REPORT

NO MORE BABY STEPS

A STRATEGY FOR REVOLUTIONISING CHILDCARE

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with Nick Pearce
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The purpose of our work is to assist all those who want to create a society where every citizen lives a decent and fulfilled life, in reciprocal relationships with the people they care about. We believe that a society of this sort cannot be legislated for or guaranteed by the state. And it certainly won't be achieved by markets alone. It requires people to act together and take responsibility for themselves and each other.

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ABOUT THE PROJECT

This report is part of the wider IPPR project 'Childcare: A strategic national priority?', which seeks to analyse the case for, and core components of, a more strategic approach to early years provision in the UK, and explore the impact of childcare on gender equality, maternal employment and child development. Further details about IPPR's work on these issues can be found at http://www.ippr.org/big-issues/children-and-families.

Nuffield Foundation

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IDEAS to
CHANGE LIVES

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EXECUTIVE SUMMARY

Childcare has become an increasingly salient public policy issue across developed economies in recent decades. As the number of women entering employment has risen, the need to enable parents to balance their work and family lives has led to increased demands for affordable childcare provision. Efforts to meet these demands are most advanced in the Scandinavian countries, where sustained investment over many years has produced high-quality, universal pre-school childcare systems that support the highest female employment rates in the world. Yet the extension of childcare provision can be observed in most mature economies: many countries in Europe and Asia that are traditionally socially conservative have also taken a 'Nordic turn' in recent years, as they seek to improve parental employment rates and deal with the care needs that emerge in ageing societies.

A further widely shared objective of public policy in advanced economies is the promotion of greater equality in early childhood development. Extensive evidence points to the importance of high-quality early learning to social and educational outcomes later in childhood. Policymakers have sought to invest in early-years education and care in order to reduce inequalities in school-readiness, and to tackle the high social and economic costs of entrenched disadvantage that start at the very beginning of children's lives. There is evidence that when early-years education is provided by highly trained staff, it not only enables families to better balance work and caring responsibilities, but also delivers greater equality in children's life chances. The impact that both parental employment and care quality have on child poverty is considerable: a child that grows up in a household with two earners, and receives high-quality early learning and care, is less likely to live in poverty.

Another objective of any early-years and childcare policy should be gender equality. The provision of affordable childcare helps to ensure that childcare responsibilities do not prevent women from continuing to work, and that mothers and fathers can share the obligations and rewards of parenting more equally. In doing so, it helps to reduce gender inequalities in terms of both earnings and the division of family care responsibilities. However, the evidence also suggests that gender equality is best promoted when affordable childcare is coupled with parental leave and flexible work entitlements that encourage and enable fathers as well as mothers to take on caring responsibilities, particularly in the first year of a child's life. It is therefore important to integrate policies for extending affordable childcare provision with those that structure options for maternity, paternity and parental leave.

In this report we set out plans for how the UK can move towards a universal, high-quality and affordable system of childcare and early-years provision. Such a system – combined with reforms to parental leave and rights to flexible employment – can enable us to meet three core objectives of public policy for the early-years:

- higher employment rates for parents, particularly mothers
- reductions in early childhood inequalities
- greater gender equality.

There are, of course, trade-offs between these objectives. Low-quality but affordable early-years provision can promote parental employment, but to the detriment of children – particularly the very youngest – if they are to spend long hours each week in care settings. Similarly, early-learning entitlements can be provided in ways that enhance child development but which are also very difficult to combine with parents' working lives. Consequently, as we expand and reform childcare and early-years provision, we need to be clear about these trade-offs and tensions in policy, and how they can best be resolved given the resources available.

This report is the final output from our 'Childcare: A strategic national priority?' project. It follows two earlier reports: *Early developments: Bridging the gap between evidence and policy in early-years education* (Parker 2013a), which set out policy lessons from an examination of the literature on early-years provision, and *Childmind the gap: Reforming childcare to support mothers into work* (Thompson and Ben-Galim 2014), which explored the factors that determine maternal employment rates in the UK, particularly the pivotal role that affordable, accessible childcare plays in supporting mothers to work. The report that follows focuses primarily on pre-school childcare and early learning. Childcare for children of school age is also very important, but the questions that it raises for policy are substantively different to those posed by the early years, where the need for extending and improving provision is greatest. Similarly, this report does not advance comprehensive policy solutions for the needs of families who work atypical hours, or who have children with complex or special needs. However, we believe that the framework of childcare provision we advocate here provides a robust platform from which those additional needs can be addressed.

The expansion of early-years provision

Our proposals build on our previous work, and recognise that there can often be competing objectives in reforming childcare provision. Our reforms are designed to advance these objectives simultaneously – for example, by ensuring that expanded provision is both high-quality and affordable.

The core components of our proposals are as follows.

- **An extension of universal early-years provision** – providing a universal entitlement of 15 hours a week of early learning, 48 weeks per year, for all children from the age of two until they enter school.
- **A new framework of affordable childcare for working families** – bringing down the direct costs of childcare, with capped parental fees and a progressive allocation of resources, while guaranteeing affordable places from the age of one, funded through reforms to existing tax credits and reliefs.
- **Improvements to the quality of childcare and early-learning, to support children's development** – over time, building a highly qualified early-years profession, whose members hold teaching- and early-years-related qualifications.
- **Reforms to parental leave entitlements** – strengthening fathers' entitlements and giving families the opportunity to make genuine choices on work and care.

We place a strong emphasis on protecting family time, especially when children are young, so that parents can settle on the right balance between work and care; on offering all children between the ages of one and five the opportunity to thrive in high-quality care settings; and on affordability, so that the price that parents pay for childcare enables them to arrange their working lives according to their preferences. We all have a stake in developing a system of early-years provision that is universal, high-quality and affordable. It is an investment for society.

There are, of course, costs to some of these proposals, and in the current economic climate it would be naïve to suggest that they could all be implemented immediately.

We therefore suggest that the following measures should be prioritised within the next parliament.

- Extending the free entitlement (15 hours per week) to all two-year-olds, and investing in a high-quality workforce to ensure that all two-year-olds are supported to thrive and develop.
- Extending the free entitlement (15 hours) from 38 to 48 weeks per year for all 2–4-year-olds to better spread families' childcare costs across the year.
- A new framework for providing 20 hours of affordable childcare a week (in addition to the free entitlement), through a cost-sharing mechanism that would make childcare costs more affordable for parents, enabling many of them to work according to their preferences. Our modelling suggests that the government could cover 95 per cent of childcare costs for families claiming universal credit, and 30 per cent of the costs for those who will be claiming tax-free childcare, without increasing the total level of spending on this part of the system.
- The introduction of a four-week, use-it-or-lose-it 'daddy quota' of paternity leave, to strengthen fathers' entitlements and protect family time in children's first year.

The costs for these priorities are outlined below.

Table A.1
Annual cost, additional to current spend, of priority proposals in the next parliament

Area of reform	Priority proposal	Cost
High-quality extensions to universal early-years provision	Extend free entitlement to all two-year olds (to 38 weeks)	£910 million
	Having all staff working with two-year olds be qualified to level 3 at a minimum	£200 million
	Ensuring that 30 per cent of the professionals who work with two-year-olds are graduates	£200 million
	Extend the free entitlement to 48 weeks for all 2–4-year-olds	£1,000 million
	Invest in quality measures towards raising qualifications for all existing staff to level 3, and to level 6 for 30 per cent of staff	£200 million
Reforms to parental leave entitlements	Introduce four-week 'daddy quota', with leave paid at the minimum wage (assuming a 70 per cent take-up)	£150 million
Total cost		**£2,660 million**

Note: All costs are in 2015/16 prices. With the exception of some up-front investment in quality, these are annual costs. The intention is that they are phased in throughout the next parliament.

We would advocate further reform beyond the next parliament, including further raising the qualifications of the early-years workforce, and extensions to parental leave.

Paying for universal, high-quality provision

Resources need to be found upfront to invest in expanding childcare provision. Given the UK's current fiscal position, it would be remiss not to discuss realistic funding options.

As a first step, we are suggesting that current resources be used more efficiently and effectively. Shifting spending from demand-led provision, such as tax-free childcare, to supply-funded provision through a cost-share mechanism and a parental cap could not only lower costs for parents but could also protect the government from inflationary pressures on the cost of childcare. Our proposals for the cost-share mechanism assume spending levels that are similar to current commitments. The recently announced early-years pupil premium (with a budget of £50 million in 2015/16) offers opportunities to raise qualification levels across the sector, and a consultation is currently underway on the funding formula for schools, including early-years provision, which could result in a more efficient spending relationship between central government, local authorities and providers.

Beyond that, new resources need to be found. Previous analysis by IPPR shows that making affordable childcare more widely available could potentially raise revenues: we would anticipate a return on this investment in the form of increased maternal employment rates. Our analysis has shown that a 5 percentage-point increase to the maternal employment rate could generate £750 million a year in benefit savings and tax revenue. These figures rise relative to the scale of the increase in the maternal employment rate: for example, a rise of 10 percentage points could generate £1.5 billion annually. Given current forecasts, we propose 5 percentage points as a realistic and ambitious aim for the next parliament.

However, it is clear that hard political choices also need to be made to find the additional money required. These will be fiercely debated by all political parties in the run-up to the next election. In this report we present a way forward that balances some of these tough choices in a way that is fair to all members of society.

The balance within current spending on families should be reconfigured, with resources shifted away from cash benefits and into services. The marriage tax allowance should be scrapped, and the savings invested in high-quality universal early-years provision in order to better support families. This would free up £520 million in 2015/16, rising to £695 million in 2017/18 (HM Treasury 2013 and 2014a). We propose that most of this funding be shifted into early-years provision, with the remainder (around £200 million) earmarked for relationship support (Lawton 2014 forthcoming).

IPPR has previously outlined how a better balance between cash transfers and services could be effective in advancing child development outcomes. These changes would put the UK more in line with Nordic countries, which have a more even balance between cash transfers and services. It would also form part of a wider strategy on child poverty that invests in services for young children and offers families more opportunities to move into work.

We propose freezing child benefit in cash terms for school-age children. Holding child benefit flat in cash terms from April 2016 would save £634 million a year by 2020/21 (in 2014/15 prices) (Lawton 2014 forthcoming); child benefit for the under-fives should, however, be uprated in line with CPI inflation. Parents are less able to work when their children are young, even with affordable childcare in place. Supporting parents into work is key to reducing child poverty rates.

Nevertheless, further investment is required. Following the chancellor's announcement in the March 2014 budget that from April 2015 there will be no obligation for people cashing in a pension pot to purchase an annuity, there is a strong case for revisiting the tax treatment of pension savings. A review would be likely to suggest that, with people having more freedom in how they use their pensions, the relative tax advantage of pension savings compared to other savings should be reformed (Pearce 2014). The biggest anomaly is the tax-free lump sum, which currently allows up to 25 per cent of pension savings to be taken tax-free. The Pensions Policy Institute estimates that abolishing the tax-free lump sum could increase tax revenues by £4 billion. Alternatively, capping it at £36,000 (which would affect approximately one in four pensions) could save the government £2 billion in tax relief (PPI 2013). We propose that a review of pension tax relief consider these options, and that the resultant savings be invested in early-years provision.

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There is a strong social and economic case for universal early-years provision. High-quality and affordable care can deliver better outcomes for children, families and society. Universal childcare that is affordable and accessible can enable families to better balance work and care, and in doing so can promote higher employment rates and tackle gender equalities. There is consensus on the need for early-years provision as a key means of achieving social justice. The challenge is to deliver it.

INTRODUCTION

Childcare has become an increasingly salient public policy issue across developed economies in recent decades. As the number of women entering employment has risen, the need to enable parents to balance their work and family lives has increased demands for affordable childcare provision. Efforts to meet these demands are most advanced in the Scandinavian countries, where sustained investment over many years has produced high-quality, universal pre-school childcare systems that support the highest female employment rates in the world. Yet the extension of childcare provision can be observed in most mature economies: many countries in Europe and Asia that are traditionally socially conservative have also taken a 'Nordic turn' in recent years, as they seek to improve parental employment rates and deal with the care needs that emerge in ageing societies.

A further widely shared objective of public policy in advanced economies is the promotion of greater equality in early childhood development. Extensive evidence points to the importance of high-quality early learning to social and educational outcomes later in childhood (Sylva et al 2004, Ruhm and Waldfogel 2012, Sylva et al 2012). Policymakers have sought to invest in early-years education and care in order to reduce inequalities in school-readiness, and to tackle the high social and economic costs of entrenched disadvantage that start at the very beginning of children's lives. There is evidence that when early-years education is provided by highly trained staff, it not only enables families to better balance work and caring responsibilities, but also delivers greater equality in children's life chances. The impact that both parental employment and care quality have on child poverty is considerable: a child that grows up in a household with two earners, and receives high-quality early learning and care, is less likely to live in poverty.

Another objective of any early-years and childcare policy should be gender equality. The provision of affordable childcare helps to ensure that childcare responsibilities do not prevent women from continuing to work, and that mothers and fathers can share the obligations and rewards of parenting more equally. In doing so, it helps to reduce gender inequalities in terms of both earnings and the division of family care responsibilities. However, the evidence also suggests that gender equality is best promoted when affordable childcare is coupled with parental leave and flexible work entitlements that encourage and enable fathers as well as mothers to take on caring responsibilities, particularly in the first year of a child's life. It is therefore important to integrate policies for extending affordable childcare provision with those that structure options for maternity, paternity and parental leave.

In this report, we set out plans for moving towards a universal, high-quality and affordable system of childcare and early-years provision in the UK. Such a system, combined with reforms to parental leave and greater rights to flexible employment, can best enable us to meet these three core objectives of public policy for the early years:

- higher employment rates for parents, particularly mothers
- reductions in early childhood inequalities
- greater gender equality.

There are, of course, trade-offs between these objectives. Low-quality but affordable childcare can promote parental employment, but to the detriment of children – particularly the very youngest – if they are to spend long hours each week in care settings. Similarly, early-learning entitlements can be provided in ways that enhance child development but which are very difficult to combine with parents' working lives. Consequently, as we expand and reform childcare and early-years provision, we need to be clear about these trade-offs and tensions in policy, and how they can best be resolved given the resources available.

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Pre-school childcare and nursery learning is currently provided by a range of different institutions and individuals, among them nursery schools, private and voluntary sector day-care centres and nurseries, children's centres, childminders, and schools with nurseries. Patterns of provision also vary between localities and across the different nations of the UK (to which, to complicate matters further, some policy responsibilities are devolved while others are not). No simple architecture can be imposed on this messy institutional landscape. Extensions of childcare provision will therefore necessarily take different forms according to local circumstances.

Nonetheless, it is both inevitable and desirable that we take a strategic view on key funding and organisational questions when planning childcare reforms. In this report, we argue that markets do not work well in childcare, and that affordable and accessible pre-school childcare and nursery is best secured through predominantly supply-funded and strategically commissioned services. This is the dominant mode of provision in the world-leading Nordic systems. Where countries have expanded demand-subsidies for parents in childcare markets, costs to parents and the taxpayer have tended to rise rather than fall. However, this does not imply that the state should be a monopoly childcare provider. In what follows, we advocate a largely local-authority-funded and commissioned system in which a diversity of providers operate.

Furthermore, we argue that priority should be given to developing institutions in which care, early learning and family services are provided, rather than relying on cash transactions between the state and families in the form of vouchers, tax credits or reliefs. Institutions such as children's centres and nursery schools bring communities together. They promote relationships and attachments that underpin flourishing lives, and are therefore more likely to command enduring popular support.

More specifically, we argue that it should become the norm for each children's centre to provide childcare and early learning as well as family services; many already do this. The expansion of affordable childcare for one- and two-year-olds should be pursued through children's centres and nursery schools. It is likely that many parents, as they do now, will choose to take up further extensions to entitlements for three- and four-year-olds in school nurseries. However, it should not be a goal of policy to promote schools as the most appropriate setting for expanding nursery places for two-year-olds, nor to reform primary school admissions policies to give preference to children who have attended school nurseries. Many schools will not have the facilities or the funding to enable them to expand their nurseries, particularly given the current demographic pressures on primary places. Nor should we promote, by default, the 'schoolification' of early learning. Instead, we should build on the recent development and consolidation of the nationwide network of children's centres and other high-quality private and voluntary pre-school institutions.

In what follows, we set out detailed, costed plans for the expansion of early-years provision. The core components of our proposals are as follows.

- **An extension of universal early-years provision** – providing a universal entitlement of 15 hours a week of early learning, 48 weeks per year, for all children from the age of two until they enter school.
- **A new framework of affordable childcare for working families** – bringing down the direct costs of childcare, with capped parental fees and a progressive allocation of resources, while guaranteeing affordable places from the age of one, funded through reforms to existing tax credits and reliefs.
- **Improvements to the quality of childcare and early-learning, to support children's development** – over time, building a highly qualified early-years profession, whose members hold teaching- and early-years-related qualifications.
- **Reforms to parental leave entitlements** – strengthening fathers' entitlements and giving families the opportunity to make genuine choices about work and care.

1. CHILDCARE POLICY: THE STATE OF PLAY

There is a clear political consensus on the need to improve the availability and affordability of childcare. What is contested, however, is how best to chart a course towards high-quality and affordable provision for all.

The Coalition government's current policy agenda embraces a range of measures that aim to improve the quality and affordability of childcare and early learning: a new tax-relief scheme to replace childcare vouchers; a free entitlement to 15-hour-a-week nursery places for 40 per cent of disadvantaged two-year-olds; an early-years pupil premium; and measures to improve the qualifications and professional status of early-years staff. With the 2015 general election fast approaching, the Liberal Democrats have been debating plans to extend free provision to one-year-olds, and to enhance entitlements for older age groups (Liberal Democrats 2013). The Labour party has proposed extending the free entitlement for working parents of three- and four-year- olds to 25 hours, funded through a levy on banks (Balls 2013). The Scottish National Party has outlined its commitment to expanding early-years education to mirror school hours should Scotland become independent, although its figures have recently been challenged (Peterkin 2014). Childcare policy has become the subject of fierce political competition.

1.1 The current offer

1.1.1 The free entitlement

The level of public investment in pre-school childcare and nursery education has improved considerably over the last two decades. In 1998, four-year-olds in England were given an entitlement to 12.5 free hours of early learning per week for 33 weeks of the year. This entitlement was then expanded to cover three-year-olds in 2004, and was then extended in 2006 to cover 38 weeks for all three- and four-year-olds. In 2010, the hours offered were increased to 15 per week. More recently, the Coalition government has expanded this 15-hour entitlement to cover two-year-olds from the most deprived 20 per cent of families, and from September 2014 this will be widened to cover those from the most deprived 40 per cent of families.

Table 1.1
Key developments in the free entitlement, 1998–present

1998	The government introduces free entitlement for four-year-olds, offering five 2.5-hour sessions per week for 33 weeks per year.
2004	The entitlement is extended to three-year-olds.
2006	The duration of the entitlement is extended to 38 weeks per year.
	The Childcare Act 2006 introduces responsibilities for local authorities to ensure sufficient provision for working parents and those in training, for providers to ensure quality.
	Extensions of the free entitlement to two-year-olds are piloted.
2008	The early years foundation stage introduces a framework for delivering consistent and high-quality environments for all children in pre-school settings.
2010	Local funding formulae introduced in 71 pathfinder local authorities for the entitlement, to improve the fairness and transparency of funding allocations to providers.
	The entitlement for all three- and four-year-olds is extended to 15 hours per week, and greater flexibility over how the 38 weeks entitlement can be used.
2011	All remaining local authorities introduce local funding formulae.
2013	The free entitlement is extended to disadvantaged two-year-olds (from the most deprived 20 per cent of families), covering approximately 130,000 children.
2014	In September, the next phase of the extension of the offer to disadvantaged two-year-olds, to cover those from the most deprived 40 per cent of families, will be rolled-out.

Sources: adapted from NAO 2012 and Gheera, Gillie et al 2014

The free entitlement ensures that most children benefit from early-years education. The latest figures from the Department for Education show that 98 per cent of four-year-olds and 94 per cent of three-year-olds take up the free entitlement (DfE 2013a). The free entitlement clearly makes early-years provision more accessible. However, it remains restricted in terms of both its availability across the year and the hours that are on offer, and so often limits parents' employment opportunities.

1.1.2 Tax credits and tax reliefs

The level of direct financial assistance to families for their childcare costs has also increased over the last two decades. Before the previous government introduced working tax-credits in 1999, families claiming the means-tested family credit were able to disregard childcare expenditure of up to £100 a week. After this, a childcare component was added to working tax-credits, offering a refund on childcare fees. This was set initially at 70 per cent of up to £100 per week of childcare fees for families with one child, or up to £150 for families with two or more children. The value of this support increased steadily so that by 2010, 80 per cent of up to £175 (for one child) and £300 (for two or more children) was refundable (Kennedy et al 2012). However, this support was cut back to 70 per cent again shortly after the Coalition government came to power.

This system will change again when the universal credit is introduced. Under current plans, parents will be eligible to receive up to 85 per cent of their childcare costs (for lone parents and couples in which both parents are in work). The monthly limits will also increase to £532.29 for one child and £912.50 for two or more children.

For those families earning more than the eligibility thresholds for the childcare component of tax credits (currently a family with one child can earn up to £41,000 while receiving help with childcare costs through tax credits), a system of employer-supported tax-free childcare vouchers is available. Employees working at firms that have signed up to the scheme are offered tax and national insurance relief on childcare expenditure for approved providers, worth up to £50 a week (£55 from 2006). In April 2011, higher rate taxpayers were restricted in the value of the tax relief they could claim on the eligible amounts, from 40 per cent (the higher rate of income tax) to the 20 per cent paid by basic rate taxpayers.

The government's new proposals for tax relief on childcare costs would change the system significantly. Starting from 2015, it will move away from employer-led vouchers to a universal system in which families with both parents in work and not claiming universal credit will receive tax relief at 20 per cent of childcare expenditures up to £10,000 (£2,000) a year per child. The system will be administered by HM Revenue and Customs, and will no longer rely on employers to offer it, which will widen eligibility (HM Treasury 2014b).

However, simply extending tax relief is unlikely to make childcare more affordable for families. Without any price controls, there is a clear risk that rising costs will continue to outpace the support that would be offered under the government's proposals (Ben-Galim 2013). Moreover, tax reliefs by their nature tend to disproportionately benefit higher-income families (Alakeson et al 2013). Furthermore, the government's announcement that those in receipt of universal credit will have up to 85 per cent of their childcare costs covered will be funded by cuts to universal credit itself, which means that families are likely to pay for the increase in other ways (PMO et al 2014).

1.1.3 Quality and standards

Recent governments have made considerable investments in developing quality early-years provision, responding to the strong evidence on the positive effects that high standards in these services have on later child outcomes. Although there is not a single definition of 'high-quality', there are common themes that emerge from the early-years literature.[1] High quality provision entails a combination of process and structural factors, including well-trained teachers, small class sizes, low child-to-adult ratios, high salaries, age-appropriate and stimulating materials, warm interactions, developmental content, excellent and spacious physical environments with outdoor space, opportunities for educational trips, experienced staff, and continuing professional development for carers (Parker 2013a). These factors take on slightly different characteristics depending on the children's age, but all of them are important in supporting young children to thrive.

The previous Labour government created Sure Start centres in the late 1990s, and in 2006 developed the early years foundation stage curriculum that placed requirements on all adults working with the under-fives to support children's learning and development. Labour also created an entitlement to free part-time nursery education for all three- and four-year-olds, implemented Ofsted inspections for early-years settings, and developed new qualifications and introduced a Graduate Leader Fund to support the development and professionalisation of the workforce.

The Coalition government subsequently commissioned Professor Cathy Nutbrown to independently review early-years and childcare qualifications (Nutbrown 2012). In order to raise the qualification levels of the workforce, Professor Nutbrown proposed that level 3[2] should become the baseline standard for all staff working with children. She further recommended that students should hold level 2 qualifications[3] in maths and English as a prerequisite for enrolling on a level 3 course.

The government has responded with proposals to invest in 'early-years teachers' and 'early-years educators' in order to reduce the gap between early years professionals and teachers and to raise the proportion of staff qualified to level 3 (DfE 2013b). The government has also proposed changing the regulation and monitoring frameworks for early-years, loosening regulation to allow providers more flexibility and autonomy, and encouraging market competition in the provision of training and places.

In their different ways, both the previous and current governments have attempted to drive up quality, acknowledging the importance of the early-years agenda and its increasing political prominence. Yet despite these measures, the quality of early years learning and care remains patchy, with large variations in Ofsted scores and differential impacts on attainment between providers.

The latest Ofsted report on early years shows that a high proportion (78 per cent) of registered early-years providers are either 'good' or 'outstanding'. Yet this does not equate to 'good' or 'outstanding' outcomes for children. Over half of all children (55.2 per cent) were found to have achieved a 'good' level of development, but this dropped substantially to 36.2 per cent among children eligible for free school meals, a proxy for disadvantage (Ofsted 2014). There are many factors that might contribute to explaining this variation, but staff qualification levels are certainly one of the most important. It is here that both the

1 For a fuller discussion of 'quality' see Parker 2013a.

2 'Level 3' refers to A-level, vocational A-level (advanced GNVQ) and level 3 NVQ qualifications.

3 'Level 2' refers to GCSE A*–C, intermediate GNVQ and level 2 NVQ qualifications.

private, voluntary and independent sector and childminders lag behind the maintained sector, with lower levels of qualification and worse inspection results. Particularly worrying is the fact that these sectors trail behind other inspection categories in areas such as support for language and literacy (Mathers and Smees 2014).

Despite the fact that children from disadvantaged backgrounds have access to better-qualified staff in the maintained sector, services that cater for more disadvantaged children tend to receive poorer quality ratings from Ofsted (Gambaro et al 2013). In short, poorer children are more likely to receive poorer care.

1.1.4 Parental leave

Since 1997, there have also been extensive reforms aimed at improving parental leave and flexible working rights. During the Labour government's period in office, maternity leave was significantly extended and statutory paid paternity leave introduced. Unpaid parental leave entitlements were created, and parents were given the right to request flexible working arrangements. The Coalition government has built on these reforms.

In the UK, new mothers can take up to a year of maternity leave, 26 weeks of which can be transferred to fathers.[4] Statutory maternity pay is paid for up to 39 weeks. The first six weeks are paid at 90 per cent of the mother's weekly earnings,[5] with the remaining 33 weeks paid at a statutory rate of £138.18 or 90 per cent of average weekly earnings (whichever is lower). Eligibility criteria for maternity pay include that a woman earns at least £109 per week, and has worked for her employer continuously for at least 26 weeks.[6]

Fathers in the UK are entitled to two weeks of paternity leave, with statutory paternity pay paid at £138.18 per week or 90 per cent of average weekly earnings (whichever is lower) throughout. 'Additional paternity leave', by which mothers can transfer up to 26 weeks of their maternity leave and pay to their partners if they have returned to work, was introduced in 2011. Eligibility criteria for paternity leave and pay are similar to those for maternity.

The system is set to change substantially in 2015, when up to 52 weeks' shared parental leave will become available. The mother must take the first two weeks of leave, and can then share the remainder of it with the father. Nine months of this leave will be paid. The government is clear that the intention of this policy is to give working parents more choices, and to challenge perceptions that women are the primary carers and men the primary breadwinners (BIS and DPMO 2013). However, looking at current take-up rates in the UK, and at comparable parental leave schemes in other countries, it is unlikely that the government will achieve its aims.

Additional paternity leave (the 26 weeks of transferable maternity leave) has greatly enhanced the ability of families to combine work and caring responsibilities, creating conditions in which men and women can share both more equitably. Yet in practice, a relatively small proportion of fathers have used their new entitlements to take on primary care of their child. According to the Trades Union Congress, less than 1 per cent of fathers (1,650 out of 285,000 eligible fathers) took additional paternity leave during the first year in which they were entitled to

4 For more information on leave entitlements see https://www.gov.uk/maternity-pay-leave/overview and https://www.gov.uk/paternity-pay-leave

5 All payment rates described are pre-tax.

6 A maternity allowance is available for women who may not qualify for maternity pay. Recipients of the allowance are paid either £138.18 a week, or 90 per cent of her average weekly earnings (whichever is lower) for up to 39 weeks. To be eligible for maternity allowance, women must have been employed or self-employed for 26 out of the previous 66 weeks, and have earned £30 or more a week for any 13-week period.

it (TUC 2013). The low rate of statutory pay partly explains this low take-up, but so too does the fact that this leave is actually transferrable maternity leave – it is dependent on the mother both being in work and being willing and able to transfer her leave to the father. Given the gender pay gap, many families will make financial decisions that will contribute to the reproduction of existing gender norms of work and care.

The government's own projections estimate that only 2–8 per cent of eligible fathers are likely to take some 'shared parental leave' (BIS 2013a) when it becomes available, which seriously undermines its objective of ensuring that fathers have the opportunity to spend time with their baby and family. As part of the government's plans to reduce spending and cut the deficit, in his 2012 autumn statement the chancellor announced a three-year, 1 per cent cap on annual increases to a range of benefits, including maternity pay, effective from April 2013. This may further lessen parents' take-up of leave entitlements.

The configuration of maternity, paternity and parental leave inevitably has a significant impact on women's employment decisions. When considering the relationship between parental leave, maternal employment rates and gender pay gaps in an international context, there are differences. For example, countries such as Denmark, where around a year of paid parental leave is on offer and there is no gap between the end of the parental leave period and an entitlement to childcare, tend to have relatively high maternal employment rates and lower gender pay-gaps.

Conversely, countries like the UK, where there is a gap between the end of parental leave and the beginning of an early-years entitlement, tend to have average maternal employment rates and higher gender pay gaps.

Countries that have lower gender pay-gaps also tend to offer parental leave that is composed of a defined period of maternity leave to protect the health of mother and baby, 'use it or lose it' paternity leave for fathers, and a subsequent period of paid parental leave for parents to use as they see fit. A specific 'daddy quota' of leave for fathers, to use on a use-it-or-lose-it basis and paid at a generous rate, can potentially offer benefits for families. It is already common in Scandinavian countries, and an increasing number of companies across the OECD are reaping the benefits of offering paid parental leave to both the men and women in their organisations. It has proven effective not only in encouraging fathers to take a period of leave, but in weakening the motherhood pay penalty. It gives parents more opportunity to spend time with their families as well as maintaining their connection to work.

1.2 Why reform is needed

This overview of childcare policy shows that extensive improvements to the availability, quality and affordability of care provision have been made in recent years, but also that considerable gaps and weaknesses remain in the system. Costs are still high for parents, quality is too low and too variable, affordable provision is not available for very young children, and women still bear a disproportionate care burden. Families' choices are therefore still significantly constrained.

Early-years provision is firmly embedded in the political agenda. There is a broad consensus that it needs to deliver good outcomes for children, while raising the maternal employment rate and gender equality. The debate has now shifted from 'why' to 'how'. Despite extensive reforms over the last few decades, more fundamental reform needs to take place to improve quality, affordability and accessibility. The remainder of this report aims to tackle these challenges.

2. TOWARDS UNIVERSAL PRE-SCHOOL CHILDCARE
EXTENDING ENTITLEMENTS

Universal childcare should be at the heart of our ambitions for the welfare state and public services in the twenty-first century – meeting the real needs of families and helping to protect them against the most significant risks that they face. At the core of a universal pre-school system must be an entitlement to free early-learning for all families, with additional hours made available on an affordable basis. As these entitlements are extended, investments in staff training and development need to be made in order to raise standards.

A universal entitlement is the most effective means of reaching all children, and so it is an important tool in tackling inequality and disadvantage. Evaluation from the large-scale Effective Provision of Pre-School Education study, conducted between 1997 and 2004, found that children who attended high-quality early-years provision achieved higher results in language, reading and numeracy, even once family background had been accounted for. Furthermore, it found that children from deprived backgrounds benefited most from this type of provision (Sylva et al 2004).

In recently published work, Gambaro et al (2014) showed that the free entitlement is making the most difference to children from disadvantaged backgrounds (where low income and immigrant status are used as proxies for disadvantage). The study found that 80 per cent of children in the most deprived areas attended a setting where a graduate was present, compared to 53 per cent in the least deprived areas (Gambaro et al 2014). However, many children from low-income areas are still failing to reach a good level of development by the age of five. The latest data from Ofsted, for 2013, shows that in some areas less than a fifth of children from low-income backgrounds are reaching a good level of development with which to begin school (Ofsted 2014).

Previous IPPR research has also highlighted the crucial role played by a free entitlement. Through qualitative work with low-income parents, the value of the free entitlement became clear: many viewed it as an investment in their children's education, but given their limited funds many insisted that they would not be using it were it not free (Ben-Galim 2011).

A universal entitlement also ensures that all families can enjoy and benefit from early learning, helping cement popular support for childcare and enabling parents and children from different backgrounds to live common lives. All families have a stake in a universal entitlement. Given the institutional life of children's centres, nursery schools and other settings, universal entitlements to childcare can become a key force for the common good of society.

Our proposal is a guaranteed entitlement of 15 hours a week, for 48 weeks a year, for all two-, three- and four-year-olds. This would build on the existing free entitlement for three- and four-year-olds, and its expansion to two-year-olds. Expanding the offer to cover 48 weeks of the year (as opposed to the 38 it currently covers) would, over time, mean that expensive childcare costs during the school holidays (Rutter 2013) could be replaced by consistent and high-quality options for families.

The desirability of further expanding the free entitlement is underscored by evidence which shows that centre-based care of children between the ages of 18 and 35 months is associated with better language skills (NICHD and ECCRN 2004) and mathematics (Sammons et al 2002), and leads to academic benefits at primary school (Sylva et al 2004). These benefits were found to be most pronounced for children from lower-income families (Love et al 2003).

Universalising the offer to all two-year-olds would therefore be beneficial in terms of making sure that all children have access to early-years provision. It is too early to fully analyse the effects of the current offer to two-year-olds (15 hours for 38 weeks for those from the most deprived 20 per cent of families) given that roll-out of it only started in September 2013. So far, approximately 92,000 of the 130,000 eligible children have accessed their entitlement (DfE 2013c). The government has welcomed this as progress, but there are concerns about supply and demand – for example, that there aren't enough places available in the most deprived areas because providers are reluctant to deliver them, arguing that the funding provided by local authorities is not high enough to provide high-quality care to this group of children. There are also concerns that parents are not necessarily aware of the entitlement and their children's eligibility for it (Morton 2013). These challenges may well be ironed out as the offer is embedded, but they are important to consider as the next stage of expansion is planned later this year.[7]

Based on the evidence, our view is that universalising nursery places for two-year-olds, and extending the duration of entitlements for 2–4-year-olds to cover more weeks in the year, would provide the resources and the economies of scale necessary to overcome the supply constraints referred to above. Furthermore, free entitlements are one of the strongest mechanisms available to engage and support families that are not able to pay for early-years provision.

2.1 The costs of extending the free entitlement

The government spends £2.2 billion on the free entitlement. An extra £755 million has been announced to extend the offer to two-year-olds to 40 per cent of the cohort in 2015/16 (Truss 2013). There are 130,000 two-year-olds who are currently eligible, and it is estimated that 285,000 will benefit from the extension in 2014/15.

In this section we calculate the additional costs involved in further extension of entitlements in 2015/16. This analysis is based on assumptions[8] and data published by the Institute for Fiscal Studies (IFS)[9] and the Department for Education (DfE).

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7 The next wave of expansion will be in September 2014, to children from the most deprived 40 per cent of families. This will make 285,000 children eligible annually, at a projected cost of £755 million. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266738/Letter_to_DCSs_-_2014-15_2_YO_allocation.pdf

8 These assumptions are as follows.
- i. The numbers of children are quoted in the *IFS Green Budget*, from the Office for National Statistics' population estimates for England.
- ii. Based on DfE, figures, we assume that take-up of the offer for three-year-olds is 94 per cent, and for four-year-olds, 98 per cent (DfE 2013a). The IFS estimate that 34 per cent of four-year-olds would be affected by any extension to the free entitlement, with the remainder being either in infant classes in primary schools or not yet in education.
- iii. We assume a cost of £4.52 per hour per child. This is the figure used by the IFS, who calculated costs for three- and four-year olds for 2015/16 using the current average hourly rate of funding that local authorities receive, and then adjusting for inflation in the cost of provision (an annual rate of growth equal to 4.62 per cent, based on survey data from the Family and Childcare Trust). The figures are presented in current prices.
- iv. For two-year-olds, the IFS assumed the cost provided by the DfE in its impact assessment (DfE 2012) for extending the free entitlement to the 20 per cent most deprived two-year-olds, which resulted in a weighted national average of £5.08 per hour per child. An annual 3.5 per cent increase in the costs of provision for children aged two and under, based on the Daycare Trust's 2008 and 2013 childcare costs surveys, was then factored in.
- v. For two-year-olds, the IFS assumed 70 per cent take-up, based on the DfE's impact assessment of extending the entitlement to the 20 per cent most deprived two-year-olds.

9 Our calculations use data from the IFS *Green Budget 2014* as a baseline. See: 'Costing extensions of the free entitlement to early childhood education and care' (Appendix 8.1) in Brewer et al 2014.

If the government were to extend the free entitlement for three- and four-year-olds to 15 hours a week, for 48 weeks a year, the additional costs would be £601 million per annum, or £678 per child per year.

Per child, per hour	£4.52
Per child, per year	£678
Total yearly spend	**£601,407,636**

The cost of extending the current offer to two-year-olds to all children (that is, to the remaining 60 per cent of two-year-olds) would be £911 million per annum.

Per child, per hour	£5.57
Per child, per year	£3,175
Total yearly spend	**£911,156,296**

Furthermore, if the government were to then extend that offer to two-year-olds to 15 hours per week for 48 weeks a year, the additional cost (further to that set out above) would be £400 million.

Per child, per hour	£5.57
Per child, per year	£835.50
Total yearly spend	**£399,629,676**

In these scenarios, we would anticipate there to be some offsetting reductions in expenditure which families would no longer spend on childcare through vouchers and tax credits.

All of our modelling is based on existing delivery models and the current funding formula. We fully recognise that the funding formula, and the way in which funds are allocated across local authorities, is an issue that requires further debate. A recent DfE paper, 'Fairer schools funding', launches a consultation on updating the funding formula for schools, including for early-years provision, but its conclusions are not due to be implemented until after the next general election (DfE 2014). The outcome of this consultation will have a significant impact on the ability of both local authorities and service providers to deliver enhanced childcare provision. In addition, the Childcare Act 2006 requires every local authority to undertake a childcare sufficiency assessment to ensure that they are meeting their obligation to provide enough childcare for parents in work and in training. Any expansion to the free entitlement would widen these obligations.

As mentioned above, the Labour party has proposed extending provision to 25 hours for all three- and four-year-olds in working families. Labour has estimated that this proposal would cost £674 million per year and benefit 440,000 three- and four-year-olds. However, the IFS have estimated the cost of these proposals to be £763 million (Brewer et al 2014).

The Liberal Democrats have also set out proposals for how they would reform early-years provision. Among their proposals are a set of aspirations to increase the free entitlement. They propose:

- introducing 10 free hours for one-year-olds
- making the current offer to two-year-olds universal
- expanding the current offer to three-year-olds to 20 hours per week
- extending the current offer to four-year-olds to 25 hours per week.

Together with other estimates, our modelling suggests that this package would cost between £2.8 and £2.9 billion, which can be broken down as follows.

- The IFS suggests that introducing an entitlement of 10 hours for one-year-olds that this would cost between £919 million and £1.1 billion a year, depending on the quality of provision (Brewer et al 2014).
- The annual cost of making the current offer to two-year-olds universal (that is, extending it to the remaining 60 per cent of two-year-olds, as in the scenario above) would be £911 million (see page 16).
- Furthermore, the total annual cost of extending the current offers to three- and four-year-olds to 20 and 25 hours per week respectively would be £959 million.

Table 2.1
Projected additional cost of extending the free childcare entitlement for three- and four-year-olds 20 and 25 hours per week respectively

	Three-year-olds, to 20 hours per week	Four-year-olds, to 25 hours per week
Per child, per hour	£4.52	£4.52
Per child, per year	£859	£1,718
Total yearly spend	**£564,978,996**	**£393,608,019**

In addition to the proposals advanced by the main political parties – to extend free entitlements to 25 hours for three- and four-year-olds (whether on a universal basis or only for working parents) – in this report we set out costed options for universalising a 15-hours-a-week free entitlement for all two-year-olds, and extending it to 48 weeks a year for two-, three- and four-year-olds. These priorities are based on the results of our previous research, in which we found that affordable childcare for mothers with younger children improves the maternal employment rate, and that extensions to current provision for three- and four-year-olds would enable mothers to increase their working hours (Thompson and Ben-Galim 2014).

Our priorities are therefore to expand the free entitlement to all two-year-olds, and then to extend it to 48 weeks for all children aged two, three and four. Adding extra weeks to the care entitlements of this age group, as well as making the current offer to two-year-olds universal, would mean that the total spending package for extending the free entitlement would consist of:

- universal entitlement to 15 hours of nursery education for two-year-olds: £911 million
- extending provision to 48 weeks a year for 2–4-year-olds: £1 billion.

These two measures would represent major advances on the road towards a universal pre-school childcare and early learning system. However, to ensure that affordable childcare is available when parental leave entitlements come to an end after a child's first year of life, further reform is required to the system of tax credits, reliefs and vouchers that coexists with the free entitlements.

3. AFFORDABLE CHILDCARE BEYOND THE FREE ENTITLEMENT

In addition to extending the free entitlement, research findings outlined in our previous work on the relationship between maternal employment and affordable childcare (Thompson and Ben-Galim 2014) suggests that there should be three main priorities for the extension of provision.

- More affordable childcare for mothers with children aged up to two years, in order to enable them to enter or re-enter employment. This would be of particular benefit to low-skilled mothers and lone parents.
- More affordable childcare for parents of three- and four-year-olds, in order to enable mothers to increase their working hours.
- A system that is supply-funded and more affordable for parents: childcare should account for around 10 per cent of a family's disposable income.

These recommendations also assume a greater degree of flexibility in childcare provision, so that parents have more choices, and better access to flexible working, with more employers becoming more accommodating of different working options.

3.1 Why reform the current system?

Although there are many factors that influence parents' – and especially mothers' – decisions about work, such as their own preferences, the availability of jobs and the quality of childcare provision, the cost of childcare is particularly important. Despite having a relatively high female employment rate, the UK has relatively low *maternal* employment rates. While the overall gap between male and female employment rates has narrowed, a significant gap remains: the latest data shows a 5 per cent difference between male and female employment rates (ONS 2012). The majority of this gap – around 90 per cent of it – is accounted for by the relatively low employment rate among mothers (ONS 2013).

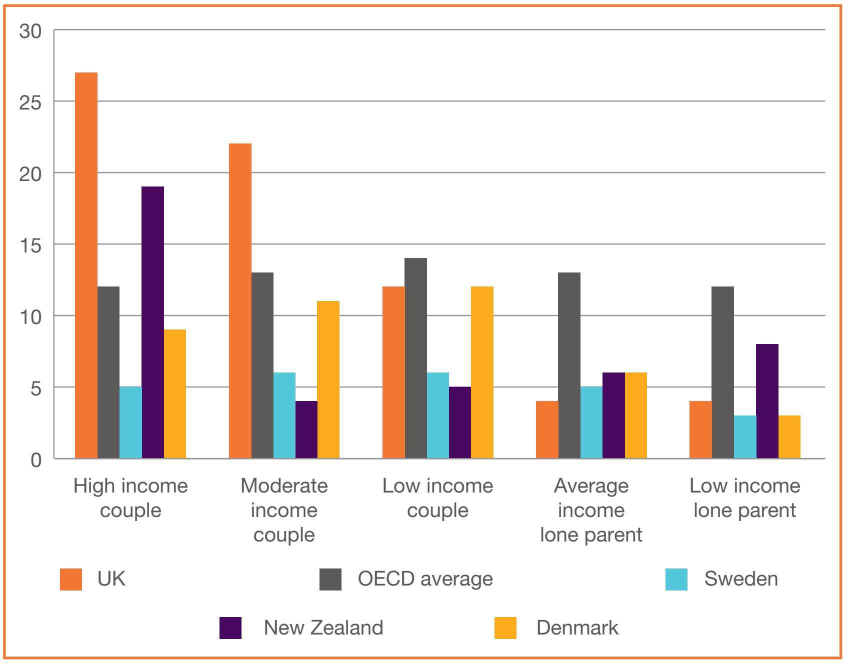
Many mothers in the UK want to work, or to increase the hours that they currently work. A survey commissioned by the Department for Work and Pensions found that 43 per cent of parents of children aged between three and four who would like to work or to work longer hours cited the affordability of childcare as a barrier; this rose to half among parents whose youngest child was aged two or under. Among couples with a child below school age, and in which one or both parents worked less than full-time, more than 60 per cent said they would be willing to increase the hours they work if the extra childcare costs were met by the government (Borg and Stocks 2012).

There is evidence that a sizeable minority of mothers who are currently working part-time, particularly those in lower income groups, would prefer to be working more hours. A survey conducted by the Resolution Foundation in partnership with Mumsnet, which polled nearly 2,000 mothers, showed that one in five working mothers wanted to work more – by an average of 10 more hours a week. Among its other findings were that 40 per cent of mothers who were not currently in work wanted to be working (and wanted to do so for, on average, 23 hours a week), and that lower-earning mothers were most likely to want to work more. On average, the gross earnings of those who wanted to work more was £13,000, compared to £29,000 among those who did not (Alakeson 2012).

The cost of provision, whether it is provided by the public, private or voluntary sectors, depends on a variety of factors. These include staff costs, the ratio of staff-to-group sizes, and other costs such as administration, property and capital expenditures. The price that parents face is partly a function of these costs, but is also determined by policy. The early-years entitlement currently directly funds providers to offer 15 hours for three- and four-year-olds at no charge; and the means-tested benefits available to parents to offset childcare costs will also influence the end price that parents pay. However, the total amount of childcare expenditure paid by families is clearly also determined by the number of children they have, their ages, and the number of hours of care that they use. This means that the proportion of a family's income devoted to childcare costs varies substantially between different family types. The OECD has carried out several surveys exploring how childcare expenditure varies across countries and between indicative family types.

Figure 3.1 presents statistics on this issue for the UK, the OECD as a whole, and for three other OECD countries: Sweden and Denmark, because they are typical of a system that supports high maternal employment and provides substantial public support for childcare costs, and New Zealand, because it shares some characteristics with the UK, having a mixed public and voluntary/private childcare market.

Figure 3.1
Net childcare costs as a proportion (%) of family net income in the UK, three OECD countries and the OECD average, by family type



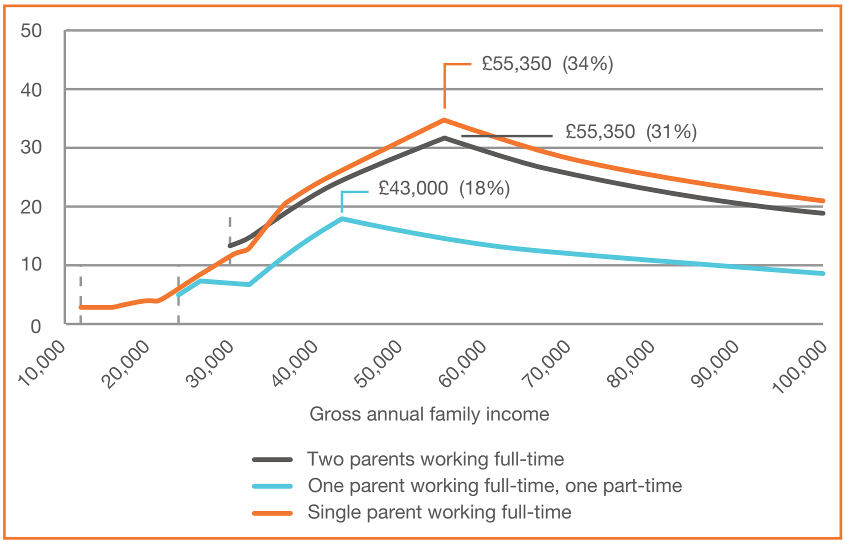
Source: Richardson 2012
Note: These calculations place the UK well above the OECD average for high- and moderate-income two-parent families, just below the average for low-income two-parent families, and substantially below the OECD average for lone parents. The proportion of family income spent on childcare, compared to the other countries, is higher for two-parent families and similar for lone parents.
For the purposes of calculation, 'family net income' is defined as gross earnings plus cash benefits, minus taxes and social security contributions; every family is assumed to have a two-year-old and a four-year-old child; a 'higher income couple' has two parents working full-time with average earnings; a 'moderate income couple' has two parents working full-time, with a father earning at the 25th percentile of the male full-time earnings distribution, and a mother earning at the median of the female earnings distribution; a 'low-income couple' has two parents working full-time, with a father earning at the 25th percentile of the male full-time earnings distribution, and a mother earning at the 10th percentile of the female earnings distribution; an 'average income lone parent' is a mother working full-time at the median of the female earnings distribution; and a 'low-income lone parent' is a mother working full-time at the 10th percentile of the female earnings distribution.

Vidhya Alakeson and Alex Hurrell give a more complete picture of the way UK childcare costs vary between families (Alakeson and Hurrell 2012). They looked at costs as a proportion of net family income (excluding the value of childcare benefits) for three family types, each with two children aged two and four.

1. A couple both working full-time and using full-time childcare
2. A couple with one parent working full-time and one part-time and using part-time childcare
3. A lone parent working full-time and using full-time childcare.

Figure 3.2 shows how childcare costs vary under the current system of the early-years entitlement and means-tested childcare cash subsidies (in the forms of working tax credit and childcare vouchers), and produce different spikes in childcare-related expenditure for each type. Particularly noteworthy is the fact that couples with pre-school children who work full-time are likely to spend more than 10 per cent of their net income on childcare regardless of their earnings; this proportion peaks at around 30 per cent for those earning slightly more than the median household income. Families with '1.5 earners' (that is, one parent working full-time and another working part-time), however, on average spend less than 20 per cent of their net family income on childcare across the income distribution. It is likely that this sharp disparity in childcare costs as a percentage of net family income between dual-earning and 1.5-earner couples is a factor driving the high levels of part-time working among parents – and particularly among mothers – of young children. Lone parents earning less than median household income tend to face low childcare costs as a proportion of their income, but as their incomes rise and means-tested childcare benefits taper away their childcare expenditure rises rapidly.

Figure 3.2
Net childcare expenditure by gross annual family income, and as a percentage of net family income (excluding childcare benefits), by family type



Source: Alakeson and Hurrell 2012
Note: The vertical lines indicate the minimum income where the second earner works at the minimum wage and the main earner's hourly wage is 50 per cent higher (where applicable). In each case the family has two children in care, aged two and four, in line with the second earner's hours (23 hours for part-time and 42.5 hours for full-time).

The affordability of childcare differs for different family types. In the UK we see that those on moderate and higher incomes tend to spend a higher proportion of their income on childcare than those of lower incomes. Our comparatively low maternal employment rates are also indicative of challenges in terms of affordability and flexibility.

This evidence highlights the high cost of childcare that many parents in the UK face, and the way in which this constrains their employment opportunities.

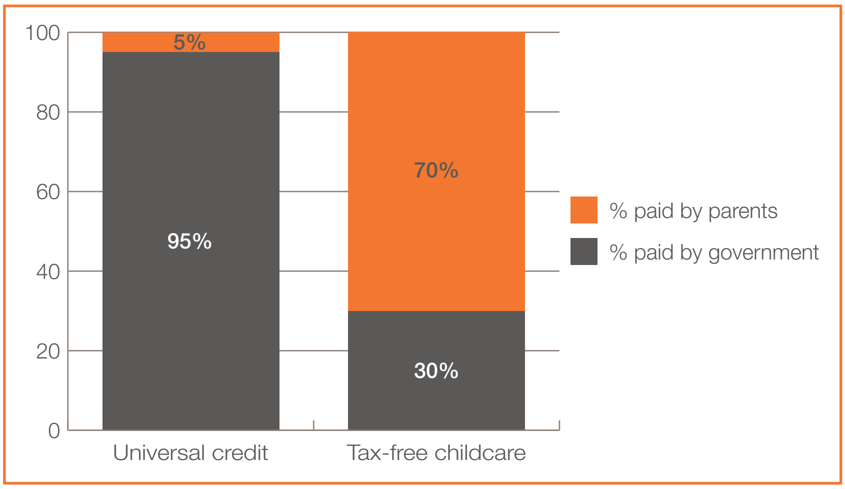
3.2 Cost-sharing: a way towards more affordable hours

Making childcare more affordable for all families in way that is both fair and fiscally responsible is no easy task. In chapter 2 we presented the case and costs for extending the free entitlement to more children and for more weeks in the year. As we illustrated, the free entitlement is an effective tool in supporting children's learning and development. However, for many families – particularly those in paid work – 15 hours is not enough, and so parents often need to pay for additional hours. These additional hours are often expensive, and can limit parents' – and particularly mothers' – options regarding (re)entering work. In the following sections we offer an alternative approach to paying for additional hours that would be more affordable for families.

These 'affordable hours' are in addition to the expanded free entitlement. We define 'affordable hours' as 20 additional hours for parents to purchase for all children aged between two and four. We also set out a framework that would enable parents with children aged 1–2 to access more affordable hours (see further discussion below).

We estimate that the government could cover 95 per cent of the cost of these affordable hours for families claiming universal credit (UC), and 30 per cent of the cost for those who would be claiming tax-free childcare, without increasing the total level of spending on this part of the system.

Figure 3.3
Proposed proportion (%) of cost-sharing for affordable hours



3.3 Additional hours for 1–4-year-olds

We propose a guaranteed place of 20 additional hours, on top of a new early-years entitlement of 15 hours, for 2–4-year-olds in families in which all parents are in work. In addition, one-year-old children should receive a guaranteed place of 35 hours without a free entitlement component. Both should be paid for through means-tested cost-sharing between individual families and the state, set as a percentage of the hourly price of each of the 20 hours (35 hours for one year-olds) to which they are entitled. This is different from the current system, in which families are allowed to claim back a proportion of their expenditure on registered childcare, up to a maximum cash amount.

Below, we set out some initial costings of different levels of cost-sharing, in which families claiming UC would be offered a higher level of support. Given the level of spending that is currently earmarked for both the childcare component of UC and the Coalition's tax-free childcare (TFC) proposals, we estimate that the government could cover 95 per cent of the cost of these affordable hours for families claiming UC, and 30 per cent of the cost for those who would be claiming TFC, without increasing the total level of spending on this part of the system. This compares to 85 per cent for UC claimant families, and 20 per cent for families using TFC, under the government's proposed system.

What would these two sets of proposals mean for families? A family on UC with two children aged one and three, and with each child in childcare for 35 hours per week, would currently face childcare costs of around £1,042 a month.[10] Under the government's proposed system, up to £910 of this cost would be funded through UC, leaving the family with £132 a month in net childcare costs. Our proposed system would cover £990 of the costs, leaving the family with a much reduced £52 monthly childcare bill.

A family using the same number of hours of childcare, but which is instead eligible for funding under the tax-free childcare proposals, would receive £208 a month towards the same childcare fees under the government's system. Under our proposed system, this would increase to £313, meaning their monthly childcare bill would fall from £834 to £730.

However, based on current patterns of usage, relatively few families would use their full additional hours entitlement. Working families tend to use an average of around 20 hours of formal, registered care for one-year-olds, and 30 hours for children aged between two and four. These figures are similar for families that would be eligible for UC and for TFC. Assuming that our hypothetical family used the average number of hours, if they were receiving UC their net childcare costs would fall from £56 to £19 under our proposed system. Similarly, a family eligible for TFC would see their net costs decrease from £299 to £261.

Policymakers would be able to afford this increased level of support, for three reasons. First, as discussed elsewhere in this report, we are proposing a universal entitlement to 15 hours of care for two-year-olds. This means that those families that are not currently eligible for the current offer for two-year-olds under the government's means test would no longer need to claim financial support for their first 15 hours of care. This would free up resources that could then be used to offer more generous support for the remaining hours. We estimate that, given the current distribution of hours usage, our proposals would have the effect of reducing the number of families claiming financial assistance for 1–4-year-olds by around 15 per cent.

Second, we are not proposing that any financial support be offered for hours used over and above 35 per week. This means that families placing their children in care for more than 35 hours may not see their net childcare costs decrease, and some very intensive users will be worse-off under our proposed system. The justification for using 35 hours as a cut-off point is that it enables the offer of a highly affordable, guaranteed, full-time childcare place which can, for most families, readily support close to full-time employment for parents. In any case, the majority of children are in care for fewer than 35 hours. We estimate that around 5 per cent of those families

10 According to 2014 Family and Childcare Trust cost figures for Great Britain. http://www.familyandchildcaretrust.org/childcare-costs-surveys

who will pay for some hours of childcare for children aged between one and four under the government's proposed system would see their net childcare expenditure rise under our proposals.

Finally, although we do not take account of this in our costings (discussed below), our proposals to extend the free entitlement from the current 38 weeks to 48 weeks during the next parliament would also free up resources – including the funds currently earmarked for the childcare component of UC and TFC that families will use to fund the first 15 hours of care during the 14 remaining weeks of the year beyond the current 38-week entitlement. This money could potentially be used to increase the proportion of cost-sharing for additional hours that is met by the government.

3.4 Costings

Our proposed scheme should be funded by re-allocating a portion of the funds currently spent on childcare support through both tax credits and employer-supported childcare vouchers, or of those earmarked for the childcare component of UC and TFC. The government's budget statements indicate that it expects to spend a total of £2.7 billion on these means of financial support for childcare when roll-out of them has been completed. Of this £2.7 billion, £1.5 billion will go towards TFC, including around £700 million of new money in addition to the £800 million currently spent on employer-supported childcare vouchers. The remaining £1.2 billion includes £1 billion currently spent on childcare support via tax credits, and an extra £200 million that will be used to increase the value of support offered when the system transfers to UC.

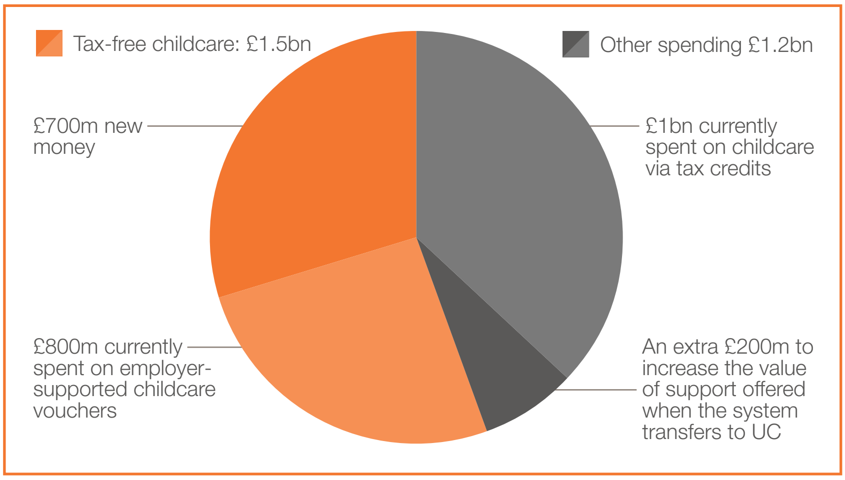
A proportion of this £2.7 billion is spent on children aged under one and those over four years old (who are in school); these children would not fall under the remit of our new proposed system. The government does not break down how spending is divided between these two groups (the 1–4s and those below and above this age-range). However, because we want to preserve the level of support currently available to these age groups, while re-allocating the funding spent on 1–4s, we must settle on an approximate estimate.[11]

We then need to determine the proportion of hourly childcare prices that the state could afford to offer to cover the 20 additional hours, on top of the free entitlement, for 2–4-year-olds, and 35 additional hours for one-year-olds.[12]

11 To do this we used the FRS for 2011/12. The FRS records information on childcare usage, whether it is registered, and how much is spent. We took the data pertaining to hours in registered childcare, and subtracted the 15 hours of care offered free to three- and four-year-olds. We also applied a simplified version of the means-test for eligibility for 15 hours at the age of two (whether or not total family income is less than £16,190 per year). We then applied price data from the Family and Childcare Trusts's childcare cost survey (http://www.familyandchildcaretrust.org/childcare-costs-surveys) to arrive at an estimate of the weekly childcare costs for individual families. Using IPPR's tax–benefit model, we were then able to estimate which families currently using childcare would be eligible for support under UC, and which would be eligible for TFC. We applied the announced maximum levels of support under each system to derive an estimate of the total amount of public funding going to each family to support their childcare usage. We were then able to determine the proportion flowing towards each age group. Our estimates based on this data show that slightly under 13 per cent of the funding to parents to support childcare usage outside the free entitlement goes to children aged below one or above four. This is likely to be less than the actual figure, since the nature of the survey means that shorter periods of intensive childcare usage (such as those during school holidays for children aged over four) may be under-represented in an annual snapshot such as the FRS. Nonetheless, it is likely that the majority of money spent through TFC and UC will flow to families with 1–4-year-olds. In order to make a more realistic/conservative estimate, we assume in the discussion that follows that 75 per cent (or £2.03 billion) of the £2.7 billion earmarked for childcare support goes to children aged between one and four.

12 Again, using the FRS for 2011/12, we were able to get a good idea of the distribution of hours usage among 1–4-year-olds. We did this by subtracting our proposed 15-hour free entitlement for the 2–4s (0 hours for one year-olds) from the 35 hours on offer under the proposed system, and applying price data from the Family and Childcare Trust, uprated to 2015/16 prices in line with historic cost increases.

Figure 3.4
Breakdown of the government's projected spending envelope for the financial support of childcare



We can then allocate different proportions of cost-sharing between families, and factor in our proposed state-funding mechanism to the resulting weekly costs, in order to derive estimates of the total fiscal liability under each system. To do this we compare the resulting total costs for families (weighted using family-level grossing factors from the Family Resources Survey) to those we calculated above under the current system. Because we are using the government's own estimates of total costs under its new system (£2.7 billion), we rely on the fact that they have taken sufficient account of other factors, such as population growth among the under-five cohort.

We also propose further targeting, with those in work and claiming UC being offered a higher level of cost-sharing from government. As above, we use IPPR's tax–benefit model to identify families who will be in receipt of UC. Separating these two groups, we estimate the following costs for a variety of different percentages of cost-sharing.

Table 3.1
Estimated fiscal costs for additional hours of childcare for 1–4-year-olds, by proportion of cost-share paid for by the state

Proportion of costs paid for by the state		Total cost (£bn)
UC claimants	Other in-work families	
85%	20%	£1.61
90%	25%	£1.82
90%	30%	£1.97
95%	30%	£1.95
90%	35%	£2.12
95%	35%	£2.18
95%	40%	£2.33

Source: IPPR calculations using the Family Resources Survey (2011/12) and FCT 2014

Bearing in mind that we have around £2.03 billion earmarked for this system, a cost-share of 95 per cent for UC claimant families, and 30 per cent for other in-work families still appears to be affordable without significantly increasing the amount of public funding for the system beyond the extension of the free entitlement outlined earlier. At a similar cost, meeting 90 per cent of the childcare costs of UC families and 35 per cent of those of other in-work families would also be affordable, but we consider supporting cost reductions for those lower down the income distribution to be a higher policy priority.

We therefore propose an affordable childcare cost-sharing model under which 95 per cent of the childcare costs of universal credit claimants is covered by government, and 30 per cent tax-relief support is given to other in-work families. This would reduce the estimated overall spending envelope for the financial support of childcare to £1.95 billion, which would allow some flexibility for increased uptake and other impacts that may result in increased spend (see below).

3.5 Supporting price sustainability

It is likely that the costs of our proposed system would increase in real terms over time. We would hope that offering a greater level of cost-sharing, and the resulting reduction in childcare costs for working parents, would encourage many more parents to move into work, and encourage many of those who already have a job to work more hours, and to therefore make greater use of their additional-hours cost-sharing entitlement. This greater take-up would lead to increased costs under our system. However, our estimates of the fiscal return of higher levels of maternal employment suggest that, at the same time, the reductions in means-tested benefit spending associated with moving into work and up the earnings distribution – as well as increases in tax and national insurance revenue – would significantly offset any additional costs.

Similarly, any demographic change that resulted in an increase in the number of 1–4-year-olds in early-years provision would add cost pressure to the system. This would have to be monitored, but this is true of any system of financial support for childcare, including both the current and proposed policies.

Finally, any increases in the price that providers charge for childcare make the state liable for a significant portion of those increased costs. The impact of these price rises on the public finances is currently restricted by the fact that the total amount of financial support offered to parents is capped. Under the government's proposed system, these caps will be set at £2,000 per child per annum for tax-free childcare, and at £123 per month for families with one child, or £211 for those with two or more, under UC. Given that childcare price-inflation has run above the rate of inflation, this is not sustainable.

This means that the fiscal impact of year-on-year increases in childcare fees could over the medium-term either be limited by keeping the caps fixed at their current level, or accommodated by limiting any rise in the cap. Under our proposed system, any change in the face value of fees for the additional 20 or 35 hours would translate directly into increased fiscal spend.

In order to combat this over the medium-term, we propose two changes to the way in which financial support is delivered. First, the government should aim to move away from the current demand-funded system, whereby parents are either partially reimbursed for a proportion of their childcare expenditure (as in the childcare element of the working tax credit and UC) or provided with a voucher (as in employer-supported childcare and TFC). While our proposed system of funding could be implemented using these existing methods, both the UK and internationally experiences tend to show that there may be inflationary consequences to a primarily demand-led system. Therefore, while it may be sensible to initially retain the current architecture of funding, the end goal should be a system in which providers, rather than parents, can claim back a proportion of their fees, with the face value of fees reduced at the point of charge for children's additional hours. This would also help to reduce the complexity of the system from the point of view of the user. Rather than having to spend on childcare and then claim the money back, as with tax credits and UC, or having to buy a voucher to obtain the extra support, as with tax-free childcare, users would pay a lower 'sticker price' at the point of purchase. Providers could also be tasked with assessing claimants' eligibility for the UC or tax-free childcare portion of the system. For UC claimants this could involve providing proof of UC receipt at the start of each term. Those in the tax-free childcare part of the system provide proof of employment, or a letter from their employer stating that each parent pays income tax. These options should be explored further. **Our goal is a simplified system with significantly lower prices for parents.**

The second element – an annually negotiated fee cap – will be essential for containing childcare cost-inflation. To prevent childcare providers from simply increasing their fees and absorbing the extra funding offered under an additional hours system, they would have to negotiate annual increases to their fees for the guaranteed additional hours with local government. Since local authorities will have an additional duty to guarantee a place, these negotiations can take place alongside their regular monitoring of prices and supply.[13] Both these steps would have the additional advantage of reining in the rapid price inflation in the private and voluntary childcare market in the UK.

It is worth making a final comment about the additional money currently earmarked for TFC and UC which will be used by families to pay for childcare for children aged five and above. The costings set out above have tried, where possible, to keep the value of these funds intact, as we are not making specific recommendations in this report on how care for school-age children should be funded or administered. Either the system could stick to the planned course, with the implementation of UC and TFC carried out as planned, or alternatively this funding could be moved towards a supply-funded system and used to provide free or more affordable wraparound and holiday care. While recognising the great importance of provision for this age group, we do not make specific recommendations in this report for how it should be improved.

13 Unlike TFC and UC, our proposed system would require the involvement of local authorities and the creation of a right to a place. This means that the system would have to be implemented below the UK-level, with devolved nations deciding whether to implement guaranteed places and how to spend the additional funds.

4. GUARANTEED PLACES AND TARGETED SUPPORT FOR ONE-YEAR-OLDS

To bridge the gap between the end of parental leave and the beginning of the free entitlement, and to offer parents more choices, **we also propose that the offer of affordable hours be made available to parents with one-year-old children**. In addition to this offer, we also outline proposals to specifically target families who may need or want additional support through children's centres, health visitors and family nurse partnerships.

There is now virtually no gender pay gap until the point at which women become mothers – then, a 'motherhood penalty' takes hold, whereby many women find themselves on a downward career trajectory often characterised by low-paid jobs with few opportunities for progression. Mothers can expect to earn 11 per cent less than women without children, and the pay gap between mothers and fathers born in 1970 is, on average, 26 per cent (Lanning 2013). But the problem of inadequate and unaffordable childcare provision for one-year olds is not only one of employment: it is also one of child development. Quality and low staff–child ratios are of paramount importance in this regard. Tacking these two key aspects of provision could bring the UK into line with other European countries where widely availability of high-quality provision is the norm.

The high cost of childcare for this age group is a barrier for many mothers who wish to (re-)enter work. IPPR research has shown that an expansion in early-years provision for children aged between one and two could help close the gender pay gap and increase household living standards (Thompson and Ben-Galim 2014). Prioritising the extension of provision to younger children can also be effective in bolstering the development of those children who have most to gain from formal childcare, as well as helping mothers (re-) enter the workforce, and it could be particularly beneficial to low-income households.

Because there is less financial support for this group compared to three- and four-year-olds, childcare costs for parents with one-year-old children tend to be disproportionately high (even after accounting for higher costs due to the tighter ratios required for this age group). This group of parents are more likely to be responsive to price changes than are parents of three- and four-year-olds (Thompson and Ben-Galim 2014).

4.1 Closing the gap: a guaranteed place for one-year-olds

Offering guaranteed places for one-year-olds would be a radical step for early-years provision in the UK, but it is the norm in many European countries, where there is no gap between parental leave and the availability of affordable and high quality childcare. Germany, for example, is in the midst of transformational reform. Early-years provision in general has come under intense scrutiny as female employment rates have increased, but there has been particular pressure in Germany for policymakers to focus on the education of immigrant children who have been shown to be falling behind other children. In 2007, the German government changed its legislation to extend a guaranteed entitlement to early-years education in a centre or home-based setting to all children aged between one and two, with an interim target of 35 per cent take-up by August 2013. Although this target has not been formally met, significant progress has been made towards it. In particular, there has been a rise in take-up among the under-threes, from 9.5 per cent in 2000 to 27.6 per cent in 2012 (Blum and Erler 2013). This is considered a radical change: 'After decades of political and cultural resistance towards publicly subsidised education and care for the under threes, an extraordinary transformation is now taking place' (Oberhuemer 2014).

Similar transformations have occurred in other countries. A 'toddler invasion' has been described in Norway, with take-up rates among 2-year-olds having risen significantly – from 37 per cent in 2000 to 80 per cent in 2012 – largely in response to high maternal employment rates (Ellingsaeter 2014). Lastly, in Denmark, 91 per cent of children aged 1–2 are enrolled in daycare (Cooke and Henehan 2012). Providing the option of high-quality and more affordable childcare for one-year-olds could be beneficial to many families in the UK.

As with children of other ages, a range of factors will impact on parental decisions, including their own preferences, the availability and quality of work, the cost of childcare, and the availability of high-quality provision. The decisions of parents already in work may be influenced by a different combination of factors than those of parents who are out of work.

The aim of a guaranteed place is not only to provide opportunities for parents to work, but to improve early childhood development. There is less research on early-years provision for the very youngest children than there is on other pre-school children. However, some strong messages emerge from the existing literature which indicate that we should be particularly focused on the quality of provision (Parker 2013a).

This body of evidence suggests that low child-to-adult ratios, and relationships that are warm and nurturing, are essential to good child development. There is some evidence to suggest that formal care settings can increase cognitive development more than informal care, especially for children from disadvantaged backgrounds. The evidence also shows that bad quality care can be detrimental, and so there is a premium on ensuring that quality is high (Parker 2013a).

Specific outreach approaches will also be necessary to ensure that awareness and take-up of places is high. Previous IPPR research has suggested that some parents will not simply turn up to claim their free entitlement, and may not even be aware that they are eligible (Ben-Galim 2011). To encourage families to access targeted support for one-year-olds, some of the lessons from effective outreach initiatives regarding the offer to two-year-olds should be replicated (Kazimirski et al 2008), alongside more creative measures, including the following.

- Acting on evidence which shows that outreach professionals act as the 'first frontline' of provision, local authorities and the NHS must ensure effective integration between health visitors, family nurse partnerships and family key workers. The integration of services can be improved, and cost savings achieved, through effective data-sharing and the co-location of services. There is still too little effective integration of local authority and NHS maternity and child health services and early-years provision.
- Local authorities must build on successful innovations that better engage new parents through assertive outreach. For example, children's centres run by Barnardo's on behalf of Manchester city council encourage new parents to come in, register the baby, and have a session with one of a range of local workers who can advise on health, social care, benefits and more. This better integrates health and care, brings families into interaction with service providers, and allows multiple agencies to collaboratively get to know families in the local area (Parker 2013a). In 2012, 85 per cent of families who participated re-engaged with these services (Jozwiak 2013).

- Peer-to-peer schemes like ‘parent champions’ are effective in harnessing existing service-users’ time and energy to engage new potential users, and parents are often more trusting of information when it comes from other parents (DayCare Trust 2008).
- Strong links established with home learning environments by family link workers and other outreach officers are often seen as the front line of provision. These links help build rapport, ensure good communication between services and parents, and offer helpful support and ideas for what to do at home to support children’s development.

Many of these services will need to be strategically commissioned, designed and implemented in order to meet local needs. Children’s centres can not only integrate early-years and family services, but for many they are a community hub. Supporting services in these types of institutions can therefore help more families to engage with their local services, connecting them both to other services and to other parents. They can also act as the stepping stone that some parents need to help them move into training or work.

Alongside institutions that provide integrated services, support and early-years provision, childminders are also likely to have an enhanced role given that parents may prefer a ‘home environment’ – though it is vitally important that such settings are of high quality. This is the case in France, where childminders (often working in group settings) are the most common form of childcare providers for the under-threes among families in which both parents are in work (Fagnani 2014).

Gaps can open up very early in both child development and maternal employment – and these become cumulative and more difficult to narrow as time progresses. Good-quality provision that is affordable and flexible can offer families more opportunities. The offer of a guaranteed place with affordable hours (see chapter 3) could begin to close those gaps. If the provision is both high-quality and affordable, it will deliver on the aims of promoting child development, boosting maternal employment rates and tackling gender inequalities.

5. DELIVERING OUR AMBITIONS

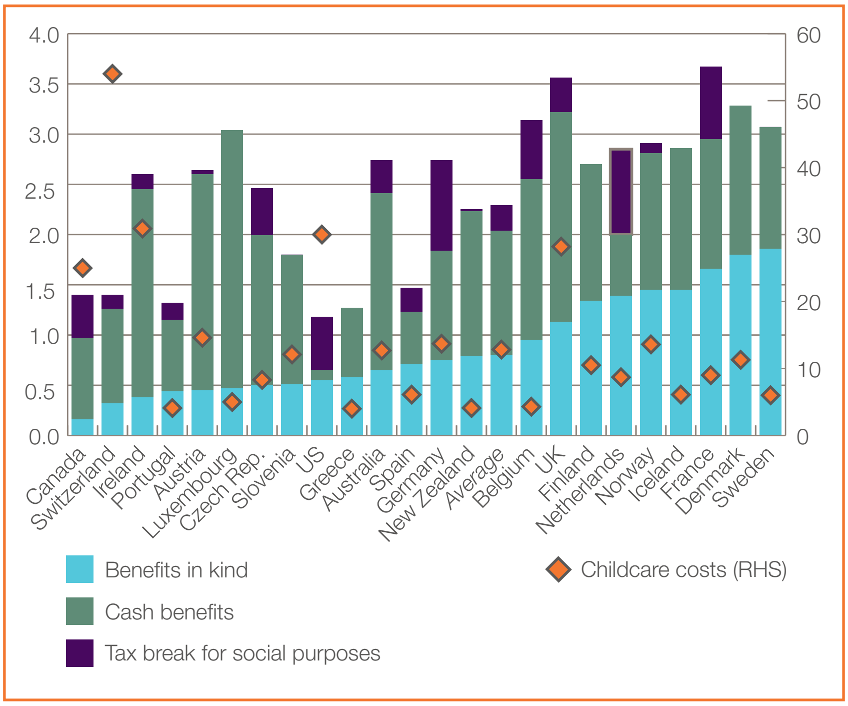
MOVING TOWARDS A SUPPLY-FUNDED SYSTEM

As a middle- ranking spender on childcare compared to other OECD countries, the UK lags behind the Nordic nations. The UK is not getting the best value for money from its spending on early-years provision, for a number of reasons (Cooke and Henehan 2012). In the UK, public spending on childcare is not spread evenly across income or age profiles, and parents often pay a higher price for childcare compared to parents in other countries. For example, before the free entitlement kicks in, parents face relatively high childcare costs, and for families on modest incomes these costs constitute a high proportion of their income.

Public spending on families is dominated by cash benefits rather than childcare services. Spending on cash benefits for families in the UK has grown substantially over the last few decades, from £13.7 billion in 1995 to £31.5 billion in 2007 – by which time the government was spending more than three times as much on cash benefits as it was on childcare and children's services (76 and 24 per cent respectively). This is in contrast to other countries – Denmark, for example, where the balance between cash and services is more balanced. There, just over half of spending goes on services (55 per cent) as opposed to cash benefits (45 per cent) (Cooke and Henehan 2012).

Figure 5.1 below illustrates the fact that in those countries, such as those in Scandinavia, that spend more of their total family benefit expenditure on services rather than on cash benefits, families tend to benefit from lower net childcare costs. The UK is an outlier, with relatively high cash benefits and high childcare costs for parents.

Figure 5.1
Total mix of family expenditure against parents' net childcare costs*



Source OECD 2011

*Note: This family expenditure measure covers all families with dependent children, not just those with children under five, and all family-related public spending, not only that contingent on the use of childcare. It breaks down expenditure into 'cash benefits' (principally child benefit and child tax credit), 'benefits in kind' (including Sure Start and the free entitlement, but not education and other core public services), and 'tax breaks for social purposes' (like that for employer-supported childcare).

Looking at childcare more specifically, countries that tend to achieve better value for money tend to rely on supply-side measures. This includes policies such as direct childcare provision or direct payments to childcare providers, as opposed to putting cash (or indeed tax deductions or credits) into parents' hands.

In Denmark for example, there is a national entitlement, supply-side funding directly to providers, and a cap on parental costs. This system has evolved over a generation, and it has arguably resulted in a resourcing model that is both stable and high quality. Parents have choices, with a mix of centre-based services and childminders, and parental costs are capped on a sliding scale of parental income (see Cooke and Henehan 2012).

New Zealand offers a good example of a largely supply-funded system that has widened access and lowered costs for parents. Radical reform in the early 2000s saw the government introduce a free entitlement to 20 hours of a week for every three- and four-year-old (May 2014). This has since been extended to five-year-olds (Ministry of Education 2013). Childcare subsidies are available for additional hours beyond this entitlement (Work and Income 2013). The *Pathways to the future* plan was published by the New Zealand government in 2002, with the stated goal of having all regulated staff in every teacher-led service be registered teachers[14] within 10 years (Ministry of Education 2002). Quality was at the heart of this expansion, with supplements paid to incentivise providers to deliver better quality provision (see section 6.4 below).

The reforms in New Zealand led to lower levels of government expenditure per child and lower childcare costs for parents (with the exception of higher earners). May (2014) quotes official statistics which show that there was an 'immediate impact on fees. The CPI [consumer price index] recorded a 32 per cent drop in the cost of early childhood education, causing a 5.2 per cent drop in the overall price of education in the country…' (ibid).

However, a new government has begun to scale back some of these commitments – for example, with proposals to move away from universality and towards more targeted support, and to reduce the 100 per cent qualified teacher target to 80 per cent (May 2014). It is too early to know what the outcome of this will be, and another election is imminent; however, it is clear that the core components of the system – supply-funding and investment in quality – will remain in place.

Reforms in Australia through the 1990s paint a very different picture, and illustrate how 'demand-led funding' can lead to rising costs without necessarily improving quality (Cooke and Henehan 2012). Changes in policy led to a much-needed increase in the supply of places, but public expenditure skyrocketed beyond policymakers' expectations, from AU$500 million in 1996 to $3.3 billion in 2008, as did costs to parents. Between 1996 and 2007, childcare costs ballooned by over 100 per cent (compared to general inflation of 27 per cent over the same period). Furthermore, in 2008, when the childcare rebate was raised to cover 50 per cent of all remaining costs (from 30 per cent), prices rose by 10 per cent as many providers saw this move as an open invitation to raise their fees (ibid).

The experience of Australia should alert policymakers to the risks of expanding tax-free childcare. As outlined above, the UK's current system does not include any measures to protect the government or parents from spiralling costs. The expansion of demand-side funding is potentially a short-term fix with long-term price consequences.

14 New Zealand also has 'playcentres' and parent-led settings.

We see many challenges in the UK childcare market: differences in accessibility and quality depending on geographical location; extensive 'churn' in provision; and parents being subject to price inflation without a guarantee of better quality. There is scope to create efficiencies through either a demand-led or supply-funded system. The evidence suggests that supply-funded systems which offer direct childcare provision or direct payments to childcare providers tend to be more effective than demand-led systems in achieving lower net costs relative to total expenditure, and at ensuring higher quality provision. Many of these systems provide at least part of the entitlement for free, with a cap on costs for any additional expenditure to ensure fairness. Countries with this type of system in place also have the highest maternal employment rates. The foundations of such a system already exist in the UK, but further reform is needed before it can be delivered.

5.1 Parental price caps

With most OECD countries operating a mixed market of public, private and voluntary sector providers, many face similar challenges to the UK in terms of trying to keep down the costs for parents without compromising on quality. Many countries have means-tested fees that vary according to parents' income level; fees can also vary by the number and age of the children that parents have. A number of countries also have policies in place that are designed to cap fees for parents, and which are proving to be effective. For example, Quebec's childcare programme for full-time care for the under-fives was initially offered at the heavily subsided rate of $5 per day, later rising to $7. This was implemented in stages, starting in 1997 for four-year-olds and extended over the following years to younger children. Several studies have shown that the policy has had a significant impact on maternal employment (Fortin et al 2011, Lefebvre et al 2011). It has also generated significant tax revenue. The aim of this initiative was not necessarily to respond to market forces, but to expand provision.

Parental costs are capped in both Denmark and Norway, but in very different ways.

- In Denmark, the price for parents is capped at 25 per cent of the unit price (although there are no national requirements governing prices). Those on the lowest incomes don't pay anything for childcare. In practice, this means that costs are capped at about 3,000 Danish kroner (about £330) per month for under-twos, and about 2,000 kroner (£220) for children aged between three and five (Cooke and Henehan 2012)
- In Norway, the maximum parental fee is determined by the government. In 2012 it was 2,330 Norwegian kroner a month (approximately £230), with kindergartens able to charge extra for meals; there are also reductions for siblings (Ellingsaeter 2014). A further cap is in operation through a clause which stipulates that providers cannot seek unreasonable profits, as they are in receipt of public funds (ibid).

Caps prevent costs spiralling for parents, and are essential for containing cost inflation and ensuring that affordable hours remain affordable.

5.2 Greater flexibility – for providers, from providers, and from employers

There is also the issue of when hours are in fact provided. In the UK, most childcare is available during and around regular working hours, accommodating parents who work a standard 9am to 5pm, Monday to Friday working week. Parents who work on evenings and weekends often have great difficulty in finding any provision, and what does exist is also relatively expensive. As the early-years entitlement does not cover care provided before 7am or after 7pm, parents are expected to meet the full costs too, implying substantially higher prices and, by extension, greater barriers to maternal employment.

Overall, more than a quarter of working mothers report that working later than 6pm causes problems with childcare, and a third report problems when they work before 8am (Huskinson et al 2013). This is a particular issue for lone parents, 39 per cent of whom report problems with evening care, and 36 per cent with early-morning care (ibid). It has been suggested that this strongly influences the employment patterns of lone parents, who are more likely to work shift patterns and other atypical hours (Singler 2011).

Since the types of jobs that require atypical patterns of work are largely confined to the low-paying end of the labour market – including frontline retail, hospitality and care roles – this puts parents and especially mothers who work atypical hours at an additional disadvantage.

The available evidence suggests that atypical working patterns among mothers may also be driven by the fact that there is not enough childcare provision during regular working hours either. Because they do not get full support to cover a standard working week, many parents have no choice but to work evenings and weekends, using 'shift parenting', grandparents or other informal care networks to cover the gaps. Indeed, it has been suggested that this may be one reason why particular industries, such as retail and hospitality, are able to operate outside regular working hours – they have a readily available workforce consisting of parents and other groups who are willing to work shift patterns.

Very few providers have been able or prepared to offer care outside typical working hours, but there does seem to be growing recognition of the types of changes that families need. One study has found that one in 10 childminders would consider working late in the evening, and between 3 and 4 per cent would consider working overnight (Statham and Mooney 2003). Brent council has recently set up a 24-hour 'flexible childminding pool' in partnership with Jobcentre Plus, NHS Brent and the Citizens Advice Bureau, making 43 registered childminders available to provide care outside of typical working hours and at short notice (Morton 2014a); a parental survey identified such a service as a need. Elsewhere, some private nurseries are offering additional wraparound services such as nannies, in order to offer parents greater flexibility (Morton 2014b).

In France there has been an increase in the number of providers operating 24/7 to accommodate a wider range of employee work patterns. For example, since 2010, vehicle manufacturer Renault has provided a crèche for its employees which is open between 5.30am and 10.30pm. However, although these types of initiatives better accommodate parents' working patterns, concerns have been raised concerning children's wellbeing in relation to long hours and additional commuting time (Fagnani 2014).

Although there is little data on the relative prices of care provided at different times in the UK, figures from one scheme in Southwark that supplies childminding places at atypical hours suggests that it charges between £1 and £2 more per hour because staff cost more during these hours. Other estimates from a scheme based in Bradford suggest that the cost of providing out-of-hours care may be as high as £18 per hour (Singler 2011).

It is clear that any expansion in the number and range of care hours on offer will have a significant impact on providers, and this needs to be considered in future work.

The other side of this discussion is, clearly, the issue of flexibility in the labour market. The lack of flexible work often constrains work options. This is particularly true for mothers with lower qualifications and those who have children at a younger age, who find it harder to secure good jobs and opportunities at work in the first place, and who may have no options other than to work full-time or not at all – they may not be able to afford to work less, or may be reluctant to ask for fewer hours in case they are perceived as less committed. At the same time, employers often demand flexibility of another kind from their workforce, requiring people to work outside regular hours whether or not they are paid overtime.

Flexible work opportunities are needed to provide women (and men) with more genuine choices regarding work and care. In previous work, IPPR has put forward proposals that would stimulate more flexible work opportunities that focus on job design, as well as ideas for ways to smooth income over particular periods of care (Ben-Galim and Silim 2013, Ben-Galim and Thompson 2013). More high-quality, better paid part-time jobs are required in order to address increased flexibility at the bottom end of the labour market. This would be of particular benefit to lone parents and parents with lower-level qualifications, who are often concentrated in part-time work. The quality and status of the jobs that women tend to do must be raised by creating flexible job opportunities at all levels and in a range of sectors, and by supporting women (and men) to find those opportunities. Crucially, 'flexibility' has to be considered from the perspective of childcare provision as well as in relation to employment opportunities.

6. IMPROVING QUALITY AT EVERY STAGE

The evidence indicates the importance of high-quality childcare provision in efforts to close the attainment gap (Mathers et al 2014). This means that any expansion needs to ensure high quality. Despite significant investment, the quality of early-years provision in the UK remains patchy (NAO 2012). As they have been in other countries, the policy goals of widening accessibility and affordability have often been prioritised over ensuring high-quality provision (Gambaro et al 2014).

However, this does not have to be the case, as reforms in New Zealand have demonstrated. There, the expansion of provision went hand-in-hand with improvements in quality. As discussed in the previous chapter, the government of New Zealand's *Pathways to the future* plan, published in 2002, set the goal of having 100 per cent of regulated staff in every teacher-led service (in which 87 per cent of children are enrolled) be registered teachers within 10 years (Ministry of Education 2002). While this target has recently been revised downwards to 80 per cent, it remains a high aspiration (May 2014).

Reform in this area is difficult, partly because up-skilling a workforce requires investment, but also because the evidence is less than clear on the specific aspects of quality that lead to the best outcomes for children of different ages. Furthermore, much of what is needed to support children – like warm and stable relationships – can be difficult to measure or quantify. Nevertheless, policy implications that can be drawn from early-years literature from both the UK and further afield.

There are a number of different policy levers that can be used to pursue enhanced quality, including staff qualifications, ratios, inspection and monitoring. Of these, ratios have perhaps been the most topical in recent years, with inspection and monitoring less of a focus. Since 2006 the inspection regime, through Ofsted, has been strengthened, with regular inspections of early-years providers. More could be done, however, to ensure that inspections are used to drive up quality and promote better developmental outcomes for children. As others have done, IPPR has called for Ofsted inspections to be brought into line with the highly respected Early Childhood Environment Rating Scales in order to better reflect children's outcomes, and to give inspectors specific training on early-years provision (Parker 2013a).

6.1 Driving up quality through qualifications

> **'There is nothing more important in early education than the quality of the staff who are delivering it.'**
> DfE 2013b

Staff qualification levels can have a significant impact, and are a good proxy for the overall quality of services.

As proposed in the Nutbrown review, **a relevant level 3 qualification**[15] **that includes a strong focus on children's development should be made the baseline standard for all staff working with children** (Nutbrown 2012). The review also recommended that students should hold level 2[16] maths and English qualifications as a prerequisite of enrolling in a level 3 course. This change would place a significant burden on the childminding sector, as currently only 59 per cent of childminders have at least a relevant level 3 qualification, compared to 79 per cent of group-based staff (Brind et al 2012). IPPR research into childminders' opinions

15 Refers to A-level, vocational A-level (advanced GNVQ) and level 3 NVQ qualifications.
16 GCSE A*–C, intermediate GNVQ, level 2 NVQ

about their sector found support for raising quality requirements: three-quarters (73.2 per cent) of childminders supported some extra requirements, and of these almost half (45 per cent) thought that childminders should be required to hold a relevant level 3 qualification within two years of registration (Parker 2013b).

In addition to this minimum baseline for all staff, graduate leadership[17] can also have a positive impact on children's development. The government has proposed strengthening quality through the introduction of early-years teachers – graduates who 'specialise in early childhood development and meet the same entry requirements and pass the same skills tests as trainee school teachers' (DfE 2013b). The aspiration should be that all settings are graduate-led, but the policy priority should be that **any setting that delivers the free entitlement should be graduate-led**. Importantly, this graduate leader should work with children, rather than in a largely administrative or management capacity.

The recently published *Sound Foundations* report suggests that level 3 qualifications for all staff, plus graduate leaders, should become the baseline for any setting delivering the free entitlement to two-year-olds, and that the expansion of the offer to this age group should be delayed until this level of quality can be guaranteed (Mathers et al 2014). In existing provision, practitioners should be working towards this standard.

6.2 The cost of raising quality[18]

In 2011, across the early years workforce, 78 per cent were qualified to at least level 3 and 15 per cent qualified to graduate level (level 6) (Brind et al 2012).

These qualifications are not evenly distributed across the sector. Those working in the maintained sector – school nurseries, for example – tend to have higher levels of qualifications, and childminders tend to have lower ones, although attainment among the latter has been rising (see table 6.1 below).

Table 6.1
Highest level of relevant qualification level for all paid staff, by type of provision, 2011 (% of staff that hold 'at least' each level)

	Level 1	Level 2	Level 3	Level 5	Level 6
Full day care	93	92	84	17	11
Full day care in children's centres	95	95	90	31	21
Sessional (usually a morning or afternoon, or an after-school club)	91	90	79	12	8
Childminders	77	67	59	6	4
Nursery schools	97	95	88	39	34
Primary schools with nursery and reception classes	93	92	85	46	41
Primary schools with reception but no nursery classes	87	86	77	53	45

Source: Brind et al 2012: tables 6.5a, 6.5b and 6.6

6.2.1 Raising qualification levels to level 3

Based on current levels of qualifications and provision, we estimate that the cost of having 100 per cent of staff qualified to level 3 (taking training and salary increases into account) would be £509 million. This would support the 22 per cent of staff across the

17 That is, an honours degree (such as a BA in early childhood studies, a bachelor of education (BEd) degree, and/or Early Years Teacher status, which is replacing Early Years Professional status)

18 The figures below on the costs of quality are based on data from the *Childcare Early Years Providers Survey 2011* (Brind et al 2012). This is because there are a greater number of actual Ofsted registered places than there are free entitlement places, and therefore a greater number of staff than the current entitlement figures from local authorities would suggest. Thus, the pay figures detailed here represent the additional salary costs that stem from a better-qualified workforce who work more than the 15 hours per week that the free entitlement currently provides.

childcare sector who are not qualified to at least level 3 to reach that level. This is likely to be an over-estimate, as the data also includes settings that care for children over the age of five – those who attend after school clubs and holiday clubs, for example.

If the free entitlement was to be extended over time to 48 weeks, the additional cost in terms of measures to raise staff qualifications would be £75 million – although again, this estimate is likely to be on the high side, as it includes one- and two-year-olds currently accessing childcare provision.

Table 6.2
Cost of raising workforce qualification levels to level 3 (100 per cent of staff)

	Upskill pay* per year	Training costs	Total cost
For 38 weeks free entitlement	£284,776,229	£224,468,677	£509,244,906
For 48 weeks free entitlement	£359,717,342	£224,468,677	£584,186,019

IPPR calculations based on Brind et al 2012[19]
*Note: By 'upskill pay' we mean the increase in pay because of higher skill levels.

6.2.2 Investing in a graduate workforce

Fifteen per cent of the current workforce is qualified to at least level 6. The figures below show that there is a relatively higher concentration of graduates in the maintained sector (nursery schools and primary schools with nursery classes). This is hugely problematic, as the research evidence shows that children from low-income families make better progress when supported by graduates. This means that children in deprived areas who attend nurseries in the private, voluntary and independent sector are less likely to attend high-quality settings (Ofsted 2014, Mathers and Smees 2014).

19 The estimates of pay increases according to qualification level are quite broad: because of low base sizes there is no reliable data on childcare staff pay according to specific qualification level, so the *Childcare and Early Years Providers Survey 2011* (CCEYP) does not include this in their survey (Brind et al 2012: 87). However, pay increases relative to qualification can be (roughly) estimated by looking at the survey's data on average hourly pay in nursery and maintained settings (ibid: table 5.19, available here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/219590/osr18-2012v2.xls). These figures suggest that, on average, nursery nurses (who must be level-3 qualified) are paid £2.30 more than 'other paid early years support staff', which suggests a £2.30 pay increase per staff member, per hour for upskilling to level 3. While pay in nursery schools and the maintained sector is on average higher than in private, voluntary and independent sector full day care, sessional, holiday and after-school settings, the assumption is that, across each type of setting, the relative differences between staff pay according to qualification level are somewhat equivalent. This appears to be the case for level 3 qualifications (that is, for full day care staff moving from the 'other paid staff' to the 'supervisor' position). It also suggests that moving from a level 3 qualification (nursery nurse) to a level 6 one results in a £10.45 per hour pay increase. However, this figure may be an overestimate. While there is on average a £10.45 pay gap between staff with level 3 and level 6 qualifications in nursery and primary schools, the gap between supervisory staff and managers in full day care settings is just £2.50. However, it is unclear whether full day care managers are in fact level-6 qualified (only 20 per cent of all senior managers across the whole childcare sector are qualified at or above level 6; (ibid: table 6.10). As a result, the only clear, known pay difference between levels 3 and 6 (£10.45) is employed in our calculations. In calculating the staff training costs related to the free entitlement extension, there is no data available for childminders, as the CCEYP survey does not detail the number of children by age that are cared for by childminders (thus making it difficult to estimate the additional number of childminders that would be required if the number of one- and two-year-old children in early years education and care were to be increased). As a result, the free entitlement extension figures may be somewhat underestimated. The cost of training existing and projected numbers of staff to levels 3 and 6 are based on the average fees of various level 3 and 6 courses (excluding online and distance-learning colleges). This average fee was then multiplied by existing and projected staff levels in order to estimate a rough training cost. It takes into account the current number of 16–19-year-olds that work in each type of setting (tables 5.9a–5.10 in the 2010 CCEYP survey: https://www.gov.uk/government/publications/childcare-and-early-years-providers-survey-2010) and deducts their fees from total training costs. (The number of 16–19 year-olds is, however, very low, which only highlights the need to train more young people in the sector.)

Table 6.3
Proportion of all paid staff in childcare settings in the 30 per cent most deprived areas in England with at least a level 6 qualification, by type of setting

Type of setting	Proportion of staff with at least a level 6 qualification
Full day care	10%
Full day care in a children's centre	22%
Childminder	1%
Nursery school	35%
Primary school with nursery and reception classes	41%

Source: Brind et al 2012: table 6.7c

It is difficult to estimate the spread of graduates across different sectors within childcare, but based on the evidence we estimate that if 30–40 per cent of all staff were qualified to level 6, it would ensure that the majority of settings were graduate-led.[20]

The cost of supporting this level of qualification across the sector is significant. The figures below show that an investment of £1.4 billion would be needed to train 30 per cent of the existing workforce to level 6 and pay them commensurately, or a total of £1.9 billion to do so for 40 per cent.

To extend this provision to 48 weeks, our modelling suggests that it would cost an additional £284 million for 30 per cent, and if £386 million if 40 per cent.

Table 6.4
Costs of raising workforce qualification levels to level 6 under different scenarios

	Upskill pay per year	Training costs	Total cost
38 weeks			
For 38 weeks free entitlement (30% graduate)	£1,079,361,960	£321,389,903	£1,400,751,863
For 38 weeks free entitlement (40% graduate)	£1,466,223,995	£435,335,874	£1,901,559,869
48 weeks			
For 48 weeks free entitlement (30% graduate)	£1,363,404,581	£321,389,903	£1,684,794,484
For 48 weeks free entitlement (40% graduate)	£1,852,072,415	£435,335,874	£2,287,408,289

Source: IPPR calculations based on Brind et al 2012

It should be noted that driving up the quality of the workforce in this way could also generate potential savings. For those providing care to children aged three and over, there would be scope to relax ratios from 1:8 to 1:13 as quality improves. The government's own modelling suggests that this could generate a surplus for future investment. IPPR analysis shows that if a provider hired two graduates paid at the average primary school teacher salary of £33,250, increased their ratios for children aged three and over only slightly to 1:10, and cut the costs to parents by 25 per cent,

20 In 2011, the *Childcare Early Years Providers Survey 2011* (Brind et al 2012) noted there were 107,900 early years providers in total: 26,000 full day care or day care in children's centres and sessional setting; 7,900 holiday clubs; 48,800 childminders; 400 nursery schools; and 15,300 primary schools with nursery/reception classes. A rough estimate would suggest that: 96 per cent of early-years coordinators/headteachers in nursery schools had level 6 qualifications or above; 91 per cent of those in primary schools reception classes; 2 and 1 per cent respectively in after-school clubs and holiday clubs; and 4–5 per cent in full day/sessional childcare settings. Since 4–5 per cent of total staff are qualified to level 6 in full day-care and sessional settings, and the CCEYP survey reports that there are approximately 291,400 staff members in this sector, we can estimate that around 14,750 staff members are qualified to level 6 in these settings. As such, we can assume that only around 56 per cent of settings in this sector would have a single staff member qualified to level 6, and that therefore 44 per cent of all full day and sessional settings (11,440 of them) would require upskilling just to ensure that all of them have at least one staff member with a level 6 qualification.

the extra revenue from offering a greater number of places would still more than offset the higher salary costs (Parker 2013a).

6.3 A high quality offer for two-year-olds

In line with our other recommendations, we propose expanding the free entitlement for two year olds to all children for 38 weeks in the first instance, and then to 48 weeks.

- To upskill and train the current workforce that is working with two-year-olds to level 3, the cost would be £195 million, £202 million to have 30 per cent of the workforce qualified to graduate level and £270 million to have 40 per cent qualified to level 6.
- If the free entitlement was then extended to 48 weeks, the additional cost would be £22 million for all employees to reach level 3; for 40 per cent to reach level 6, the additional cost would be £40 million, and for 30 per cent to do so would cost £30 million.

Table 6.5
Costs of raising workforce qualification levels for workforce caring for two-year-olds under different scenarios

	Upskill pay per year	Training costs	Total cost
38-week free entitlement			
100% of workforce qualified to level 3	£83,709,400	£111,288,943	£194,998,343
30% graduate (level 6)	£114,099,552	£88,748,352	£202,847,904
40% graduate (level 6)	£152,132,735	£118,336,878	£270,469,613
48-week free entitlement			
100% of workforce qualified to level 3	£105,738,189	£111,388,943	£217,127,132
30% graduate (level 6)	£144,125,749	£88,748,352	£232,874,101
40% graduate (level 6)	£192,167,666	£118,336,878	£310,504,544

IPPR calculations based on Brind et al 2012[21]

The government has announced an early-years pupil premium worth 50 million for 2015/16 which should be used to support the expansion of graduate leadership, particularly for children from disadvantaged backgrounds.

Given the scale and high costs of upskilling the early-years workforce, Professor Nutbrown suggested (in 2012) that 50 per cent of staff should be upskilled by September 2013, 70 per cent by 2015 and all for all staff by 2022 (Nutbrown 2012). The government has recently announced that it won't be pursuing a roll-out as

21 The estimated additional staff figure is calculated by totalling the current number of children aged two and under in all childcare settings and dividing that figure by the appropriate child–staff ratio (4:1 for two-year-olds, 3:1 for the under-twos). For children aged one and two, DfE data is used. That data lists the proportion of under-twos that were in formal early childhood education and care during 2011 at 37 per cent, based on a total 2011 population of 1,249,000. In order to break that aggregate figure down by age, we estimated that half of all two-year-olds and half of all one-year-olds and under (out of their total population in England) are enrolled in some form of early childchood education centre. This may represent an underestimate the number of two-year-olds enrolled, and an overestimate of the number of children aged one and under. Beyond that, in order to estimate the number of two-year-olds that will take up childcare in response to the extended entitlement offer, we used the ONS' population projections for both ages for 2015/16. Using those population projections, we estimated total take-up rates by assuming that 70 per cent of all two-year-olds will take up the offer in 2015/16. We then calculated the number of extra staff needed to cover that increase in take-up by dividing projected take-up figures for two-year-olds by the appropriate staff–child ratios (4:1 for two-year-olds). We assumed that all new staff would need skills training, and thus estimated the cost of training this extra staff according to the various qualification levels proposed (training 100 per cent of them to level 3, training 30 and 40 per cent to level 6, and so on.) We also accounted for 3.3 per cent inflation in the upskill pay. Data source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/219590/osr18-2012v2.xls

outlined in the Nutbrown review (Gaunt 2014). Nevertheless, it does provide a useful framework for phasing in a policy that requires significant investment.

6.4 Ensuring access to high-quality provision

High quality and universal provision are the cornerstones of early years provision, but there are still challenges to ensuring that this is available to and accessed by all children. Across a number of countries, a similar pattern is evident: children from disadvantaged groups are not always accessing their free entitlements. For example, in New Zealand, Pacific Island and Maori children have lower rates of participation compared to other groups (May 2014). In Norway, children from immigrant families have relatively low take-up rates for their free entitlement (Ellingsaeter 2014). Across England, 7–8 per cent of three-year-olds, and 2–3 per cent of four-year-olds are not accessing their entitlement (Gambaro et al 2014).

Take-up tends to be highest when a combination of universal provision, high-quality, free or affordable hours, and specific outreach strategies are in place. There is also evidence to suggest that having a mix of children from a range of backgrounds within a setting can be beneficial in supporting better outcomes, particularly for poorer children (Mathers and Smees 2014, Sylva et al 2014). Some strategies use quality supplements as part of a funding mechanism to incentivise quality and target disadvantage; this is in addition to some of the outreach strategies outlined earlier.

Quality supplements are available to providers through local authorities to support better quality, but it is not very high or used very effectively. Research suggests that only about half of local authorities offer a quality supplement, and of those the median figure was 20p an hour per child (HoC-CSFC 2010).

Any future funding formula should include a quality supplement. In France, private providers have access to public subsidies on the condition that they meet quality requirements and offer income-related fees (Fagnani 2014). In New Zealand, quality supplements have been effective at driving up quality. Paid directly to the provider by the state, the rate of payment varies according to a number of criteria including the percentage of staff who are qualified teachers. There is additional ‘equity funding’ for those providers operating in areas of high deprivation, where children do not speak English, or are isolated (Ministry of Education 2010).

7. REFORMING PARENTAL LEAVE

Progressive parental leave that covers the first year of a child's life can address a number of objectives – promoting attachment and bonding between infants and parents, enabling fathers to spend more time with their children and mothers to retain links to the labour market, and challenging gendered assumptions about work and care. It is also essential to providing parents with the opportunity to spend quality time with their children.

Parental leave (maternity, paternity and parental leave[22]) policies have been developed and expanded for working parents in recent decades. Responding to European directives, John Major's Conservative government reluctantly introduced paid maternity leave in 1994. Significant reforms were made under the subsequent Labour government, as maternity leave was expanded and paid at a higher rate. Legislation also strengthened employment rights for women during pregnancy and when on maternity leave. In 1997, maternity leave lasted for 18 weeks and was paid at £55 a week. Current policy provides up to a year of maternity leave, paid for 39 weeks at a statutory rate of £138.18.

Paid maternity leave is vital to protecting the health of mothers and babies. It is also essential in mitigating the 'motherhood pay penalty'. IPPR analysis has highlight a pay gap between women who do and do not have children: mothers born in 1970 could expect to earn 11 per cent less than women born the same year who did not have children (Lanning 2013). This analysis also demonstrated a pay penalty for mothers relative to fathers: for those born in 1970, mothers could expect on average to earn 26 per cent less than fathers by their late thirties (ibid 2013).

International evidence suggests that the 'motherhood pay penalty' appears to be strongest in countries with policies and cultural values that support the ideal of the male breadwinner and the female homemaker. The huge differential between maternity and paternity leave in the UK plays into outdated stereotypes of mothers as the primary carers and fathers as the primary breadwinners (Ben-Galim and Thompson 2013), and also limits choices for many parents. The government's own projections show that shared parental leave will do little to change the situation, with anticipated take-up among fathers expected to be between 2 and 8 per cent (BIS 2013a). Parents need to have more choice in how they can use their leave entitlements.

Paid paternity leave was introduced in the UK in April 2003, by which time fathers' ability to combine work and parenting responsibilities had emerged as a specific policy concern. The rate at which it is paid has increased since its introduction, consistent with increases in statutory maternity and adoption pay. However, its short duration and relatively low level limits many fathers' choices.

Research published by the Equality and Human Rights Commission in 2009 suggested that 55 per cent of fathers were taking their full entitlement (Ellison et al 2009). NatCen research published in 2011 suggested that 91 per cent of fathers took some time off following the birth of their baby; almost half took it as paternity leave only, and a quarter combined paternity leave with paid leave (either annual leave or an occupational scheme) (Chanfreau et al 2011). Fathers who took paternity leave were more likely to be working for large employers, working in the public sector and working in organisations with established family-friendly practices, and to be on higher pay. Fathers were less likely to

22 Within these categories are those who are eligible for adoption pay and same-sex couples. We are not able to analyse these groups in the data, but recognise that the impact of reform on these groups is important to consider, as they may have different experiences of parental leave policies.

take time off if they were working in small private companies, were self-employed or were low-earners (ibid).

International evidence shows the potential benefits to fathers, children and families of enhancing paternity leave. For example, there is considerable evidence to suggest that fathers are most likely to take paternity leave when wage replacement rates are relatively high, and when they have an individual entitlement which is lost if they don't take it (Moss 2013). In the UK context, 34 per cent of eligible fathers didn't take their statutory entitlement, many (49 per cent) saying it was because they couldn't afford it (Ellison et al 2009).

Compare this to countries where a 'daddy quota' is embedded in policy and practice. The 'daddy quota' in Norway is for a total of 14 weeks, paid at a generous wage replacement rate of about 80 per cent. The effect of this dedicated leave has been dramatic. Before its introduction, 4 per cent of fathers took some parental leave, but more recently it has been almost 90 per cent (Brandth and Kvandt 2013). The recently elected Conservative-led government has indicated that it might try to revoke this right, but this seems unlikely given that it is backed by many employer associations and enjoys huge public support (Lindsay 2013).

In Sweden, of a total 480 days of parental leave, 60 are reserved for each parent as a quota. Of the remaining 360 days, 180 are reserved for each parent; one parent must sign a form giving permission to the other parent if they choose to transfer some of this leave. Of the total 480 days of leave, 390 days are paid at 80 per cent, and a 'gender equality bonus' incentivises parents to share the leave equally. Under the terms of this bonus, both parents are paid an additional 50 Swedish kroner (approximately £4.50 per day) for every day of equally-used leave. This can add up to an additional 13,500 kroner (approximately £1,200) for each couple (Duvander and Haas 2013). Nevertheless, the gender equality bonus does not appear to have had a great impact on gender equality, particularly when compared to Sweden's 'daddy quota'. Analysing the Swedish case, Duvander and Haas conclude:

> **'The introduction of a father's quota in 1995 (one month) and its extension in 2002 (to two months) both led to more fathers taking more leave; though the second month had a less dramatic effect than the first. The introduction of the Gender Equality Bonus had no similar effects during its first 18 months.'**
> Duvander and Haas 2013: 6

Iceland, on the other hand, is moving towards a system under which five months of leave will be reserved for fathers, during which time it is proposed that salary replacement would be paid at 80 per cent (Eydal and Gislason 2012).

The systems in these three countries reflect decades of policy evolution and cultural change. In the UK, other than the current two weeks of paternity leave, fathers are reliant on their partners. Not only do they need their partners to be in work and eligible for leave, but they themselves also need to be in work and eligible. The gender pay gap further undermines the potential for more fathers to take time off work to be with their babies, and means that fewer mothers may want or be able to transfer part of their leave. As a leading Norwegian business leader has said, a 'daddy quota' means that 'the father won't need to negotiate with his employer, and he doesn't need to negotiate with the mother either' (Lindsay 2013). Such a policy could be transformational for many families in the UK. **Our proposal is therefore to introduce a four-week 'daddy quota', paid at the minimum wage**.

Fathers want to spend more time with their children (EOC 2003). A defined period of leave can have a significant impact on gender equality both at work and at home. It is also likely to have a positive impact on fathers' relationships with their children. Father's leave, their involvement in childcare, and child development are all related. Research has shown that those fathers who take off two weeks or more around the birth of their children 'are more likely to carry out childcare related activities when children are young' (Huerta et al 2013).

Reflecting women's rising employment rates, there is growing a consensus that the optimal composition of parental leave would also include a defined period of maternity leave to protect the health of mothers and babies; 'use it or lose it' paternity leave for fathers; and then paid parental leave for parents to use as they see fit. Maternity leave must strike a careful balance, protecting the health and wellbeing of mothers and babies 'without marking women down as uniquely responsible for caring for children' (Fatherhood Institute 2013).

Use-it-or-lose-it quotas have been shown to be effective at encouraging fathers to take a period of leave, and in weakening the motherhood pay penalty. The shared parental leave would give parents the ability to carve out time for their own families in ways that work best for them. It could also contribute to a narrowing of the gender pay gap by reducing the divisions between work and care and promoting greater gender equality.

In the remainder of this chapter we outline the design of our proposed parental leave system, and its potential costs, impacts and benefits.

7.1 Parental leave: design and pay

Under our proposals, the duration of parental leave would be the same as it is currently – one year – but the aim over time would be to provide payments across the year so that there is no gap between the end of parental leave and the beginning of guaranteed childcare (as described above).

The design features of this policy are as follows.

- A four-week (20 day) 'daddy quota', paid at the national minimum wage.[23] In time, this could rise to 90 per cent of earnings, to match maternity leave.
- A protected period of paid maternity leave to protect the health of mother and baby (6 weeks/30 days).
- Genuinely flexible parental leave whereby each parent is entitled according to their employment status (42 weeks/210 days, to be shared between both parents).
- More flexibility concerning how parental leave is taken – in days instead of weeks. In our modelling we have assumed that there are 260 days in the working year: 20 of these days should be accounted for by the 'daddy quota', and 30 days by 'maternity leave'; the remaining 210 days should be shared parental leave for parents to decide how to take over the course of the year.

23 The current national minimum wage is £6.31 per hour. We have uprated this by the consumer prices index for estimates covering 2015/16, to £6.55.

7.1.2 Paternity leave: the 'use it or lose it daddy quota'

There are no official figures on take-up of paternity leave and paternity pay. Research published by the Equality and Human Rights Commission in 2009 suggested that 55 per cent of fathers were taking their full entitlement; this was the best estimate based on a representative sample of parents (Ellison et al 2009). This is the baseline figure we use in our analysis below.

According to the Department for Business, Innovation and Skills (BIS), the cost of paternity pay and adoption pay in 2012/13 was £38.8 million (BIS 2013b). We have used that as the baseline from which to model extensions of pay and leave. We have adjusted for a 1 per cent uprating between 2012/13 and 2015/16. BIS also estimated that 413,451 fathers are eligible for paternity leave,[24] and we use this figure in our modelling.

- If paternity leave were extended to four weeks, the additional cost would be £39.1 million. This is assuming that the same proportion of fathers take leave, and assuming that 55 per cent take their full entitlement.

Four weeks seems to be the optimal length of a 'daddy quota', based on the international data. We also know from existing research that those on the lowest incomes tend to struggle most to take paternity leave, and so we have modelled the cost based on a minimum wage replacement rate (£6.55[25]) for four weeks in 2015/16.

- If existing provision was extended to four weeks at the minimum wage, the additional cost would be £108 million a year (based on the current take-up rate of 55 per cent).

However, we would be disappointed if take-up rates did not increase as a result of this type of policy: we would expect these rates to rise, initially to perhaps 70 per cent, but then eventually to approach 100 per cent. Under these two scenarios the additional costs would be:

- minimum wage replacement rate, assuming 70 per cent take-up: £187 million (so an increase of £40 million from a 55 per cent take-up rate, or £148 million from current spending on paternity leave)
- minimum wage replacement rate based on 100 per cent take-up: £267 million (if considered as an incremental rise from 70 per cent, then an additional cost of £80 million).

If we were to pursue another option and equalise paternity pay and maternity pay – that is, offer paternity pay at 90 per cent of earnings – then clearly the costs would be higher. According to the Office for National Statistics, mean gross weekly male income for men in April 2013 were £676.70 per week, 90 per cent of which is £609.03 (ONS 2013). Based on a four-week 'daddy quota', the additional costs of this relative to current spending levels for 2015/16, assuming various levels of take-up rates, would be:

- at 55 per cent take-up: £356 million
- at 70 per cent take-up: £452 million (an additional £96 million)
- at 100 per cent take-up: £646 million (an additional £194 million).

These figures include the additional costs that the government pays to support businesses. Small and medium-sized enterprises (SMEs) are able to claim back 103 per cent of the cost of leave; other employers can claim back 92 per cent.

24 Data supplied to IPPR by the Department for Business, Innovation and Skills.
25 Minimum wage rate adjusted for CPI inflation; see previous footnote.

7.2 Maternity leave

In 2011/12, the most recent year for which statistics are available, 229,000 women received statutory maternity pay, at a cost of £2.2 billion, and 53,400 women received maternity allowance, at a cost to the exchequer of £361 million (Browne and Hood 2012).

Government forecasts are that in 2015/16:

- maternity allowance will cost £400 million (in real terms, at 2014/15 prices), with 61,000 women taking it up
- maternity pay will cost 2.397 million (in real terms, at 2014/15 prices), with 281,000 women taking it up (DWP 2014).

The figures for maternity pay include the additional costs to the government of paying support to businesses: SMEs can claim back 103 per cent of the cost of leave, and other employers 92 per cent. Jobcentre Plus pays maternity allowance.

Based on the evidence presented, we suggest that 6 weeks is retained specifically for maternity leave to protect the health of the mother and baby.

On the basis of government forecasts, we estimate that the cost of these first 6 weeks would be £1.2 billion in 2015/16:

- £1.1 billion for the first six weeks of maternity pay (paid at 90 per cent of earnings).
- £62 million for the fist six weeks of those eligible for maternity allowance.

This would then leave £1.6 billion from existing spend to begin to reshape parental leave to be genuinely shared.

7.3 Parental leave

To provide parents with more choices, the remaining 210 days of leave should then be available to either parent, paid at the minimum wage. The entitlement should be allocated in days rather than weeks, in order to provide more opportunities to both employers and employees. For example, it might be easier for an employer to facilitate an employee working for three or four days a week for a fixed period, rather than taking a fixed block of leave for a few weeks or months. Some women might want to return to work on a more flexible basis, and this policy could smooth the transition.

New legislation would be required to ensure that the days could not be used more than once. Guidelines will also need to be produced, in consultation with employers, to ensure that the scheme works for employers as well as employees. We have modelled the costs based on a shared parenting model in which mothers and fathers each take 105 days of leave.

- For dads the cost would be £2.3 billion.
- For mums the cost would be £1.6 billion.

The difference in costs can be attributed to the fact that men work more hours on average than women.

The above cost estimates are likely to be on the high side, as they are based on the following assumptions.

- That all parents are working full-time – but we know that many mothers are already working part-time.

- That take-up rates are 100 per cent for both parents – but we know that it may take time for fathers to take up their entitlement.
- That leave is equally shared between parents. Evidence from other countries has shown that it can take time to achieve this equality, and the likelihood is that mums will take a higher proportion of the leave until it becomes more embedded.

7.4 Grandparental leave

A further reform of parental leave could involve giving parents the ability to transfer some of their leave to a working grandparent in specific circumstances – for example, if the mother is a lone parent, under 18, or in vocational training like an apprenticeship. This responds to evidence of the growing role that many grandparents are already playing in childcare (Ben-Galim and Silim 2013). This shouldn't have any additional cost implications, but would require employers to be more flexible.

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Similar to the other recommendations proposed in previous chapters, reforming parental leave could have a transformational effect. There are some delicate issues to navigate – concerning, for example, how employers could be supported to expand occupational schemes, and how to ensure that current provision remains intact. Some organisations already have parental leave policies in place that better reflect the needs and aspirations of their employees, but for some others to do so would require significant changes in policy and practice.

Throughout this chapter we have argued that a four-week, use-it-or-lost-it 'daddy quota', paid at the minimum wage, should be introduced in the next parliament. We have also presented the case for, over time, raising maternity pay and introducing parental leave that can be genuinely shared. The projected cost of these extensions is £2.3 billion in addition to current spending forecasts.

Progressive parental leave that offers genuine choices for parents can act as a retention tool, reducing the impact of the 'motherhood pay penalty' and allowing mothers and fathers flexibility in work and care.

8. PAYING FOR IT

Our proposals build on previous work, and recognise that there can often be competing objectives in reforming childcare provision, including promoting child development, raising maternal employment rates and tackling gender inequalities. Our reforms are designed to advance these objectives simultaneously – for example, by ensuring that expanded provision is both high-quality and affordable.

The core components of our proposals are as follows.

- **An extension of universal early-years provision** – providing a universal entitlement of 15 hours a week of early learning, 48 weeks a year, for all children from the age of two until they enter school.
- **A new framework of affordable childcare for working families** – bringing down the direct costs of childcare, with capped parental fees and a progressive allocation of resources, while guaranteeing affordable places from the age of one, funded through reforms to existing tax credits and reliefs.
- **Improvements to the quality of childcare and early learning, to support children's development** – over time, building a highly qualified early-years profession with widely-held teaching and early-years-related qualifications.
- **Reforms to parental leave entitlements** – strengthening fathers' entitlements and giving families the opportunity to make genuine choices about shared parenting.

Together, these proposals set out a vision that provides *all* children with the opportunity to thrive, and allows *all* parents, particularly mothers, to better balance work and care, and by doing so to challenge persistent gender inequalities.

Of course there are costs to some of these proposals, and in the current economic climate it would be naïve to suggest that they could all be implemented immediately. In what follows we outline the priorities, aspiring to the objectives above while also being realistic about what might be possible in the next parliament.

8.1 Potential phasing for the overall package

Table 8.1
Annual cost, additional to current spend, of priority proposals in the next parliament

Area of reform	Priority proposal	Cost
High-quality extensions to universal early-years provision	Extend free entitlement to all two-year olds (to 38 weeks)	£910 million
	Having all staff working with two-year olds be qualified to level 3 at a minimum	£200 million
	Ensuring that 30 per cent of the professionals who work with two-year-olds are graduates	£200 million
	Extend the free entitlement to 48 weeks for all 2–4-year-olds	£1,000 million
	Invest in quality measures towards raising qualifications for all existing staff to level 3, and to level 6 for 30 per cent of staff	£200 million
Reforms to parental leave entitlements	Introduce four-week 'daddy quota', with leave paid at the minimum wage (assuming a 70 per cent take-up)	£150 million
Total cost		**£2,660 million**

Note: All costs are in 2015/16 prices. With the exception of some up-front investment in quality, these are annual costs. The intention is that they are phased in throughout the next parliament.

Our vision is ambitious, and we would advocate further reform beyond the next parliament. Some options for this include the following.

- Additional investment in the early-years workforce to support children's development. This could be done by investing in raising qualification levels for all staff to level 3, and by making 30 per cent of the workforce qualified to a graduate level (combined additional cost: £895 million), and then further expanding training to have 40 per cent of the workforce qualified to graduate level (additional cost: £785 million).
- Further reforms to parental leave – for example, extending parental leave to a year, paid at the minimum wage (additional cost: £2.3 million), and/or increasing the replacement rate at which the 'daddy quota' is paid to match that of maternity pay (90 per cent of earnings) (additional cost: £496 million, assuming 100 per cent take-up).

8.2 Paying for universal, high-quality provision

Resources need to be found upfront to invest in expanding childcare provision. Given the UK's current fiscal position, it would be remiss not to discuss realistic options.

As a first step, we suggest that current resources be used more efficiently and effectively. Shifting spending away from demand-led provision such as tax-free childcare and towards supply-funded provision through a cost-share mechanism and a cap on costs to parents would not only lower costs for families, but would also protect the government from inflationary pressures on the cost of childcare. Our proposals for this mechanism assume spending levels that are similar to current commitments. The recently announced early-years pupil premium (£50 million in 2015) offers opportunities to raise qualification levels across the sector, and a consultation is currently underway on the funding formula for schools, including early-years provision, which could result in a more efficient spending relationship between central government, local authorities and service providers.

Beyond that, however, new resources need to be found. Previous analysis by IPPR shows that making affordable childcare more widely available could potentially raise revenues (Thompson and Ben-Galim 2014). We would anticipate a return on this investment in the form of increased maternal employment rates. Our analysis has shown that a 5 percentage-point increase to the maternal employment rate could generate £750 million a year in benefit savings and tax revenue. These figures rise relative to the scale of the increase in the maternal employment rate: for example, a rise of 10 percentage points could generate £1.5 billion annually. Given current forecasts, we propose 5 percentage points as a realistic and ambitious aim for the next parliament.

However, it is clear that hard political choices also need to be made to find the additional money required. These will be fiercely debated by all political parties in the run-up to the next election. In this report we have presented a way forward that balances some of these tough choices in a way that is fair to all members of society. The balance within current spending on families should be reconfigured, with resources shifted away from cash benefits and into services. The marriage tax allowance should be scrapped, and the savings invested in high-quality universal early-years provision in order to better support families. This would free up £520 million in 2015/16, rising to £695 million in 2017/18 (HM Treasury 2013 and 2014a). We propose that most of this funding be shifted into early-years provision, with the remainder (around £200 million) earmarked for relationship support (Lawton 2014 forthcoming).

As IPPR has outlined previously, a better balance between cash transfers and services could be effective in advancing child development outcomes. These changes would put the UK more in line with Nordic countries, which have a more even balance between cash transfers and services. It would also form part of a wider strategy on child poverty that:

- re-orientates children's benefits towards parents with young children, reflecting the desire and ability of these parents to work
- reforms universal credit so that it does more to tackle poverty – particularly adding a second-earner disregard to make it more rewarding for families to have both parents in work (Lawton 2014 forthcoming).

We propose freezing child benefit in cash terms for school-age children. Holding child benefit flat in cash terms from April 2016 would save £634 million a year by 2020/21 (in 2014/15 prices) (Lawton 2014 forthcoming); child benefit for the under-fives should, however, be uprated in line with CPI inflation. Parents are less able to work when their parents are young, even with affordable childcare in place. Supporting parents into work is key to reducing child poverty rates.

Together with the reforms outlined here for early-years and parental leave, these measures would protect family time when children are young, while also reflecting parents' work preferences.

However, further investment is required. Following the chancellor's announcement in the March 2014 budget that, from April 2015, there will be no obligation for people cashing in a pension pot to purchase an annuity (HM Treasury 2014a), there is a strong case for revisiting the tax treatment of pension savings. A review would have to re-examine all aspects of tax relief, including questioning whether it is still appropriate to give tax relief to higher-rate taxpayers, and considering changes to the annual and lifetime limits on contributions that are eligible for relief and the tax-free lump sum. It could suggest that, with people having more freedom in how they use their pensions, the relative tax advantage of pension savings compared to other savings should be reformed (Pearce 2014).

The biggest anomaly is the tax-free lump sum, which currently allows up to 25 per cent of pension savings to be taken tax-free. The Pensions Policy Institute estimates that abolishing the taxfree lump sum could increase tax revenues by £4 billion. Alternatively, capping it at £36,000 (which would affect approximately one in four pensions) could save the government £2 billion in tax relief (PPI 2013). The current government has already cut tax relief on pension savings. With the recent moves to give people more choices, it seems likely that the next government, whatever its composition, will cut it further. We propose that a review of pension tax relief consider these options, and that the resultant savings be invested in early-years provision.

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There is a strong social and economic case for universal early-years provision. High-quality and affordable care can deliver better outcomes for children, families and society. Universal childcare that is affordable and accessible can enable families to better balance work and care, and in doing so can promote higher employment rates and tackle gender equalities. There is consensus on the need for early-years provision as a key means of achieving social justice. The challenge is to deliver it.

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