

Quality Childcare



Improving early years childcare

Harriet Waldegrave

Edited by Lucy Lee



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Published by

Policy Exchange, Clutha House, 10 Storey's Gate, London SW1P 3AY

www.policyexchange.org.uk

ISBN: 978-1-907689-41-3

Printed by Heron, Dawson and Sawyer

Designed by Soapbox, www.soapbox.co.uk

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Acknowledgements

The author would like to thank The Hadley Trust for their support and assistance with this project. The author would also like to thank David Skelton and Lucy Lee for their helpful comments. Many thanks are also due to all the childcare providers, academics and experts who gave up their time to answer our questions and whose expertise has been invaluable.

Executive Summary

Childcare policy in the UK has developed dramatically in the UK over the past fifteen years. However, in a number of ways, it remains confused and incoherent. The UK has a range of different funding systems, run by different departments, and at times there can be tensions between what different policies are trying to achieve. In this report we look at the two major issues that childcare policies are trying to address, namely increasing maternal employment and closing the development gap in children from different backgrounds. However we must remain aware that while these laudable goals often naturally go hand in hand, government priorities can sometimes change the emphasis placed on each. When discussing social mobility and improving children's life chances, the quality of childcare comes to the fore. The cost of childcare plays a bigger role when government's priorities focus on improving employment figures and getting Britain back to work.

Child Development

The Current Challenge

On the issue of child development, available statistics about the level of development of children from different backgrounds provide cause for concern. Judged against the Early Years Foundation Stage Profile (an assessment of children's development carried out at the age of five, and published by the DfE), only 56 per cent of children from the poorest 30 per cent of areas are achieving a good level of development, compared to 68 per cent of those in other areas. In terms of vocabulary development, research from leading academics has shown that the poorest children are the equivalent of 16 months behind those in the highest income families. We know that many things contribute to early development, and parenting practices (the amount you read and talk to your child, the way you manage behaviour) are the most important, and we shall be looking at these in more detail in our forthcoming report on children centres. Additionally income and material deprivation itself is a major factor, and one of the reasons that increasing maternal employment is important.

However, wide scale studies from the UK and elsewhere have shown the profound effect that really high quality early years education programmes can have on child development and school readiness. There has been much welcome progress in early years policy; provision is indeed increasing and expanding, but with policies such as the two year old offer being introduced to improve children's life chances we need to face some difficult realities. Early years education and care will only have a positive impact on a child's development if it is of high quality, and while our provision is improving it is not doing so fast enough, with 42 per cent of settings judged satisfactory not improving on their next visit.

Most worrying of all, standards in more deprived areas are lower across all types of setting, and there is a lack of capacity for ensuring that all two year olds will be given provision in good or outstanding settings. If children are not given high quality care, the anticipated effects of early years provision will not be seen. Our polling shows that parents in poorer families are less likely than their better off counterparts to choose a childcare provider based on quality, instead they are constrained by low incomes and have to choose an affordable provider. If parents are limited in this way, it is perhaps to be expected that children in these families will end up receiving lower quality care.

Studies have shown the importance of well trained, qualified providers in ensuring the quality of childcare provision. However the level of professionalisation in the sector is relatively low, with only 10 per cent of childminders and 23 per cent of daycare staff holding a qualification above an A-level equivalent.

Maternal Employment

The Current Challenge

It is important when discussing maternal employment to remember that this in itself is a way of improving children's development, by driving up family incomes which significantly affect children's life chances. For lone parents in particular, employment can be a vital barrier to poverty. Research has shown that increases in female employment have been the key driver of wealth increases in low and middle income families. And of course there are broader issues for all of society, both of gender equality and economic, as to why enabling women to work if they wish to is so important. Enabling choice is a basic feminist concern, and one that is of course hugely dependent on other policies as well, such as parental leave and changing social attitudes. We certainly need to address these underlying issues, but also try to improve things as they stand.

The fact of the matter is that far more women are economically inactive due to family responsibilities than men. If we improve childcare arrangements so that women are more able to balance their competing responsibilities, we will be able to ensure that those women who want to work, and who so much has been invested in through education, will not be lost to employers through necessity. Currently, whilst female employment rates before childbirth are on a par with men's, once they become parents this picture drastically changes. Our own analysis has shown that there is a gap of around 18 percentage points in the employment probability of women, aged 31 to 35, who are similar in terms of education, ethnicity and location, depending on whether they have children. We know that the employment rates of women never again equal those of men, even once children are well into their late teens.

We conducted extensive polling of parents to find out more about their attitudes towards employment and childcare and their decision making processes when choosing childcare providers. We found that a large number of those not working, or working part time, would like to enter paid employment or increase their hours, but one of the major barriers was being able to find and afford childcare. Many believed that they would not be better off if they took on more hours, and we know that this is indeed the case for many second earners who do return to the workplace.

Solutions

Recently the childcare debate has often focused on affordability, and we in no way question that this is incredibly important to parents when making the decision about whether they are able to return to work. But there are other issues at stake, most importantly quality and convenience; if parents are not able to access childcare around their work, or do not believe it is high quality they are likely to be less willing to use it. We must also acknowledge that sometimes the aims of improving maternal employment rates and closing the development gap do not always co-exist easily. A policy to make childcare cheaper may help women return to work, and so positively impact on their child's home experience, yet lower the standard of care, and so damage their experience in childcare. It is not an easy matter to balance the competing policy imperatives, but we must at least admit where they come into conflict.

Raising Standards

There are many things to be proud of in our early years provision. A robust framework has been developed to guide how young children should be cared for and how their development can be encouraged. Good and outstanding care is delivered in the majority of settings. However, we believe there is still room for improvement, and that it is possible to introduce a really rigorous system to drive this through some of the following methods:

- Improve the accountability of Local Authority (LA) oversight of provision, by ensuring that their inspections and monitoring visits are publicly available. Many LAs are doing an impressive job of raising standards, and carrying out essential work behind the scenes but we need greater transparency around their effectiveness.
- Ensure that there is a regime in place for where LAs are not delivering the improvements that they should be, so that organisations with a proven track record can be brought in to take over.
- Ensure that the early years expenditure is not squeezed in the education budget, so that professionalisation can realistically be reflected in pay rates, and continue to push for highly trained providers.
- Establish networks, with the appropriate incentives, based on the Teaching Schools model to help early years leaders connect with other settings and develop their workforces.
- Establish a good system of data management and tracking, starting from the integrated health check being rolled out in 2015.
- Direct financial support towards low income families so that they can choose childcare providers based on quality not cost, and so increase the demand for high quality care in low income areas.
- Extend Teach First to the early years to help attract bright graduates into deprived areas.

Reducing Costs to Parents

We propose several ways to make the funding system simpler and the burden on parents less, so that those who wish to are more able to return to work. These include:

- Introduce a new system for paying the childcare element of tax credits, so that it can only be spent directly on childcare to reduce error and fraud in the system, which currently accounts for £265million of the £1.6billion budget. We recommend a government review to identify how savings made from this could be committed to increasing the support.
- Ensure that the government subsidy paid to childcare providers really does cover costs, so that costs for paid hours are not driven up, and there are fewer incentives for providers to prioritise high income families for places.
- Making the childcare vouchers fairer and more accessible, by advocating an opt-out system, allowing the self-employed to use them, and looking at increasing the amount for basic rate taxpayers in line with inflation.

Conclusion

In this report we try to outline the current, often complex, state of the childcare market for children aged 0 to 5, the way policy has developed to lead us to this point, and what the next steps must be. We believe that, particularly in difficult economic times, one of the most important things we can do is ensure that mothers, who wish to, can return to paid employment, and that employers can have the pick of the broadest talent pool possible. However, we show in this report that it is also vital to think about the effect of childcare on the development of a child, and do more to ensure high quality provision, particularly in the poorest areas of the country.

1

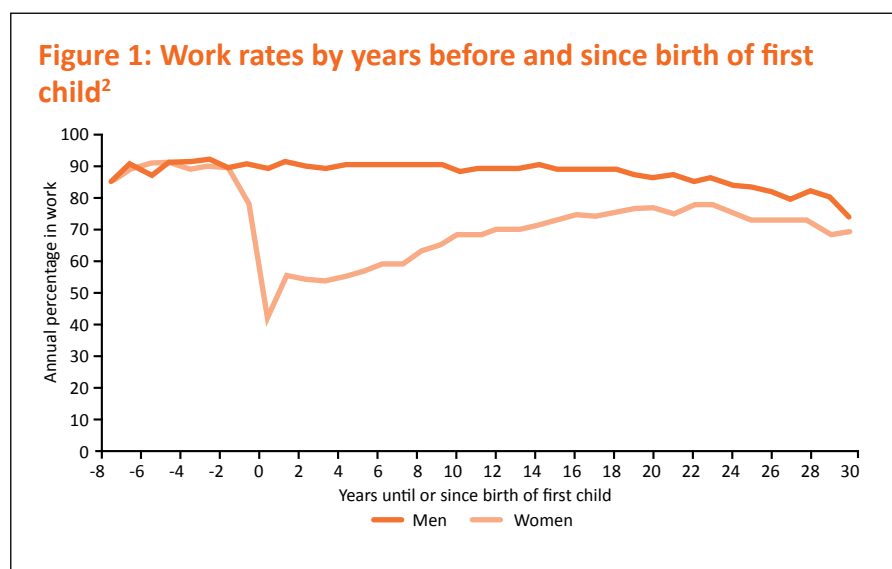
Why Should Society Be Concerned About Childcare?

Part 1: Maternal Employment

Childcare has become a necessity for many families in the UK, where the 'traditional' family structure of a father out at work and a woman at home looking after the children has declined significantly in the past few decades. There has been a sizeable increase in the number of families with a child under six where both parents work full time, from 7.3% in 1984 to 20.2% in 2007, as well as where the man works full time and the women part time, from 22.5% to 37.1% over the same period.¹ It is less and less likely that there will be one parent at home to look after the children while the other is at work (there has however been a rise in workless households, where both parents will be at home). Many women want or need to work after the birth of children, many for economic reasons, many for personal, and many for a combination of the two, and the lack of high quality affordable childcare can be a barrier to doing so.

1.1.1 How does the presence of children affect employment rates?

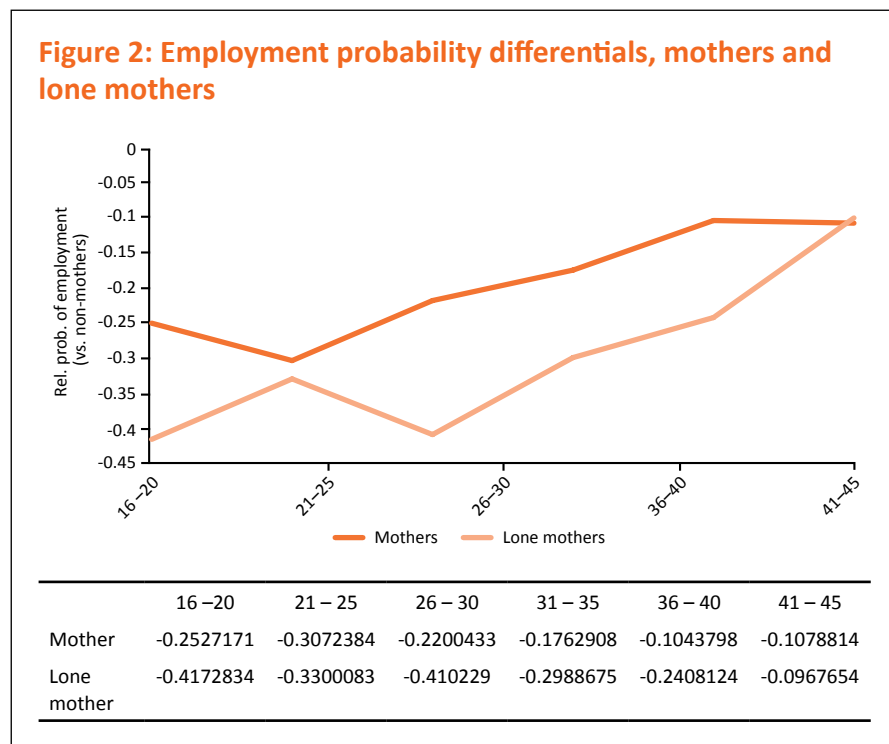
The graphs below show interesting data about the impact of having children on women's working patterns. The first clearly shows that while men and women are employed at very similar rates when no children are present, women's employment rates plummet after they have children and never catch up with men's.²



1 OECD, Table LMF2.2.G Trends in Employment patterns for couple parent families with a child under 6

2 Brewer M & Paull G, *Newborns and new schools: critical times in women's employment*, DWP Research Report No 308, 2006

Additionally, we used the Labour Force Survey data to compare the employment rates of mothers, lone mothers and non-mothers, controlling for their ethnicity, level of education and geographic location. We broke the figures down by age, so we are able to see from the graph below how much lower the probability was, for example, for a mother aged between 31 and 35 to be in employment than a non-mother of the same age. We find that a mother has a much lower probability of being employed, with a gap of 18 percentage points between her and her equivalent non-mother. The gap between lone mothers and non-mothers of the same age was much greater, at 30 percentage points.

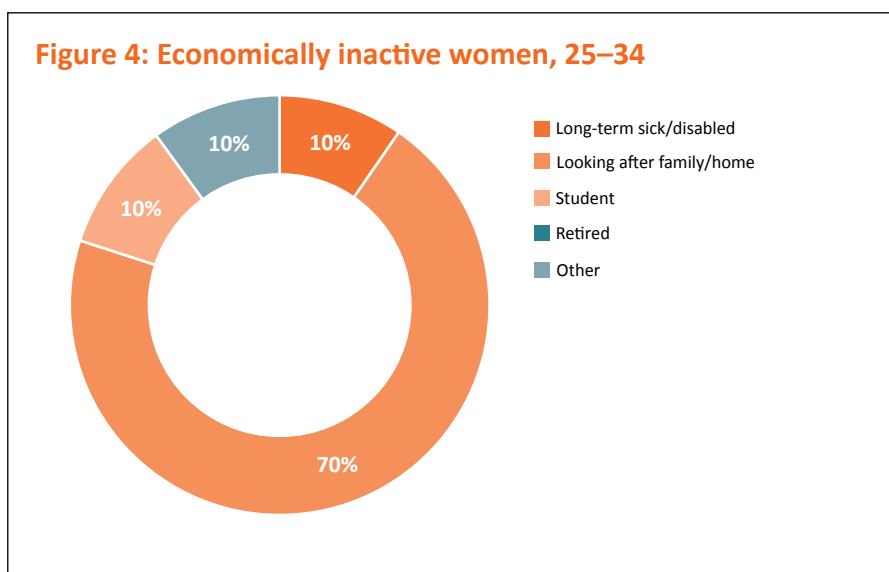
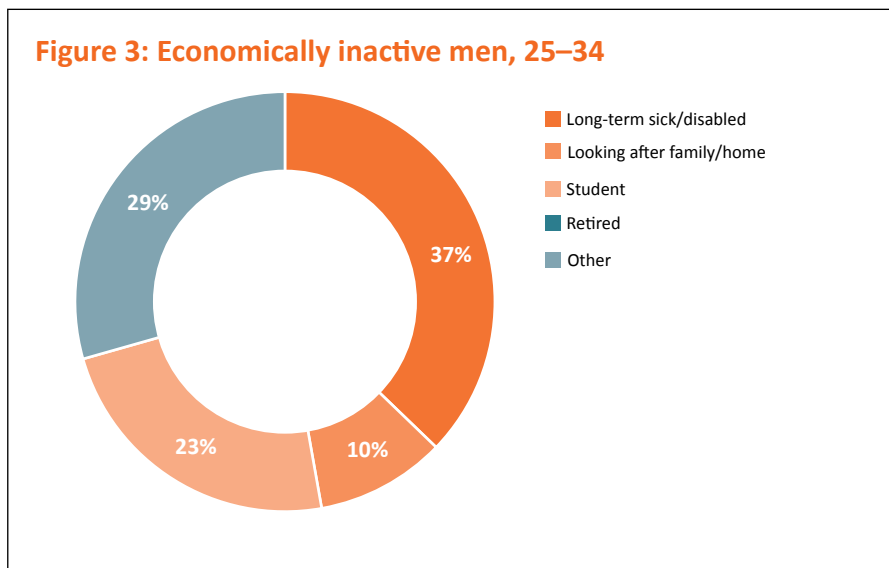


The evidence shows that having children has serious impacts on employment prospects, and that women are much more likely to be those who are affected as they are more often the parent with primary responsibility either for looking after children, or ensuring childcare is in place.

Finding the right kind of childcare, which makes a return to work financially viable, is often cited as one of the key issues. Our polling of over 1,600 people supports this idea. We asked if those who were currently unemployed would like to be working, and 70% of women said yes. However, we then asked them to select barriers to employment that they faced, and 47% of women chose being able to afford childcare, almost the same level as those who said being able to find a suitable job opportunity (48%). This goes to show that for the unemployed, paying for childcare is as important an issue as finding a job. Additionally almost half (49%) of those who said they would like to be working more hours said that they wouldn't be able to pay for the additional childcare.

1.1.2: Why does this matter?

The most basic argument of why a return to work should be possible, before we get into questions of the labour market and wider economy, is a feminist one. Women should be free to choose whether work is the right option for them, for financial or other reasons. The trouble is that once childcare costs are taken into account, in the short term it can sometimes mean that both parents returning to full time employment is not feasible, and it is usually the woman who stays at home. In 2008 there were 266,000 economically inactive men between 25 and 34 of whom 10% gave their reason for being so as looking after the family and home. At the same time there were 927,000 women of the same age who were economically inactive, and of those 70.3% were so because they were looking after the family or the home.³ In this age bracket, there are around 24 times more women economically inactive due to family responsibilities than men; even when we look over the course of whole working lifetimes there are still ten times as many women economically inactive for this reason.



³ Economic & Labour Market Review vol 3 no 2, February 2009; ONS Labour Market Statistical Bulletin, August 2008

We must be wary of making the assumption that all women's preference would be to work; in fact 38% of woman surveyed by the DfE said they would prefer to give up work to look after children if they could. However 48% said they would prefer to work even if they could afford not to.⁴ But even making the very large assumption that all women with young children would prefer to be at home, there are long term costs to be considered. Staying at home until children are old enough to start school, for example, can have a significant impact on a woman's future career path and earnings, which of course will have a long-term impact on the tax revenue collected from those potential earnings. This limiting of women's long term earnings due to short term financial constraints is rightly of concern to many. Not only is it a limit on women's capabilities, but it can also mean that some women are left in a more vulnerable situation where they are unable to support themselves if a relationship breaks down, or a partner dies.

Increases in female employment have been shown by recent analysis from the Institute for Fiscal Studies for the Resolution Foundation to be the key driver of increases in wealth among low- and middle-income families in the last 50 years, showing that '78% of all of the growth in gross employment income among LMI households came from women'.⁵

Improving family finances in the short and long term is a pressing concern for all governments, and enabling women to work is one key method of doing so. But it is also of wider benefit to the economy as a whole. There are doubts about whether increasing female employment boosts the economy simply due to increased numbers in work – over the decades while the employment rates of women have increased, those of men have fallen. However, what we can argue with certainty is that it is vital for the health of our economy that employers can hire the people best suited to the job, and draw from the widest possible pool of talent. If women are excluded from this pool due to family duties, employers and the wider economy lose out. Recent research by the OECD suggests that if we could increase female employment rates to the same level as men by 2030 annual growth rates in GDP per capita would rise by 0.5 percentage points.⁶ Likewise, it is important that children have the person who most wants to and is most able to look after them doing so, and they may often be men. Currently 47% of women and 43% of men between 25 and 34 have participated in tertiary education, so it is in government's interest in terms of getting a direct return on their investment in the education of women to encourage them to re-enter the workplace.⁷ This is not to denigrate the huge positive impact that a mother can have on her child's development, and the savings that can have for society, but it is important to ensure that she is able to choose to do what she feels she is better suited to.

4 Smith P et al, *Childcare and early years survey of parents 2010*, DfE, 2012

5 Brewer M & Wren-Lewis, *Why did Britain's households get richer? Decomposing UK household income growth between 1968 and 2008–09*, IFS, 2011

6 *Closing the Gender Pay Gap, Act Now – United Kingdom*, OECD, 2012

7 Ibid

1.1.3 Focus of this report

Childcare is not the sole issue that needs to be addressed when considering maternal employment rates. Parental leave arrangements which favour a pattern of father at work and mother at home (and it will be interesting to see how much the recently announced changes affect the relative time taken by each parent), the still prevalent view in many communities that a mother is more suited to being at home with the children and many other factors all contribute to the fact that women tend to take on more caring responsibilities than men. We can see this reflected even in the way we talk about childcare costs; we often talk about how

much better or worse off a mother will be once her income has covered childcare costs even if she is with a partner. Even with both parents working we still often make the assumption that mothers' incomes go towards childcare costs. In our poll of over 1,600 parents we saw how many more women were responsible for childcare in their families; 12% of male respondents said they were responsible and 76% said they shared responsibility with their partner. Interestingly 56% of women said they were responsible, and 42% said it was shared. In the comments section there were often statements along the lines of, 'It has affected my wife, in that she can't do more hours due to the cost of childcare', or that a wife's income would not cover the cost of childcare. Of course this may often make financial sense as women tend to earn less while the gender pay gap still stands at 18% (again a problem we cannot tackle here), but often the option of a father staying at home is not mentioned.

Changing these underlying attitudes is vital in the long-term, and even in the short-term there are many other issues such as flexible working, more options for high quality part-time work and so on which need to be discussed to make the combination of work and family life more possible. However, in this piece of research we have chosen to focus on childcare, as it is certainly one of the most important factors, while acknowledging that this can never address the problem in its entirety.

Additionally we have chosen to focus on the early years of childcare, for children aged 0 to 5. This is not to say that childcare suddenly stops becoming an issue when children are legally required to be in full time education, but rather that issues become very different – extended schools, holiday play-schemes, and so on all suddenly come to the fore. We therefore feel that there is not scope within one report to address the needs of parents of children of all ages, although some of the recommendations we propose around flexibility and employer supported childcare may equally apply to those with school aged children.

Part 2: Child Development

So far we have looked at childcare in terms of the mother's employment prospects, but of course it is also vital to think about the impact on the child themselves. There has been a growing awareness and consensus in recent years, particularly after the Frank Field and Graham Allen reports, on the importance of the early years for development, and as a time when it may be possible to even out attainment gaps between children.^{8,9} Below we provide a brief overview of some evidence on brain development of young children; while this does not provide any policy answers on how to provide the best environment for a growing child, it is important to try and understand what a growing child needs. We will also look at some early years programmes and longitudinal studies to see if they provide any concrete models for our own childcare and early education policy.

1.2.1 What are the inequalities in child development?

Studies have shown that children from the lowest income families are over 16 months behind their more affluent peers in terms of vocabulary development by the time they enter school.¹⁰ Worryingly, the achievement gap between advantaged and disadvantaged children actually increases between the ages of three and five. Looking at the vocabulary element of the British Ability Scales it was found that

8 Graham Allen, *Early Intervention: The Next Steps*, 2011

9 Frank Field, *The Foundation Years: Preventing Poor Children Becoming Poor Adults*, 2010

10 Waldfogel J & Washbrook E, *Low Income and Early Cognitive development in the UK*, Sutton Trust, 2010

‘Young children from the poorest fifth of families are ranked on average at around the 34th percentile at the age of 3. This is around 23 percentage points lower than the average rank among the richest fifth of children. This rich–poor gap has risen to nearly 27 percentage points by the time the children have reached the age of 5.’¹¹ When looking at this year’s results on the EYFS Profile, we see that the gap between children achieving a good level of development in the poorest 30% of areas is 12 percentage points behind children elsewhere, at 56% and 68%. We are currently not doing enough to ensure that children born into low income families are not left with a long term educational disadvantage.

But it is not solely on directly cognitive measures that poorer children are more disadvantaged, they are also more likely to be involved in what is termed ‘risky’ behaviour (such as drug taking, truanting from school) which can have significant impacts on their life chances, and attitudes towards education in later life.

1.2.2 What evidence is there on early brain development?

While this report will not attempt to delve deep into the neuroscience surrounding brain development in the first five years of a child’s life, it is worth presenting some of the evidence which has driven some of the policy debate in recent years. The Center of the Developing Child at Harvard University provides some useful synthesis of recent work into how nurture can affect the architecture of the brain, and impact on ‘innate’ ability. They discuss the epigenome, which is involved in regulation of gene expression; while the genome is hard wired in a child, experiences and environment can alter the epigenome which controls how those genes will be expressed.

‘What research has shown is that specific epigenetic modifications do occur in brain cells as cognitive skills like learning and memory develop and that repeated activation of brain circuits dedicated to learning and memory through interaction with the environment, such as reciprocal “serve and return” interaction with adults, facilitates these positive epigenetic modifications’.¹²

It is also important to note that certain epigenetic changes can be passed on through the generations, so damaging environments in a child’s early years could affect their own children.

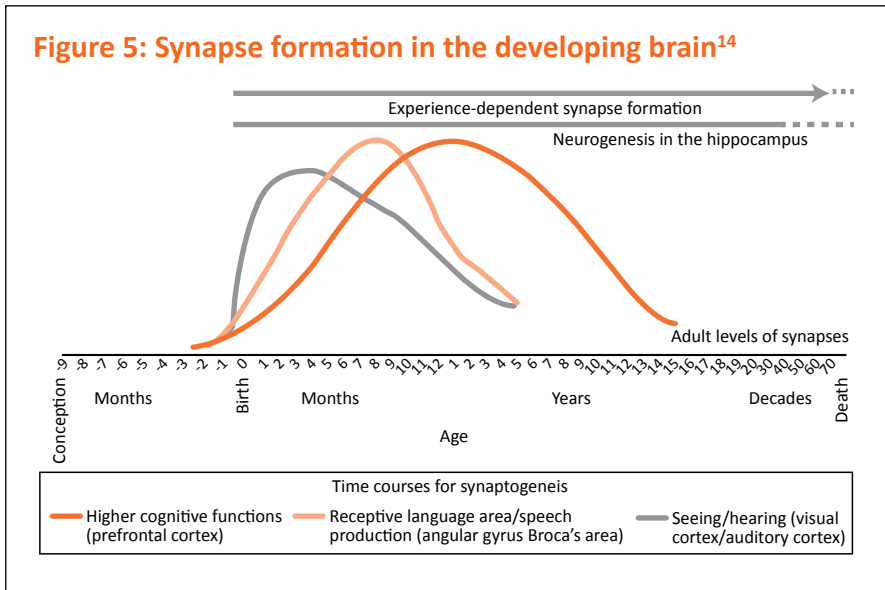
‘the foundations of brain architecture are established early in life through a continuous series of dynamic interactions in which environmental conditions and personal experiences have a significant impact on how genetic predispositions are expressed. Because specific experiences affect specific brain circuits during specific developmental stages—referred to as sensitive periods—it is vitally important to take advantage of these early opportunities in the developmental building process. That is to say, the quality of a child’s early environment and the availability of appropriate experiences at the right stages of development are crucial in determining the strength or weakness of the brain’s architecture, which, in turn, determines how well he or she will be able to think and to regulate emotions.’¹³

The chart on the next page illustrates how important the early years are in terms of synapse development.

11 Goodman A & Gregg P, *Poorer children’s educational attainment*, Joseph Rowntree Foundation, 2010

12 *Early Experiences Can Alter Gene Expression and Affect Long-Term Development: Working Paper No. 10*, National Scientific Council on the Developing Child, Harvard University, 2010, p5

13 *The Timing and Quality of Early Experiences Combine to Shape Brain Architecture: Working Paper No. 5*, National Scientific Council on the Developing Child, Harvard University, 2007, p1



This is of course not to say that once a child has reached three, or five, or any other age that their cognitive development is set in stone. The brain continues to be able to adapt and change, it is simply that once one ‘circuit’ has been established it is harder for later experiences to alter it.

‘The residual capacity for plasticity in mature neural circuits thus allows for some recovery of brain capabilities, even in adults. In order for the brain to take full advantage of this plasticity, experience needs to be tailored to activate the relevant neural circuits and the individual’s attention must be engaged in the task. The implications for later interventions in development are clear—the task will be harder, more expensive in terms of societal and individual effort, and potentially less extensive and durable.’¹⁵

There has been a particular focus of research into whether the acquisition of language is more possible in particular sensitive periods, and whether children are more able to learn to speak at certain ages. While the debate is still ongoing there is evidence to suggest that there are times when it is easier to acquire language, and so this is when we should focus our attention on children’s language learning.¹⁶

Recent research from the University of Pennsylvania, which followed the development of 64 children for more than twenty years, has reinforced the argument that this early period in a child’s life is particularly sensitive. The study by lead author Brian Avants, found that the degree of cognitive stimulation in the home predicted the thickness of certain regions of the cortex, the brain’s outer layer. The effect was independent of mothers’ intelligence, as well as the degree of parental nurturance. In addition, experience at the age of four had a bigger impact than experience at the age of eight, indicating that early life is truly a developmentally sensitive period.

The study was based on a group of children followed for more than 20 years. The research team visited the homes of the children when they were four and eight years old, and conducted detailed observational evaluations. More than 10 years later, the team used neuroimaging to collect detailed brain images of the participants. Then Avants used computational anatomy to extract images of

14 Nelson A, University of Minnesota, reprinted in Shonkoff J & Phillips D, *From Neurons to Neighbourhoods: The Science of early Childhood Development*, 2000

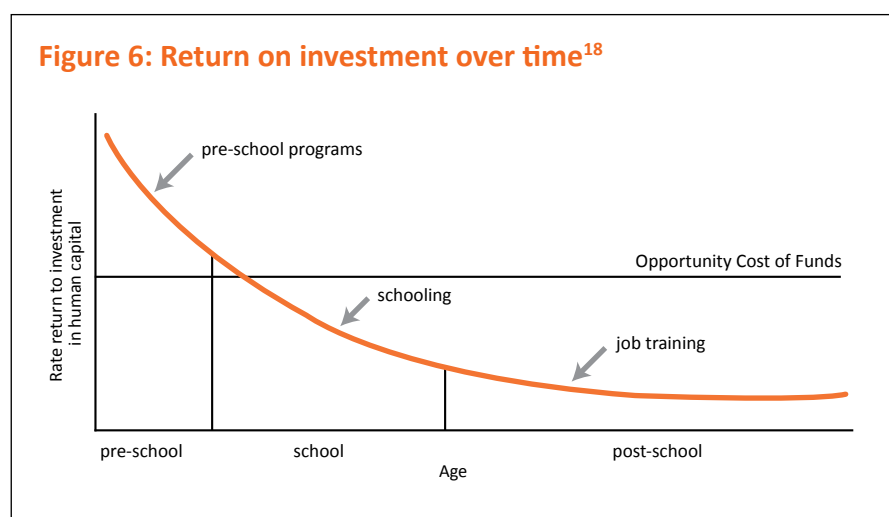
15 *The Timing and Quality of Early Experiences Combine to Shape Brain Architecture: Working Paper No. 5*, National Scientific Council on the Developing Child, Harvard University, 2007, p4

16 Knudsen E et al, *Economic, neurological, and behavioral perspectives on building America’s future workforce*, PNAS, 2006

cortical thickness that could be related to the analyses of the children’s early home environment. The results showed that childhood home environment predicts frontal and temporal cortical thickness in the young adult brain. One of the authors commented that

“These findings underscore the human brain’s sensitivity to its early environment. They provide powerful evidence that even relatively minor variations within the normal range of home experience can affect brain development over a lifetime.”¹⁷

The chart below illustrates the argument that the earlier time and money are invested in a child’s development, the higher ‘returns’ you can get. By stopping problems before they emerge you can save on more costly interventions to address these problems later in life.



It is also important to bear in mind that it is not possible for all brain functions to be activated at a young age; the right interactions must be had for a one year old to lay down the basic aspects of brain function so that as they grow older they will be able to engage in higher order activities such as learning to read, but these higher order activities must necessarily be learnt later in life. To encourage investment in the early years is not to say that there is nothing more to be done once they reach primary or secondary school. In this report we are not trying to argue that the only important interventions and education happen in the early years, but that these have until recently been relatively overlooked and must now be acknowledged as important too.

But of course all this really tells us is that it is very important for a child to have the right kind of interactions with a caring and responsive person in the early years of their life. It does not tell us whether it is practically better for this person to be a mother or father, a childcare professional or so on. In order to think practically about policy ideas we need to turn to what early years programmes have actually done.

1.2.3 What can early education programmes achieve?

It is important at this stage to make clear the parameters of this research. There is a great deal of evidence to show that some of the most significant effects on a child’s development can be achieved by improving the parent-child relationships,

¹⁷ Sukel K, *Early Life Experience Can Change the Brain, For Good or Ill*, The Dana Foundation, 2012

¹⁸ Knudsen E et al, *Economic, neurobiological, and behavioral perspectives on building America’s future workforce*, PNAS, 2006

the home learning environment or focussing on child health. This is something we shall examine in detail on our report on Children's Centres. However, given that non-familial childcare is a necessity for many parents and a central plank of our policy on child development we will here be concentrating on the effects that improving the quality of, and access to, childcare can have on development. Of course, as we acknowledge above, childcare can have effects on child development by improving parents' chances of employment, but that does not mean we can ignore what actually takes place in the childcare settings.

Some of the most significant evidence relating to the impact of intervention in the first few years of a child's life have been the intensive early educational programmes outlined below, each accompanied by a longitudinal study to assess impacts as children progress through school and into adulthood:

Box 1: Intensive early education programmes

HighScope/Perry

Sixty-four 3 year olds who were designated as 'at-risk' were given care based on the HighScope curriculum by teachers with advanced degrees, in small classes, which resulted in an estimated saving for every dollar invested of \$16.14 by the time the children reached 40, of which \$12.90 were savings to the public (as a result of lower rates of incarceration – which accounted for 88% of the public savings – as well as improved chances of holding down a job and less repetition of years at school). It is important to note that some of the most significant effects were social and behavioural, and began to emerge when children reached the age of 14.

Abecedarian Project

This project for 111 disadvantaged children provided care for 5 hours a day, 5 days a week, year-round, at a university-based child-care facility, from infancy to five. Three-quarters of the children came from single parent families. It showed the most improvement to IQ at age three, but the difference was still significant by the age of 21. It also showed that children who had taken part were twice as likely to still be in education at the age of 21.

Chicago Longitudinal Study

This was a study of 1,539 at-risk children, of whom 989 attended pre-school at one of 20 Child Parent Education Centres. Intervention lasted for up to six years for some children, half a day for the full school year. It was designed to be a low cost, more realistic version of the above two programmes – it didn't require teachers with a masters degrees or a university base. The cognitive benefits were seen on entering kindergarten – no intervention meant below norm performance, one year meant average performance, and two years led to above average performance. The benefits were sustained – a lower incidence of Special Educational Needs among children, fewer juvenile arrests, half the rate of substance misuse. An 8:1 benefit to cost ratio at age 27 was calculated for those who received six years of intervention.

“Another important finding for policy was that full time care had no more positive effects than part time care.”

The trouble with these studies, which are frequently cited and held up as evidence for how early years education programmes can have long lasting impacts, is that they were all relatively small scale. The Perry Pre-School project, which has the most dramatic effects, had a treatment group of just 64 children. They were all identified as being at high risk, and provided with intensive support and education from highly trained professionals. While this does not mean that the effects seen were not impressive, the reality of scaling up a programme like this is challenging to say the least, and it would be very unlikely to produce equally significant results. The number of teachers with degrees in the UK is 8% of ‘childcare’ staff, 2% of childminders and 29% of early years providers in schools – 11% of all early years staff in total. Overall only 3% of early years staff hold advanced degrees.¹⁹

1.2.4 Interventions on a National Scale

So while it is important to think about the huge effects high quality early years education can have it is also necessary to be realistic about the kind of early years provision we could actually provide on a national scale. For this reason it is perhaps more useful to look at the findings from the EPPE (Effective Provision of Preschool Education) project which is a large scale longitudinal study of more than 3000 UK children, relating the length of time in childcare and the quality of that care, to later outcomes. The EPPE program judged quality according to the ECERS-E (Early Childhood Environment Rating Scale – Extension) scale, which was developed to measure quality in literacy, numeracy, science and diversity as observable in pre-school settings. The sub-scales accord with the Curriculum Guidance for the Foundation Stage and are an internationally recognised measure of quality in early education and care.

The study concluded that, for children aged three and above, attending a good quality full or part-time preschool was not only substantially beneficial for both cognitive and behavioural achievement; it also had a “protective” effect, offsetting to some extent the effect of a child attending a less effective primary school in terms of reading and writing outcomes. Another important finding for policy was that full time care had no more positive effects than part time care. If we are thinking purely in terms of child development raising the quality of the current offer rather than extending it at the same quality would be a more sensible investment. Although the 2004 report shows that at age three those children who attended pre-school were more likely to display some signs of anti-social behaviour, by age eleven these effects have disappeared and children who attended pre-school are seen to have slightly improved positive social behaviour.²⁰

However, one area of missing information is around the difference in cognitive effects of centre-based and formal home-based care such as childminders. The EPPE studies only compared centre based care to a ‘home’ group (it was not taken into account whether they were cared for by childminders, parents or informal carers) so it is not possible to directly contrast outcomes for centre based care to childminder care. American research such as the NICHD Study of Early Child Care and Youth Development which does directly compare centre and home based

¹⁹ Smith P et al, *Childcare and early years survey of parents 2010*, DfE, 2012

²⁰ Pam Sammons, Kathy Sylva, Edward Melhuish, Iram Siraj-Blatchford, Brenda Taggart, Yvonne Grabbe and Sofka Barreau, *The Effective Pre-School and Primary Education 3–11 Project (EPPE 3–11): Influences on Children’s Attainment and Progress in Key Stage 2: Cognitive Outcomes in Year 5*. London: DfES / Institute of Education, University of London, 2007

non-maternal care (such as childminders) did find some behavioural benefits for children at age four and a half who attended childminding settings, although they performed slightly worse on cognitive outcomes.

But it is important to remember that the programs all find a significant impact particularly on the most disadvantaged, yet one problem we face in the UK is that take-up of early years education is lower amongst more disadvantaged groups; if we aren't able to get these children into the settings then it doesn't matter how effective the provision itself is. A recent study is revealing on the differences in take-up levels:

*'There was a strong association between the level of multiple disadvantage experienced by the family and their take-up of early years provision. In families experiencing no disadvantage only 3% of children were not attending any early years providers, whereas the proportion was higher for families experiencing some or a lot of disadvantage, with the highest figure (13%) found among the most disadvantaged families... Mother's educational level was associated with the children's take-up of early years provision: among children of mothers who had no academic qualifications 17% were not receiving early years provision, whereas this was the case for only 5% of children whose mothers had qualifications at A level or higher.'*²¹

What we end up seeing overall is an impact from high quality early years education, especially for the most disadvantaged children. But this must prompt us to ask what high quality means, and how we can judge it and ensure that it is in place, and then be certain that all those who most need it are accessing this high quality care. These questions will all be considered further on in the report.

There are clear incentives for government to ensure good early years provision; if they can invest money at the right time in the right way, they can potentially address problems before they begin to develop. By identifying needs at a young age, and providing a good start in education, the goal of creating a fairer more meritocratic society, where social mobility is a reality, seems more achievable. There are also huge costs which emerge later in a child's life which could be avoided. It is interesting to note that the main benefit in the analysis carried out on the Perry Pre-School programme was a reduction in incarceration rates. Children who had been through the programme turned into teenagers and adults who were more likely to stay engaged in education and less likely to participate in risky behaviour. Early years education can have an important impact not just on cognitive development but also on the vital emotional and social characteristics that make people more able to participate in society.

It is important to remember when judging early education programmes that IQ scores are not the only conclusive proof of change. Recent analysis describes how 'personality skills' gained in the early years can themselves have an impact on academic achievement. To be focussed, motivated, non-aggressive and rule-abiding are all factors which affect attainment in school, yet cannot directly be measured on IQ tests.²² It is important for early years educators and policy makers to be aware that for programmes to help children succeed, both socially and academically, ensuring good emotional development is vital.

1.2.4 Potential Tensions in Childcare Policy

This report has identified two clear reasons for government involvement: improving cognitive development for poorer children and giving women the

²¹ Speight S et al, *Towards universal provision: analysis of take-up by disadvantaged families from recent annual childcare surveys*, DfE/National Centre for Social Research, 2010

²² Heckman J, Pinto R & Savelyev, *Understanding the mechanisms through which an influential early childhood program boosted adult outcomes*, NBER, 2012

ability to return to work. But of course in policy terms the division is not this simple. The free education offer, for example, would seem to be about improving children's life chances, however the consultation around using this offer more flexibly, up to ten hours in one day for example, shows how the needs of parents are relevant as well. One LA early years leader we spoke to identified this issue very clearly, saying that flexibility is important for working parents, especially for those working anti-social hours, but that the impact on children's learning and development is not the same for the child who takes the 15 hours over 2 days (and who is therefore going to be asleep for at least a proportion of that time), as for the child who attends for a shorter period on a daily basis.²³ Likewise, the extension of childcare to disadvantaged two year olds is often described, for example by Nick Clegg, as a way of closing the attainment gap,

'First, that means a decent start for every child. Closing the gap between disadvantaged children and their better off classmates.

Given how early that gap appears, you cannot wait to intervene. That's why, for example, the Government has extended the free nursery care three and four year olds currently receive from 12.5 hours to 15. And is going even further, making this vital early education available free to every disadvantaged two year old as well.²⁴

but he also mentions it as a key driver in reducing costs:

'For too many parents that's first and foremost because of cost. I know so many mothers who've been really keen to get back to work after their year of maternity leave – until they've calculated the cost of a place at nursery. Add in the cost of travel to work and mums can find themselves effectively working full time for just a couple of pounds a week. It's absurd.

In government we have already made important steps – introducing 15 hours free childcare for all three and four year olds. And from next year we are extending this to the poorest two year olds. Real achievements we can proud of.²⁵

It is important when discussing maternal employment to remember that this in itself is a way of improving children's development, by driving up family incomes. Research from the Brookings Institute shows that in the US there is a 27 percentage point gap in school readiness between the richest and poorest children, although once you control for demographic factors such as education levels, mother's age at birth and so on, this gap shrinks to 10 percentage points.²⁶ So improving families' financial situations would have a significant impact, as 10 percentage points of the gap are attributed to income net of education and family differences. However, increasing income alone is not enough. The effect of attending preschool is found to account for 9 percentage points of the gap, although of course this varies a great deal depending on the type of programme attended. As noted in the section above, high quality programmes do more to close the gap.

There are several approaches we can take to close the development gap. Two which are particularly relevant to this report are to drive up family incomes and improve children's preschool experience. We believe we cannot pick one of these solutions as the way to close these gaps, so throughout this report we will try to look at ways to drive up quality that will not mean parents being forced out of returning to work or spending more of their net income on childcare.

²³ London Borough of Islington

²⁴ Nick Clegg, Speech on Education, London, 5th September 2011, transcript in The New Statesman

²⁵ Nick Clegg, Letter from the Leader, November 2012

²⁶ Isaacs J, *Starting School at a Disadvantage: The School Readiness of Poor Children*, Brookings, 2012

2

What is the Current Level of Government Involvement?

So far we have highlighted why childcare is deemed a necessity by government, related both to the cognitive and emotional development of children and maternal employment. Below we set out an outline of government involvement in this sector and how it has developed in the last few years.

2.1 Reasons for involvement

There are two key forms of government involvement in childcare, in funding and in regulation. If we look at the very basic arguments for regulation it is easy to understand why we believe it is necessary; when large numbers of young children are being left in non-parental care it is important to ensure that adequate safeguards are in place. However, the regulations in place in fact go much further than attempting to ensure the safety of children in these settings, they actually attempt to ensure they receive a high quality service, whether or not it is provided through government funding. The kinds of requirements in place are in some ways closer to those seen in schools, with an early years curriculum and inspection by Ofsted. To an extent government is intervening in the market, to try and make sure that parents do actually get the quality their children need, which if left purely to their own devices they might not be able to determine or obtain.

It is also clear that government plays a large role in subsidising and directly funding childcare. This seeks to address different issues. One is to ensure that childcare costs do not keep parents out of the labour market; the early years are a time of particularly high costs, when parents may make work decisions that have an impact throughout their lives, and so a particularly important time for government investment. Additionally it is a key time to invest in high quality education, particularly for disadvantaged children, which can lead to reduced inequality and lower costs for government in the long term.

2.2 Regulation

Before 2001, local authorities were responsible for keeping a register of childcare providers, including childminders. Guidance covered a range of recommended procedures such as staff-to-child ratios but these were not mandatory. In 2001, Ofsted became responsible for registering providers, who had to abide by the *Birth to Three Matters* framework, the *Foundation Stage Curriculum* for three to five year olds and the *National Standards for Under 8s Daycare and Childminding*. These were replaced by the Early Years Foundation Stage (EYFS) in 2008, which includes learning and

welfare requirements for all providers caring for children from birth to age 5, so that all formal providers are now inspected against the same framework.

Formal childcare providers caring for children under five are required to register with Ofsted on the Early Years Register, and those caring for anyone aged between five and eight usually needs to register on the Childcare Register.

The requirements for registered providers are mostly contained within the Early Years Foundation Stage, alongside some screening checks and requirements. Some of the most significant requirements are set out in the table below:

Table 1: Requirements for childcare providers

	Childminder	Centre-based care
Early Years Foundation Stage	A 'curriculum' of play centred learning for the under 5s, recently revised to include 17 welfare, learning and development goals. Regular observations on children's progress must be made and records kept. The Early Years Foundation Stage Profile must be completed by the main provider before the child enters year 1 – in practice this will normally be completed by a reception teacher.	
Record Keeping	Written risk assessments, but not policy documents, must be kept.	Written policy documents on (among other things) safeguarding, complaints, and equality.
Child-to-staff ratios	Can care for a maximum of 6 children, of whom a maximum of 3 can be under 5 (unless they have begun full time school, when they can be cared for alongside 3 other under 5s), and only 1 may be under one (unless an exception is made by Ofsted).	1:3 for under 2s, 1:4 for 2 year olds; 1:8 for 3–8 year olds, or 1:13 if there is someone with a relevant level 6 qualification looking after children. In reception classes the ratio is 1:30, and the member of staff must be a teacher.
CRB Check	Enhanced CRB check required	
Qualifications/Training	Must attend a childcare training course within 6 months of registering, as well as train for a first aid qualification (costs may or may not be covered by the LA)	Supervisors must hold a level 3 qualification (equivalent to A-level), half of all other staff must hold a level 2 qualification (equivalent to GCSE A*–C) in childcare. There are a diverse range of qualifications, 107 of which are regarded as 'full and relevant' at level 2/3. 22 are currently being taught. ²⁷
Health Declaration	Medical health form to be completed and signed by GP (£87.50)	
Application Fee	£35	£220
Registration Visit	Interview and premises/equipment check by Ofsted inspector.	
Ofsted Inspections	Settings monitored for compliance by Ofsted inspectors, currently on average just under once every four years (47 months).	

27 Cathy Nutbrown, *Review of Early Education and Childcare Qualifications – Interim Report*, 2012

2.3 Funding

The other area for government support is through a combination of cash and in kind subsidies to parents. The government currently spends a significant amount on early years' provision, and in quite complicated ways, so it is worth establishing the main forms of government support available to parents, how much they cost, who is entitled to them, and where they can be used. The table below outlines this support, and we then go into more detail about the development and current situation of each.

Table 2: Government support for childcare

Support	Entitlement	
	Those In Employment	Those Not in Employment
<p>Early Years Education Annual Expenditure from EYSFF: £1.9billion for 3 and 4 year olds;²⁸ £534million this year for two year olds in 2013–14²⁹</p> <p>Number Benefitting: 831,800; 130,000 two year olds</p>	<p>15 hours a week for 38 weeks a year for three and four year olds, which must be offered at least as five hours over three days or three hours over five days. Recently extended to cover the poorest 20% of two year olds by 2013, and 40% by 2014</p>	
<p>Employer Supported Childcare Vouchers Annual Expenditure: £550million³⁰ (estimated)</p> <p>Number Benefitting: Estimated at 500,000</p>	<p>£55 for a basic rate tax payer, £28 for a higher rate taxpayer, £22 for an additional rate tax payer.</p>	<p>Not available</p>
<p>Childcare Element of the Working Tax Credit Annual Expenditure: £1.6billion³¹</p> <p>Number Benefitting: 455,000 families</p>	<p>Up to 70% of costs covered for where both parents work sixteen hours a week or more; first income threshold £6,420 with a withdrawal rate of 41 per cent.</p>	<p>Not available</p>
<p>Local Authority Expenditure Approximately £700million³²</p>	<p>In addition to the Sure Start funding (not included in this figure), LAs also receive funding for ensuring sufficient childcare, enabling access for disabled children, the Graduate Leader Fund or for programmes such as 'Every Child a Talker' and the pilot offer of childcare for two year olds. There is also money allocated for capital expenditure. This funding is currently delivered through the Early Intervention Grant. The estimated figure is taken from the Sure Start Early Years and Childcare Grant figures which the EIG replaced.</p>	

28 *Delivering the free entitlement to education to three and four year olds*, National Audit Office, 2012

29 DfE figure for amount included in Dedicated Schools Grant in 2013–14

30 Seely A, *Tax relief for childcare*, House of Commons Library, 2012

31 *Child and Working Tax Credits Statistics, Finalised annual awards 2010–11*, HMRC, 2012

32 *Sure Start, Early Years and childcare Grant LA funding allocations for 2010–11*, DfE

Table 3: Support for children and families

<p>Child Tax Credit Annual Expenditure: £22.9billion³³</p> <p>Number Benefitting: 5.17 million families/9.27million children</p>	<p>Family Element – £545, Child Element – £2,555 (increasing to £2,690 in April 2012). Income thresholds and withdrawal rates are the same as above for those also claiming WTC and £15,860 for those only claiming CTC. The Family Element is retained until income reaches £40,000 with a withdrawal rate of 41%.</p>
<p>Child Benefit Annual Expenditure: £12.2 billion³⁴</p> <p>Number Benefitting: 13.72 million</p>	<p>£20.30 for the eldest child, £13.40 for each additional child, per week, until one parent is earning over £50,000 when it will begin to taper and be fully removed when one parent is earning £60,000.</p>
<p>Sure Start Children’s Centres Annual Expenditure: £1.2billion³⁵</p>	<p>Services are universal, some services will require fees, and there is an increasing emphasis on ensuring that some services are targeted towards the less advantaged.</p>

2.4 Background to Funding

2.4.1 Early Years Education Entitlement

In a bid to encourage further provision and enhance parental choice, the Conservative Government introduced the Nursery Education Voucher system in 1996. Prior to this, LAs had not been obliged to provide any pre-school education although they were able to establish and maintain nursery schools. Although no data for the total number of children aged three and four in early education was collected before 2000, in 1994 it was estimated that 77% of four year old children were attending maintained pre-school provision (either full or part-time), 26% being in nursery schools and 51% in reception classes. Nineteen per cent of four year olds were attending (unfunded) private or voluntary settings, and 4% had no pre-school place.³⁶ All parents of four year olds were given a voucher worth £1,100 to be used at any provider that registered with a voucher company. Private and voluntary providers were able to charge top-up fees, while maintained providers could receive the top-up from their local authority.

The rationale was that by putting money directly into the hands of parents they would create demand for childcare which could be met by any kind of provider who fulfilled the requirements, and that therefore the private sector would expand rapidly to meet need. However, many arguments were made opposing the specific way the voucher scheme was delivered. Some argued that it created another level of bureaucracy by introducing voucher providers, or that it unfairly penalised those LAs that previously had high levels of childcare as a larger part of their grant was removed, or that there was no additional capital funding to expand provision. Additionally there were complaints made about the failings more inherent in the voucher scheme – namely that costs varied greatly around the country and between providers, so a flat rate voucher was unfair, with the same amount buying less education for some children. The fact that the vouchers could be topped up also meant that, in reality, some nurseries treated the £1,100 as a discount on parental fees rather than allowing them to cover a certain number of hours,

³³ *Annual Report and Accounts 2011–12*, HMRC

³⁴ *ibid*

³⁵ *Sure Start, Early Years and childcare Grant LA funding allocations for 2010–11*, DfE

³⁶ *Nursery Education Scheme: The Next Steps*, DFEE, 1996

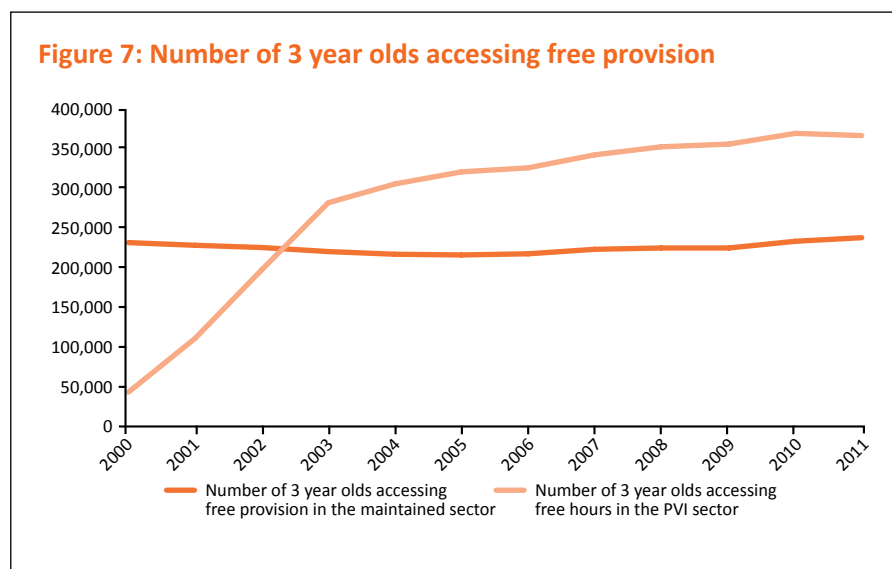
meaning wealthier parents were at a distinct advantage in securing a place.

All providers were inspected by Ofsted, while settings which chose not to register would not be able to redeem the vouchers, but could register with the Local Authority and legally care for children as had been the case before these reforms were introduced.³⁷

This programme was scrapped when Labour came to power in 1997, with the then government instead making it a statutory requirement for Local Authorities to provide a free place for 12.5 hours a week to all four year olds for 33 weeks a year. In 2004 the entitlement was extended to all three year olds, and the duration was extended to 38 weeks in 2008, with the number of hours per week increased to 15 in 2010 by the Coalition Government. These 15 hours will, as of this year, be allowed to be used over two days rather than three to improve flexibility for parents. The recent commitment to ensure that it is a statutory requirement for providers not to require parents to purchase additional hours of care to qualify for their free hours picks up on fears (raised above regarding the voucher scheme) about wealthier parents essentially being able to buy a free entitlement place.

As before, any provider delivering the free entitlement had to be inspected by Ofsted, although even at this stage there were concerns about the quality of inspectors and inspections themselves.³⁸ Yet, in addition, from 2001 even providers who were not delivering the free entitlement were also required to register with and be inspected by Ofsted.

From 2001, the Private, Voluntary and Independent (PVI) sector was able to access government funding for three year olds which before 1996 had previously only been widely available to the maintained nursery sector. The PVI sector grew considerably after this time, leading to an overall expansion in childcare places. In 1997, 63% of children had part-time funded places (34% of three year olds and 91% of four year olds) which has risen to 95% in 2011 (93% of three year olds and 98% of four year olds).³⁹



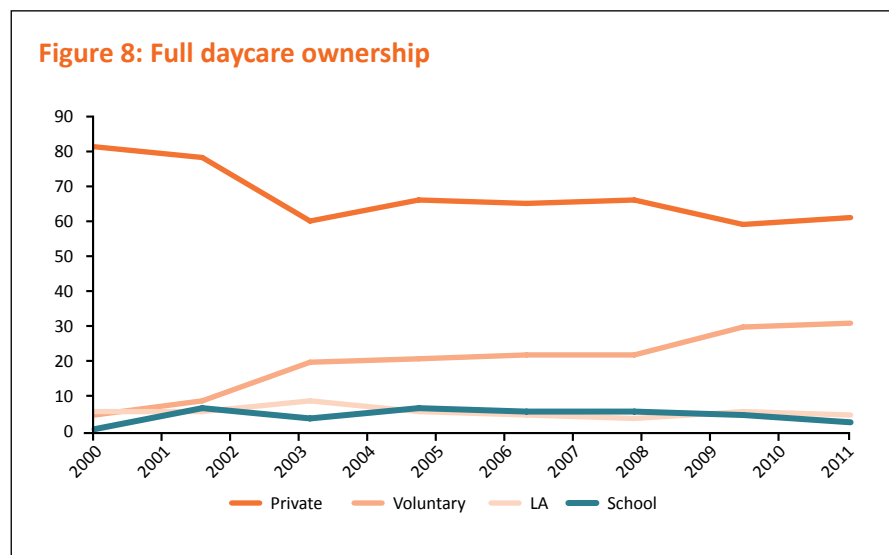
Between 1997 and 2000 not all LAs were yet eligible for the three year olds funding, so earlier years are not comparable, however the chart above demonstrates how all the increase in free early education places has come from

37 Section 5 of the Nursery Education and Grant-maintained Schools Act, 1996

38 Hansard, Commons Debate 19th March 1996, Column 179

39 Provision for Children under Five Years of Age in England, DfE, 2011

the PVI sector. Currently 59% of three and four year olds receive their free hours of early education in the PVI sector.⁴⁰ It is interesting to note that while the PVI and maintained sectors have remained fairly constant in their share of the market since 2000, there has been a movement within the PVI sector from private to voluntary provision. The ownership of full day care has shifted substantially:



In 2011–12 this provision will cover 831,800 children (not including those 390,000 four year olds in reception classes). A pilot scheme to extend the entitlement to two year olds was introduced in 2009, and the Coalition has committed to extend this to the 260,000 most disadvantaged two year olds by 2014–5, although questions remain as to how it will be delivered and where the extra capacity will be found.

Box 2: Current funding stream for the early years entitlement

In 2011 the Early Years Single Funding Formula was introduced, whereby all providers whether Private, Voluntary or Independent (PVI) or maintained childcare providers would be funded in the same way – with a unit cost per child per hour determined by the LA. Previously the maintained sector (whether nursery schools or classes in primary schools) had been funded based on how many places they had, whereas PVI settings were funded based on the number of children actually enrolling. There was no single system for calculating the unit cost in different settings.

Under the new system, which was initially implemented by 71 LAs, LAs are able to set different rates for different settings to take into account aspects such as:

Quality, based either on the number of qualifications held by staff, or Ofsted ratings. Over half the LAs used quality supplements to determine the rate. 43% of LAs had withdrawn funding from inadequate providers.

40 Delivering the free entitlement to education to three and four year olds, National Audit Office, 2012

Deprivation, based either on postcode analysis or tax credits and benefits data. It is compulsory, but only 55 LAs provided details, with supplements ranging from 3p to 79p per child per hour.

Flexibility, with 24 taking into account the length of time settings were open for.⁴¹

The National Audit Office has found that the average hourly funding rate for nursery schools was £6.83, for nursery classes it was £3.97, and in the PVI sector it was £3.77. The overall average was £3.95. The EYSFF is part of the Dedicated Schools Grant, which is allocated to local authorities using a guaranteed unit of funding per child, which is the same for all ages. The allocation to each authority is almost entirely based on the previous year's allocation (99% in 2010–11). For the free entitlement, the allocation per child is 60% of the guaranteed unit of funding for 3–16 year olds, reflecting an entitlement to 15 hours per week compared with 25 hours per week for compulsory education.

Already, the National Audit Office has pointed to some problems with the new funding formula, reporting that 58% of day nurseries are saying this funding does not cover costs per hour. They also found that only 20% of the variation in funding (per hour averages ranged from £2.78 to £5.18) could be explained by wage differences and other concrete variations, and that there was no relationship between funding variation and quality. Even if LAs do provide a quality supplement, if this decision is based on Ofsted ratings they could be distributing money based on out of date information, as funding decisions are made each year whereas Ofsted inspections only have to happen once every 47 months.⁴²

Recent announcements over the funding for LAs to deliver the two year old offer have revealed that each LA will receive on average £5.09 for each hour of two year old education, adjusted for local market costs, and it is hoped that this will be passed on directly to providers by LAs at a flat rate. The mandatory deprivation premium has been removed as the provision is already targeted.

2.4.2 Employer Supported Childcare

In his 1990 Budget the then Chancellor John Major announced that from April 1990 employees would not be taxed on the benefits they received from using a nursery or playscheme provided by their employer.⁴³ It remains the case that the benefits in kind of a workplace nursery are tax free. Additionally, since 2005, employers have been able to provide vouchers which are tax and NICs free, so that employees can use off-site nurseries as well. Employees could originally claim £50 a week, increased to £55, or £243 a month, in 2006. Changes have recently been made to limit the amounts that higher and additional rate tax payers can save, in order to address the inequality of higher rate taxpayers gaining more not paying tax on part of their income, with their allowances reduced to £28 and £22 a week respectively. Again, these vouchers can only be redeemed by using an Ofsted-registered provider. It was estimated in 2010 that over 600,000 taxpayers received income tax relief on Employer Supported Childcare schemes. It is normally the case that those eligible for the childcare element of WTC will be better off not using vouchers, due to the way it affects the childcare element of WTC.

41 *Early Years Pathfinder Formula Analysis*, DfE, 2010

42 *Delivering the free entitlement to education for three- and four-year-olds*, National Audit Office, 2012

43 Seely A, *Tax Relief for Childcare*, Commons Library Standard Note, 2011

2.4.3 Childcare Element of Working Tax Credit

Those in work, on low incomes, with dependent children have for some time been entitled to reclaim some of their childcare costs. A childcare disregard in Family Credit was introduced in 1994 and The Working Families' Tax Credit, introduced in 1999, covered up to 70% of eligible childcare costs of £100/week for one child or £150 for 2 or more children. This maximum increased in 2001 to £135 and £200 respectively. In 2003 this was replaced with the childcare element of Working Tax Credit which in 2005 was increased to cover 80% of costs up to £175 for one child or £300 for two or more, reduced to 70% of eligible costs in April 2010. The credit can only be redeemed using a registered provider. Furthermore it is only available to those under certain income thresholds (see table 1), and where both parents work more than 16 hours a week. 455,000 families were receiving the childcare element in 2010–11, on average receiving an additional £65.20 a week.⁴⁴

2.4.4 Child Tax Credit, Child Benefit

All parents under certain incomes (see Table 1), regardless of employment status, are entitled to Child Tax Credit, reducing according to the withdrawal rates as income increases. The Family Element of £545 is paid until parents are earning £40,000. Child Benefit is paid to all parents, with £20.30 for the eldest child and £13.40 for each additional child, although from January 2013 is now clawed back from families with one parent earning over £50,000 through taxation.

2.4.5 Other Childcare Initiatives

In order to aid expansion of provision there has been various funding of initiatives since 1997, including £300 million in the Neighbourhood Nurseries Initiative and the New Opportunities Fund of £400 million. The most significant of all early years' initiatives has been the introduction of Sure Start Local Programmes in 1998, being replaced by Children's Centres over time. There are now more than 3,000 Children's Centres which offer childcare, family support and JobCentre services among other things. Sure Start funding is distributed to LAs through the Sure Start, Early Years and Childcare Grant which, combined with the Aiming Higher for Disabled Children Grant, totalled £2.2 billion in its last year. This grant includes the £1.24 billion for Sure Start itself, as well as many other streams, such as £129 million for ensuring sufficient levels of childcare, and £214 million in capital grants for expanding childcare provision. Since last year, Sure Start funding has been integrated into the Early Intervention Grant which this year stands at £2.37 billion, although this grant covers spending on a greater range of interventions (such as those directed at teenagers). Although many of these centres do provide childcare, as they are part of a much broader offer we will look at them separately in a future report.

As with the regulation section above, this gives us an outline of what the government are doing in terms of 'inputs' but very little in terms of outcomes. Throughout the report we will examine in more detail the effect of these individual reforms on the childcare market, and try to determine what impact they have had on quality, convenience and cost.

⁴⁴ Child and Working Tax Credit Statistics, Finalised Awards 2010–11, HMRC

3

Quality

3.1 What do parents want?

One of the main factors parents consider when choosing childcare is the **quality** of providers. It is revealing to look at the reasons that parents give for using informal care (overwhelmingly care provided by grandparents) to help us understand this. While the fact that this provision was free was certainly a factor, many parents made the decision to use informal care because they knew their child would be in a safe and loving environment, and that was completely essential to them. Eighty-one percent of parents using informal care said that they did so because they trusted the provider.⁴⁵

3.1.1 What do parents mean by quality?

Quality of care is important to parents when choosing a childcare provider, but it is not always the kind of quality that parents can judge from Ofsted reports or other formal information sources. Factors such as trusting the provider and knowing their child is in a caring environment, matter as much or more than Ofsted scores. It is worth noting that more parents using childminders cited concern with the care given as a factor than those using a day nursery (81% compared to 67%), while those using a day nursery were more likely to cite the fact that their child could be educated than those using a childminder (43% compared to 23%).⁴⁶ When we talk about raising the quality of childcare we need to bear in mind that what parents view as good quality might vary; if we were to say the only measure of quality that counts was that of educational standards we would be ignoring what many parents feel is important. This is of course not to say that the educational side of provision does not matter to parents. Particularly for those using nursery schools and classes this was a very important motivating factor. Our polling found that this was especially true for low income families. A learning environment was judged as important by 97% of those in households with a gross income of under £20,000, compared to 88% of those in households with over £60,000. We must also be aware that, as a recent report notes, parents may talk about caring providers, while providers talk more explicitly about child development, but when it comes down to what that means in terms of child-carer interactions it is actually quite similar, namely good levels of interaction between child and practitioner.⁴⁷

3.1.2 Quality vs Cost

One area of concern that emerged from our polling was the different emphasis placed on cost and quality by low income families. Overall, quality was listed as a

45 Rutter J & Evans B, *Informal Childcare: Choice or Chance?*, Daycare Trust, 2011

46 Smith P et al, *Childcare and early years survey of parents 2010*, DfE, 2012

47 Mathers S, Singler R & Karemaker A, *Improving Quality in the Early Years: A comparison of perspectives and measures*, University of Oxford, Daycare Trust and A+ Education Ltd, 2012

main factor in choosing a provider by 53% of parents, while 36% mentioned cost. However it is worrying to note that among low income families:

- 45% chose quality as an important factor
- 47% chose cost as an important factor

For families on £40,000 – £59,999:

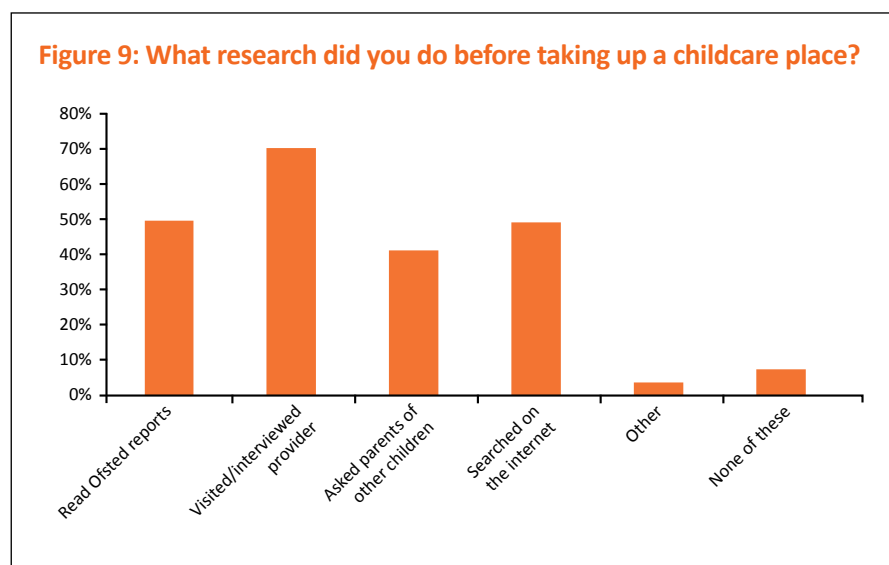
- 60% chose quality as an important factor
- 34% chose cost as an important factor

This suggests that, because cost becomes more pressing for low income families, they are less able to be as selective on quality. This is a real concern when we think that children from poorer backgrounds are those most likely to benefit from high quality care.

3.1.3 Sources of Information

We must also think about how parents find out about quality. It was interesting that in the DfE’s parental survey the primary reason for choosing a certain type of childcare provider was ‘reputation’. Given that the most common way to find out about childcare was through word of mouth (with 46% of parents doing so) this suggests that the views of other parents might be as important as more formal kinds of quality measures. However according to a survey conducted for the Nutbrown review by Netmums, 87% of parents felt training and qualifications were important for early years professionals.^{48,49} Our poll of over 1,600 parents, conducted by YouGov in November 2012, asked what research parents had done before they chose a childcare provider. We found that 50% had read Ofsted reports, while 71% had visited the setting, 42% had asked other parents, and 50% had looked on the internet.

Figure 9: What research did you do before taking up a childcare place?

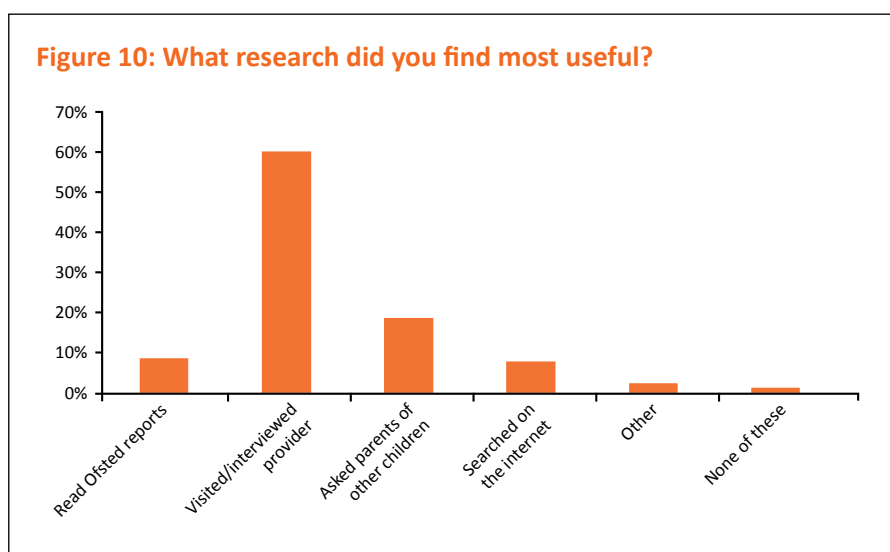


48 Cathy Nutbrown, *Foundations for Quality*, 2012

49 Smith P et al, *Childcare and early years survey of parents 2010*, DfE, 2012

Only 9% of parents thought Ofsted reports had been most useful source of information, compared to the 61% who thought visits were the most useful.

Figure 10: What research did you find most useful?



The majority of parents, 82%, do think Ofsted reports are an important measure of quality, but this is lower than the figure for ‘number of children per staff member’ (94%) or ‘how caring or competent the staff seem’ (98%). It is closer to the number who felt the qualifications of staff was important (85%).

3.2 What are parents getting?

Given that the quality of providers is so important to parents when choosing whether to use childcare, or for choosing between types of childcare, we must try and determine what level of quality is currently on offer, and crucially where and to whom that provision is available. We will look at ‘structural’ measures of quality such as staff qualifications and curriculum as well as the qualitative assessments carried out by Ofsted.

3.2.1 Qualifications

There are also some structural factors that research has shown to relate to quality, namely the level of education of childcare providers and how relevant that education is to their role, and the number of practitioners in a setting. The analysis of the Graduate Leader Fund for the DfE pulls together a range of studies which show the impact of staff education on quality of care, judged according to quality control scales. The most significant of these was the EPPE study which found that settings employing a qualified teacher were of higher quality. They move on to look specifically at the Early Years Professional Status (EYPS), and find that employing someone with this qualification significantly improves the warmth and quality of interactions, and the language and reasoning abilities of children. It was also shown to improve the curricular quality of maths, science and diversity, noting

‘The findings for the ‘literacy’ subscale suggest that settings which gained an EYP significantly improved their provision to support children’s emerging communication, language and literacy skills’.⁵⁰

50 Mathers S et al, *Evaluation of the Graduate Leader Fund*, DfE, 2011

These improvements were found for children aged 30 months to five years, but not for younger children, which the authors suggest may be due to EYPs on average working 18.4 hours a week in the pre-school rooms compared to 4.7 hours in the infant/toddler room. Several well regarded international scales for measuring quality in this manner have been developed, the most commonly used in these studies are the Infant and Toddler Environment Rating Scale (ITERS), the Early Childhood Environment Rating Scale (ECERS) and the Caregiver Interaction Scale (CIS).

3.2.1.1 Current Requirements

The current requirement for all settings, except for childminders, is that all supervisors and managers must hold a full and relevant level three qualification (which is the equivalent to an A-level), and half of all other staff must hold at least a level two (equivalent to A*-C GCSE). Childminders must have attended a training course within six months of registering. Given that parents, especially those using nursery schools or classes, value the educational aspect of this provision very highly, it may be of concern that the majority of our workforce is not highly trained in this area. Early years pedagogy is an extremely complicated field, and finding people who can combine this kind of expertise and intelligence with the caring attributes that are equally necessary is very challenging. If we are going to make the case that early years provision can be beneficial for cognitive development – particularly if we do so based on the US longitudinal studies which employed trained graduates– we have to acknowledge that this will only be true if people are trained appropriately and to a high standard. The DfE provides information on the proportion of staff with at least a level six qualification (a level six covers some qualified teachers (some are level 7), the EYPS and honours degrees). The numbers are relatively low in the ‘childcare’ sector compared to early years settings in schools, with only 11% of full day care staff and 4% of childminders, for example, having at least level 6 compared to 40% of those in a school with nursery and reception classes.⁵¹

The Nutbrown report recently highlighted that there are problems with the kind of qualifications on offer in the early years.⁵² Firstly, although the Early Years Professional Status is contributing to quality, those who hold it are dissatisfied with the lack of parity with Qualified Teacher Status. She concludes that the EYPS should eventually be phased out, and instead be replaced with an early years specialist route to QTS, from birth to seven rather than three to seven. Another problem is the sheer number of different qualifications, which make it hard to judge between different applicants, hence the suggestion that the Teaching Agency set out strict criteria for what qualifications can be deemed ‘full and relevant’. Lastly, the report raises the suggestion that we should aim for all those working with young children, both those in a non-domestic setting and childminders, to be working towards a level three qualification. Currently 75% of all early years and childcare staff hold at least a level three qualification, 12% hold lower and only 8% have no qualifications (the remainder responded ‘don’t know’ or ‘other’). This is perhaps most challenging to childminders, as currently they are not expected to hold a formal qualification unless they wish to deliver the free entitlement, in which case they must hold a level three. Currently 54% of childminders hold at least a level three, 14% hold a lower level

⁵¹ Brind R et al, *Childcare and Early Years Providers Survey 2011*, DfE, 2012

⁵² Cathy Nutbrown, *Foundations for Quality*, 2012

and 22% hold no formal qualification.

Training and qualifications only have an impact if they are specifically related to the early years. One LA Early Years leader pointed out that they were considering the provision of two year old places in schools, where much of their provision for free education for 3 and 4 year olds was delivered, but that they were aware of some of the difficulties. For example, it is crucial that senior leaders and, particularly SENCOs have a sound understanding of the learning and development needs of very young children, particularly to enable effective identification of learning difficulties at an early stage. Schools will need access to high-quality training and support to enable them to meet the needs of all 2 year olds, even though they have a staff of qualified teachers.⁵³

3.2.1.2 Pay for Qualified Staff

Of course one of the issues here is pay; the proposals to encourage more qualified teachers into the early years sector may be welcome, but we must remember that in a maintained school with nursery and reception classes, for example, the average hourly pay for a teacher is £20.50 compared to £8.80 for all other early years staff. In a full day care setting a supervisor (who must be at least level 3) is paid on average £8.10. We must acknowledge that if we are aiming to raise the level of qualifications in the sector it will need to be reflected in the pay rates, and hence the funding levels of the EYFFF, of those practitioners. The lack of parity between EYPS and QTS that the Nutbrown report identifies is primarily one of pay, with teachers paid according to the national pay scales; to transition all EYPs to teacher status would dramatically increase costs. As Sue Gregory noted EYPs on average earn half as much as teachers⁵⁴. If the funding rates do not increase commensurately with EYPs being encouraged to transition, this has the potential for damaging side effects, namely that PVI settings which cannot afford a teacher would not have a different option of highly qualified provider as they do currently.

It is important to note that previously money was available through the Graduate Leader fund for LAs both to fund training for EYPs and to support settings in employing an EYP. This in turn was rolled into the Early Intervention Grant, although some LAs ceased funding at that point. It is important to ask whether this LA level support for settings to employ graduates is expected to continue, especially once the EIG is rolled into central funding. If not, we must acknowledge that settings themselves will have higher costs if they mean to employ graduates. It is essential to ensure funding levels are not only adequate to cover current costs but also to enable settings to hire those professionals we know improve quality.

Of course it is not enough simply to say that we need more people with qualifications. If the quality of the training they receive is poor, or does not meet the real needs of the childcare sector, then there would be no benefit. However ensuring the quality of vocational and technical education is of course not limited to the early years sector, and is something we explore in detail in our report Technical Matters.

So we can perhaps conclude that there is still some way to go with increasing the professional nature of the early years sector, to ensure that children are given the best quality care and that parents are happy to entrust their children to that care.

⁵³ London Borough of Islington

⁵⁴ Sue Gregory, Ofsted Early Years Annual Lecture, 3 December 2012

3.2.2 Curriculum and School Readiness

As we noted above, there is a very worrying gap between the school readiness of rich and poor children. Looking at the vocabulary element of the British Ability Scales it was found that

‘Young children from the poorest fifth of families are ranked on average at around the 34th percentile at the age of 3. This is around 23 percentage points lower than the average rank among the richest fifth of children. This rich–poor gap has risen to nearly 27 percentile points by the time the children have reached the age of 5.’⁵⁵

This data was taken from the Millennium Cohort Study, looking at children born in 2000, which means that it is not quite reflective of the current state of affairs. It might instead be more revealing to look at current results from the Early Years Foundation Stage profile.

3.2.2.1 Early Years Foundation Stage

The most comprehensive regulatory change in recent years was the introduction of the Early Years Foundation Stage with its 69 welfare, learning and development goals for children up to the age of 5. It has been recently revised to include 17 goals. So is the EYFS contributing to school readiness? In terms of quality generally, although it is still very early days, we know that the proportion of Early Year settings judged good or outstanding has been steadily increasing, with 74% now in this category compared to 65% in 2009. Additionally: ‘Childcare providers that have been inspected against the requirements of the Early Years Foundation Stage and have subsequently left the sector are 10 times as likely to have been found inadequate than those that remained in the sector. This suggests that inspection against Early Years Foundation Stage requirements has contributed to an overall increase in quality.’⁵⁶ When we turn to school readiness, Ofsted notes improvements in the EYFS Profile scores of children: ‘The proportion of children working securely in communication, language and literacy has risen by six percentage points to 59% in 2010. In personal, social and emotional development the figure was 77%, a rise of five percentage points.’⁵⁷ Of course, this still leaves a worryingly high level who are not working securely in these areas, and who may well struggle once they start year 1.

This analysis is far from conclusive, as all we can to learn is that those judged inadequate against the EYFS are leaving, and that the longer the EYFS is in place the better providers are getting at meeting the goals of the EYFS Profile. However it is important to note that the EYFS Profile results have been rising faster for more disadvantaged children (from 28% of those on FSM achieving a good level of development in 2007 to 48% in 2012, an increase of 71%) than their more advantaged peers (from 49% to 67% over the same period, an increase of 37%), suggesting that it is making a difference in closing the achievement gaps found for children born in 2000, as measured on the British Ability Scales.⁵⁸ However while the BAS test very specific skills, the EYFS profile is much more descriptive of a child’s general development, so it may not be fair to directly compare outcomes. It is not until the phonics test in year one that we are provided with evidence similar to that in the BAS on the skills children possess in reading. This is not a call for more and more testing of all children at a young age, but is simply to say that we have quite limited information regarding the levels of cognitive development of our young children. Additionally, as one LA Early Years leader pointed out, the

⁵⁵ Dearden L, Sibieta L and Sylva K, From birth to age 5: evidence from the Millennium Cohort Study, in *Poorer Children’s educational attainment*, JRF, 2012, p19

⁵⁶ *The Annual Report of Her Majesty’s Chief Inspector of Education, Children’s Services and Skills 2010/11*, Ofsted, 2011

⁵⁷ *The impact of the Early Years Foundation Stage*, Ofsted, 2010

⁵⁸ *Early Years Foundation Stage Profile Attainment by Pupil Characteristics in England, 2010/11*, DfE, 2012

revisions made to the EYFS Profile in September 2012 have meant that there is no benchmark for this year, and no way to directly compare with earlier data.⁵⁹

3.2.2.2 Development Tracking

Another of the problems with our current system is that tracking children's performance as they move between different institutions can be very challenging. The EYFS profile will normally be completed by the reception class teacher rather than a childcare provider, which means that there is even less information for parents to show whether those providing in pre-school settings have done enough to prepare children for school, both in terms of their cognitive development and their emotional and physical readiness for the school environment. It also makes it harder for the providers themselves. If they are not provided with information and feedback from the schools, they are less able to adjust and improve to ensure that their children will be able to settle into school without difficulty. Some childcare providers we have spoken to have started to set up termly tracking meetings with schools that their children move on to, however this is by no means the norm and requires a great deal of initiative and effort from all involved. As they pointed out, it also relies on good relationships with reception teachers and heads, as early years settings are dependent on individuals agreeing to take part in a constructive manner. One LA we spoke to was just beginning to introduce the idea of tracking children's development, from when they enter a setting, through to the two year check, the EYFSP, and on throughout school, however they were facing real difficulty in how to go about this. It also means that measuring the impact of interventions to improve quality at the child, rather than the setting, level is difficult. It also presents a challenge for government's own analysis of the impact of any of its initiatives; as the National Audit Office point out in their report on the free entitlement, there is not enough information available to judge the effect of this significant policy development.

Of course this also provides a real problem for the reception class teachers, who may or may not be presented with a range of information, learning journals and so on. It is often the case that this information will not cover all the essentials, but is also like a 'juggernaut' of information for them to search through. A simple, uniform system of information sharing is lacking. This, perhaps alongside distrust of previous professionals' judgments, results in repeated assessment at the start of each new phase. There is real appetite for useful progression data, shared with all those who need it, to be available. One possible starting point for this could be the integrated review, a check at two years due to be rolled out from 2015 which will incorporate the health visitor check with the newly introduced EYFS check at age two. This will provide a baseline for child development, as well as an incentive for shared data and expertise between health and early years professionals. It is vital that this opportunity to provide genuinely useful information to parents and schools is not mishandled or overlooked.

3.2.3 Ofsted

Of course the most easily available source of quality data is Ofsted reports. However there are some causes for concern. First, childcare settings only have to be inspected once every 47 months, although this will be more frequent for poorer quality settings. An Ofsted report may be significantly inaccurate about

the current state of a childcare provider if it was written almost four years earlier. Additionally some have called into question the nature of Ofsted reports themselves, arguing they do not focus enough on the most important aspect of a setting, namely the quality of interactions. Recent research from the University of Oxford and the Daycare Trust analysed whether Ofsted reports correlated with the Early Childhood Environment Rating Scale/Infant Toddler Environment Rating Scale (ECERS/ITERS) scores, and found that while there was correlation in how settings were judged under ECERS, there was no significant

“An Ofsted report may be significantly inaccurate about the current state of a childcare provider if it was written almost four years earlier”

correlation when looking at ITERS (used for those aged under 30 months).⁶⁰ These are widely used international scales, and indeed the EPPE studies used the ECERS-E quality measure to judge quality, as they are more closely aligned with how individual workers play and interact with

children. Parents place a high value on the quality of individual interactions between caregiver and child, whilst the study found in interviews that most parents thought Ofsted reports did not tell them much about these interactions. Another problem parents found was that sometimes the technical language was hard to understand, and it was difficult to work out what it implied for quality.

While the LA representatives interviewed for the above study all used Ofsted reports, they felt it was necessary to use other quality measures as well in order to get a full picture. Likewise the National Audit Office found that only 32% of LAs found Ofsted ratings very useful, compared to 93% finding their own quality measure useful when it came to determining funding rates. Although 78% of authorities make their own assessments of provider quality these are not routinely published or made available to parents. One LA we spoke to mentioned that they sent out their annual assessment letters to each provider, and some chose to display them; it tended to be settings who had achieved less highly at Ofsted and wanted to show improvement since then. Another LA described the way in which they carried out annual visits, and while these were not made available to parents, if there was real cause for concern Ofsted would be informed. Given that the 2007 DfE childcare survey found that 50% of parents were influenced in their childcare decision by Ofsted reports, it matters a great deal if these are out of date, not measuring the most important things or hard to interpret.

⁶⁰ Mathers S, Singler R & Karemaker A, *Improving Quality in the Early Years: A comparison of perspectives and measures*, University of Oxford, Daycare Trust and A+ Education Ltd, 2012

⁶¹ Ofsted Data View

⁶² *Delivering the free entitlement to education to three and four year olds*, National Audit Office, 2012

⁶³ Rutter J, Evans B & Singler R, *Supporting London local government to deliver free education for disadvantaged two year-olds*, London Councils and Daycare Trust, 2012

3.2.3.1 Ofsted figures for England

Still, even with these caveats, the Ofsted view on providers is an important way to measure the overall quality of provision in this country. The tables below show the percentages of childcare providers on the early years register judged at each level, and for comparison the number of schools judged at each level, based on figures from June 2012.⁶¹ It is worrying to note that the National Audit Office has identified that 30% of children can only access their free entitlement in a setting rated satisfactory by Ofsted.⁶² A recent survey of those offering the two year old pilot found 20% of children were not in a good or outstanding setting.⁶³

Whilst 21% of schools, and 54% of nursery schools, are judged as outstanding only 12% of childcare providers are judged as such. Additionally further analysis of Ofsted reports shows that there are certain nurseries and childminders that

could be termed ‘coasting’. Of those providers that were judged satisfactory, 42% had not improved since their last inspection. The different kinds of providers varied significantly, with 49% of childminders not improving compared to 38% of providers on non-domestic premises.⁶⁴ Worryingly, the Director of Education at Ofsted noted this year that the rate of improvement was slower for those satisfactory settings in deprived areas.⁶⁵ There has been widespread concern at the primary and secondary level about coasting schools, and debate about where school improvement will come from with the expansion of the Academies programme, and the removal of the LA tier of control. Support in driving quality is equally essential in the early years, with Ofsted finding that

‘Good-quality external support was also critical to helping childcare providers improve and sustain good-quality provision. Inspectors found that all the improving childcare providers had received some form of training or support from their local authority, a professional association or another external organisation’⁶⁶

Given the importance parents place on quality, and the guilt many parents profess to feeling when leaving their children in non-familial care, the fact that very few settings are operating at the highest standard may help to explain why some parents feel they cannot use childcare, alongside the more frequently cited reasons of cost and availability.

Table 4: Early years register Ofsted ratings

	Outstanding	Good	Satisfactory	Inadequate
1.764 mm	10	61	28	1
Childcare on non-domestic premises	14	64	21	1
Childcare on domestic premises (only 106 providers out of 66,413)	32	44	21	4
All provision	12	62	26	1

⁶⁴ *The Annual Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2010/11*, Ofsted, 2011

⁶⁵ Sue Gregory, Ofsted Early Years Annual Speech, December 2012

⁶⁶ *The Annual Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2010/11*, Ofsted, 2011

Table 5: School Ofsted ratings

	Outstanding	Good	Satisfactory	Inadequate
1.764 mm	54	41	5	0
Primary	18	51	29	3
Secondary	26	40	31	4
All Phases	21	49	28	3

3.2.3.2 Quality of childcare in deprived areas

It is also very important to point out that there is a real difference in the quality that parents in the most and least deprived areas can expect.

Table 6: Early years register Ofsted ratings by deprivation

	Outstanding	Good	Satisfactory	Inadequate
Childminder Most Deprived	6	55	38	2
Childminder Least Deprived	13	64	23	0
All Settings, Most Deprived	8	58	33	1
All Settings, Least Deprived	14	65	21	0

Sixty percent of childminders, and 74% of non-domestic providers, are judged good or outstanding in the most deprived areas, compared to 76% and 82% respectively in the least deprived areas.⁶⁷ As we can see from the chart above almost twice as many childminders in the most deprived areas are judged satisfactory or below than in the least deprived areas. The only inadequate provision is in areas of average deprivation or below, there is no provision judged inadequate in wealthier areas. This significant gap means that parents of those children who can most benefit from high quality early education will find it most difficult to access. This is perhaps particularly worrying when we think about the new offer for disadvantaged two-year olds, where some LAs have reported they may be forced to use lower quality settings as these are the only ones coming forward.⁶⁸ The idea of free education for disadvantaged two year olds helping to bridge the development gap is a welcome one, but government must ensure that the quality is high enough to achieve these ends.

The data at an individual LA level can be quite revealing. A comparison of two London boroughs, Kingston upon Thames and Haringey illustrates the kind of issues being faced. Kingston upon Thames has 309 settings, of which 87 are in the least deprived areas, 58 are in less deprived areas, 81 are in average areas, 65 are in deprived areas and 18 are in the most deprived areas. Of the settings

⁶⁷ The Annual Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2010/11, Ofsted, 2011

⁶⁸ Rutter J, Evans B & Singler R, *Supporting London local government to deliver free education for disadvantaged two year-olds*, London Councils and Daycare Trust, 2012

in the most deprived areas, 17% are deemed satisfactory, and none inadequate. Haringey has 280 settings, of which 3 are in the least deprived areas, 24 are in less deprived areas, 19 are in average areas, 49 are in deprived areas and 185 are in the most deprived areas. Of the settings in the most deprived areas 45% are judged satisfactory and 2% inadequate. This means that Kingston upon Thames needs to support three early years settings that are deemed satisfactory in the most deprived areas, whereas Haringey needs to support 86 settings in the most deprived areas that are satisfactory or below.

However the per child hourly rate in Haringey is set at £5.28, whereas in Kingston it is £5.50 for the two year old funding. We believe that there are some problems therefore with the way the two year old funding is determined. Some LAs will have to be doing a great deal more work to improve standards in deprived areas, and be working with many more settings, administering many more two year old placements, and yet are still encouraged to pass all the funding onto the frontline. If a deprived area is likely to receive less funding per hour to begin with, as local wages are taken into account when determining the allocation even though teacher pay is set nationally, and has more 'back office' work to do in administration, finding places and quality control, it is hard to see how those settings in deprived LAs will be able to receive a fair funding deal at the same time as leaving enough money for the LA to do its job. Additionally, although removing the requirement for a deprivation supplement in the EYFFF for the two year old offer is understandable when it is targeted at the most deprived anyway, problems may emerge with ensuring money goes to where it is most needed when the offer is extended in 2014.

However, there is real improvement happening, which we can see when we compare those settings inspected in 2011/12 with those inspected in 2008/9. The number of settings judged good or outstanding has increased by 14% compared to 6% in schools since 2009. The number of settings judged satisfactory has decreased by 23% compared to 12.5% over the same period for schools, and the number of inadequate settings has gone down from 5% to 1% compared to the increase from 2% to 3% in schools.⁶⁹

But we can still see that there are definite problems with quality in early years provision. Government uses evidence from certain programmes to show how beneficial early years education can be for disadvantaged children, but we must acknowledge that our workforce is not qualified enough to deliver the same results, and that additionally the lower quality in disadvantaged areas means positive effects are less likely to be seen where they are most needed. We also have real issues of accountability and information available in order to drive up quality and help parents make decisions. There is very little in place in pre-school provision to see how they are preparing children socially and cognitively for schools, given that the EYFS profile is normally completed by reception teachers, and there is a lack of coherence around what information should be shared, and how.

3.2.3.1 Role of Local Authorities and Quality Assurance

The early years sector has taken impressive action on improvement and quality assurance, with many LAs running their own schemes, as well as providers such as the NDNA, the National Childminding Association (NCMA) and the Pre-School Learning Alliance (PSLA) all delivering popular quality assurance and improvement

⁶⁹ *The Annual Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2010/11, Ofsted, 2011 and The Report of Her Majesty's Chief Inspector of Education, Children's Services and Skills 2011/12, Ofsted, 2012*

programmes. Likewise, LA teams are instrumental in delivering quality, but as budgets become ever more squeezed, we need to think about how the sector itself can drive improvement. While the LA will often have a vital role to play in brokering improvement schemes, it may not always deliver them within house. We can look to the maintained primary and secondary education sector and see that as schools become more autonomous of LAs, more initiatives are required to ensure good leadership in these schools. One of the most interesting is the new Teaching Schools programme, which has designated 100 primary and secondary schools to share their expertise and good practice, in partnership with other local schools as well as nurseries. It is too early yet to evaluate the impact of this programme, but it is based on the solid idea that identifying best practice and encouraging it to be shared can achieve real improvement. We can also learn a great deal from the impact of the London Challenge, on the importance of brokering strong partnerships between schools, and putting in place rigorous programs and challenges to improve teaching practice, data management and area wide commitment to children.⁷⁰

There is an impressive amount of information and best-practice sharing that already happens in the sector, with perhaps one of the most notable examples being the Research Base at Pen Green, which provides training but also disseminates information online. They are running a two-year project to develop Early Years Teaching Centres, learning from the Teaching Schools programme, which will help early years settings collaborate and share best practice, funded by the Voluntary and Community Sector grant. We believe government should learn from any successes and challenges in this programme to further develop networks nationwide.

We believe that a really rigorous system for ensuring that LAs make a difference, combined with the necessary back-ups in place should they fail to be effective and a range of strong sector-led schemes can have a real impact on childcare. Recent research from the Daycare Trust found that London councils spend on average £86,000 on quality improvement schemes, £63,900 on administration, referrals and place management and £24,250 on outreach.⁷¹ This is money that is not going to the frontline, so we need to really focus on whether we are getting value for money from the services they provide. According to the Early Years benchmarking tool, an average of 9% of the early years per pupil budget is centrally retained, although research by Nursery World has found errors which should perhaps make us wary of relying too heavily on these figures.

We should not make the assumption that any money retained by the LA is wasted money. An example cited in recent research of the brokering role LAs can play is in block-booking places for groups of three two year olds at a time.⁷² This means that one provider will have one full time place filled, rather than three providers having to deliver three part time places, creating savings. Additionally outreach is essential given that this income group are the least likely to take up early education places. We have already highlighted how it is essential that settings that are rated only Satisfactory are improved to ensure the offer they deliver is actually beneficial to children. This centrally retained funding may be spent on administration, quality improvement schemes and monitoring visits, continued professional development and funding for

70 London Challenge, Ofsted, 2010

71 Rutter J, Evans B & Singler R, *Supporting London local government to deliver free education for disadvantaged two year-olds*, London Councils and Daycare Trust, 2012

72 Rutter J, Evans B & Singler R, *Supporting London local government to deliver free education for disadvantaged two year-olds*, London Councils and Daycare Trust, 2012

qualifications, which are all useful, but there must be accountability on how it is spent and measurements of the actual effectiveness, particularly on quality improvement.⁷³

Through the recommendations below, we believe it is possible to make LAs more open and accountable for the success or failure of nurseries in their area and this, combined with independent Ofsted evaluation, can drive up standards. The recent speech by Sue Gregory, National Director of Education at Ofsted, suggested a more intensive role for Ofsted, and we agree that more frequent inspection is to be welcomed. But given the cost per inspection (£1,508 for a nursery) and the lack of continued presence their role will always be one of quality control rather than quality improvement. It seems more cost effective to government as well as useful for providers to make more of LA teams which are already in place. This will mean LAs making public what they are doing, in terms of monitoring and inspection reports, so that parents and government have more information. But it also means using this information and the results of Ofsted inspections to see when LAs don't do enough to improve standards. At this point responsibility, and LA money, should pass to external providers of quality assurance.

However we must also bear in mind that as our childcare system is market driven, quality cannot be separated out from affordability. The fact that our polling shows more low income families choose their childcare provider on cost than on quality, which is not true for any other group, may go some way to explain why satisfactory settings in poor areas improve slower. In very simplistic terms if the customer is more concerned, because of their income constraints, with cost than quality, then providers will be incentivised to compete to be cheaper than each other rather than better than each other. If we want consumer choice to drive improvements, we have to ensure that all consumers, particularly those on low incomes, are genuinely able to make free and informed decisions based on quality and not cost.

3.3 Recommendations

- **Recommendation 1:** All Local Authority evaluations should be made public and hosted on the Ofsted website
- **Recommendation 2:** Government should identify funding required to professionalise the workforce to the necessary level
- **Recommendation 3:** Childcare settings which do not improve on a Satisfactory rating between Ofsted inspections with existing LA support should have to join a Quality Assurance scheme run by an external provider
- **Recommendation 4:** Encourage Teach First to extend to the early years, as a way of attracting bright graduates
- **Recommendation 5:** Build on existing programmes to develop Teaching Centre networks nationwide to improve quality
- **Recommendation 6:** Include the integrated two year old check in the National Pupil Database, and consult on what information should be supplied to reception class teachers by nurseries
- **Recommendation 7:** Priority should be given to free school applications in deprived areas that offer pre-school provision

73 Gaunt C, *Value of early years benchmarking tool in doubt as errors emerge*, NurseryWorld, August 2012

Recommendation 1: All Local Authority evaluations should be made public and hosted on the Ofsted website

As things currently stand, parents have limited information about the quality of care on offer. This lack of information can distort the market, as parents make choices based either on out of date information, or in fact don't use it all, instead making decisions based on word of mouth, or purely on grounds of cost and convenience. We have noted above the trouble with infrequent Ofsted observations, and the number of LAs who conduct their own evaluations. We therefore suggest that all LA evaluations of early years provision should be made public which would help parents make decisions, and enable Ofsted to make more informed judgements.

These evaluations should be hosted on the Ofsted website so all information is readily available to parents from one source. More accurate information about quality will nurture realistic competition, and drive quality improvements. Additionally publishing reports and detailing the number of visits they have undertaken would create more accountability around what LAs are doing, and the support and challenge that they are delivering to providers, to help provide evidence for whether they are actually delivering the improvement they are meant to. There are difficulties with this, namely that a LA could severely damage the reputation of a provider if they identified a serious drop in quality; we therefore suggest that there should be a grace period after a LA inspection where Ofsted can be called in to reinspect those providers LAs deem inadequate.

Recommendation 2: Government should identify funding required to professionalise the workforce to the necessary level

We outline in a later chapter on costs how important it is for funding to genuinely cover the costs of high quality care, so that paid for hour fees are not pushed up. However as we note in this section there is also the key issue of funding and support for the most deprived settings, and for LAs that have the most settings in deprived areas. We therefore believe it is necessary for government to make clear where money to support settings, particularly those in deprived areas, to increase the qualifications of members of their workforce and to participate in quality improvement with the LA or other providers is to come from. This is particularly important given the fact that the Graduate Leader Fund is no longer available for the purpose of supporting graduates in early years settings. This money could either be:

- a. Additional money distributed to settings directly, so they can pay higher wages for highly trained staff or 'buy in' services from the LA or another provider

or

- b. retained by the LA, as it is for three and four year old funding currently, in order to support graduate employment and quality assurance

Recommendation 3: Childcare settings which do not improve on a Satisfactory rating between Ofsted inspections with existing LA support should have to join a Quality Assurance scheme run by an external provider

There are a great many nurseries and childminders operating at a high level, which are well supported by Local Authority teams, Quality Assurance schemes or nursery chain development teams. However as noted above there are a high number that are struggling to meet the same standards, and many that are ‘coasting’, and it is these nurseries which LAs might be failing. We therefore believe that if an early years setting, whether they are a nursery or a childminder, have not improved between inspections they should have to join a quality assurance scheme run by an independent provider. These quality assurance schemes, would themselves be approved by Ofsted based on their record of improving provision, and would only be eligible to take on a referred provider if they were judged good or outstanding. Given the choice of funding options above, the money for this quality assurance could come from one of two sources. If money was retained by the LA for quality improvement a portion could be passed on to an outside provider. If it had already been distributed to the nursery and they were buying in services from the LA, another provider would have to be used in its place. We have recommended a similar regime for when schools fail to improve under LA support in our report *Competition meets Collaboration*.

Recommendation 4: Encourage Teach First to extend to the early years, as a way of attracting bright graduates

The Nutbrown Review suggests a new training route for teachers in the early years, suggesting that they should be able to choose the age range 0–7 rather than 3–7. It also suggests that those with EYPS should, as a priority, transition to qualified teacher status. As noted above, it is essential that there is the funding to match this transition, as otherwise PVI settings will not be able to afford it. We believe we should look at a variety of ways to attract high quality teachers into the early years. One possibility for this could be to encourage Teach First to extend to the early years, as a way of attracting bright graduates. One particular benefit is that this would focus on the most disadvantaged areas; we need to be realistic when we talk about raising quality and acknowledge that it is most important for the most deprived children. It is most important to encourage teachers into those settings where a significant number of children are those identified as being in the 40% most deprived two year olds. In order to encourage teachers to take up work in the early years, government should also consider identifying early years teaching in deprived areas as a priority area and direct bursaries accordingly, as they do with Physics, Chemistry and Maths teachers. However we must be wary of seeing Teach First as a panacea for all sectors in need of increased professionalization, and be aware that it cannot address all the key issues. It is also vital that we do all we can do develop the skills of those already working in the sector, and do more to retain good practitioners so that they are able to share their experience with those entering the profession.

Recommendation 5: Build on existing programmes to develop Teaching Centre networks nationwide to improve quality

One way for individuals to improve is to learn from those with expertise and experience, and we believe that nurseries with an outstanding rating should be encouraged to share practice and staff for professional development with

other nurseries and schools in their area. But it is, of course, vital for leaders to form these partnerships, and identify their own and others strengths and weaknesses and how they can learn from each other. We therefore suggest that the successes and challenges in the

“There is currently limited information available both for government and for individual providers about how children are progressing”

Early Years Teaching Centres model should be used as a basis for developing networks nationwide to drive up quality. These settings would be able to provide vital mentoring and share expertise with newer teachers and nursery practitioners. Additionally they can help to enable leaders to broker discussions about information sharing.

Recommendation 6: Include the integrated two year old check in the National Pupil Database, and consult on what information should be supplied to reception class teachers by nurseries

We also believe there needs to be more data available on the progression of children from certain settings. There is currently limited information available both for government and for individual providers about how children are progressing. The EYFS Profile is usually carried out by reception class teachers rather than an early years setting, and while the reception class teacher may receive a wealth of information from nurseries and childminders it is not necessarily what is required. Likewise early years settings may not receive any information back from schools about how their children fare once they get to school, which means they cannot identify gaps in their provision. This lack of consistent data will mean government struggling to identify whether early years provision is effective and meeting the goals it has set. We therefore suggest that, from 2015 when integrated health and childcare checks are carried out, any significant additional needs or developmental delays are recorded on the National Pupil Database at this stage. Additionally we suggest a consultation with reception class teachers about the standard information that should be recorded as children leave an early years setting. All early years settings should be able and encouraged to access Keys to Success, to identify how children leaving their setting have progressed.

Recommendation 7: Priority should be given to free school applications in deprived areas that offer pre-school provision

LAs have already analysed which two year olds in their area will be entitled to the extension of the free entitlement to childcare. There is concern not only that there is not enough capacity, but also that the quality is at its lowest in the areas where it is most needed. One of the government's methods for

improving capacity and quality in the schools sector is the Free Schools programme, and money for 100 more schools was announced in the Autumn Statement. We therefore suggest that any Free School that applies to set up in a deprived area should offer nursery provision on site, with appropriately trained early years staff.

4

Convenience

4.1 What do parents want?

Our polling found that the largest number of parents (62%) chose 'location' as their reason for choosing their main provider, and 29% of parents listed the fact that the hours were flexible with their work as a factor.⁷⁴ For all the parents surveyed by the DfE about their reasons for choosing different providers cost was a feature, but not the primary one. Twenty-two per cent of parents of children under two said economic factors were their reason for choosing the provider while reputation (64%) and convenience (59%) were much more significant.⁷⁵ People are not motivated by price alone when looking for childcare, ensuring that the care is of the right quality and fits in with their working lives is more important.

Additionally, more and more parents are working beyond or outside 'normal' working hours, with 65% of parents sometimes working evenings, and 17% working shifts.⁷⁶ Twenty-seven per cent of mothers say working before 8 am or after 6 pm causes problems with childcare. If work patterns vary from week to week, or are normally outside the 8 am to 6 pm timeframe in which nurseries tend to be open, parents may face real difficulties in finding places that meet their needs.

The Childcare Affordability Pilot from 2009 offers helpful insights into these parental concerns. The scheme offered parents the chance to reclaim 100% of the cost of their childcare if they began work, in order to determine what barriers women were facing. Interestingly, the take up was relatively low – most women cited as their reason for rejecting the offer simply that they wanted to stay at home to look after the children.

For those who were interested, but did not take up the offer in the end, the most significant factor was their inability to find work and childcare that were compatible. Indeed, in a survey conducted in the same year it was found that the most frequent reason given for enabling take up of work was being able to find a job that fitted around childcare arrangements, with 29% of women giving this as a reason.⁷⁷ Even if mothers were to have all their costs covered, the fact of course remains that if nothing suitable is available this doesn't matter. The issue of flexible care beyond nursery hours was essential for parents to make use of any subsidised childcare. The pilot found that nearly all those who took up the offer relied on informal care, and that particularly for parents with weak social networks lack of informal care could be a real problem 'these participants were more likely to incur late fees on nursery pick-ups, pay for informal care or find themselves taking time off work and losing pay if their children could not attend school or nursery.' In addition parents typically struggled to find childcare for young children before 7.30am and after 5pm. Where it was possible to find

⁷⁴ Fieldwork conducted by YouGov in November 2012, with a sample of 1,637 parents

⁷⁵ Smith P et al, *Childcare and early years survey of parents 2010*, DfE, 2012

⁷⁶ Singler R, *Open all hours?*, Daycare Trust, 2011

⁷⁷ Smith R et al, *Childcare and early years survey of parents 2009*, DfE, 2010

availability early in the morning or in the evening, it was typically – although not exclusively – offered by private nurseries or unregistered childminders.⁷⁸

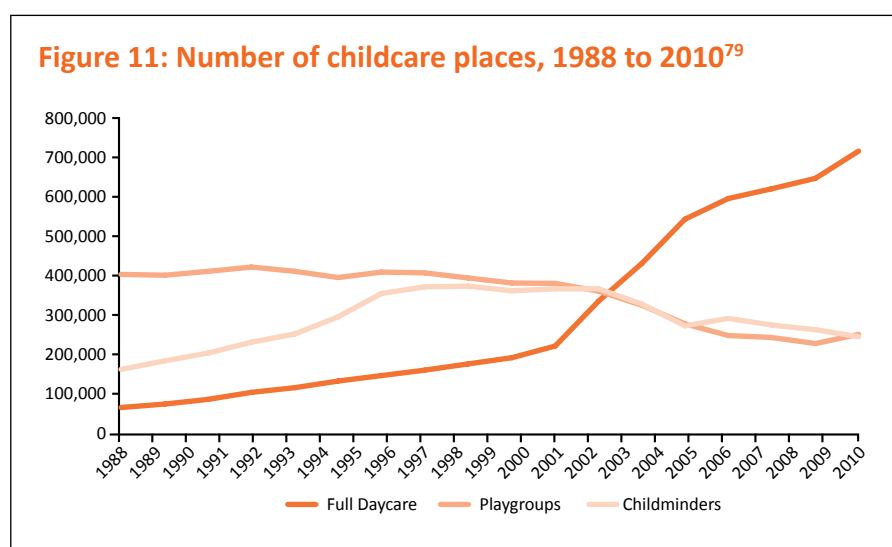
While there were certainly problems with the way the pilot was conducted (it was not a nationwide scheme and it was initiated by letters sent out by HMRC both of which may have meant parents were less likely to take it up) it has some important lessons. First, if we talk about extending the childcare entitlement, as we are with the two year old offer, we need to think about ensuring it is actually available. Secondly, it reminds us that if parents can't find a childcare place that fits with their schedules it might mean they are unable to take up any place at all.

4.2 What are parents getting?

When considering convenience, we need to look at all the factors that might make it difficult for a parent to make use of childcare. The most obvious of course is simply availability, if there are actually enough childcare places which parents are able to reach. The next is flexibility, and while this is often taken to mean just the length of time settings are open for, which is important, it also means the willingness of providers to offer part-time places, more hours in holidays, and so on. Lastly we must look at the convenience of paying, which may be at least partially determined by the take up of available support.

4.2.1 Availability

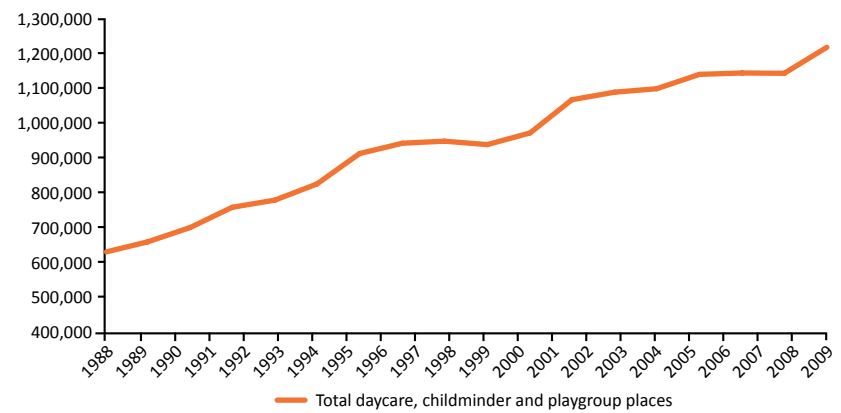
Trying to judge the availability of childcare is a challenge, as it is hard to know if parents not using childcare would use it if it were more affordable, convenient or higher quality. We can see that overall the number of providers, and number of parents using them, has dramatically increased over recent years, in part driven by the Every Child Matters agenda. The chart below does not include the figures for the number of places in maintained schools, holiday clubs or after school clubs, but still is very revealing about where the growth in this sector has come from:



78 Goodman K, *Childcare Affordability Pilot (CAP09) – 100% Costs pilot*, DfE/HMRC, 2011

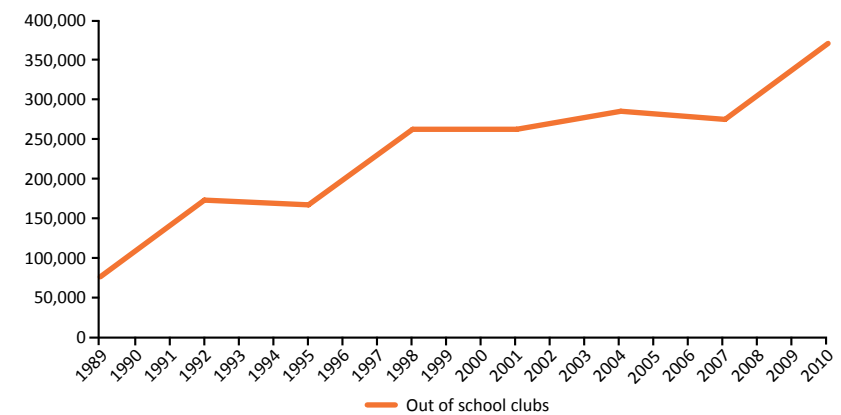
79 *Children's Day Care facilities at 31st March 1999, Early Years and Childcare Workforce/Provider Surveys 2001, 2003, 2010*, DfE

Figure 12: Total daycare, childminder and playgroup places⁸⁰



So we can see that there has been a dramatic increase in daycare provision at the same time as a steep decline in the number of places offered in playgroups/ sessional care and with childminders. Another area of growth has been in out of school clubs, as the chart below shows (figures only available since 1998).

Figure 13: Out of school clubs⁸¹



Overall there has been an increase in the number of childcare places, with growth in full daycare and out of school clubs but decline in childminders and playgroups. However simply saying that places have increased tells us very little about whether parental demand is being met, or if there is still need for even more places. Given that in 31% of couple families one parent is working full time and one part time, and in 24% both are working full time, it is likely that there will be more demand for childcare.

Unlike with school places, where birth rates can predict any requirements for future growth, the number of childcare places required relates to the number of children, whether their parents are working, if those parents choose to use

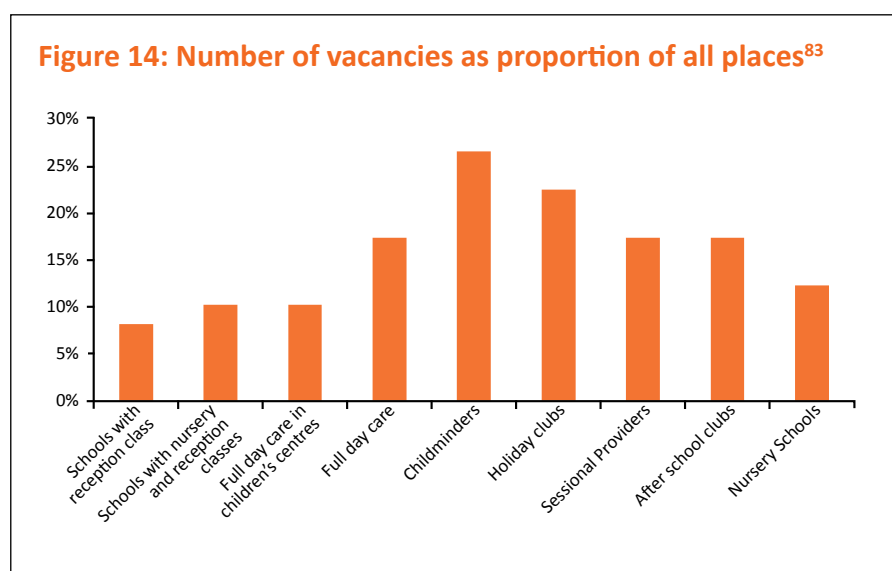
⁸⁰ Ibid

⁸¹ Ibid

childcare, and if government policies are likely to increase parents' use of childcare.

There are various ways we can try and assess how demand is being met. The Childcare Act 2006 stipulates that every LA must carry out a childcare sufficiency assessment on a three-yearly basis, recently adjusted to an annual update, to determine the levels of demand in the area and whether there is appropriate provision. The Daycare Trust recently conducted a survey of all LAs and asked them, drawing on this knowledge, to state whether they had enough childcare in place. Only 46% of LAs in England felt they had sufficient childcare to meet the requirements of parents working full time, and that figure shrinks to 12% when considering parents who work atypical hours. Only 12% of LAs felt they had enough for disabled children.⁸²

However while these LA reports look at a range of factors, and survey parents, it is worth looking at the make-up of the childcare market to help us understand the levels of supply further. The Childcare Survey 2011 looked into vacancy rates with formal childcare providers, and found that they had actually increased since 2010, which is perhaps a reflection of high unemployment levels reducing the demand for non-parental care. It is interesting to note that, on average, 16% of childcare and early years places are vacant, however these levels vary by provider type.



It is again hard to use this as a barometer of demand, as many childcare providers will be unable to run at 100% capacity due to offering part-time places. Childminders on average have one vacant space, which could show less demand from parents for this type of childcare. However while it is sometimes the case that they are actively looking for more custom, some are simply happy with the number of children they are looking after.⁸⁴

It is also important to look at where this provision is available, and where it is likely to be sustained. It is already the case that more deprived areas are likely to be more reliant on state-operated childcare places, and if we look at the recent survey of childcare providers we find that those operators in the 30% most deprived areas are less likely to be making a profit; 24% of full day care providers in the most deprived areas are making a profit compared to 39% elsewhere. Indeed almost twice as many are actually operating at a loss, 19% compared to

⁸² *Childcare Costs Survey 2012*, Daycare Trust

⁸³ Brind R et al, *Childcare and Early Years Providers Survey 2011*, DfE, 2012

⁸⁴ Tapp P & Stone V, *Assessing the Operation and Impact of the Childminder Sustainability Grant*

10%.⁸⁵ This should be of concern when we consider the long term health of the childcare market in more deprived areas, without government funding to prop up settings, especially given that the two-year old offer will be focused in these areas and it is expected that private settings will have a large role to play in its provision.

So it seems it is very hard to judge whether there is enough childcare for parents; the number of places has certainly increased, but then so has the number of parents in work and needing childcare, but, as we note above, most LAs seem to believe their provision is falling short of what is needed.

4.2.2 Flexibility

But it is not just whether there are childcare places. As we noted above what parents need is for these places to be convenient and flexible. This means them being open at the right times to fit with working patterns, but also able to offer a range of places including different part-time packages.

As more and more parents are working beyond 'normal' working hours, and 27% of mothers say working before 8am or after 6pm causes problems with childcare, it is worth looking into the opening times of various settings.⁸⁶ Primary schools with nursery and reception classes were likely to be open for 5 hours and 46 minutes a day, with nursery schools open longer at 7 hours 5 minutes, both of which are of course significantly shorter than a working day. Full day care settings were on average open for 8 hours 37 minutes, with childminders open for the longest hours at 9 hours 8 minutes per day.⁸⁷

But it is not only the opening hours that matter, it is that parents will sometimes need quite complicated patterns of care due to changing shift patterns, or sudden unexpected childcare needs, or more care during school holidays. Given that 83% of parents work hours that vary from week to week, this is a matter of real concern.⁸⁸ Research from the Daycare Trust has found that parents who work atypical hours are very dependent on informal care, partly because it will be available after nursery opening hours. However it is also that when work patterns change weekly, many nurseries are unable to offer different packages of care on a weekly basis, meaning that parents would need to pay for full time care to ensure all their shifts were covered.⁸⁹

As we have already discussed, some parents do prefer to use informal care, but for some it is simply a necessity due to difficulties of finding flexible care. Additionally many parents adopt 'shift-parenting' patterns, and while this may well work for them, some have pointed out that there could be detrimental effects of spending less time together as a whole family and less time with partners.⁹⁰ They also note that lack of affordable childcare may in fact lead to parents working atypical hours, as finding work patterns to suit 'shift-parenting' could be a response to a lack of childcare. Improving the provision of childcare in normal working hours could in fact help more people choose work that has regular hours. Finally we can see that there is a problem for parents who only need part-time care, or just the free funded hours. In our polling we found that 22% of parents in families with incomes of under £20,000 had difficulties in securing just their free hours. These parents were the most likely of all groups to only use their free hours, with less than half (49%) purchasing more hours, therefore making them most likely to be affected by settings which will not deliver part time places.

⁸⁵ Brind R et al, *Childcare and Early Years Providers Survey 2011*, DfE, 2012

⁸⁶ Smith P et al, *Childcare and early years survey of parents 2010*, DfE, 2012

⁸⁷ Brind R et al, *Childcare and Early Years Providers Survey 2011*, DfE, 2012

⁸⁸ Singler R, *Open all hours?*, Daycare Trust, 2011

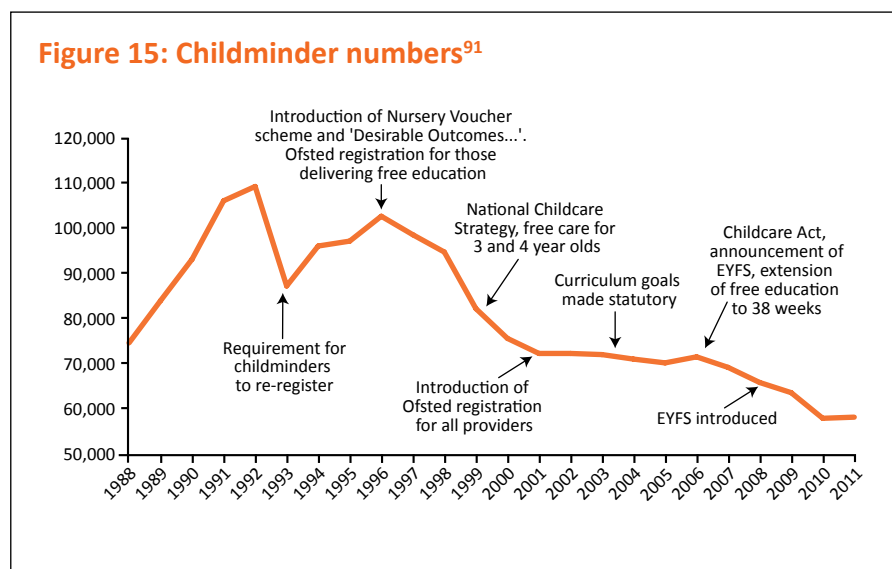
⁸⁹ Rutter J & Evans B, *Childcare for Parents with Atypical Work Patterns*, Daycare Trust, 2012

⁹⁰ Barnes M, Bryson C & Smith R, *Working atypical hours: what happens to 'family life'?*, National Centre for Social Research, 2006

4.2.2.1 The Effect of Regulation on Childminders

One concern over the increasing level of regulation in recent years has been that it has driven out more informal, flexible kinds of care, especially childminders. However we must bear in mind that there is little data regarding just how much more flexible and cheaper childminders used to be, the assumption that they delivered this kind of care is largely anecdotal. The Daycare Trust information we rely so heavily on began in 2001, and while childminders did see a large rise between 2001 and 2002, there is only limited use we can make of one data point. The introduction of the EYFS, for example, is often said to be a primary reason for childminders leaving the market, and indeed the chart below does show one decline in numbers started when the EYFS was announced, however this also marked the extension of the free entitlement so it is hard to measure in isolation.

The introduction of mandatory Ofsted registration for all providers in 2000 does not seem to have had an impact on numbers. However the major decline began further back, co-inciding with the introduction of free early years education. Childminders have to be qualified to level three and, until recently, be members of a childminding network in order to deliver the free education. Less than half of all LAs have a childcare network, meaning many childminders were excluded. But we also have to think about parental choice, and whether childminders are still seen as a lower quality option; perhaps for a combination of these reasons very few children currently receive their free entitlement at a childminder. This, as well as parental preferences for centre based care when children are older, can influence parental choices when their children first go into childcare. If they either will not be able to, or would not want to, get their free hours of education at a childminders it may make them less likely to place their child there when they are younger, as they would then have to move their children to a different setting at the age of three.



As IPPR noted in their recent report, the number of places for children under five at childminders has only fallen by 8,500 over this time compared to the much higher decline of 24,000 in the school age category.⁹² Of course we must remember that the ratios for children under five are tighter than for the over fives,

91 Children's Day Care facilities at 31st March 1999, Early Years and Childcare Workforce/Provider Surveys 2001, 2003, 2010, DfE

92 Cooke G & Henehan K, *Double Dutch: The case against deregulation and demand-led funding in childcare*, IPPR, 2012

and those on the voluntary register caring for over eights are not limited in this way, so a loss of more places in this category does not necessarily reflect a loss of more providers. Indeed when we look at Ofsted figures for those registered on the Early Years register since 2008, when it was introduced, we can see the numbers of childminders have fallen from 61,428 to 55,826 whereas the number on only the Childcare Register or Voluntary Register has actually increased from 501 to 1,323. It is still difficult to determine how much of this is related to regulation, and how much to parental preference.

Currently only around 1% of children receive their free hours with a childminder. One LA suggested that parents of young children were simply reluctant to accept care delivered by childminders, as they felt their child would miss out on some of the key socialising aspects of a nursery. They were therefore linking childminders to a local Children's Centre so parents would be sure their child would get a variety of interactions. It may also be the case that LAs are not doing enough, either to ease childminder access to support and training, or to convey to parents that childminders might be a good choice for their child. Given that many LAs are looking to provide much of their capacity for the two year old offer through childminders it is important that they ensure parents are informed and willing to use childminders.

However looking at childminder numbers is not the only way to measure the impact of regulation on the kind of flexible care delivered by individuals, as it may well be that people have been turned off entering the profession in the first place. It is interesting to look at the rise in nanny and au pair numbers, and the estimated numbers of illegal unregistered childminders, to judge whether there is unmet demand for this kind of childcare.

Of course unregistered childminders and nannies are very different, as the former are operating illegally whereas the latter are certainly not. However as they are both operating a service outside the Ofsted framework we will look at them together. The Daycare Trust have estimated that there may be as many as 60,000 unregistered childminders. Our own polling found that 6% of parents who used childminders said they were unregistered, and 7% did not know. However this does not take into account those who are using family and friends for childcare, and paying them, which technically counts as illegal childminding. The number of nannies and au pairs is hard to determine, as they are not required to register with Ofsted. However, whilst childminder numbers have fallen from 61,929 in 2008, 'home childcarer' numbers have more than doubled in the same period from 4,516 to 10,831.⁹³ Estimates of total numbers of nannies and au pairs range from 30,000, to 89,100.^{94,95} Additionally nanny sharing, where two parents share the costs of a nanny, seems to be a popular option; for example the website nannyshare.co.uk has over 14,000 registered users looking for nanny shares.

By any estimate there are therefore a large number of providers operating outside the registered system. Of course one incentive for unregistered childminders may be avoidance of tax, and it is possible that this applies to some nannies and au pairs as well. A 2009 study suggested 20% of parents were not paying their nannies' taxes. It is interesting to note that nannies do not have to register and can look after children from two families in the home of either child. It is hard to understand why, if your child is being looked after by a nanny at another family's home (neither the child nor the nanny's own) no registration is required, but if your

93 *Early Years and Childcare registered Providers Inspections and Outcomes*, Ofsted

94 *Labour Force Survey*, ONS, 2009

95 2009 study commissioned by the Children's Workforce Development Council, quoted in Rutter J, *Informal Childcare: Choice or Chance?*, Daycare Trust 2011

child is looked after at a childminder's own home registration is mandatory.⁹⁶ For those who are not interested in delivery of free early years education it is perhaps understandable that they go down the route either of not registering at all, or of registering on the lighter touch Voluntary register.

4.2.3 Use of Free Hours and Convenience of Payment

4.2.3.1 Free Entitlement

The entitlement to free early years education is taken up less by the most disadvantaged families; research for the DfE has found that 77% of children in families with an income of under £10,000 receive their free entitlement, whereas 92% of those in a family with income of over £45,000 do so. While there was some question of whether the amount of free hours were accurately reported, the fact that 13% of the poorest children received no early years provision compared to 4% of the richest (regardless of whether the hours were or weren't paid for) makes it clear that take-up is certainly lower.⁹⁷

4.2.3.2 Childcare Element of Working Tax Credit

The take-up of the childcare element of Working Tax Credit (WTC) is also revealing; for all those eligible purely on income and age of children it is 18%, although this is usually because they are not using childcare or only using informal care. But even when parents are fully eligible on income, working status and childcare usage, take-up is still around 81%.⁹⁸ HMRC estimate that around 9% of these recipients are already claiming WTC, but just not making use of the childcare element, whereas 10% are not claiming WTC at all.⁹⁹ This suggests that 52,000 recipients who already apply for WTC and are fully eligible for the childcare element do not in fact claim it, perhaps due to the complexity of the system or lack of awareness of the support. Of the £1.6 billion spent on the childcare element of Working Tax Credit, it is estimated that £265 million was claimed erroneously or fraudulently, representing 16.6% of the total budget (this compares to an error rate of between 6.6% and 8.1% across tax credits in total).¹⁰⁰ Most of this was error (£260 million) rather than fraud (£5 million). HMRC estimates that around a fifth of this error was due to misunderstandings about how to calculate average childcare costs.¹⁰¹

The issue is not that there are large numbers of fraudulent claimants, but that the system itself is very complicated. In our polling, 22% of those claiming the childcare element said they had difficulty doing so, which is perhaps unsurprising given that an average weekly figure needs to be calculated for the year even though childcare use may fluctuate a great deal due to holidays and shift patterns, for example. While under Universal Credit it is proposed that monthly claims can be made it is still the case that this is a complicated system of support, and as it is one available to those on lower incomes only we should be particularly concerned by any barriers it creates. Additionally, changes under £10 are not reported, which could mean a cost to government if claimants are using less childcare, or a pressure on parents if they get no additional support for an extra £10 a week expenditure. Finally there can be knock-on problems for providers with this system, with parents registering their child in order to start a claim but not actually taking up a place, leaving the provider out of pocket.

96 Below is an extract from The Childcare (exemptions from registration) Order 2008

(1) The circumstances referred to in articles 2(1) and 2(3) are where a person makes the provision—

(a) for—

(i) a child or children for particular parents, wholly or mainly in the home of the parents, or

(ii) a child or children for particular parents ("the first parents") and, in addition, for a child or children for different parents ("the second parents"), wholly or mainly in the home of the first parents or the second parents or in both homes;

(b) for a particular child for two hours or less per day; or

(c) only between 6pm and 2am.

97 Speight S et al, *Towards universal provision: analysis of take-up by disadvantaged families from recent annual childcare surveys*, DfE/National Centre for Social Research, 2010

98 *Working Tax Credit: Take-up of childcare element 2008–9*, HMRC, 2011

99 Ibid

100 *Child and Working Tax Credits: Error and Fraud Statistics 2010–11*, HMRC, 2012

101 Freeth S & Fong J, *Experience of using childcare and claiming the childcare element of Working Tax Credit*, HMRC, 2011

Box 3: How to claim the childcare element of WTC

- The earliest a claim can be made is a week before you begin using childcare.
- You must provide the details of the registered childcare provider, or providers, you are using.
- You need to provide the average weekly payment for your childcare costs. If you do not have regular payments of the same amount (for example due to school holidays) you have to estimate your annual costs and divide them by 52.
- You only need to inform HMRC if costs go up or down by more than £10 a week.

4.2.3.3 Employer Supported Childcare

It is first worth noting that it is extremely complicated to decide whether you are better off claiming these or the childcare element if you are on a low income. Because vouchers reduce your childcare bill, you are able to claim for less through tax credits, and will receive a lower award. And of course, not all employers offer the vouchers; in our polling we found that 44% of parents' employers offered vouchers, and overall that 25% of those who were employed made use of these vouchers. Unsurprisingly the lowest uptake was among low income families, as this is where the interaction with the childcare element of WTC is most likely to make childcare vouchers not worth using. One reason could be that voucher schemes, particularly for small businesses, can seem burdensome to operate especially since the changes which mean employers need to calculate employees tax bands. It is also possible that employers are simply not aware of the scheme or the savings that they can make from it.

The variety of funding streams make childcare financial planning very difficult for parents, meaning that for particularly more marginalised members of society it can be extremely challenging to access the best offer they can. Of course this may also impact significantly on cost, as any additional layers of bureaucracy mean less money getting to frontline services.

4.3 Recommendations

- **Recommendation 8:** Introduce a single online account system which combines the childcare element of WTC/Universal Credit and childcare vouchers, and can only be used for childcare
- **Recommendation 9:** Ofsted must clarify that those operating wrap-around care need only record basic information about a child

Recommendation 8: Introduce a single online account system which combines the childcare element of WTC/Universal Credit and childcare vouchers, and can only be used for childcare

There are currently very complicated systems in place for funding early years education and childcare. Everyone is entitled to their fifteen free hours a week for three and four year olds, refunded to nurseries through the EYSFF by rates set by LAs, which comes from the DSG. Then some are entitled to 15 hours for their two year old, although nurseries and childminders have to run sometimes lengthy

administration checks with the LA to ensure they are giving this entitlement to the right people. Then those on lower incomes are able to claim the childcare element of WTC, paid by the DWP through tax credits. Finally some parents, after calculating if they do not adversely affect their tax credit claim, may choose to take childcare vouchers – if their employer offers them. The responsibility for this scheme lies with HMRC. One way of reducing all the levels of administration for government, improve take-up and awareness of parents and limit confusion for providers would be to streamline all of these different funding sources into one system. This is of course a difficult measure but we believe that by introducing online childcare accounts, which the childcare element, employer vouchers, and any money parents, friends or relatives wanted to set aside for childcare could be paid into would start to address this problem.

Whilst the money going into these accounts would still come from the same government sources, there would only be one application system for parents and they would be able to see exactly how much they were getting. Any money would only be able to be directly transferred to the bank account of a registered childcare provider. Any tax credit money unspent on childcare could be reclaimed by government, and users could update their data on a regular basis. This would also mean that childcare cost fluctuations could be dealt with in real time, and parents would not receive extra money or lose out if their costs changed by less than £10. Additionally parents would not have to make the complicated calculations about whether they are better off with vouchers or tax credits, as the applications would be managed through one system, and they could instantly access the most financially sensible choice. This system would mean that childcare providers would be more certain of their funding, whilst still allowing parents freedom to choose a provider. Jam Jar bank accounts enable money from a variety of different sources to be identified and then directed into separate ‘pots’ for expenditure on specific bills, such as childcare. Government is looking into providing access to Jam Jar accounts for some who may struggle to manage their finances under Universal Credit. Voucher accounts go further, in that money can only be transferred to a confirmed childcare provider, and it may be more feasible to use them on a large scale..

Recommendation 9: Ofsted must clarify that those operating wrap-around care need only record basic information about a child

The revised EYFS has the following statement regarding wraparound and holiday provision:

‘Wrap around and holiday providers should be guided by, but do not necessarily need to meet, all the learning and development requirements. Practitioners should discuss with parents and/ or carers (and other practitioners and providers as appropriate) the support they intend to offer, seeking to complement learning in settings in which children spend more time.’

This is a sensible move, and in theory could reduce the barriers to setting up this kind of care, and is perhaps part of the reason people have to use unregistered childcare which of course is not eligible for WTC or vouchers. However it is difficult to see exactly how much impact this would have, as it still leaves those

providing this kind of care very much in the dark as to what Ofsted will expect. There is a real possibility that this will make little or no difference to the way practitioners operate, as they will be wary of this lack of clarity. The Tickell report itself noted that childminders are already likely to do more paperwork than is technically required by the EYFS, because of a lack of clarity from Ofsted.¹⁰² We therefore recommend that Ofsted should make clear that no documentation except a parent's contact details, and information on any SEN a child has, needs to be kept by someone identified as being a provider of wraparound or holiday childcare, unless a serious incident (illness, accident etc) has occurred.

102 Tickell C, *The Early Years Foundation Stage Review: Report on the Evidence*, 2011

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Cost

5.1 What do parents need?

So quality, the different elements of quality, and flexible convenient care are hugely important factors. However we must of course acknowledge that cost itself is for many a very pressing concern. More than half of parents we polled (56%) found it difficult or very difficult to pay for childcare, and this rises to 66% of those in the lowest income bracket, and 69% amongst single parents. Recent research into reasons for choosing different types of childcare highlights the difficulty with assigning choices to costs in a succinct fashion

*'In terms of childcare choices specifically, there are additional difficulties with the potential for parents to feel the need to rationalise their decision as a choice (in terms of the quality of care provided, be it about matters of trust or of child development) rather than necessity (eg convenience, cost).'*¹⁰³

Parents often admit to feelings of guilt about leaving their children in childcare, so to then accept that they made a decision based not purely on the best interests of their child, but also because of economic necessity, would be particularly hard. Even so, for parents of under twos not using childcare at all, while 57% say it is personal choice, 17% say that affordability was an issue. Overall while 75% of parents said they didn't use childcare because they would prefer to look after children themselves, 10% said it was because of the cost.¹⁰⁴ Of course it is hard to tell how many parents were taking into account any financial difficulties they might face as a result of using childcare when they said they preferred to look after children themselves, or whether that was truly their ideal scenario. Our polling found that 58% of parents listed preferring to look after their child as one of their reasons for not using childcare, while 50% said one of the reasons was that they could not afford it, suggesting that multiple factors are at work when trying to make this decision. Of those who were not working, 45% listed the cost of childcare as one reason that they were not able to work.

It is also useful to look at reasons for using informal care, as they may be revealing about barriers to formal care. While we have identified above various reasons that parents give for choosing different providers, when asked to give the main reason that they chose to use informal care, 33% said that the fact they could not afford to pay for formal care was the most important factor in their decision making, more than any other main reason given.¹⁰⁵ This suggests that while there are many reasons parents use informal care rather than formal, cost of formal care is a real barrier and something that needs to be tackled as these parents are

103 Bryson C, Brewer M, Sibieta L & Butt S, *The Role of Informal Childcare: A synthesis and critical review of the evidence*, Nuffield Foundation, 2012, p105

104 Smith P et al, *Childcare and early years survey of parents 2010*, DfE, 2012

105 Bryson C, Brewer M, Sibieta L & Butt S, *The Role of Informal Childcare: A synthesis and critical review of the evidence*, Nuffield Foundation, 2012

not making the active choice of leaving children with grandparents and so on but rather doing so out of economic necessity. A light-hearted comment in our poll gave their biggest childcare problem as 'having to get on with my mother-in-law!'. While of course this was a joke, it reflects the wider difficulty with informal care, as people are dependent on favours and goodwill, and can't reasonably expect that all their childcare needs will be met.

Another way of analysing parents' needs is to see how reforms around the world which aim to reduce childcare costs impact on parents' employment, to help us establish how much cost is a key barrier to childcare use and hence employment.

It is therefore helpful to look at some 'natural experiments' where we can try and determine how changes made to childcare policies actually affect mothers' working patterns.

Box 4: Childcare reform case studies

The Netherlands

One reform that has been much discussed is that which took place in the Netherlands from 2005 to 2009. Between these years, the Dutch government increased expenditure on childcare subsidies for both formal centre based care and care at the home of a 'guestparent' (similar to a childminder) or at the child's own home. The average effective fee for formal care was halved, and expenditure increased from €1 billion in 2005 to €3 billion in 2009. It was introduced at the same time as an increase in the Earned Income Tax Credit (similar to our working Tax Credit) from €0.7 billion in 2004 to €1.3 billion in 2009.

Research has found that for parents aged between 20 and 50 with at least one child under 12, maternal employment rates increased by only a modest 2.3 percentage points, and that the hours worked per week increased by 1.1 (6.2%).¹⁰⁶ For the expenditure this seems quite a small return. However, it is well documented, and was cause for later reform, that the rise in number of 'guestparents' contained a lot of dead-weight; people who were previously getting this care for free from grandparents and so on now claimed a subsidy to pay them. Therefore it is hard to determine how much real increase of affordable childcare, as opposed to reclassification of childcare from free and informal to paid and formal, came about as a result of these reforms and hence what the true impact of any increase was on employment.

Quebec

Another natural experiment we can examine is the reform introduced in Quebec in 1997, where childcare rates were capped at \$5 per full day for all four year olds, and by 2000 it extended to all children aged 0 to 59 months. The daily rate was increased to \$7 a day in 2004. Direct subsidies to childcare providers increased from \$288million in 1996-7 to \$2.0billion in 2010-11. The individual subsidy level increased dramatically over this time, from \$3,832 per child per year to \$9,061. They found that the reforms

106 Bettendorf L, Jongenly E & Mullerz P, *Childcare subsidies and labour supply: evidence from a large Dutch reform*, Netherlands Bureau for Economic Policy Analysis, 2012

increased the weekly hours of childcare used for 1–4 year olds by 10.7 hours, and the participation rate of mothers with a child aged between one and four increased by 13 percentage points.

However, there are some very serious issues to consider about the impact of the reforms. The study also found that the reform had a negative effect on children’s cognitive development, and did not go any way towards closing the ‘social’ gap. The authors suggest this may be due to the fact that the policy required children to be enrolled full time for ten to twelve hours a day, and that this length of time in care may have negative effects. Additionally the childcare (especially that in more disadvantaged areas) was found to be, on average, of a low quality. They conclude that *‘it would therefore be recommended to any province intending to follow Québec’s footsteps to be wary of offering long hours to parents at very low prices. Since it is important to offer high-quality daycare services, it would be advised to implement slowly such programs, starting in low-income neighbourhoods, where experimental studies have proven their efficacy when providing high quality services. This would also give some time to the proper educational facilities to start offering programs that better prepare workers for the daycare industry.’*

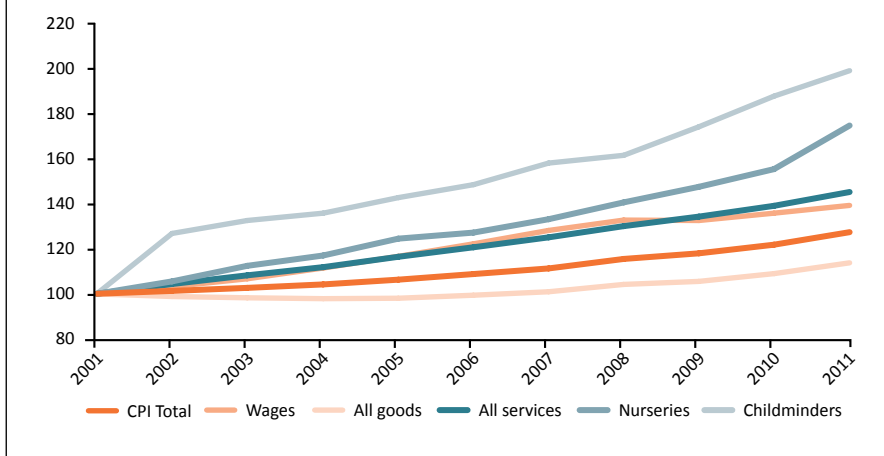
This study must make us ask what we are trying to achieve with our childcare policies. It is possible to encourage mothers back to work, but it shows the main ‘returns’ in terms of increased tax revenue are for more educated women returning to the workforce. The returns to government found in other early education programmes for disadvantaged children have been long-term benefits to the children themselves. This study neatly demonstrates how these two policies can sometimes conflict – providing low cost, low quality, childcare can help maternal employment levels, but if it is not high quality it will hinder child development and make no difference to school-readiness gaps.¹⁰⁷

5.2 What are parents getting?

The impact of cost of childcare to parents is particularly clear, making it important to calculate how much they are paying. The most frequently cited data concerning parental costs is that from the OECD and that from the Daycare Trust. The Daycare Trust’s annual childcare costs survey found that average childcare costs are almost £100 for 25 hours care a week, with rates in London reaching £300 a week. The chart below shows not only how costs have risen, but more importantly how they have risen in comparison to wages. Last year there were above inflation increases of 5.8% for a child under two in nursery care, while wages only increased by 0.3%.

107 Lefebvre P, Merrigan P & Roy-Desrosiers F, *Québec’s Childcare Universal Low Fees Policy 10 Years After : Effects, Costs and Benefits*, CIRPEE, 2011

Figure 16: Rates of increase in goods, services, wages and childcare costs¹⁰⁸

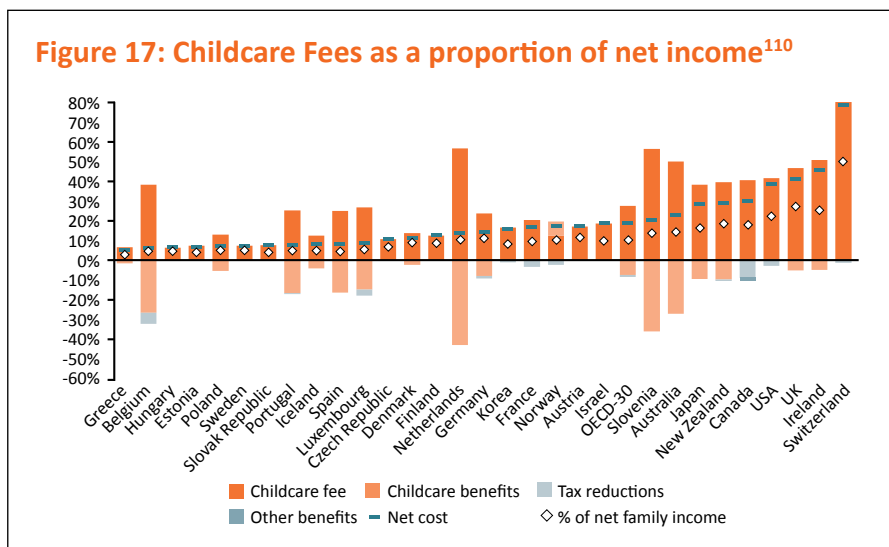


5.2.1 Difficulty of paying for childcare

As the above graph shows, childcare costs have been rising faster than other services, and faster than inflation and wages generally. Consequently, individual parents in the UK are under financial pressure when meeting costs. Our polling found that 56% of parents found it difficult or very difficult to pay for childcare. In a 2009 survey conducted by the DfE this figure was 24%. Of course, this will not include those who have decided the costs are too high for them to use childcare at all¹⁰⁹. Research conducted by the Daycare Trust and Save the Children in 2011 found that 61% of parents living in severe poverty had struggled to pay for childcare. It is also important to note that since the reduction in the childcare element of WTC from 80% of costs to 70%, which means that the claimant’s contribution to costs have increased by 50%, the average claim has gone down by £10 a week. Parents are able to get less childcare in total when they have to pay for more themselves, so reducing their childcare claims and potentially the hours they can work. The OECD data suggests that a family where both parents are earning the average wage with a two and three year old child in full time care (defined as 40 hours a week, 52 weeks a year) would spend 27% of their net income on childcare. This data is from 2008, before increases to the free entitlement for three year olds, but is still worth noting.

108 Information taken from Daycare Trust Childcare Costs Surveys, and ONS CPI figures

109 Smith R et al, *Childcare and early years survey of parents 2009*, DfE, 2010



Additionally the money we spend, as a result of the means testing of the childcare element of working tax credit, is more targeted towards low income families. The childcare costs for a dual earner family both on 100% of average wage is not the same as say, a lone parent earning minimum wage. Still, the number of parents reporting that they struggle to pay for childcare, and the increase of costs over wages, suggests these figures reflect real difficulties families are facing.

5.2.2 Impact of Childcare Vouchers

It is useful to look at the actual effect of these costs on family income, and hence incentives to work. The Resolution Foundation has produced models to show that once childcare costs are taken into account, middle income families are particularly squeezed, spending up to 31% of their net income on childcare.¹¹¹ Additionally, for a second earner on a wage of £12 an hour, they calculate that a family would actually end up worse off if the second earner moved from part-time to full time work. It is worth noting that their model does not take into account any employer supported childcare, understandably as not all employers offer it so it would be rash to assume a ‘typical family’ were claiming them.

There is also some debate about who exactly uses childcare vouchers. The Social Market Foundation looked at data from 2007/8 on the Family Resources Survey, and estimated that 83% of claimants were basic rate taxpayers, however more recent analysis of the surveys by HMRC suggested 40% were higher or additional rate taxpayers, and 60% were basic rate.^{112, 113} The discrepancies in the data could reflect real year on year changes, or alternatively could serve to highlight the fact that we have very limited accurate information about the uptake.

However, both of these look at individual incomes; the annual survey of parents by the DfE found that of the six percent of parents receiving some help with their childcare costs from an employer 73% had household incomes of over £45,000.¹¹⁴ However if we use their model for a family with one parent working full time and one working part time, with a household income at the level of £43,000, we can see that if one parent claimed £243, and the parent working part time claimed £193.25 (it is only worth parents claiming the money if they

110 *Doing Better for Families*, OECD, 2011

111 Alakeson V & Hurrell A, *Counting the Costs of Childcare*, Resolution Foundation, 2012

112 Konings J, *Childcare Vouchers: Who Benefits?*, Social Market Foundation, 2010

113 *Changes to Tax Reliefs for Employer-Supported Childcare*, HMRC, 2010

114 Smith P et al, *Childcare and early years survey of parents 2010*, DfE, 2012

would be paying tax on it; our second earner in this scenario would therefore claim £2319 in 2012–13) their childcare costs as a proportion of net income would fall from 17.4% to 12.8% (at 2012–13 tax rates and thresholds).¹¹⁵ This would significantly smooth the jump seen when a family is no longer entitled to any childcare benefits (excluding the early years entitlement). Of course as the personal allowance threshold increases there will be less incentive for earners near the limit to take vouchers, as they would receive the money tax free anyway. For the family spending the highest proportion of their net family income on childcare, namely the dual full-time on middle incomes, assuming childcare vouchers are used, brings their net expenditure down from 30% to 26%. It is however important to note that vouchers don't alter the problem second earners face when they consider taking on more hours, namely that any increase in hours beyond 15 may actually result in a drop in income.

There has been a great deal of rhetoric about encouraging entrepreneurship and start-up businesses in the UK. However recent OECD data shows that only 1.5% of women in work own their own business, which places the UK 29th out of 34 OECD countries compared.¹¹⁶ It is worth stating that childcare vouchers are not currently available to the self-employed, perhaps affecting incentives for those with young children who are considering setting up their own businesses.

5.2.3 Childcare Element of Working Tax Credit (WTC)

It is vital to consider those on lower incomes, and here the most important form of support beyond the free entitlement is the childcare element of WTC. The childcare element of WTC is strongly conditional; parents need to be both working and using registered childcare in order to claim it. However, in 2011 the rate which could be claimed was reduced from 80% of childcare costs to 70%, and the upper limit of costs remained the same, while Child Tax Credit (CTC) increased. Additionally, while you get the same amount of money for every child under CTC, the childcare element of WTC is worth (if you are able to get the full amount) £122.50 for one child and £210.00 for two or more children.

It seems counter-intuitive that benefits to support the general expense of having a child (CTC) go up the same amount by each child even though (as the rationale behind child benefit being higher for a first child shows) costs will not necessary double as you have a second child. Of course food costs will, but many other essentials may not. However with childcare it is of course the case that another child will be likely to double your childcare costs (unless you are using a nanny, or getting a sibling discount at a nursery); childcare places unlike prams, cots and clothes can't be shared or handed-down. The reduction in the rate may have contributed to parents reducing their expenditure on childcare, with reported figures from this year suggesting that the average childcare element award has decreased by £11 a week, or £572 a year, and that 38,000 fewer claims are being made. This suggests that many are either reducing their own outlay on childcare, as they can't cover the 30%, are facing a new squeeze on their budgets, or simply stopping using childcare at all.¹¹⁷

5.2.3.1 Reducing Error and Fraud, Increasing the Entitlement

Of the £1.548 billion spent on the childcare element of WTC in 2010–11, it is estimated that £265 million was claimed erroneously or fraudulently, 17% of the

¹¹⁵ Assuming main earner is on £32,576, second earner is on £10,424, they claim child benefit and the full entitlement for their four year old, and so have a net income of £35,969 (calculated at 2012-13 tax thresholds) and a net childcare bill of £6288.4 not including childcare vouchers, and £4613.2 including childcare vouchers.

¹¹⁶ *Closing the Gender Pay Gap, Act Now – United Kingdom*, OECD, 2012

¹¹⁷ *Child and Working Tax Credits*, HMRC, April 2012

total budget.¹¹⁸ This compares to an error rate of between 6.6% and 8.1% across tax credits in total.¹¹⁹ The majority of this, £260million, was claimed in error, presumably due to the complexity and delayed responsiveness of the system. We therefore reiterate that a childcare account, where all money is maintained in a ‘closed loop’ system and so can only be spent on actual childcare used, would significantly reduce this wastage. The way that this account would work is detailed in the chapter on convenience, but in summary parents would be able to update their information instantly online. Additionally, if there was any government money at the end of the quarter which had not been spent, it could potentially be automatically returned to the exchequer.

This would also make things easier for parents. In our polling parents told us about difficulties they had with the childcare element of WTC. Some noted that the system was complicated and processing claims took a long time. Another issue that arose was that parents had been paid too much, and were then hit much later with a big repayment bill that they struggled to meet. Claimants want to receive the money that they are entitled to, no more and no less, in an easy and efficient way. It would also be a real boost for providers as they would have the certainty of government money being spent directly on the frontline, mediated through parental choice, rather than simply cash transferred to parents.

If fraud and error could be removed entirely from the system, government would save £265million. Even if the error rate was only reduced to the same level as it is in the rest of WTC (using HMRC’s lower estimate of 6.6%) £162million of savings could be made. However we believe potential savings from a ‘closed loop’ system could be much greater. These savings could be reinvested into the childcare element of WTC credit so that it covers a greater proportion of childcare costs for parents.

Box 5: Cost of the Childcare Element of WTC

In April 2012, 455,000 people were receiving on average £58 a week through the childcare element of WTC. This equates to an average of £11 less than they received in 2011, because of the reduction in the proportion of costs covered (although we recognise that not all claimants will receive the full amount due to income tapers).

A rough calculation suggests that increasing the childcare element of WTC to 80% (upping all claimants of the award by £11 per week) would cost approximately £260million. We know, however, that overall, the claims were £397 million more in 2011 than in 2012¹¹⁸ and so this may be a better estimate of the cost of increasing the childcare element of WTC from 70% to 80%.

In summary, we therefore estimate the potential savings from reducing error and fraud could be between £160million and £260million, while the costs of increasing the childcare element to 80% could be between £260million and £397million. Using the more optimistic estimate of £260 million, we could therefore afford to increase the element to 80%, while with the more pessimistic estimate on both savings and costs we could afford to increase it to 74%.

118 *Child and Working Tax Credits: Error and Fraud Statistics 2010-11*, HMRC, 2012

119 *HM Revenue & Customs 2010-11 report and accounts*, National Audit Office, 2011

120 The number of claims went down by 38,000 between 2011 and 2012. It is difficult to estimate how much of this was due to a change in parents’ circumstances or how much was directly related to the reduction in the childcare element of WTC from 80% to 70%.

The childcare element of working tax credit is essential in enabling low income families to return to work. We believe particular care should be taken when introducing Universal Credit to ensure that those parents who are allowed to claim Housing Benefit and Council Tax Benefit (based on their income net of expenditure on childcare) should continue to do so under the new system. Of course Council Tax Benefit will be administered at the Local Authority level, so we encourage them to take into account how any changes will affect childcare support. Changing to a system where this disregard is not allowed will significantly reduce the total support for childcare costs that these families receive, making the above increases to the childcare element even more essential.¹²¹

5.2.4 Deposits

It is also important to talk about other costs that parents face, not just the fees. One significant cost, and a potential barrier to those entering work, is deposits. The Westminster Childcare Sufficiency Assessment illustrates this difficulty:

‘Most childcare providers charge fees in advance and require a deposit to secure a childcare place. This means that families, who have been without an income and have not yet received their first pay check, are asked to find a minimum of £500 before their child can access a place. Working Tax Credits can take up to six weeks to process. By this time a parent using childcare for an under two in the voluntary sector will already have been asked to pay more than £1,000. This is a key barrier to employment for many low income Westminster families.’¹²²

Given the problems families are facing, it therefore seems sensible to ask how government could spend its money better. One problem with the government expenditure that is often raised is that while it spends quite highly relative to other OECD countries, parental contributions also remain high. We believe there are some issues with comparing OECD data in this manner as it is not entirely simple to determine spending. While the percentage of GDP spent on childcare and pre-primary services is 1.1%, placing us third in the OECD, we must also look at per child spending which moves us down to sixth. But the figures for per child expenditure on childcare do not take into account enrolment rates (the actual number of children using any provision), instead simply calculating expense divided by the number of children under five. This means that for those who have fewer children enrolled it looks as if they spend much less per child. Recent research by IPPR notes that the figures are calculated as if children start school at six, whereas for the UK they will be in school long before that, so direct comparisons may be complicated by the systems used.¹²³ When looking at such different systems, which also have very different systems of parental leave, it is important to be slightly wary when drawing conclusions.

5.2.5 Government funding of the Free Entitlement

We have seen in the section above the dramatic increase in the number of childcare places available, and how the main growth in this sector has been amongst PVI providers. This growth can be largely attributed to the reforms guaranteeing free early education for three and four year olds. However, while we might imagine that a huge increase in supply as well as increased subsidies for nurseries through the free entitlement would lead to fees decreasing for parents, this has not been

¹²¹ The Children’s Society, *The Parent Trap: Childcare cuts under Universal Credit*, 2012

¹²² Westminster Childcare Sufficiency Assessment, *Refresh Summary 2012*, City of Westminster, 2012

¹²³ Cooke G & Henahan K, *Double Dutch: The case against deregulation and demand-led funding in childcare*, IPPR, 2012

the case. Fees for hours beyond the free entitlement have continued to rise faster than inflation, and one explanation for this may lie in the way the free entitlement is delivered. The free entitlement is a vital support for parents, and we believe that particularly with the extension to disadvantaged two year olds, it has the potential to make a real difference to children's lives, but it must be funded appropriately.

In this section we look at the funding rates per hour for the free early education offer, from when it was introduced to today, and examine how it has increased over time. To judge whether these funding levels changes are adequate we firstly compare them to the increases made to the minimum wage, which many workers in the childcare sector are paid. Secondly, we compare them to the increases in education spending as a whole, and see that early years education has not benefitted from the same kind of expenditure increases. We believe this shows the free entitlement is being underfunded, a view corroborated by individual nursery owners and the NDNA. This underfunding in turn leads to nurseries operating systems of 'cross-subsidisation'; increasing fees to parents to make up the shortfall on government funding.

Level of Funding for Early Years Entitlement

In 2000/1 the Nursery Education Grant (NEG) had a top limit per child per year of £1,188. Given the number of hours of the entitlement at that time, this works out as £2.88 per hour per child.¹²⁴ In 2003 this figure was £7.40 per two and a half hour session, or £2.96 an hour.¹²⁵ The current average for the EYSFF is £3.95 an hour. In real terms these figures would be £3.74 per hour and £3.68 an hour respectively. There has, per hour in real terms, been a 5.6% increase on funding since 2000. However when we look at other factors which affect the childcare sector we should note that the minimum wage, which many childcare workers are paid, has increased from £4.10 an hour in 2001 to £6.19 today, a 14% increase in real terms, compared to the 5.6% real terms increase in the per hour funding. Additionally there has been a steady increase in the requirement to have qualified members of staff, and numbers of graduates and staff members qualified at level three have been gradually increasing since 2000.

Comparison to School Level Funding

For comparison's sake, it is interesting to note that funding per pupil aged 3–16 has risen in real terms from £3,450 in 2000/1 to £5,360 in 2010/11, an increase of 55%.¹²⁶ If we take the data from the National Audit Office for the average funding level for free early education, £3.95 an hour, that implies an annual per pupil figure of £2,251. This compares to the grant funding per pupil for schools of £5,476 a year, so the early years figure is only 41% of the schools figure.¹²⁷ This is despite the fact that the Guaranteed Unit of Funding is calculated at 60% of the schools rate for early education. Of course schools too have seen costs increase for a number of reasons, including extended opening hours, but the disparity between the overall increase and the increase for those in early years settings is striking. This suggests that whether money is set centrally, as it was with the NEG, or locally as it is under the EYSFF, the Early Years lose out.

124 Lewis J & Lee C, *Changing Family Structures and Social Policy: Child Care Services in Europe and Social Cohesion*, EMES, 2002

125 *Early Years: Progress in developing high quality childcare and early education accessible to all*, National Audit Office, 2004

126 *Revenue & Capital Funding per School Pupil 1997-98 to 2010-11*, DCSF, 2009

127 2012 School Performance Data, Spend per Pupil, DfE

Free Entitlement Funding and Effect of Parental Fees

There are several reasons that this underfunding is an issue, and one is the effect that it has on providers' fees for parents. One nursery owner based in York described how he had calculated that funded hours, which formed 50% of his business, were 50% covered by the EYSFF payment. The remainder, 25% of his total business, had to be covered by fee paying parents. It is vital for settings to offer these free hours, otherwise the number of parents willing to use them would be significantly reduced, but the necessity of cross-subsidising their hours in this way drives up the cost of paid for care. One LA Early Years officer we spoke to said that PVI providers certainly felt like they weren't getting an 'equal share of the pot', and that there was a huge gap between the government funding levels and the market prices. This officer felt the most pressing concern at the moment was to ensure the funding levels were appropriate so that more providers would come forward to offer free hours.

It is interesting to note that an NDNA survey of 537 nurseries found that 77% of nurseries were underfunded for three and four year olds, the number underfunded for two year olds was 51.4%.¹²⁸ The National Audit Office found that 58% of settings claim that the EYSFF does not cover their costs.¹²⁹ Although there are still serious problems, it seems that fewer providers are being underfunded for two year olds when the money is coming from the EIG rather than the DSG, as it does for three and four year olds.

It is very important to note that, during the piloted offer for two year olds, only 17% of parents offered free hours paid for any additional hours at the nursery. Many of these were from higher income families who had been included, for example because the offer was targeted geographically rather than by household income. So nurseries which currently offer three and four year old places as a 'loss leader' in order to secure additional paid for hours will face a problem if they applied the same business model for two year olds, as the parents of two year olds from more deprived backgrounds are less likely to pay for additional care.¹³⁰

The NDNA survey also notes that for those offering care to the most disadvantaged young children, many other services are being offered such as home visiting, meetings with social workers and involvement in child protection cases, which all incur costs in terms of staff training and time for nurseries.¹³¹ The recent announcements about the level for two year old funding set £5.09 as the average rate. This compares favourably with current fees charged, although many providers say that their two year old fees are subsidised by fees charged to parents of older children.

Professionalisation of the Workforce

Another real concern is that this money not only has to cover current costs, but is also essential to pay for the professionalisation of the workforce that government and the sector itself are committed to. As noted above the wages of teachers and EYPs would need a much higher funding level, and a flat rate doesn't encourage improvement. But there is also the issue of where the money for support services, training and so on will come from. For example, the money to support employment of graduates in the early years was transferred from the graduate leader fund to the EIG. In our chapter on quality we called for the government to clearly state whether money for employing graduates, and to pay for other methods for raising standards, will in the future be paid by providers themselves or from an LA-level fund. Funding, either paid directly to settings or to LAs, must be available. Additionally as

¹²⁸ *Insight Report- Nursery Business Survey*, NDNA, 2012

¹²⁹ *Delivering the free entitlement to education to three and four year olds*, National Audit Office, 2012

¹³⁰ Smith R et al, *Early Education Pilot for Two Year Old Children – Evaluation*, DCSF/ National Centre for Social Research, 2009

¹³¹ *Insight Report – free early education for two year olds*, NDNA, 2012

a recent report points out, the two year old funding was calculated using the same weighting as that for schools, which does not take into account variation in rates and rents, which are a particular issue for childcare providers in London.¹³²

Access to Free Entitlement

A final cause for concern may be the effect this funding situation has on parents' ability to access their free hours. The offer of free hours of education and care, and the extension to two year olds, is commendable and has certainly done a great deal to ease parents outlay on childcare. However if these 'free hours' are in effect being paid for by parents who need more than 15 hours childcare a week, it is not only slightly disingenuous to suggest that they are fully government funded, but also may make it harder for parents to find a place for just their 15 hours. If a 15 hour part-time place is offered, nurseries may not actually be able to cover their costs, so some have to resort to offering only full-time places. A recent report which interviewed a range of providers found that

'A significant number of nurseries admitted to prioritising working parents who would purchase additional hours when it came to offering places for three and four year olds'.¹³³

Our polling showed that those with family incomes of under £40,000 were the most likely to say that they had difficulty accessing just the free hours, with 22% saying they had trouble doing so. This perhaps reflects the fact that lower income families are less likely to buy extra hours. The two year old pilot found that only 17% of parents provided with the free entitlement for two year olds bought extra hours.¹³⁴ Our polling found that 49% of those in families of under £20,000 paid for extra hours, and 52% of those on between £20,000 and £39,999 did. However 73% of families with over £60,000 paid for more than their fifteen free hours. Only 10% of higher income families reported a difficulty accessing their free hours. While there may be many reasons for this, it is interesting to note the correlation between paying for more hours of childcare and finding it easy to access the free entitlement, and vice versa, which could support the idea that nurseries favour those families who will buy extra hours. This would make it harder for those low income families to access the places their children need.

5.2.6 Social Enterprise

We believe that while ensuring appropriate levels of government funding for childcare is essential, this needs to be matched by innovative developments from the sector itself about how best to deliver high quality childcare to poorer families at an affordable rate. Some of the best models for this that we have come across in our research are social enterprise models. We know that voluntary ownership of provision has been growing in recent years, with 22% of full day care places now delivered by the voluntary sector. However, while there are some large charities offering many places, voluntary sector organisations tend to be smaller (with an average of 30 places compared to a private sector average of 47).¹³⁵ Social enterprises, which are businesses which reinvest any money they make into achieving identified social goals, in some ways combine the best aspects of both kinds of model; sustainable provision, that is scalable, which also has a built-in commitment to helping the disadvantaged.

132 Rutter J, Evans B & Singler R, *Supporting London local government to deliver education for disadvantaged two year-olds*, London Councils and Daycare Trust, 2012

133 Rutter J, Evans B & Singler R, *Supporting London local government to deliver free education for disadvantaged two year-olds*, London Councils and Daycare Trust, 2012

134 Smith R et al, *Early Education Pilot for Two Year Old Children – Evaluation*, DCSF/ National Centre for Social Research, 2009

135 Brind R et al, *Childcare and Early Years Providers Survey 2011*, DfE, 2012

Case Study: London Early Years Foundation

The London Early Years Foundation is a social enterprise running 24 community, workplace and Children’s centre nurseries in six London boroughs, serving a diverse mix of families. They have developed a social business model that uses sustainable income from its nurseries in more affluent areas to actively target the heart of some of the capital’s most deprived communities, making high quality childcare available to those who need it most. LEYF aims to get parents, and grandparents, from all backgrounds into the nursery to enrich the qualities of the local communities they serve.

5.3 Recommendations

- **Recommendation 10:** Conduct an audit into the real per hour costs of high quality childcare, and consider ring-fencing of the early years budget within the DSG
- **Recommendation 11:** Use savings from the online childcare account system to increase the childcare element of WTC/Universal Credit, following a government review of potential savings
- **Recommendation 12:** Government should consult on increasing the amount available tax-free from employers to basic rate taxpayers and single parents, making it compulsory for employers to offer it, and extending the entitlement to the self employed
- **Recommendation 13:** Encourage childcare providers to signpost Budgeting Loans for those struggling to cover a deposit.

Recommendation 10: Conduct an audit into the real per hour costs of high quality childcare, and consider ring-fencing of the early years budget within the DSG

As we have noted above there are already significant problems with the way this money is being distributed, with many providers saying it does not cover costs. This leads them to cross-subsidise from paid-for hours, which means fees increasing for parents and possibly lower income parents being placed at a disadvantage when trying to access their free entitlement. This is very important when we look at models for expanding entitlement to childcare. Some models which look at extending free, or highly subsidised, entitlement use the current average rate of £3.95 an hour to calculate how much this extension would cost.¹³⁶The problem with this is clear; if the current funding is not sufficient and is in effect topped up by parental fees for additional hours, and if more hours are paid for by government at the same rate providers could rapidly face extreme pressures on their costs. This could lead to several outcomes; government would be forced to reassess their level of funding, providers would stop offering the free entitlement altogether or they would make cost-cutting measures which could affect quality.

We believe that the early years have been consistently underfunded, and as money for two year old provision moves from the EIG to the DSG there is no

¹³⁶ See, for example, the Resolution Foundation’s Commission on Living Standards, which does acknowledge the problem but still presents a headline cost based on current expenditure on the 15 free hours.

provision in place to ensure it is spent on two year old education. Although the recent announcement from the DfE encourages all the funding to be passed on to providers, and that the rate should not be as varied as the current base rates, there is no way to ensure this happens. Additionally, even if they encourage this, if no money is set aside to pay for training and support services, more costs are being passed on to providers along with the money.

We therefore believe that higher priority should be placed on Early Years Funding within the DSG. This could be done through an audit into the real per child costs of high quality childcare, with highly trained practitioners, which will inform government funding levels. This audit should include the cost of effective support services delivered by the LA or other bodies. This money could then be ring-fenced for spending on early years education. We believe that only once the quality issues have been addressed, and the funding issues resolved, should we begin to discuss the extension of the free hours of early education.

We believe government should offer a fair rate of funding, but this should go alongside disseminating best practice about social enterprise models of childcare, and encouraging providers themselves to offer the fairest fees possible.

Recommendation 11: Use savings from the online childcare account system to increase the childcare element of WTC/Universal Credit, following a government review of potential savings

We believe that by introducing a childcare account system as outlined above, to deliver the childcare element of WTC (soon to be incorporated into Universal Credit), wastage through misreported childcare fees could be avoided, potentially saving £260million which is wrongly distributed through error. The money transferred to the accounts would only be spent on registered childcare, and any money unspent could easily be transferred back to government. Although there would be some start up costs associated with this system, it could be kept low by using existing providers such as the voucher scheme companies rather than establishing a new government infrastructure, and then on a yearly basis those savings could go into increasing the childcare element of WTC/UC to somewhere between 74% and 80% of costs. This could make a real difference to working families on the tightest budgets. As we have seen above, only among low income families do more parents say cost is a main reason for choosing childcare than quality; by increasing support for these families we can ensure that more are able to think about quality first and foremost when choosing a provider.

Recommendation 12: Government should consult on increasing the amount available tax-free from employers to basic rate taxpayers and single parents, making it compulsory for employers to offer it, and extending the entitlement to the self employed

Childcare costs really are a 'squeeze' on middle earners, once they are no longer eligible for tax credits, and can have adverse effects on incentives to work more hours. This is where childcare vouchers are particularly important, which can be worth up to £486 a month tax and NICs free for a family of two basic rate tax payers, if both parents are working and claiming vouchers. This can be a saving of £1887.60 a year. However, there are problems with the current system.

- First, not every employer offers vouchers, and parents in the workplace may be reluctant to ask employers to introduce a scheme to accommodate them.
- There is a level of bureaucracy as most employers will use a voucher provider who will take a commission.
- The level of childcare vouchers has remained at £55 since 2006, if they were just keeping in line with inflation they would need to have risen to £64. If we take into account the fact that the price of childcare has risen 35% since 2006, vouchers would need to be set at £74. There is also the risk that they penalise single parent families, as they are only able to make one claim for vouchers per household rather than two.
- For lower income families it is extremely complicated to establish whether they will be better off using vouchers or claiming tax credits.

We suggest that government should look at increasing the support available for basic rate taxpayers, which would be delivered through the same system as the childcare element of WTC or UC, and for single parents. This could continue to be delivered through voucher providers, or government could choose to deliver it themselves, whichever is most cost effective. We believe that government should make it compulsory for employers to offer childcare vouchers; the only tax relief for those in work should not be a perk offered by generous employers, but a right all employees can expect. The self-employed should be able to make use of childcare vouchers, to encourage entrepreneurship. This would be a spending commitment, but some of this could be covered by removing the allowance for those earning over £150,000 which cost government £20million in 2011–12, although this would not cover the entire cost.¹³⁷

Recommendation 13: Encourage childcare providers to signpost Budgeting Loans for those struggling to cover a deposit.

A first step for improving this access could be to ensure that any providers charging deposits, and we must be very clear that this should not include those offering the free entitlement, should advertise to low income families that they may be eligible for interest free Budgeting Loans from the Social Fund if they are using childcare to enable them to take up work.

137 Seely A, *Tax relief for childcare*, House of Commons Library, 2012

6

Conclusion

Throughout this report we have tried to show the complicated nature of childcare policy, and the various needs that provision must try to meet. We believe that the most important thing that childcare policy can achieve is to do as much as possible to ensure that the life chances of children born into deprived backgrounds are as good as their more advantaged peers. This means not only ensuring the quality of that childcare, but also making sure that their parents can afford it and return to work, as parental income and employment are also vital for children's development. However the need for high quality and affordable childcare, that is easily accessible, is not only important for these families. Given that we believe women should be enabled to choose to return to work after having children for economic reasons and reasons of gender equality, and that they are disproportionately the ones who stay at home if the family does not use childcare, it is imperative that childcare is available throughout the income spectrum.

We have shown in this report that childcare quality is not universally high enough to deliver the kind of impact we would like to see. Our proposals for this highly autonomous sector, with a great diversity of mainly small providers, suggest a combination of quality improvement systems. These can come from within the sector, learning from the Teaching Schools programme, and from LA provision of training, advice and quality improvement. However we need to create a more accountable system, so that we know whether LA money is being spent effectively, and how well they are doing at driving up standards, with a regime in place to manage any failings on their part. This drive to increase quality needs to be reflected in the funding, with those settings (particularly if they are serving deprived areas) which need to access training and support having the money available to do so. Additionally we need to allow parents to drive improvement, by giving them more, and more up-to-date, information and increasing financial support for low income families so they can choose high quality care over low cost care.

This quality improvement needs to be matched by improvements in affordability generally. We believe that by streamlining the funding system for the childcare element of WTC/UC with the childcare voucher system, into a 'closed-loop' system', savings could be made from the error and fraud rates that could in turn be reinvested in support for low income families. The support for basic rate taxpayers eligible for vouchers could also be increased, to ease the jump when families are no longer eligible for WTC/UC, or at least made more accessible by the introduction of automatic enrolment into voucher schemes, as with pensions. We believe that this support can go hand in hand with some sensible reductions in regulation, so that those providing care that fits around early education are freed from burdens of paperwork.

Appendix of Abbreviations

- BAS** – British Ability Scale
- CIS** – Caregiver Interaction Scale
- CTC** – Child Tax Credits
- DSG** – Dedicated Schools Grant
- ECERS** – Early Childhood Environment Rating Scale
- EIG** – Early Intervention Grant
- EPPE** – Effective Provision of Pre-School Education
- EYFS** – Early Years Foundation Stage
- EYPS** – Early Years Professional Status
- EYSFF** – Early Years Single Funding Formula
- FSM** – Free School Meals
- ITERS** – Infant/Toddler Environment Rating Scale
- NCMA** – National Childminding Association
- NDNA** – National Day Nurseries Association
- NEG** – Nursery Education Grant
- NICDH** – National Institute of Child Health and Human Development
- OECD** – Organisation for Economic Co-Ordination and Development
- PSLA** – Pre-School Learning Alliance
- PVI** – Private, Voluntary and Independent sector
- QTS** – Qualified Teacher Status
- SEN** – Special Educational Needs
- SENCo** – Special Educational Needs Co-ordinator
- UC** – Universal Credit
- WTC** – Working Tax Credits



Childcare is an essential service for many families, whether it is to enable parents to go out to work, or to ensure that their children are ready and able to start school on an equal footing with their peers.

In this report we look at the way childcare policy in this country has sought to meet these, sometimes competing, needs. We highlight how childcare in the most deprived areas is of a lower quality, even though it is children in these areas who will gain the most from accessing high quality care. Additionally we look at how financial support to parents can often be complicated and inefficient, meaning many parents struggle with the cost of childcare.

We explore different ways in which we can drive up the quality of childcare, by holding Local Authorities to account, ensuring adequate funding for a professionalised workforce, and extending innovative improvement programmes such as Teaching Schools and Teach First to all early years settings. We also look at the way the financial support, through tax credits for lower earners and tax breaks for higher earners, operate. We identify where savings could be made, and where they should be reinvested to have the greatest impact for families struggling to work and pay for childcare.

£10.00
ISBN: 978-1-907689-41-3

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