important focus area for policymakers. This should be through developing and upskilling the existing workforce with a view to building capacity at the supply side and thereby reducing the cost of childcare in the sector.

Affordability

The UK is the third most expensive OECD country for childcare provision, falling only behind Ireland and New Zealand, and leading all the countries explored by this research in terms of cost.

Across these examples, various mechanisms are utilised, some with more direct impact on the overall cost burden impacting parents than others. KPMG colleagues referenced the fee caps that are in place in certain countries such as Denmark, and the Canadian Government has pledged to implement a $10 daily average rate by 2026, for example. Estonia has a slightly different system which provides greater benefits to parents through parental leave for a relatively longer period of 18 months before income-tested funding is available for kindergarten places.

Most commonly, childcare is subsidised to greater or lesser extents, as is the case in England. France has comparatively more generous subsidies. However, this does not fully address the affordability question; parents here fall into the mid-range in terms of the costs they face, which amount on average to 12% of their monthly household income.

Germany is a clear outlier, with parents paying an average of 1% of their monthly household income on childcare. A wide range of targeted benefits and subsidies support parents here, including tax breaks and parental allowances, with some states even offering free public provision. As such, it represents the furthest point of comparison with England's levels of childcare costs facing parents.

Table 3: International childcare systems compared

Country	Availability Indicators	Affordability Indicators	Quality Indicators
Australia	• Shared public sector and private sector buy-in for flexible working arrangements.	• Relatively high cost: 21% of a couple's average wage spent on childcare.	• Moderate child-to-staff ratios • Higher qualifications required for ECEC staff than the UK, where only a good level of literacy and numeracy at GCSE or the equivalent qualification are needed.
Canada	• Most childcare settings report staff shortages • 78% of childcare centres had active waitlists in 2022.[73]	• Medium cost: 18% of a couple's average wage spent on childcare • Policy objective for a $10 average daily fee by 2026 • State-level variations (including the Quebec fee cap of $10 a day).	• Perceptions of a gulf in quality between 'licensed' and unlicensed settings.
Denmark	• The Act on Day Care Facilities provides guarantee for equal access to ECEC facilities for all children below the school age[74], and the majority of children between 1 and 5 years (9 in 10) attend a publicly supported facility. • However, at-home childcare support and incentives reflect current pressures on formal settings.	• Medium cost: 11% of a couple's average wage spent on childcare. • Fee cap in place.[75] • Subsidised places for children from 6 months.[76]	• No child-staff ratios apply, though approximately 60% of staff are trained early years professionals with 3.5 years of university education.[77]
Estonia	• High levels of participation among children across ECEC settings.	• Low cost at 7% of a couple's average wage spent on childcare. • Government spending on ECEC services is above the OECD average.	• The ECEC workforce has compulsory levels of qualifications and a structure that supports career development. • ECEC institutions have a degree of autonomy in respect of the curriculum it follows based on a national framework.

Country	Availability Indicators	Affordability Indicators	Quality Indicators
France	• Relatively high enrolment of younger children (50% of 0- to 2-year-olds), and almost all children have attended école maternelle (nursery school) from 3 to 6, even though it is optional.[78] • Provision is comparatively more comprehensive and split relatively equally between 0 to 2 years and 3 to 5 years.	• Heavily subsidised, yet 12% of a couple's average wage spent on childcare. • Payments are made directly to parents[79], who in turn pay a sliding-scale fee based on income.	• Relatively less strict ratios at 1:8.
Germany	• Every child from the age of 1 year old has the right to a nursery place[80], mandated in 2013 but capacity varies across states and availability is more acute in larger cities.	• Low cost: 1% of a couple's average wage spent on childcare.	• No child staff ratios apply[81] but less reliant on teaching assistants and typically are less than ten children per teacher.
Spain	• Enrolment rates of under 3s have been rising (now at over 20%) since 2005 as a consequence of the Educa3 programme.	• Low cost: 9% of a couple's average wage spent on childcare. • Infant education (ages 3 to 6) is completely free. • For 0 to 3s, public nurseries typically cost 200 euros and private nurseries typically cost 300 euros per month.	• Spain's ECEC has a strong curriculum which includes certain 'key skill' objectives for children to achieve.[82]

In a comparative context, England has a highly expensive childcare system with acute cost pressures, which are felt both by parents and providers. Availability of provision is a much more mixed picture here, and supply in the market is intrinsically linked to costs. As we have seen, these pressures ultimately impact providers' ability to operate, which limits the availability of services. This is felt to a greater extent in urban areas, including London, as our survey suggests. However, those using childcare services in England prioritise quality, and our research shows that, in most cases, these expectations are being met.

BUSINESS LDN

5. RECOMMENDATIONS

This report has shown the 'size of the prize' in terms of the economic gains that can be made if economic inactivity among those with childcare responsibilities – and specifically women – can be reduced. Annual GDP, it is estimated, can increase by up to £11.3bn per annum, with a fiscal impact from higher tax receipts as high as £3.2bn each year if 250,000 people are supported into work. This is the central mission informing the recommendations presented in this chapter.

The recommendations below are presented by BusinessLDN, following consultation with business members, academics, providers, and sector interest groups, and drawing on the insights from this research. They relate specifically to reducing the cost of childcare, improving access to services, and maintaining quality in provision; each of these are interlinked principles that can alleviate the pressures on parents and providers.

The proposals for government outlined in this report would need to be fully costed and subjected to a rigorous cost-benefit analysis. BusinessLDN is keen to work closely with policymakers on implementing these measures as the public finances improve, prioritising those which would deliver the greatest return, given some of the measures would have a significant fiscal cost. However, we believe they can help to achieve substantial economic benefits by unlocking higher rates of labour market participation, which can help to deliver increased economic growth and higher wages.

Reducing the cost of childcare

Parents in England value high-quality childcare, and many perceive that it is meeting their expectations, yet the UK is an international outlier in terms of childcare costs.

At early years, the cost of a part-time (25 hour) childcare place for a child under 2 in a nursery in Great Britain is now £148.63 (£7,134 per year) and £144.01 for a 2-year-old (£6,912 per year), according to Coram's 2023 Family and Childcare Survey, and this represents a 5.6% increase since 2022, explained in part by the cost of living crisis and more than double the rise of the previous year.[83] These pressures are more intense for parents in the capital; London Assembly's Economy Committee's report in 2024 found that childcare costs for 25 hours of provision for under-2s in the capital are 25%-33% more than the average across Great Britain.[84]

These costs are prohibitive, both for those in work and those seeking it. The challenge for policymakers is to make the option to work a realistic one for parents with young children. This means incentivising work by making childcare more affordable and flexible. This may be possible through existing policy frameworks, but it ultimately requires significant investment to unlock the potential economic gains this report identifies.

One existing framework is the Government subsidy and the offer of 30 hours. The phased expansion of these subsidised hours, if the government gets the infrastructure right and urgently clarifies the funding, could potentially result in significant benefits. For example, 60,000 (mostly female) parents could enter or return to the workplace by 2027-28, working 16 hours a week on average, according to the Office for Budget Responsibility.[85] This will bring a range of benefits: for many working families and parents, childcare will become more affordable; those who want to work will have a greater ability to do so; and the level of economic activity will increase as a consequence of having a marginally more active labour market. However, over a five-year time horizon, these gains fall short of the top-end estimates presented in this report. The funded hours offer should therefore have a wider coverage to include more working families with children under the age of 5 if the economic size of the prize is to be realised.

Recommendations for government

1 **Widen the 30 funded hours entitlement so that it is available 48 weeks of the year so that parents of pre-school age children do not have to muddle through the school holidays.** Funded hours are provided on a term-time schedule, meaning the reality is that working parents must either stretch and reduce their benefit over a full year or independently bridge the gap between statutory annual leave and holiday periods. Undoubtedly, the 30 hours reduces the cost for those parents that use childcare services, but the policy does not comprehensively cover the working year. Specifically, it amounts to 22 funded hours a week across the full 48 weeks of the year, after statutory holidays, because it only applies to 'term time' (38 weeks). This means many will continue to struggle meeting the costs of childcare and requires parents to stretch out the benefit across the full year or take time off work during school holiday periods, which for many may not be feasible. Widening the offer to parents of pre-school aged children would mean they receive a more comprehensive childcare offer, ensuring they can work on their own terms rather than part-time or term-time.

2 **Expand the eligibility criteria of the funded hours entitlement to parents in training or education to support those re-training and reskilling after a period of absence from the workplace and strengthen the offer for shift workers.** The 30 funded hours offer from government ultimately aims to support working parents in England and increase labour market participation. It is imperfect, and as the Institute for Fiscal Studies point out, it represents an 'all or nothing' approach to childcare where hours are either free to working parents or full price for those that may be in training or education.[86] Including parents with children looking to upskill or reskill within scope of the funded hours offer would leave them better able to pursue and enhance their job prospects and further their own careers.

Furthermore, anecdotal evidence suggests that the delivery of funded hours can differ from nursery to nursery, and in some cases, providers may exclude hours early in the working day and later into the evening.[87] This reflects a tension between provision and the working patterns of parents. Around one in four (26%) are evening and night workers in London, representing a substantial portion of the capital's labour market who in theory may not benefit from funded childcare at all.[88]

3 **Smooth the sudden cliff-edges and distortions that are a feature of eligibility for the 30 funded weekly childcare hours and Child Benefit Entitlements.** Though funded hours will be gradually expanded, it has not been indicated that the parameters for those entitled to the benefit will be reviewed. There are steep cliff edges at each end of the spectrum; eligibility to funded hours (and other benefits like tax-free childcare) is limited to those who work, but families where at least one earner has an adjusted net income of £100,000 per annum are unable to access the benefit. In practical terms, this means a couple each earning £99,000 are currently eligible for the funded hours offer, but a couple with one parent marginally over that £100,000 threshold, with the other substantially below it, are not.

More working parents – particularly those in the higher income bracket – will also face extreme financial distortions because of the wider entitlement. The IFS identify that a sharp cliff edge faces families with one parent earning £100,000 per annum or more; they are not eligible for any funded hours (nor the separate tax-free childcare subsidy).[89] Many parents paying average London rates for childcare will be severely impacted.[90] The risk is that many working parents will reduce their hours or turn down overtime. making decisions to avoid adverse personal financial implications that are likely counter-productive for labour market inclusion and economic growth.

Given the prevalence of the gender pay gap and the fact that more fathers work than mothers, it is therefore more likely to be women who are the lower earners in a high-income family. If their partner earns £100,000 or over – meaning that family is ineligible for funded childcare – the lower earner is more likely to be inclined to stay at home caring for children or reduce their working hours, rather than self-funding childcare services, which could outstrip their earnings. It is most likely that women are reducing working hours or leaving the labour market altogether to care for young children, rather than self-funding. The income limit for childcare support for working parents should therefore be reviewed by the next government.

The distortion in respect of Child Benefit is also acute for parents with a single income. Those earning

£50,000 or more pay a High-Income Charge of 1% of the benefit for every £100 of adjusted net income over the threshold. Those with a personal income of £60,000 face a charge equalling the total amount of the Child Benefit, meaning a single parent can lose out while a two-parent family can earn £100,000 without paying the charge. Government therefore should review and taper the thresholds, reflecting the fact that more and more people are being drawn into the charge as a consequence of an uptick in wages.[91]

4 **Bring forward the timeframe for increased funding to primary schools to provide wraparound care so that it is available from September 2025.** As the Government acknowledged in its Spring 2023 Budget document, many parents work fewer hours even when their children reach school age. Its intention is to support those parents of school-age children by, initially, delivering a wraparound pilot Pathfinder Scheme providing £289m in funding for some schools and local authorities to test provision, before offering a universal service from September 2026.[92] Initially, 16 councils will participate, before the scheme is widened to further local authorities in September 2024. These are welcome developments. The Institute for Public Policy Research has noted how, across the country, wraparound care delivery is patchy or unreliable, often with schedules changing at short notice, late cancellations, and for those in more rural areas, almost completely absent.[93]

Bringing forward the timeline for introducing the wraparound offer by a year will provide parents with more flexibility to work full-time or longer hours rather than having to make working arrangements fit around school hours with costly alternatives.

5 **Clarify the tax rules around workplace nursery exemptions to allow more employers to enter Workplace Nursery Partnerships with existing early years providers.** Employers must be made aware of their potential to enable parents to access childcare at a lower cost. Ensuring that more employers can enter Workplace Nursery Partnerships will enable more employees to access significant savings on childcare costs through salary sacrifice. Additionally, by entering partnerships with local nurseries, employers can better support hybrid workforces. Under the Workplace Nursery Exemption, the cost of a place in a workplace nursery is exempt from tax and National Insurance Contributions.

The benefits are substantial, but to be eligible, a provider must demonstrate a meaningful partnership, and a contribution to the management and running costs of a nursery.[94] The requirements are vague, and this means businesses are often unsure about entering Workplace Nursey Partnerships, as they fear that HMRC will attempt to claim payments back retrospectively. Further clarification on the practical application of this criteria is required to incentivise more employers to enter Workplace Nursery Partnerships with early years providers, helping more parents to save on childcare costs.

How businesses can support working parents

Many businesses are looking to step up and do more to enhance their support for working parents, to support recruitment and retention, as part of efforts to maximise their approach to diversity and inclusion and to enhance their employee value proposition. This can include:

- Offering on-site childcare through a salary sacrifice scheme via a workplace nursery or with providers nearer to where employees live, with consideration of offering community access to suppliers/ employees of local SMEs. Setting up a Workplace Nursery Partnership through a salary sacrifice scheme with existing providers to reduce the cost of childcare, as well as expanding the range of spaces on offer locally to employees.

- Offering an employer-funded childcare subsidy or a deposit loan scheme which acts like a season ticket loan to cover the upfront cost of a nursery or holiday club deposit.

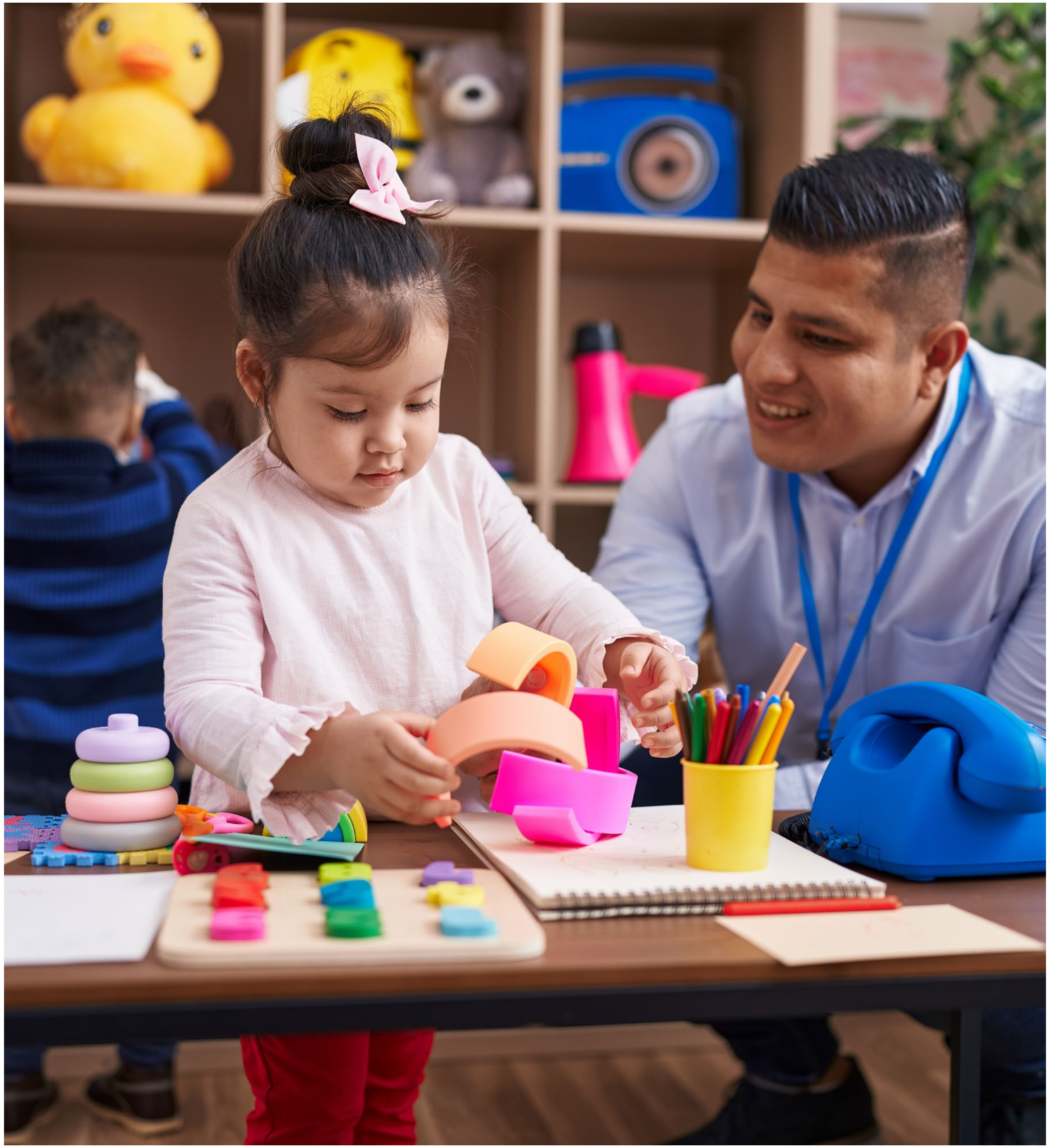
Case Study

Vorboss – Supporting team members with back-up care

Vorboss provides fibre internet for businesses in London. As more and more of its team members became parents and caregivers, the company realised it had a role to play in supporting their return to work. The firm identified that there was a shortage of affordable childcare options, particularly for those without a strong support network.

Vorboss partnered with Bright Horizons, a childcare provider who specialise in providing backup care solutions, to develop a care programme for their team members with both childcare and other caregiving responsibilities. Vorboss was able to introduce a solution that provides employees with up to 10 days of backup care, an approach that allows them to come to work even if their initial care arrangements unexpectedly fall through. Through this benefit, Vorboss aims to alleviate the stress on team members, enabling them to maintain their work performance and confidence knowing that their loved ones are receiving proper care.

Vorboss' backup care programme ran over a year-long trial period, lasting from 1st January to 31st December 2023. One particular challenge that became evident through the period related to the team members who work outside of the conventional 9-5 office hours. The company is now working with Bright Horizons to extend the availability of the programme and reduce the notice required for backup care, so it is even more accessible.



Increasing the availability of childcare

As our economic analysis has shown, increasing availability by making provision more accessible and flexible can deliver significant economic benefits. Providers in the market, therefore, must be supported.

Access to childcare varies across the country, but more concerningly, it appears to be a challenge that looks set to intensify, as providers look ahead to tighter market conditions. Supply is critical, and the expansion of the 30 hours offer – which many providers assert does not reflect the true cost of provision – to a wider cohort of children will add further pressure to the delivery capacity of the sector.

At the time of writing, there are significant concerns from the early years sectors that there is a lack of funding and supporting infrastructure necessary to deliver the expanded funded hours offer to working parents from April.[95] Providers have sounded the alarm on the risk that they will have to ration access to these expanded hours for working parents from April. For parents who had started to plan their childcare arrangements from, this is adding to their day-to-day stresses. Before any other steps are taken to improve the availability of early years provision, the government must fix operational and funding issues facing providers providers ahead of the expansion of funded hours for working parents.

The ability of providers to deliver against demand is paramount, but there are also important questions about their capacity to invest in quality and development, particularly regarding the childcare workforce. This is an urgent priority and an issue that concerns the sustainability of the sector as a whole.

Recommendations for government

1 **Establish a mechanism for annual review to ensure that funding remains sustainable in line with inflation and other economic factors, and nurseries continue to be properly reimbursed.** A more immediate concern in terms of supply presents itself in responses to the Department for Education-commissioned Pulse Survey of providers in the market in November 2022: 10% said that it was 'likely' that they would have to close, and of those continuing to operate, four in five said they had made at least one change to manage rising cost pressures, and most commonly that was to increase fees (62%).[96] This itself presents an availability challenge for parents who may not be willing or able to meet a higher price.

The phased expansion of the 30 funded hours could impact the availability of childcare further still, reinforcing the need to support providers on the supply side. Following the Spring Budget announcements in March 2023, Coram Family and Childcare's survey of local authorities reported that only half of areas have sufficient childcare for children under 2, and only 48% have enough childcare for full-time parents, a decrease of 7% and 11% on 2022 figures respectively.[97]

Ensuring that nurseries are properly reimbursed for the 'true' cost of funded hours to avoid cross-subsidising by increasing the costs for those that do pay is important. Government should establish a mechanism for annual review to ensure that funding remains sustainable in line with inflation and other economic factors and nurseries continue to be properly reimbursed.

2 **Provide a temporary relief to all early years providers from Business Rates, similar to that offered to other sectors like leisure and hospitality, as a bridge to more fundamental reform.** Department for Education analysis shows that half of providers are at or close to break-even point,[98] and the costs of providers have risen at a faster rate than those of households and costs across the wider economy. A particularly high cost faced by private, voluntary and independent providers is often Business Rates, as recognised during the pandemic when nurseries were given a full rate holiday between 2020-21, which then tapered off by 2022.[99] As the Education Select Committee found during its inquiry into Childcare Services in England (2023), the subsequent rate revaluation in April 2023 saw some providers facing increases of 35% to 48% in nursery settings.[100]

The long-term solution is for fundamental reform of the Business Rates system and to ensure that early years providers are adequately funded. Yet as a bridge to this, early years providers should receive a temporary relief, like that provided to the retail, hospitality and leisure sectors. This would ease one of the sector's biggest cost pressures at a time when high cost pressures are challenging the viability of many providers.

3 **Ensure that funding settlements equip providers to offer the pay and conditions required to attract and retain childcare early years educators in a sustainable way.** The cost-of-living crisis has exacerbated the pressures on the sector, limiting delivery and availability and ultimately leading to higher prices for parents accessing services. During 2022, providers saw inflation rise above 10% and reported that staffing costs and energy bills are the main drivers of cost.

Policy could, therefore, support providers in ensuring that funding settlements established by government for Local Authorities' delivery of childcare services are reflective of wage growth across the sector.

This could be achieved by, for example, an index linking funding settlements to increases in the National Living Wage or average wage settlements in the sector. BusinessLDN and KPMG both support the London Living Wage and encourage businesses to pay it where they can afford to do so, particularly in low-paid sectors. Paying the London Living Wage helps to retain existing staff and attract new staff.

4 **Ensure the planned public awareness campaign to promote the expansion of funded hours helps working parents to understand the different types of childcare support schemes available to them.** There are at least eight schemes aimed at subsidising childcare in England, and a particularly limited take-up of schemes such as Tax Free childcare.[101] Coupling this with the fact that, as the Institute for Fiscal Studies found, over half of families with pre-school age children made no payments for childcare in 2019, suggests there may be an information gap between the support on offer to parents and that which ultimately reaches them. The upcoming campaign to raise parents' and carers' awareness of the expansion of funded hours should also signpost the different support schemes available to working parents.

How businesses can support working parents

For those firms looking to do more, options include:

- Facilitating more flexible working practices, including hybrid options, term time working, compressed hours, and accommodating childcare drop offs and pick ups, and use Job Shares to offer more entry points into work for parents managing childcare responsibilities.
- Offering Shared Parental Leave to give parents greater flexibility in how they care for their child in their first year.
- Introducing a backup care programme, which provides employees with a number of days guaranteed access to a network of childminders or other childcare provision if their initial care arrangements unexpectedly fall through.
- Offering parents the opportunity to build confidence and refresh or renew skill sets for their return to work by providing a returneeship programme.
- Establishing networks for working parents that enable groups of people to communicate, pass on helpful information and share their experiences.
- Offering unused or under-used office space to be repurposed/reconfigured as space for childcare provision, working with local authorities to secure 'change of use' permission.

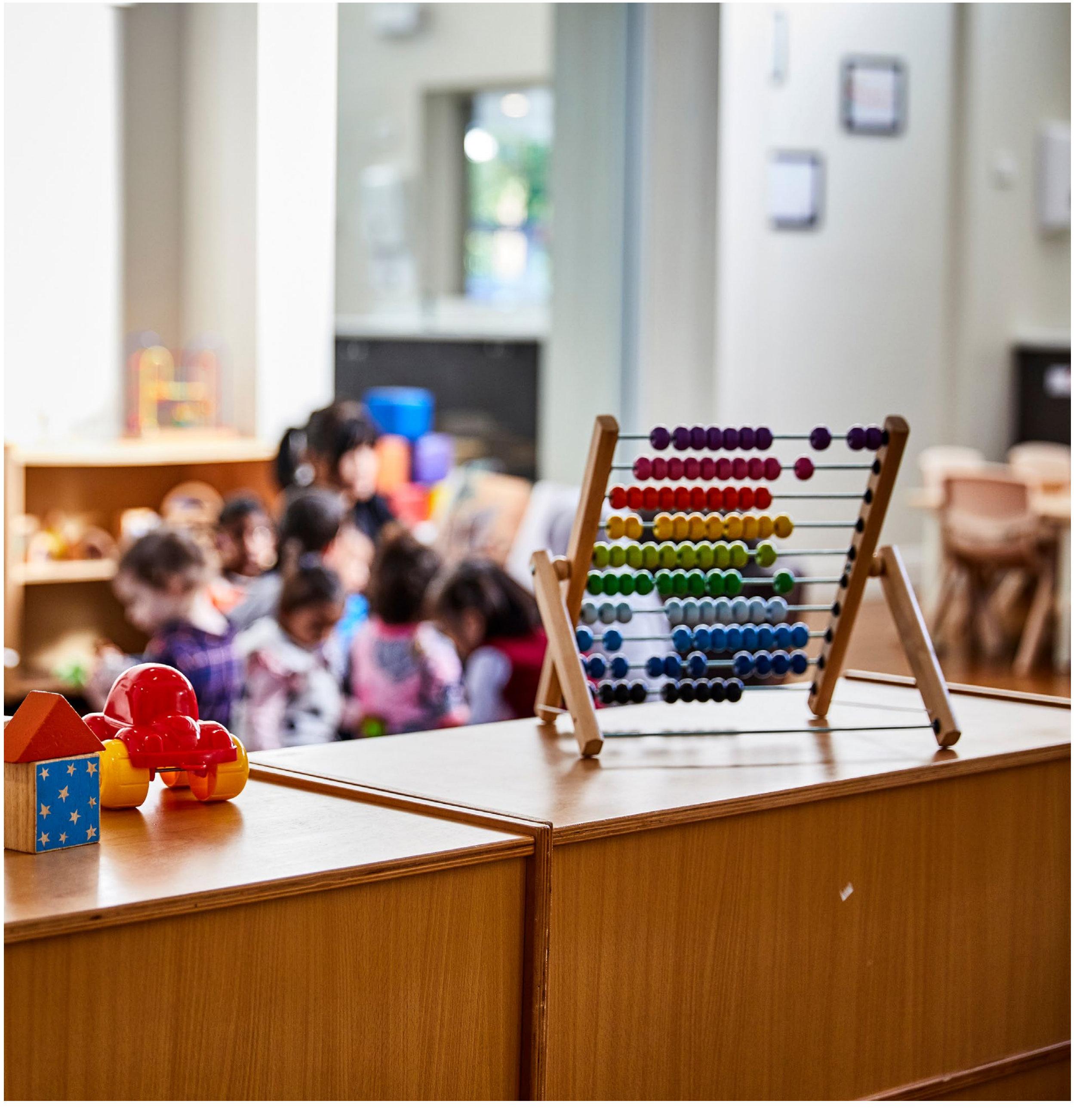
Case Study

Uber and Bubble Childcare Pilot

Uber drivers have the freedom to work if, when, and where they wish - something which drivers repeatedly state they value highly. For many drivers, platform work enables them to work around their personal commitments, studying, and other work or caring responsibilities. However, for some, childcare responsibilities remain a challenge. In the UK, 57% of surveyed Uber drivers reported being a parent or carer of a child under the age of 18, and 43% of Uber drivers reported paying for childcare (per Uber's internal survey, February 2023).

In 2023, Uber partnered with Bubble, a platform that connects parents with nannies and sitters in a way that suits their flexible needs, to trial offering free childcare services to Uber drivers. Once the driver opted into this benefit, they could book a reliable and certified sitter from the Bubble app. This limited trial was available to 1,000 drivers who received ten free hours of childcare each to understand further the demand and impact of safe and certified childcare options.

Uber and Bubble have seen strong engagement by drivers, with 1,000 drivers registered within the first month, and one-third have already requested care across cities in the UK. With over 100 completed 'sits' to date, there has been 100% positive feedback. Some drivers have completed their ten free hours and continued to use the platform at their own expense.



Maintaining the quality of childcare

Quality childcare plays a crucial role in fostering positive outcomes for children, both in the short and long term. The majority of working parents who were consulted through this research perceived the quality of their childcare to be good, and their interactions with childcare staff strongly influenced this. It is important, therefore, that parents retain their confidence in the sector, allowing them to go about their working day knowing that their child is being well cared for.

Notably, in countries where the childcare workforce is higher skilled, staffing ratios are lower without any apparent loss in quality. To maintain and enhance the quality of childcare in England as the 30 hours entitlement is widened, and as staff-to-child ratios are expanded, the Government must ensure that the funding providers receive has a positive impact on their ability to invest in upskilling their workforce to support recruitment and retention, and to deliver the planned expansion of wraparound care.

Economic benefits of high-quality childcare

High-quality childcare can set the stage for future academic success, as research consistently shows that children who receive high-quality childcare are more likely to demonstrate better language skills, problem-solving abilities, and overall school readiness.[102] Further research led by the University of Leeds found that attending Early Childhood Education and Care during the Covid-19 outbreak had sustained benefits for youngsters' development.[103]

Positive childcare experiences contribute to the development of strong social and emotional skills.[104] In a supportive and enriching childcare environment, children learn to interact with others, share, and communicate. Children who have these positive early social interactions are more likely to develop empathy, cooperation, and conflict resolution skills, which are essential skills for life and work.

The benefits of good childcare extend beyond the individual child to wider society.[105] This was demonstrated in the research done by the Department for Education in the paper Study of Early Education and Development (SEED): Impact Study on Early Education Use and Child Outcomes up to age 4 years.[106] As they enter adulthood, individuals who experienced positive childcare are more likely to pursue higher education, secure stable employment, and contribute positively to their communities.

Quality childcare also has an important role in supporting economic development by enabling parents to work and contributing to the overall wellbeing of families.[107] Accessible and affordable childcare enables parents, particularly mothers, to participate in the labour market, promoting gender equality and increasing the overall productivity of the workforce. Recent ONS data[108] reports that 681,000 parents with children under 5 in the UK are economically inactive due to parenting responsibilities, with 93% (632,000) of them being women.[109] When parents have reliable childcare options, they are more likely to maintain steady employment and pursue career advancement opportunities, ultimately leading to higher household incomes. Additionally, quality childcare services contribute to the early development and education of children, preparing them for future success in school and, eventually, the workforce. As a result, the investment in childcare not only supports families but also lays the foundation for a skilled and capable future workforce, promoting long-term economic growth.

Recommendations for government

1. Invest in the talent pipeline and develop the career profile of the early years workforce to attract and retain more apprentices and graduates and to support the planned 25% increase in staff to child ratios to one to five. As we have seen, the UK workforce is relatively underqualified in comparison to many of its international peers, the wider UK teaching workforce, and the overall UK female workforce. Attrition is also high, with staff turnover in nurseries at a rate of 24%, compared with the UK average of 15-18% a year. The government has recently announced £1,000 tax-free cash incentives to new hires or staff returning to the early years sector.[110] However, much more is needed to promote childcare as an attractive profession.

   Alongside the expansion of the 30 funded hours offer, the Government has changed staff-to-child ratios from their current level of 1:4 to 1:5 for 2-year-olds. The thinktank Onward noted in its First Steps report that public opinion does not support such a move; it was opposed by 52% of respondents in a poll of parents, attracting the support of only 27%.[111] Furthermore, when asked for the top three aspects of childcare that parents regard as most important aspects of childcare delivery, 59% chose 'staff being trained to a high standard.'[112] Notably, many parents brought up staff-to-child child ratios without prompting, which many see as essential for keeping children safe and preventing accidents.[113]

The OECD has also noted that 'quality of interactions' between staff and children is very often influenced by the preparation childcare workers receive when they enter the profession and through their continuing professional development.[114] While many other OECD countries have more relaxed ratios of staff to children, those staff are required to have more training and higher-level qualifications.

The government should consider bursaries or retention fees for graduate or apprentice professionals that are actively seeking upskilling opportunities, to develop a cultural shift in the workforce. This will help to increase staff retention in the early years sector, ensure better educational and developmental outcomes for children and give working parents confidence in the quality of care their children are receiving, giving them the confidence to return to work.

2 Work closely with Local Authorities to expand the network of 'one-stop-shop' Family Hubs, which bring together a range of information and guidance for parents, including mental health support, health visits, and parenting classes. Childcare in England can be confusing for parents in terms of the range of services on offer, and many may not be aware of the level of support that they are entitled to. A single point of contact, aimed at triaging parents and their children towards the services that best suit their needs is available in the form of Family Hubs. These community-based services should be expanded; they have the potential to make the childcare experience for parents more efficient and more accessible and can ultimately deliver better outcomes.

The coverage of Family Hubs is limited. In Greater London, for example, only two family hubs support 17,400 vulnerable families.[115] These hubs have an important role in signposting services and reaching children and their parents in 'cold spots' of the country and should be expanded.

How businesses can support working parents

For those firms looking to do more, options include:

- Supporting or sponsoring local childcare facilities with a view to increasing the range of activities that they can offer, e.g. access to digital devices.
- Encouraging parents to become governors at nurseries – and facilitate these commitments alongside work – as an opportunity to impart their experiences to the benefit of other parents.

Next steps

The recommendations outlined above will form the basis of BusinessLDN's advocacy and further research on early years provision over the coming years, including inputting into party manifestos, at fiscal events and responding to consultations.

BusinessLDN will continue to profile the work its members are doing to support their workforces with early years provision, including at dedicated events and via dedicated its Inclusion & Diversity Hub on its website.

Alongside this, BusinessLDN will continue to take broader steps to improve labour market inclusion in London, including through the London Local Skills Improvement Plan (LSIP).[116] The LSIP is a data-driven, employer-backed plan for transforming the skills system in the capital and ensuring Londoners from all backgrounds can build great careers. Having launched the plan last Summer, BusinessLDN is implementing the actions it contains over the next two years by galvanising employers, training providers and other key stakeholders through advocacy, research projects, and a rolling series of focussed events.

BusinessLDN also runs Skills London, the UK's largest annual jobs and careers fair, for young people aged 15-24, which takes place each November at ExCeL London.[117]

APPENDIX

Economic analysis: technical note and method

Background

Economic inactivity measures the proportion of the population aged 16 to 64 not considered to be in the labour force: those not seeking work or unavailable to start work soon.

The latest ONS data show that:

- There were 8.78 million economically inactive people in the UK in the three months to July 2023.
- Of those, 1.56 million were inactive due to looking after the family or home.
- These figures compare to a total level of employment of 32.8 million people or a total working age population of 41.6 million.[118]

There are currently 3.1 million mothers in the United Kingdom with children under the age of 5. Of these, 632,000 are economically inactive due to childcare responsibilities, representing a 20% inactivity rate. In comparison, the inactivity rate for mothers with children aged between 5 and 10 is 10%. [119]

Clearly then, measures that encourage more parents of young children into the workforce could boost the economy and public finances. A larger employed workforce would support greater economic output and correspond to a higher level of total income across the UK, in turn supporting higher expenditure. Boosting the economy also supports the UK's public finances, as higher expenditure and incomes boost tax receipts.

In short, increasing labour supply amongst this group could provide a boost to the UK's economic supply potential and support the sustainability of the public finances, although the total net impact on the public finances would depend on the extent to which the direct fiscal cost of any measures offset the indirect fiscal benefits of higher tax receipts.

Methodology

Our methodology proceeds in three steps:

We use ONS Labour Force Survey data pertaining to the three months to July 2023, adjusted for seasonality, covering rates of employment, economic activity, and inactivity by the age of the youngest dependent child.[120]

We estimate the potential uplift to the labour force based on reductions in difference in employment rates between mothers of children under 5 and those whose youngest child is between 5 and 10.

We combine the potential uplift with additional assumptions (such as average hours worked) and national accounts forecasts and 'ready reckoners' from the OBR to estimate potential fiscal impacts.

72% of mothers of children under 5 were in employment, which compares to 80% of mothers whose youngest child is between 5 and 10 were in employment. Bridging this eight percentage point gap by raising the employment rate of mothers of children under 5 to 80% would represent an additional 250,000 mothers entering work.

While the 80% employment rate currently prevailing amongst mothers of children aged 5 to 10 should not be seen as a ceiling or a target for employment rates amongst mothers more generally, it helps to define reasonable bounds or provide a sense of scale of the potential labour supply effects that could be yielded. To account for scenarios with a smaller effect, we have also estimated the impact of reducing the gap in employment rates between these groups by half, a third, and a quarter.

Table 1: Potential increases in maternal employment rates and associated increases in the UK workforce.

Description	Increase in employment rate, mothers with youngest child aged under 5 (percentage points)	Associated increase workforce (headcount)
Full equivalence in employment rates with mothers of children aged 5 to 10	8.0%	+250,000
Gap in employment rates reduced by a half	4.0%	+125,000
Gap in employment rates reduced by a third	2.7%	+83,000
Gap in employment rates reduced by a quarter	2.0%	+62,000

Source: ONS, Working and workless household in the UK: April to June 2023; KPMG analysis

In our analysis, we made further assumptions regarding the average hours worked and productivity of the additional workforce.

Following assumptions from the OBR, we assume that those entering the workforce would work an average of 16 hours per week, and that there is an equal-sized increase in the total number of hours worked across the UK due to other parents of young children increasing the number of hours they worked. This means that average hours worked per employee across the UK remain constant and that there is a percentage increase in total hours exactly equal to the percentage increase in employment. This is an important assumption that would be sensitive to the design of the policy mechanism – for instance, the number of hours of childcare provided under the policy.

We assume that the rate of productivity and pay of these additional hours and workers would be 60% of the UK mean. This estimate is derived from a comparison of the median hourly wage of female part-time workers with the mean wage per hour across all employee jobs. [121]

By combining these assumptions with data from the OBR, our analysis shows an increase in the workforce, resulting in a boost to the total participation rate and total hours and a slight decrease in average earnings and productivity. There is minimal change to the average number of hours worked per worker per week as the increase in part-time work is offset by increases in the number of hours worked by those already in the workforce.

The impact on both real and nominal GDP is calculated as the product of total hours worked and average hourly productivity. We assume that rates of unemployment, inflation, the labour share of income and the output gap are at the levels provided by the OBR. This means that there is an increase in wages and salaries equal to the increase in GDP and that the percentage change in nominal and real GDP are equal. We further assume that the consumption share of income remains constant, leading to a corresponding increase in the level of household consumption.

To estimate revenue impacts, the OBR's receipts 'ready reckoners' were used.[122] Our estimated changes to household consumption, real GDP, earnings, and employment were used as inputs as the OBR's suggested proxies for the tax bases that drive increases in Income Tax, National Insurance Contributions, Value Added Tax, Fuel Duty.[123]

Data and the OBR's March 2023 forecast for the year 2024 were used as a baseline.

Clearly, there is a wide range of possible effects on the composition of economic activity and the public finances that could be expected from increasing the labour supply exclusively through boosting the participation of a particular group (in this case, mothers with children under 5), which is a source of uncertainty around our calculations. These assumptions are designed to support this indicative exercise to give a sense of scale and magnitude, but we recognise that there are potential uncertainties around them.

Table 2: Estimated impacts due to an increase in maternal employment (change relative to 2024 pre-policy baseline).

Workforce headcount	Total hours worked	Real GDP level		Wages and salaries		Government revenues
+250,000	+0.73%	+£11.3 bn	+0.44%	+£5.7 bn	+0.44%	+£3.2bn
+125,000	+0.36%	+£5.7 bn	+0.22%	+£2.8 bn	+0.22%	+£1.6bn
+83,000	+0.24%	+£3.8 bn	+0.15%	+£1.9 bn	+0.15%	+£1bn
+62,000	+0.18%	+£2.8 bn	+0.11%	+£1.4 bn	+0.11%	+£0.8bn

Results

Increasing the employment rate for mothers with children under 5 to match that of mothers whose youngest child is primary school aged[124] could significantly boost the UK economy, expanding the labour force by 250,000.

This scenario could result in a £11.3bn increase in real GDP and £3.2bn increase in government revenues per year. This would represent a 0.44% increase in GDP when compared with a 2024 baseline.

Bringing more mothers of young children into the workforce can boost the economy and public finances.

The results computed here are linear, so in the scenarios where we assume that the hypothetical policy has a milder effect on participation, there are corresponding effects on GDP, wages, and public finances.

There are potentially larger GDP effects that this analysis does not consider. For instance:

- If parents that work more when their children are under five could further increase their participation in the workforce after their children enter primary school.
- A larger workforce could alleviate workforce shortages, enabling individuals and organisations to be more productive by filling key roles with shortages, potentially contributing a boost to total UK productivity.
- There are likely to be a multitude of dynamic, persistent productivity benefits that accrue to specific individuals from being in employment, such as training and the opportunity to learn new skills.
- If increased accessibility to high-quality childcare enabled mothers to re-enter full-time work faster and at a higher rate, this may reduce the gender wage gap and provide a further boost to the economy. An IFS study highlighted that mothers working part-time miss out on wage progression seen by full-time workers. [1]31

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