

**Written submission to House of Lords Affordable Childcare Select Committee**

About the Family and Childcare Trust

The Family and Childcare Trust works to make the UK a better place for families. Our vision is of a society where government, business and communities do all they can to support every family to thrive. Through our research, campaigning and practical support we work to create a more family friendly UK

The Family and Childcare Trust is pleased that peers have identified the need to examine the early education and childcare system for preschool children and welcomes the opportunity to respond to the Affordable Childcare Committee call for evidence.

For more information about this response, please contact the Family and Childcare Trust at [policy@familyandchildcaretrust.org](mailto:policy@familyandchildcaretrust.org) or on 020 7940 7531.

## Summary

1. Long term outcomes for preschool children are shaped in great part by participation in education, the home learning environment and their parent's working status and income. Early education and childcare are a crucial influence on each of these factors. Childcare must therefore sit at the heart of an effective strategy to support and improve outcomes for children and families.

2. A meaningful definition of affordable childcare should have a number of dimensions in order to contribute to improved outcomes for children and families. Policy makers should focus not only on reducing the price of childcare to parents but on improving the quality of provision and ensuring that parents have access to flexible childcare when they need it. The current system of funding focuses on costs but does not effectively address access and quality challenges. The proposed tax-free childcare scheme perpetuates these problems.

3. The current system of childcare funding is not working well in other respects. Subsidies through tax credits and vouchers do not reach or provide sufficient support to many of the parents who face the greatest affordability challenges. Investment in the early education offer is not sufficient to meet key policy goals but there is no long term plan to close this funding gap.

4. The roots of these problems lie in the evolution of the childcare system. When the first tax reliefs for childcare were introduced in 1994, childcare in the UK consisted of a limited system of maintained and voluntary provision concentrated in urban areas and a relatively small private childcare market. Policy makers were faced with the challenge of building on this unplanned and somewhat patchy system. Since 1994, state intervention in childcare has accelerated and a great deal has been achieved from modest beginnings: there are far more childcare places, of generally higher quality, and more people receive more help to meet the costs of childcare. Yet an incremental and sometimes disjointed 'building on' approach has left significant and persisting access, quality and affordability problems.

5. At the heart of each of these challenges is the way that childcare is funded. A number of different funding streams have been set up at different times to meet different purposes. As a result, sufficient thought has not been given by government to the right long term approach to childcare funding. The Family and Childcare Trust recommends that:

- The childcare funding system should be simplified and organised coherently around the goals of affordability, access and quality.
- To this end, the government should set up an independent review of childcare funding to make recommendations on funding reform and long term investment. The review body should have the means to undertake a comprehensive distributional analysis of the impact of childcare costs and support with childcare costs on families.
- The government should commit to a new long term childcare strategy to implement funding reform and set out a long term plan of investment.
- In the short term, the government should put the early education offer on a sustainable footing by making the two-year-old offer universal, extending the offer for two-, three- and four-year-olds from 38 to 48 weeks each year and allocating funding sufficient for all children to receive high quality graduate-led care.

## Written submission

### Childcare policy

*Question 1. What should be the public policy aims of state intervention in childcare?*

6. The aim of state intervention in childcare should be to improve outcomes for children and families. In identifying policy priorities, this goal is most often broken down into two aims:

- supporting parents to work, train and participate in education, with a particular emphasis on families most at risk of poverty and disadvantage; and
- supporting good developmental outcomes for children, with a particular emphasis on narrowing the gap in outcomes between the most disadvantaged children and the rest.

7. In practice, these aims cannot be separated: parental income, work status and the home learning environment are a significant influence on children's educational outcomes. To improve outcomes, the childcare system must integrate a range of policies relevant to income and work, high quality early education and parenting support. This is not a modest set of aims and a long running constraint on the effectiveness of childcare policy has been the difficulty of successfully delivering a number of different but important policy goals into an integrated system.

8. There is a broad social case for a universal childcare system based on the moral imperative to reduce inequalities in outcomes between children, to provide equal access to work opportunities to parents regardless of their background, and on the national imperative to build an infrastructure that supports employment and long term economic development. The aims of childcare policy should be organised around these goals.

### Child development

*Question 2. Does the provision of early education, currently for all 3 and 4 year-olds and some 2 year-olds, improve outcomes for children?*

9. The evidence of the impact of high quality early education is strong. The Effective Provision of Pre-school Education (EPPE) study was the first comprehensive longitudinal study of the impact of early education using a national sample of children. Some key findings of the EPPE study were that:<sup>1</sup>

- Pre-school experience, compared to none, enhances all-round development in children. The beneficial effects of pre-school remained evident throughout the period the study measured to the end of key stage one, although the effects become less strong over time. Pre-school is particularly beneficial for children who are more disadvantaged, especially where they are with a mixture of children from different social backgrounds.

---

<sup>1</sup> Sylva, K., Melhuish, E., Sammons, P., Siraj-Blatchford, I. and Taggart, B. (2014) *The Effective Provision of Pre-School Education (EPPE) Project: Findings from Pre-school to end of Key Stage 1*, Sure Start Unit

- High quality preschool provision combined with longer duration had the strongest effect on development. Duration of attendance (in months) is important and an earlier start (under age 3 years) is related to better intellectual development. Full time attendance led to no better gains for children than part-time provision.
- There was evidence that an early start in group settings, particularly before the age of 2, led to slightly increased behaviour problems for a small group of children when they were 3 and again at 5.
- Quality was higher overall in settings integrating care and education and in nursery schools. Settings that have staff with higher qualifications have higher quality scores and their children make more progress.
- Quality indicators include warm interactive relationships with children, having a trained teacher as a manager and a good proportion of trained teachers on the staff. Where settings view educational and social development as complementary and equal in importance, children make better all-round progress.
- For all children, the quality of the home learning environment is more important for intellectual and social development than parental occupation, education or income. What parents do is more important than who parents are.

10. The specific findings of the EPPE study are supported by other credible long term research studies. For example, the 2005 IFS paper 'Early education and children's outcomes: how long do the impacts last?' identified the impacts of early education over a life course for children born in 1958:

*Controlling for a particularly rich set of child, parental, family and neighbourhood characteristics, we find some positive and long-lasting effects from early education. Specifically, pre-compulsory education (pre-school or school entry prior to age 5) was found to yield large improvements in cognitive tests at age 7, which, though diminished in size, remained significant throughout the schooling years, up to age 16. By contrast, attendance of pre-school (nursery or playgroup) was found to yield a positive but short-lived impact on test scores. The effects on socialisation appear to be more mixed, with adverse behavioural effects from parental reports at age 7 persisting, for pre-school participants, up to age 11. In adulthood, pre-compulsory schooling was found to increase the probability of obtaining qualifications and to be employed at 33. For both pre-compulsory education and pre-school per se we found evidence of a marginally significant 3-4% wage gain at 33.<sup>2</sup>*

11. As part of its PISA project, the OECD has examined educational attainment data for 65 countries. The OECD researchers found that literacy is strongly associated with pre-school participation in countries where a large proportion of the population use it, where it is used for more months, and where there were measures to maintain its quality.<sup>3</sup> The OECD concluded that extending participation in early education is beneficial as long as it does not compromise quality.

---

<sup>2</sup> Goodman, A. and Sianesi, B. (2005) 'Early education and children's outcomes: how long do the impacts last?' Institute for Fiscal Studies

<sup>3</sup> OECD (2011) *PISA in Focus: Does Participation in Pre-Primary Education Translate into Better Learning Outcomes at School?* Paris: OECD

12. Recent reviews which address both the evidence of the impact of early education and the characteristics of high quality care include the 2009 Department for Children, Schools and Families publication *Early Years Learning and Development Literature Review*; the 2013 Ofsted publication *The impact of early education as a strategy in countering socio-economic disadvantage*; and the 2013 Institute for Public Policy Research paper *Early developments: Bridging the gap between evidence and policy in early-years education*.<sup>4</sup> A 2004 literature review for the Audit Commission looked specifically at the impact of early years provision on children from disadvantaged backgrounds.<sup>5</sup> The OECD has also maintained a series of evidence summaries on early education and childcare, most recently in *Starting Strong III – A Quality Toolbox for Early Childhood Education and Care*.<sup>6</sup>

13. This evidence, from a number of different sources, has been more influential in shaping the aspirations of the free early education offer than its delivery. We know from this research that there are specific characteristics of early education that must be present to improve outcomes for children, including:

- the presence of graduate teachers leading and participating in care;
- qualified, motivated staff able to deliver warm, responsive care;
- a stimulating environment, curriculum and activities;
- a diverse social mix of children; and
- for the most disadvantaged children, support that reaches beyond early education such as parenting support, interventions that support family functioning, and specialist SEN care.

14. These characteristics are too often not present in the free early education that children receive. Only 45 per cent of children aged two and 48 per cent of children aged 3-4 are receiving the early education offer in a setting where a graduate works directly with them (as of January 2014).<sup>7</sup> Staff motivation and skill levels are often low because in many settings a significant proportion of staff are unqualified, whilst the majority earn wages that compare poorly to those available in primary education or comparable professions. Childcare is the most segregated part of the education system, with disadvantaged children concentrated in maintained settings.<sup>8</sup> Many disadvantaged children (and their parents) do not benefit from important support that reaches beyond the free early education offer as this support remains comparably rare and is not a requirement of the early education offer.

15. The best proxy available for other quality characteristics is Ofsted ratings. The government encourages local authorities to ensure that children receive care in a setting rated 'good' or 'outstanding' (and not those rated 'inadequate' or 'requires improvement'). A

---

<sup>4</sup> Evangelou, M., Sylva, K. and Kyriacou, M. (2009) *Early Years Learning and Development Literature Review*, Department for Education; Pascal, C and Bertram, T. (2013) *The impact of early education as a strategy in countering socio-economic disadvantage*, Ofsted; Parker, I. (2013) *Early developments: Bridging the gap between evidence and policy in early-years education*, Institute for Public Policy Research

<sup>5</sup> Melhuish, E. (2004) *A Literature Review of the Impact of Early Years Provision on Young Children, with emphasis given to Children from Disadvantaged Backgrounds*. Audit Commission

<sup>6</sup> OECD (2012) *Starting Strong III – A Quality Toolbox for Early Childhood Education and Care*

<sup>7</sup> Department for Education First Statistical Release SFR 20/2014: *Provision for children under five years of age in England: January 2014*

<sup>8</sup> Gambaro, L., Stewart, K. and Waldfogel, J. (2013) *A question of quality: Do children from disadvantaged backgrounds receive lower quality early years education and care in England?* Centre for Analysis of Social Exclusion, CASE Paper 171

small but significant proportion of children, 15 per cent of two-year-olds and 16 per cent of three- and four-year-olds, receive the offer in a setting that does not have a 'good' or better Ofsted rating.

16. There is some concern that an Ofsted rating of 'good' alone may not be sufficient to identify whether a setting is delivering care of the standard needed to affect outcomes for children. A report for the Office of National Statistics in 2010 found that Ofsted early years ratings did not predict outcomes for children.<sup>9</sup> Further research by Oxford University researchers and Daycare Trust (now the Family and Childcare Trust) reached the same conclusion by comparing quality ratings scale that has been shown to be predictive of outcomes to Ofsted grades at a setting level and recommended that information supplementary to an Ofsted grade should be used in deciding which providers deliver the free offer.<sup>10</sup> Ofsted noted this issue in its recent Early Years Annual Review 2012/13.<sup>11</sup> It may be complacent therefore to set the target that all children should receive care in a 'good' or better Ofsted rating.

17. Unfortunately, the government has recently legislated to prevent local authorities from using information supplementary to an Ofsted grade in minimum quality standards for providers delivering the early education offer.

18. Bearing in mind these issues, the evidence of the impact of the early education offer in England is accordingly mixed.<sup>12</sup> Evaluations of the offer provide a consistent picture of the performance of the free early education offer: participation in the early education offer of itself has little or no effect on child outcomes but participation in high quality early education is linked to measurably improved child development. These effects are most significant for disadvantaged children.

19. The free offer has recently evolved in several important ways: from 2008 Ofsted began inspecting providers against the Early Years Foundation Stage curriculum, which has fostered higher standards, and the graduate leader fund has increased the proportion of graduates in early years settings from 34 per cent for three- and four-year olds in 2010 to 48 per cent in 2014. These developments will have increased the quality of care many children are receiving through the early education offer. They do not, however, address the fundamental gap between aspiration and delivery in the free offer.

20. Several research projects are assessing the impact of the early education offer on maternal labour supply and child development and will provide further evidence on which to

---

<sup>9</sup> Hopkin, R., Stokes, L., and Wilkinson, D. (2010) *Quality, Outcomes and Costs in Early Years Education*, Report to the Office for National Statistics. London: National Institute of Economic and Social Research.

<sup>10</sup> Mathers, S., Singler, R. and Karemaker, R. (2012) *Improving Quality in the Early Years: A Comparison of Perspectives and Measures*, Daycare Trust

<sup>11</sup> Ofsted (2014) *Annual early years report 2012/13*, p. 13

<sup>12</sup> Melhuish, E., Belsky, J., MacPherson, K. and Cullis, A. (2012) *The quality of group childcare settings used by 3-4 year old children in Sure Start Local Programme areas and the relationship with child outcomes*; Maisey, R., Svetlana, S., Marsh, V., Philo, D. (2013) *The Early Education Pilot for Two Year Old Children: Age Five Follow-up*, Department for Education; Mathers, S., and Sylva, K. (2007) *National evaluation of the Neighbourhood Nurseries Initiative: The relationship between quality and children's behavioural development*, DfES

base future policy decisions.<sup>13</sup> These projects are due to be completed by the end of 2014 and offer an important opportunity to re-examine the funding of the free early education offer.

*Question 3. Is the provision of free early education the best way to address inequalities in child development among pre-school age children?*

21. High quality early education is a proven intervention that should be among the policy levers used by the state to reduce inequalities in outcomes among pre-school children. A number of factors have a significant influence on children's developmental outcomes, such as family income and work status, the home learning environment and attitudes to education, family functioning, and formal education itself.<sup>14</sup> None of these factors in isolation can individually address inequalities in child development. An effective strategy to reduce inequalities must contain policies that address each.

22. Early education is a specific intervention that can contribute to improved developmental outcomes for children; the childcare system as a whole is a crucial part of a broader strategy that uses secondary levers to influence the same outcomes. Free early education cannot in practice be separated from important complementary aims, such as improving family incomes and supporting parents to work, that are significant in developmental outcomes. Policy should therefore seek to integrate early education and childcare into a coherent system.

23. One further area that should be addressed to reduce inequalities in child development is the role of early education in supporting the home learning environment. Although the home learning environment and attitudes to education are a more important influence on children's development than early education, it is extremely difficult to influence the home environment except through early education and other early years support.

24. For many disadvantaged children, the early education offer does not have strong links to important parenting and family support interventions. The current two year old offer reflects this problem: evaluations of the two year old pilots found that provision that was effective in improving outcomes for children required a combination of childcare and parenting support, but this learning has not been incorporated into the offer, which is delivered largely by private and voluntary sector providers without this support.<sup>15</sup> For the most disadvantaged children, intervention at age two solely through early education of limited quality is not an effective intervention.<sup>16</sup>

25. The provision of high quality pre-school education is an effective way to address inequalities in child development. To successfully do so, provision must be high quality and

---

<sup>13</sup> More information can be found at [www.iser.essex.ac.uk/projects/the-effect-of-free-childcare-on-maternal-labour-supply-and-child-development](http://www.iser.essex.ac.uk/projects/the-effect-of-free-childcare-on-maternal-labour-supply-and-child-development) and [www.surrey.ac.uk/economics/research/projects/the\\_impact\\_of\\_nursery\\_care\\_and\\_education\\_on\\_children\\_outcomes.htm](http://www.surrey.ac.uk/economics/research/projects/the_impact_of_nursery_care_and_education_on_children_outcomes.htm)

<sup>14</sup> Goodman A. and Gregg P. (2010) *Poorer children's educational attainment* London: Joseph Rowntree Foundation

<sup>15</sup> Smith, R., Purdon, S., Schneider, V., La Valle, I., Wollny, I., Owen, R., Bryson, C., Mathers, S., Sylva, K. and Lloyd E. (2009) *Early Education Pilot for Two Year Old Children Evaluation*. DCSF Research Report No. DCSF-RR134

<sup>16</sup> Mathers, S., Eisenstadt, N., Sylva, K., Soukakou, E., Ereky-Stevens, K. (2014) *Sound Foundations: A Review of the Research Evidence on Quality of Early Childhood Education and Care for Children Under Three – Implications for Policy and Practice*, London: The Sutton Trust

carefully designed. England has a free early education offer that is relatively successful in reaching the majority of children, but it does not reach some of the most disadvantaged children and is lacking in the quality and content of services needed to reduce inequalities.<sup>17</sup> The wider childcare system is also lacking in the affordability and flexibility needed to fulfil its potential to support parental work and family income.

26. There is a need to align the delivery of early education with the evidence of effective early interventions that reduce inequalities in outcomes between children by:

- achieving high quality care through ensuring that every setting is graduate-led and increasing the proportion of graduates in settings, a wider workforce strategy addressing inadequacies in pay and training, and reform of the regulatory framework to align standards with outcomes-based quality indicators;
- reforming early education funding and investing to achieve a childcare system that delivers affordable, accessible and flexible care that supports parents to work and reduces cost pressures on families on low and middle incomes; and
- effectively integrating early education with parenting support and interventions that support home learning, with targeted support for the most disadvantaged children.

### **Enabling parents to work**

*Question 4. Have state subsidies for childcare improved the ability of parents, and especially mothers, to work?*

27. Improvements in access to childcare since the mid-1990s through state intervention have undoubtedly supported higher rates of maternal employment, particularly among single mothers. It would be very difficult to separate out the direct effect of childcare as distinct from the impact of improved work incentives for second earners through tax credits and other factors such as the availability of suitable employment, and we are not aware of a piece of research that claims to quantify the specific impact of childcare subsidies.<sup>18</sup> It is, however, relatively straightforward to identify the number of parents who for whom childcare is at least one barrier to work.

28. As the table below shows, there is a long term trend of rising employment among mothers with dependent children. Within this rise, there has also been a notable trend of rising employment among mothers with preschool children (table 2).

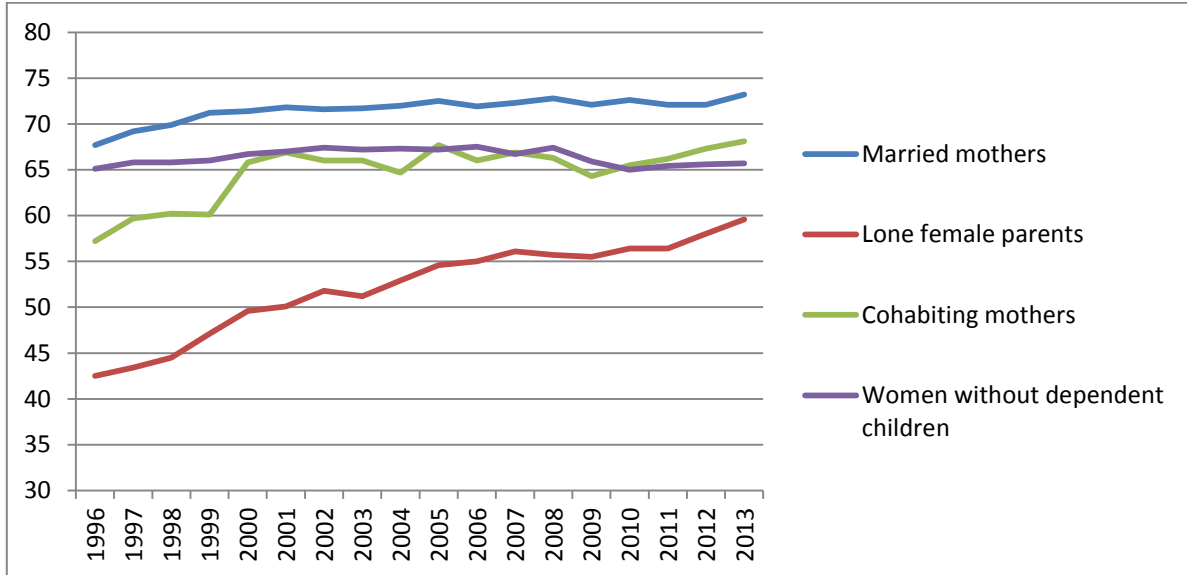
---

<sup>17</sup> Speight, S., Smith, R., and Lloyd, E. with Coshall, C. (2010) *Towards universal early year's provision: analysis of take-up by disadvantaged families from recent annual childcare surveys*. DfE Research Report DfE-RR066.

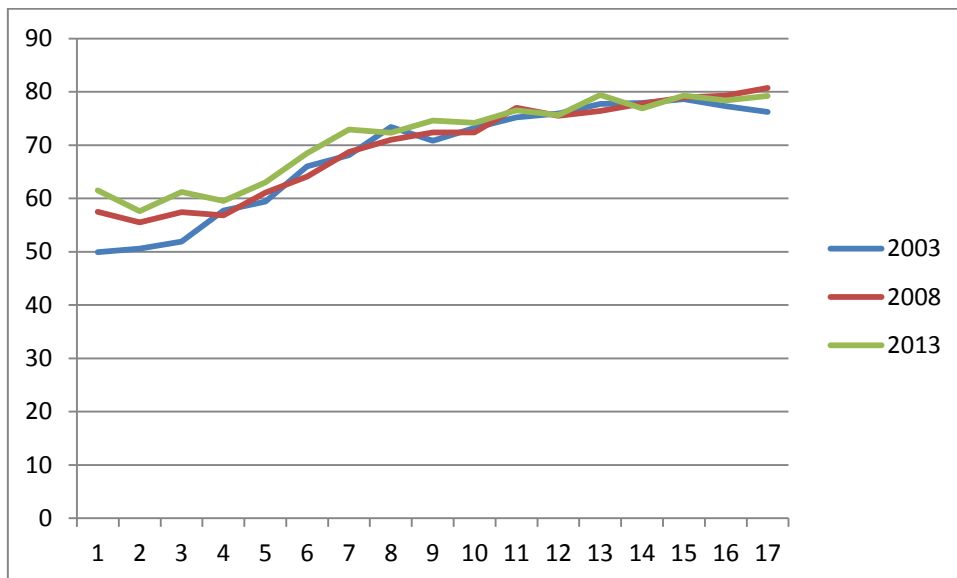
<sup>18</sup> The challenges involved in quantifying the link between childcare subsidies and maternal employment is discussed in the paper Brewer, M. (2004) *Reviewing approaches to understanding the link between childcare use and mothers' employment*, Families and Children Strategic Analysis Programme, Department for Work and Pensions



**Table: Female employment rates by parental status (16-64 population)**



**Table: Mothers' employment rate by age of youngest child (women with dependent children aged under 18)**



Source: ONS (Labour Force Survey)

29. In its 2014 *Fiscal sustainability report*, the Office for Budget Responsibility includes a short narrative discussing the possible influences on changing family working patterns:

*There are numerous factors that may underlie the increasing trend over time. Just as retirement decisions will be co-ordinated between partners, so will the choice as to whether and when both enter the labour market. For couples, lower marginal tax rates on second incomes will be one factor. The opportunity cost of staying at home will also have risen for other reasons, for example that levels of education and time spent in work before giving birth*

have increased over time (and that incomes tend to rise with experience). More broadly, the gender wage differential has been narrowing. And it is increasingly viable to remain in work due to a number of factors, including greater efficiencies in home production, more childcare options, and a broader range of flexible work becoming available, as the service sector has expanded and self-employment becomes more practical.<sup>19</sup>

30. Whilst these trends are encouraging, there remains substantial unmet demand for work. The tables below show the proportion of parents with dependent children who would like to work or increase their hours of work and the reasons preventing such parents from meeting their work preferences.

31. Policy makers must be aware that many parents in employment are dissatisfied with their work-life balance and would decrease their hours of work if they could afford to do so, or if their job allowed them do to do so. The main reason for this is the role of time away from work in supporting family wellbeing and preferred parenting styles. As broad social benefits accrue through supporting family wellbeing, we should be mindful that effective policy should support both participation in work and work-family balance for parents.

32. Current arrangements foster one or 1.5 working parent families where one earner, usually the father, takes primary responsibility for earning whilst the mother takes primary responsibility for care. This norm is poorly suited to the desire of most fathers to actively participate in family life and the desire of most mothers to maintain their careers. The roll out of shared parental leave is a small step towards fostering shared parenting but low pay rates for parental leave and negative attitudes among employers mean that take up is likely to be limited.

**Table: Unmet demand for work among families**

*Do you or your partner want to find work or work longer hours? (Families where both parents do not work full time.)*

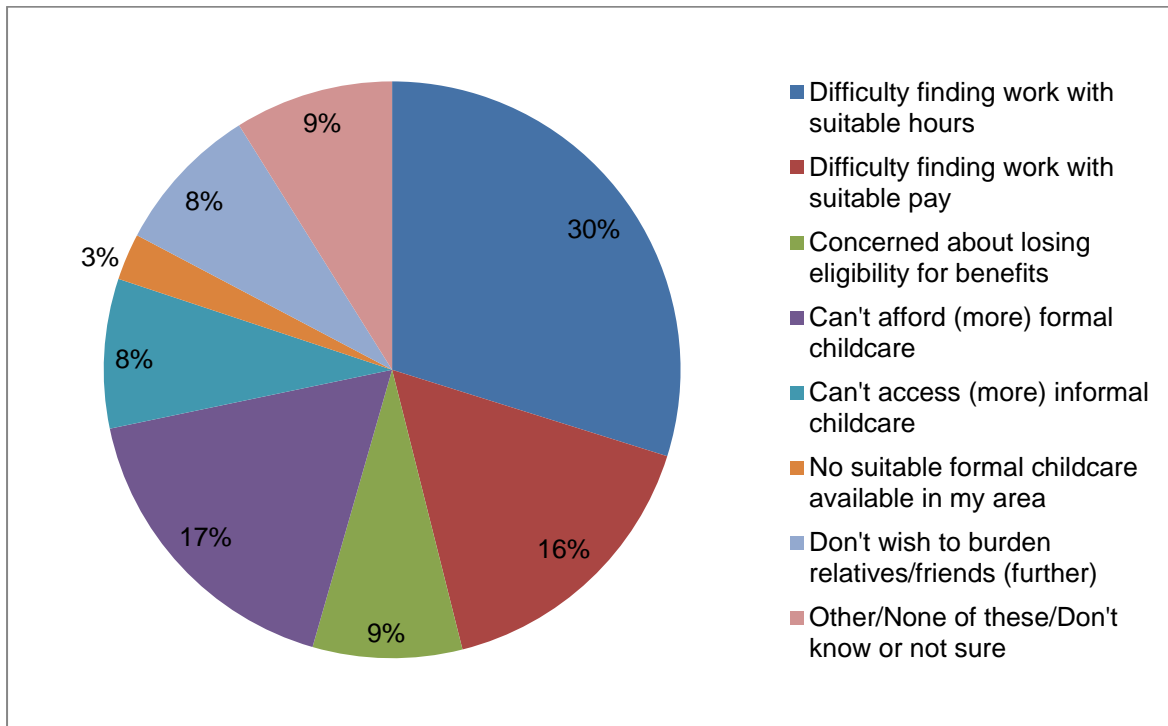
	One FT, one not in work	One FT, one PT	Both PT	One PT, one not in work	Both not in work	Lone parent PT	Lone parent not in work	Total
Yes	48	43	59	56	59	43	59	49
No	52	57	41	44	41	57	41	51

Source: Department for Work and Pensions (2013) *A survey of childcare decisions among families with children, working paper 114*

<sup>19</sup> Office for Budget Responsibility (2014) *Fiscal sustainability report*, p. 155

**Table: Reasons for not working amongst families where both parents do not work**

Why do you or your partner not currently work or work part time? (Base: Families where both parents are not in work)



Source: Department for Work and Pensions (2013) *A survey of childcare decisions among families with children, working paper 114*

*Question 5. Are state subsidies aimed at reducing the cost of childcare the best way to enable parents, and especially mothers, to work while their children are pre-school age?*

33. As the table above shows, childcare affordability is undoubtedly an important factor in work decisions for parents. The IPPR has suggested that, based on international learning, reducing the cost of childcare to 10 per cent of a family's disposal income is an optimum level at which cost is unlikely to be a disincentive to work, and that doing so could increase maternal employment rates by 5 to 10 per cent.<sup>20</sup> A significant flaw in the current system of support with childcare costs is that support has not been designed with an optimum point of affordability in mind, but rather has been developed on an ad hoc basis over time.

34. Childcare prices are not the only influence that childcare has on work decisions. Childcare access, flexibility and quality are all important to working parents. A definition of childcare affordability must be multi-dimensional. For example, there may be affordable childcare provision in an area but no free places; conversely, there may be childcare available in an area, but not at a price some families can afford. The challenges parents report finding work with suitable hours may in part reflect an absence of flexible childcare. Similarly, there is evidence that parents may be reluctant to use daycare if they are not assured of the quality of care their children receive.

<sup>20</sup> Ben-Galim, D. and Spencer, T. (2014) *Childmind the Gap*, Institute for Public Policy Research, p. 4

35. An excessive focus on costs in isolation from other factors will not lead to a system of provision that enables as many parents as possible to meet working preferences. Drawing from international examples, the most successful childcare systems combine reliable access to affordable, flexible and high quality childcare.

36. It is also important to note that whilst childcare is an important influence on parental work decisions, it must be understood alongside financial incentives to work and the importance of access to family friendly working and high quality flexible work. Maternal employment for older mothers who cohabit or are married is comparable to female employment and for the married mothers actually exceeds average male employment. A gender wage gap, however, persists across for all these groups due to the prevalence of part time work among mothers. Whilst higher skilled women are able to remain attached to the labour market, work interruptions and more subtle gender and parenthood penalties nevertheless result in long term pay penalties.

37. Mothers missing from the labour market tend to be younger, to not yet have acquired professional skills or attended tertiary education, and often to be single parents.<sup>21</sup> It is important therefore that the childcare system offers flexible support to parents during what can be a long journey into employment. This means providing support not only to those who are already in work, but those who are students, training, gaining experience and seeking employment. It also means that childcare support must be complemented by supportive 'employability' assistance that is balanced with the control parents should have over their family life.

38. In addition to reform of the childcare system, the Family and Childcare Trust has advocated for a number of long term steps to address each of these influences on maternal employment and the gender pay gap:

- encouraging shared parenting through the introduction of a 'use it or lose it' month of paternity leave based on successful international models, and by increasing the level of replacement pay for parental leave to at least the level of the minimum wage to make it easier for both parents to;
- improving work incentives for second earners under Universal Credit through a more generous taper; and
- a renewed campaign and support offer to encourage and assist employers to create more high quality flexible employment opportunities.

## **The cost of childcare**

*Question 6. What does childcare cost? How affordable is it?*

39. The Family and Childcare Trust produces the annual Childcare Costs Survey, which uses data provided by local authority family information services, which have a statutory obligation under the Childcare Act 2006 to collect information from local registered childcare providers on the prices that they charge. The cost figures for 2014 are provided below and more detailed figures can be found in the survey itself.

---

<sup>21</sup> ONS (2013) *Women in the Labour Market*

**Table: Childcare costs 2014 (England)**

Provider type (25 hours)	Nursery (under 2)	Nursery (over 2)	Childminder (under 2)	Childminder (over 2)	After school club (25 hours)	Childminder (after school pickup)
England (average of regions)	£110.95	£106.19	£100.74	£101.51	£48.40	£64.75

Source: Family and Childcare Trust (2014) *Childcare Costs Survey 2014*

40. Based on the annual childcare cost survey figures over the past decade childcare costs for pre-school children have increased in real terms by more than 20 per cent.<sup>22</sup> This trend is not a recent phenomenon: the long term trend of increases in childcare costs dates back at least as far as 1995, the earliest year for which reliable data is available.<sup>23</sup>

41. Affordability is relative and affects different families in different ways. The childcare components of the CPI index suggest that over a decade the combination of price inflation and increased government support with childcare costs has made childcare neither significantly more nor less affordable for an *average* family.<sup>24</sup> This average situation masks both families who have particularly benefitted from increased support, such as single parents on low incomes, and families who for which affordability has declined, such as families on low to middle incomes who fall outside the most generous tax credit support.

42. The Childcare and Early Years Survey of Parents, conducted by the Department for Education, gives an idea of the overall experience of parents in paying for childcare. In 2007, 18 per cent of families found it 'difficult' or 'very difficult' to pay for childcare and in 2012-13 this figure had risen to 26 per cent. Over the same period, the proportion of families who found it 'easy' or 'very easy' to pay for childcare fell from 54 per cent to 49 per cent. The recession and continued pressures on real wages have doubtless contributed to the difficulty parents are experiencing with childcare affordability.

43. The free early education offer does not seem to be an effective response to childcare affordability challenges (as noted, research due to be published this autumn will look directly at the free offer and maternal employment). The limited nature of the offer, which is term-time only 38 weeks each year, and the fragmented nature of the current childcare system, means that for many parents making childcare arrangements is a puzzle to which the offer does not resolve all the affordability, flexibility or access problems they face.

44. The UK lacks a comprehensive distributional analysis of the impact of childcare costs and support with childcare costs on families. Such an analysis would clearly be useful for policy makers. Undertaking such an analysis may require the participation of government due to the potential cost involved and the need for data drawn from a number of government sources.

<sup>22</sup> Family and Childcare Trust (2014) *Where next for childcare? Learning from the 2004 childcare strategy and ten years of policy*

<sup>23</sup> Brewer, M. and Shaw, J. (2003) *Childcare use and mothers' employment: a review of British Data Sources*, Department for Work and Pensions Working Paper No. 16

<sup>24</sup> Gheera, M., Baker, C. and Seely, A. (2014) *Childcare Payments Bill Research Paper 14/35*, p. 3

*Question 7. What is driving trends in childcare costs?*

45. A number of factors are likely to be contributing to the long term trend of childcare price increases, including:

- Rising female wages – The early years workforce is almost wholly female and on average staffing costs on average make up almost 80 per cent of provider costs.<sup>25</sup> At the same time, the single greatest influence on childcare fees is maternal wages.<sup>26</sup> It is unsurprising that as female wages have increased, so has the cost of childcare. The distributional effect of this trend is likely to be uneven because wages in different sectors of the economy grow at different rates.
- Rising quality standards – The government recently acknowledged in *More great childcare* that many in the early years workforce are on low pay and lack basic skills.<sup>27</sup> Nevertheless, there has been a marked increase in the proportion of staff with either a level 3 or graduate level qualification.<sup>28</sup> In 2011, 28 per cent of daycare nursery managers held a graduate early years qualification compared to 13 per cent in 2005. The proportion of staff with a minimum of a level 3 qualification has also increased from 24 to 47 per cent among non-supervisory staff in daycare. In 2011, half of childminders had a level 3 qualification, up from 32 per cent in 2003. As quality expectations have increased and a greater emphasis has been placed on pedagogy, staffing structures within nurseries have also evolved, with more staff working in supervisory roles. These changes carry a cost that, if not subsidised by government, is borne by parents.
- The impact on prices of demand-side subsidies – There is evidence which suggests that demand-side subsidies within a market without price regulation are likely to have an inflationary effect. This is because such subsidies may not expand the amount of childcare available but do affect the amount of disposable income available to parents to pay for childcare. Demand side subsidies form around half of spending in the UK and are likely to have some impact on costs. A greater reliance on demand-side subsidies is likely to lead to additional price inflation that may erode the effect of such support. In Australia childcare costs rose by over 100 per cent between 1997 and 2006 (compared to general inflation of 27 per cent over the same period).<sup>29</sup> In the single year of 2008, when the childcare rebate was raised to cover 50 per cent of all remaining costs (from 30 per cent), prices rose by 10 per cent.
- Funding of the universal early education offer – Funding for the offer inevitably has an effect on fees charged alongside the offer. Providers have routinely raised

---

<sup>25</sup> Brind, R., Norden, O. and Oseman, D. (2012) *Childcare Provider Finances Survey*, Department for Education Research Report DFE-RR213

<sup>26</sup> This correlation is illustrated through figures in appendix 4 of the report *London Childcare Market* (2014) London Development Agency

<sup>27</sup> Department for Education (2014) *More great childcare*, p. 6

<sup>28</sup> *2002/03 Childcare and Early Years Workforce Survey; Childcare and Early Years Providers Survey 2011*

<sup>29</sup> Cooke G. and Henehan K. (2012) *Double Dutch: The case against deregulation and demand-led funding in childcare*, Institute for Public Policy Research

concerns that the free offer is not properly funded and that this forces them to make an adjustment to their hourly fees for additional hours (or to their fees for other age groups of children). Data on average childcare costs and published local authority funding rates do indicate a funding disparity. This is an important trend to monitor because cross-subsidisation that drives up costs outside the free offer is likely to be regressive and reduce affordability for the parents support with childcare costs is designed to help. Unfortunately, there is little research available on this trend.

- Local public spending – Many maintained and not-for-profit providers receive significant local authority subsidies, which can be volatile. Areas more dependent on maintained provision are more likely to see price rises when public spending is reduced.

*Question 8. What is the cost to the state of subsidising childcare?*

46. The government recently estimated that the UK spends £5billion on early education and childcare (it is difficult to make an estimate solely for England as a proportion of spending is through childcare tax credits and vouchers for which regional spending data is not available).<sup>30</sup> This spending is constituted of:

1. The early education offer for two-, three- and four-year-olds, estimated to cost around £3billion each year from 2015.
2. The childcare element of tax credits and childcare disregards in other benefits, which costs around £1.5billion each year.
3. Employer-supported childcare vouchers and the tax disregard for employer-provided childcare at a cost of around £800million each year.
4. Other childcare spending through the Early Intervention Grant and Dedicated Schools Grant. This includes local authority grants and subsidies for childcare in schools, children's centres and PVI providers. There is no reliable estimate of this spending as local authorities are not required to support this spending. Such funding is unlikely to significantly alter the overall picture because most EIG and DSG spending is accounted for through statutory responsibilities, leaving relatively little for discretionary spending.

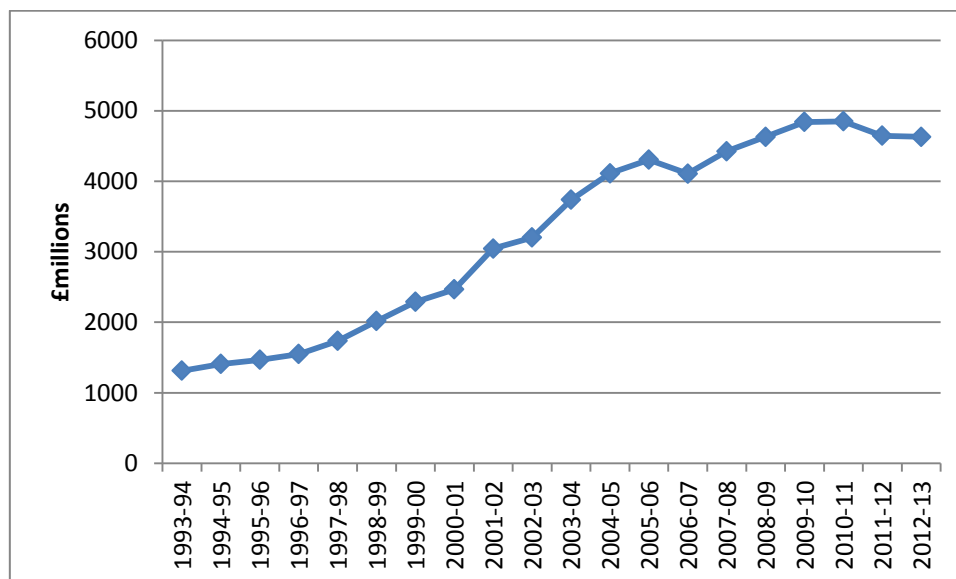
47. The government estimates that the proposed tax-free childcare scheme would further increase spending by £285million from 2015 rising to around £1billion (this figure will be offset as the employer-supported voucher scheme is phased out).<sup>31</sup> The planned increase in the childcare element of Universal Credit to 85 per cent from 70 per cent is estimated to cost more than £200million each year (however, this increase will also be offset somewhat as childcare disregards in some benefits are removed).

---

<sup>30</sup> Department for Education (2014) *More great childcare*, p. 16

<sup>31</sup> HMRC (2014) *Tax-free childcare impact assessment*

**Table: Estimated expenditure on under-fives 1993 to 2013**



Sources: IFS Green Budget 2014 [HM Treasury (2013), *Public Expenditure Statistical Analyses 2013*; HM Treasury (2009), *Public Expenditure Statistical Analyses 2009*; HM Treasury (2004), *Public Expenditure Statistical Analyses 2004*; HM Treasury (1999), *Public Expenditure Statistical Analyses 1999-2000*]

48. The Institute for Fiscal Studies estimated that the UK has in recent years spent 0.4 to 0.5 per cent of GDP on under-fives.<sup>32</sup> The OECD has estimated that in 2009 the UK spent 1.1 per cent of GDP on childcare and early education services, putting the UK among the mid-range of countries in terms of expenditure on childcare and early education.<sup>33</sup> The difference between the two estimates may be explained by the way the OECD calculates these figures. Because the majority of countries have a compulsory school starting age of 6, the OECD includes school spending for five year olds in its estimate of spending for the UK. This may push up the resulting estimate somewhat due to the universal participation and high spending for children in schools. A recent analysis by early education academics Eva Lloyd and Peter Moss argued that the true figure for England is closer to the IFS estimate.<sup>34</sup>

49. The average spending among OECD nations on childcare and early education in 2009 was 0.7 per cent. Spending of 0.4 to 0.5 per cent of GDP puts the UK in the bottom half of OECD nations. There have been recent suggestions by government ministers and elsewhere that the UK is among the highest spending OECD members on childcare and early education, but this does not appear to be the case.

*Question 9. Does the current level of subsidy represent value for money when assessed against a) outcomes for children and b) enabling parents to work?*

50. Investment in childcare over the last twenty years can be seen as a success in many respects. Almost all children participate in early education; quality standards have improved

<sup>32</sup> Institute for Fiscal Studies (2014), *Green Budget 2014*

<sup>33</sup> OECD (2014) OECD Family Database

<sup>34</sup> Lloyd, E. and Moss, P. (2013) 'Spending on early childhood services - Is England really near the top of the league?' *Nursery World* 5 April 2013



somewhat; parents find it easier to find suitable childcare and for many of those on the lowest incomes childcare support has transformed work prospects. However, England and the UK is not performing well in getting relative value for money from investment in childcare:

- Investment is not rationally allocated. Little thought has been given as to how the various streams of funding—the early education offer, demand-side subsidies and local authority spending—fit together and can contribute to a coherent service for families. The proposed new tax-free childcare scheme is indicative of this trend: the scheme was designed without reference to access, quality or flexibility challenges.
- Current demand-side subsidies are not well targeted. Childcare support within working tax credit (and in future Universal Credit) is subject to a taper as earnings rise and does not provide adequate work incentives for many parents.<sup>35</sup> This means that the system works against parents as their incomes improve even to relatively modest levels and discourages aspiration. Support through employer-supported childcare vouchers (and in future the tax-free childcare scheme) is not targeted at all by income (until parents earn more than £150,000 in the latter case). This tends to benefit families on relatively high incomes who use the most childcare but may need less financial support. The result is a system that does not do one of the most important things childcare support can do, which is to provide support to parents who face the greatest childcare affordability barriers to work.
- The Childcare Act 2006 sufficiency duty has failed to provide a meaningful guarantee of childcare for working parents.<sup>36</sup> The duty reflects an excessive dependence on market mechanisms that are ill-suited to the access goals investment in childcare is designed to achieve. Those missing are often the most disadvantaged families such as those on low incomes, those with children with additional needs, parents from minority communities, parents who are studying, those with large families and parents making the transition into work.
- There is waste and inefficiency in the system. For the reasons outlined above, substantial public investment without adequate policy design or strategy leads to an inefficient approach. There is also currently real waste in the system: one third of spending on the employer-supported childcare scheme is essentially administrative costs (a NI disregard for employers that is used to pay for the administration of the scheme). The government plans to phase out this scheme as the tax-free childcare scheme is introduced, which would remove this issue.
- The free offer education offer cannot be a success and represent value for money unless it is funded adequately to deliver improved outcomes for all children. For too many children, this is not the case.

51. The root causes of these problems are a fragmented childcare sector, an excessively complex funding system and insufficient investment. Spending could be used more

---

<sup>35</sup> Hurrell, A. (2012) *Counting the Costs of Childcare*, Resolution Foundation; Giselle, C. (2013) *All work and no pay: Second earners' work incentives and childcare costs under Universal Credit*, Resolution Foundation

<sup>36</sup> The duty and gaps in childcare are discussed more fully in Family and Childcare Trust (2014) *Where next for childcare? Learning from the 2004 childcare strategy and ten years of policy*, pp. 38-44

effectively through a simplified funding system complemented by a strategy to shape provision to meet the needs of parents. This would allow investment to be organised coherently around policy goals. Over the long term more funding should be invested in childcare, but not for more of the same.

*Question 10. What model of subsidisation – supply side or demand side – is most effective in meeting policy objectives relating to affordable childcare?*

52. The ‘right’ approach to funding depends largely on the willingness of government to invest in provision and set high expectations through entitlements to access or quality and price guarantees. The stronger the entitlements and standards in place for children and parents, the more it becomes necessary for government to rely on supply-side funding. For example, the early education offer is a statutory entitlement for children and demands a carefully designed supply-side funding system. In contrast, there is no statutory entitlement to access outside of the free offer and demand-side subsidies operate alongside the free offer. If parents were offered a childcare entitlement or a guarantee of access at fixed fees, this would require a further shift to supply-side funding.

53. The Family and Childcare Trust favours policy that makes concrete the goals of affordable, accessible and high quality childcare. This requires an integrated supply-side funding system built around clear entitlements for children and parents.

54. The government can in the short term reduce the cost of childcare to parents relatively easily through demand-side subsidies, but there are significant disadvantages to this approach. Demand-side subsidies are difficult to target effectively, are relatively inefficient and are linked to price inflation. The lack of coordination between demand-side subsidies and supply-side investment (through the free offer) is also driving fragmentation rather than integration in childcare provision. It is impossible for local authorities to adequately address inadequate provision in disadvantaged areas that are poorly served by a market system without a funding system that supports them to do so. These problems in turn have an effect on access to affordable high quality childcare for children in disadvantaged areas.<sup>37</sup> A ‘building on’ approach through ad hoc demand-side subsidies cannot address important problems within the existing system and will exacerbate a number of them.

55. The Family and Childcare Trust recently published *Where next for childcare? Learning from the 2004 childcare strategy and ten years of policy*, which traced the recent evolution of the childcare system. Demand-side childcare subsidies began as a relatively modest tax rebate in 1994. Investment in childcare has increased dramatically since 1994 but the UK has never made the transition from this relatively crude approach to subsidisation to a more coherent approach. Providing funding through the demand-side subsidies made sense when childcare provision was limited. As the state becomes the dominant funder of childcare, this approach no longer makes sense.

56. It is important to be careful not to confuse supply-side funding with a less flexible approach to subsidies for parents. The subsidies parents currently receive can usually be used in any registered childcare provider (they are not in practice cash subsidies and cannot be spent on informal childcare or anything else). As discussed below, there are good

---

<sup>37</sup> Mathers, S. and Smees, R. (2014) *Quality and Inequality: Do three- and four-year-olds in deprived areas experience lower quality early years provision?* London: Nuffield Foundation

international examples of how supply-side funding can work alongside choice for parents and a mixed market of private, state and voluntary sector provision.

57. Given the complexity of the problem of delivering an effective childcare system and the long-term nature of any realistic plan of investment (and therefore the need for cross-party consensus), the Family and Childcare Trust has made clear its view that government should establish an independent review of childcare funding to make recommendations on reform. This should lead to a new long term childcare strategy.

### **Devolved administrations and international context**

*Question 11. What lessons can be learnt from international examples, or from the devolved administrations, of how childcare is provided, funded and evaluated?*

58. No childcare system is perfect but a lot can be learnt from the experience of other countries in developing early education and childcare systems. The Family and Childcare Trust would highlight three key lessons in particular.

59. First, countries with high performing systems achieved this outcome not through an ad hoc approach to policy design and funding but through undertaking a process to review the current situation and design and build a childcare system based on specific policy goals through a long term plan. Scandinavian examples such as Norway and Sweden are particularly notable but countries from Slovenia to New Zealand have undertaken similar system-wide reforms. Although successive UK governments have published a number of childcare strategy documents and papers dating back to 1998, no government has undertaken a comprehensive attempt to assess current provision, identify areas for development and integrate policy, funding and delivery into a coherent long term strategy.

60. Second, international experience shows the importance of integrating early education and childcare.<sup>38</sup> The UK experience of a fragmented funding system bears out this advice. A number of different departments each have some responsibility for childcare—the Department for Education; the Department for Work and Pensions; HM Treasury; and the Department for Business, Innovation and Skills—but no department effectively fulfils a coordinating role. For a brief period in the 2000s a central Sure Start unit based in the Treasury had this role but did not have control over departmental budgets. One significant but important step policy makers in England could take is to empower a single department to effectively shape childcare provision.

61. Finally, international examples tell us that a mixed childcare market and choice for parents, elements of provision that are central to public expectations in England, are compatible with a more interventionist approach to managing childcare access, prices and quality.

---

<sup>38</sup> Evidence supporting the importance of this approach is set out in Kaga, Y., Bennett, J. and Moss, P. (2010) *Caring and Learning Together: A cross-national study of the integration of early childhood care and education within education*, UNESCO; OECD (2006) *Starting Strong II – A Quality Toolbox for Early Childhood Education and Care*

62. New Zealand has a childcare market comparable to that in the UK but has a subsidy system that is far more effectively designed.<sup>39</sup> A free early education offer of 20 hours is funded based on the level of income needed to employ sufficient graduate staff to deliver high quality care, whilst the Childcare Subsidy (an equivalent to the childcare element of tax credits) is provided at a higher rate for providers employing graduates. 'Pump priming' funding is used to offset the failure of the market to provide services in the most disadvantaged areas. More so than in the UK, funding is designed to shape access to high quality childcare.

63. Norway also has a similar mixed market to the UK but through regulation has implemented well-designed subsidies and price controls.<sup>40</sup> Children have an entitlement to a full daycare place, which parents take up through an admissions process that balances choice with equitable access for parents. Fees are capped at a level agreed by local authorities and providers within a national framework. Public funding is set at a level that supports graduate-led care. This approach balances the choice and responsiveness of market-based provision with an ethos of high quality and greater certainty for parents of access to affordable childcare.

64. With regard to the devolved context, governments in Scotland and Wales are relatively constrained in their policy making because demand-side childcare subsidies through tax credits and vouchers operate at a UK level. Both Wales and Scotland might benefit from childcare funding reform that gave devolved policy makers more control over funding.

65. The Scottish government has pursued policy that closely reflects that of England and is in the process of extending its free early education offer to two-year-olds. However, recent high profile debate about childcare in Scotland suggest an appetite among Scottish policy makers to further develop childcare provision in ways that are distinct from England.

66. Two features distinguish policy in Wales: an integrated early education offer, 'Flying Start', and an early years curriculum for 0-7 year-olds. England can learn from Wales' focus on evidence-based practice and creating an early years offer that is not only about early education but a range of interventions extending across parenting and family support. It is worth noting that Wales faces unique challenges in delivering affordable childcare because relatively low levels of employment limit the development of the private and voluntary market. The particularly poor sufficiency of childcare in Wales is an important signal that the combination of demand-side subsidies and market based provision alone will not serve the interests of many of those who stand to benefit most from state intervention in childcare.

---

<sup>39</sup> The New Zealand funding framework is set out in the Early Childhood Education Handbook produced by the Ministry of Education, which can be accessed online at [www.lead.ece.govt.nz](http://www.lead.ece.govt.nz).

<sup>40</sup> A description of the Norwegian system can be found in Naumann, I., McLean, C., Koslowski, A., Tisdall, K. and Lloyd, E. (2013) *Early Childhood Education and Care Provision: International Review of Policy, Delivery and Funding: Final Report*, Scottish Government Social Research