BRIEFING

EXTENDING THE EARLY YEARS ENTITLEMENT

COSTINGS, CONCERNS AND ALTERNATIVES

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Institute for Public Policy Research

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SUMMARY

This report examines how best to deliver the proposed extension to the free offer of childcare hours. It also presents our recommendations for more strategic alternatives to the extension, and demonstrates the need for a long-term strategy.

The government has committed to increasing free childcare hours for 3- and 4-year-olds in working families from 15 hours per week to 30 hours per week, for 38 weeks of the year. Increased investment in childcare is to be welcomed. High quality, affordable childcare and early years education achieves three key outcomes: better child development, higher maternal employment, and greater gender equality. However, we are concerned that the government will significantly underfund the planned extension, and that this will result in a poorly-delivered policy with negative outcomes for families and for the sustainability of the sector. We have two key concerns.

- **Underfunding:** The government's policy costing, at £365 million in its first year, is inexplicably low in comparison to other estimates, as well as to current funding. IPPR puts the cost of this extension at £1.6 billion annually.[1] Our analysis is static, and so does not take into account government savings from reduced spend elsewhere as a result of the increase in free hours such as reduced spend on tax credits/universal credit and tax-free childcare and an increase in tax receipts from mothers entering work/working more. The government's costing is dynamic, and does take these savings into account. However, this difference is likely to account for only a small fraction of the differential between the two costings.[2] The government's drastic underfunding gives rise to concerns that the hourly rates that it will give to providers to deliver this care will be too low, resulting in falling quality, poorer outcomes for children and less choice for parents as the market shrinks. We recommend that the rates review currently being conducted by the Department for Education take into account the full cost of childcare for the private, voluntary and independent (PVI) sector, including the impact of the upcoming increases to the national minimum wage and the government's ambition to raise the number of graduates in the early years workforce.
- **Loosening regulations:** We are concerned that the low costing for this policy will lead the government to change the nature of provision to fit the price tag. Poor quality childcare is not beneficial to children or parents, so the government should not take any steps that push down costs if they also push down quality. The government has discussed the possibility of loosening ratios and expanding the provider pool. However, any change in ratios or regulations needs to reflect the evidence base, and place paramount importance on the safety of children, their developmental outcomes and the quality of care. The government should expand the provider pool only when doing so raises the overall quality of provision, has clear beneficial impacts for children and families, and aligns with the desired outcomes of the free childcare hours policy.

There is also a broader question about whether the proposed reform is the best way to invest in childcare. Doubling the free offer for 3- and 4-year-olds is not the most strategic extension to the childcare offer – we propose alternatives that would better achieve the outcomes of increasing maternal employment and equalising school-readiness across socio-economic groups.

1 In 2015/16 prices

2 See the appendix to this paper for a further discussion of the government's and IPPR's costings.

Targeting the free hours at 2-year-olds – for whom childcare support is lowest, despite childcare costs for this age group being highest – would have a greater impact on child development, maternal employment and gender equity. At present, the 40 per cent most disadvantaged 2-year-olds are eligible for 15 hours a week. This offer should be universalised to include all 2-year-olds. This would cost £900 million annually.[3]

Another alternative and important focus would be extending the free offer from 38 to 48 weeks of the year. This would cover holiday care, which is currently both expensive and hard to find, and so pushes parents out of work or onto reduced hours. As a step towards full holiday coverage, the government could provide an additional 10 weeks for the 40 per cent most disadvantaged 2–4-year-olds. This would cost £550 million annually.[4]

The lack of strategy for the 3- and 4-year-olds offer reflects a broader short-termism in childcare policy. The government should develop a long-term strategy for childcare that corrects historic imbalances, and utilises the extensive evidence base to design a system that delivers better outcomes for families.

3 This figure assumes roll-out in 2017/18, and is in 2015/16 prices.

4 See the previous footnote.

1. INTRODUCTION

The importance of high quality, affordable childcare is no longer up for political debate. When they went to the polls earlier this year, all the main parties promised more of it. This is a welcome change: childcare is a sound investment, one that will pay dividends for families and the UK. The Conservative government is now tasked with delivering on its pledge to extend the free offer for 3–4-year-olds from 15 to 30 hours a week for children of working parents.[5]

The government will be building on shaky foundations. The childcare market is fragmented and ineffective (PwC 2006), and the support offered to parents is both complex and disjointed. Despite increases in investment, support does not consistently deliver either the high quality care that children need, or the flexibility that many working parents require. Current funding leaves significant needs unmet: in many areas childcare provision is insufficient to meet local demand, and parents still cite childcare costs as their biggest barrier to work. These costs have risen out of step with inflation: across all types of childcare for under-5s, costs rose by 27 per cent in cash terms over the course of the last parliament (Rutter 2015a).

Moreover, there are signs that the extension could fail to deliver high quality childcare. Inadequate funding for this policy is likely to lead to poor delivery, with all the risk that entails. The second chapter of this paper introduces the free offer, and looks at those risks and how they can be minimised. The third chapter proposes more strategic extensions of the free offer, and the fourth briefly raises broader questions about childcare strategy in the longer term.

5 This policy, and the discussion that follows, refers to England only.

2.
THE EXTENSION OF THE FREE OFFER

2.1 About the free offer

At present, 3- and 4-year-olds in England are entitled to 15 hours of free early years education for 38 weeks of the year. Some 2-year-olds are also entitled to free childcare: the 40 per cent most disadvantaged can access 15 hours per week for 38 weeks of the year. This policy is funded through the Department for Education (DfE), while other areas of childcare spend, such as tax credits and tax reliefs, are funded through HM Revenue and Customs. DfE spending on the current free offer grew by 39.1 per cent in real terms between 2010/11 and 2014/15 – an increase that can be accounted for mainly by the expansion of provision to cover those more disadvantaged 2-year-olds (Sibieta 2015). Furthermore, additional funding will be made available from 2015 through the early years pupil premium directed at disadvantaged 3- and 4-year-olds. However, despite this rising funding, the unit funding per childcare hour has not kept pace for most providers. This has led to ever smaller subsidies per hour of provision in real terms, causing greater delivery pressures for providers (PSLA 2015).

Other areas of spend have also suffered. Children's centres are funded from the Early Intervention Grant (EIG) to local authorities: the value of the EIG fell by 40.9 per cent in real terms between 2010/11 and 2014/15. The result has been a reduction in funding to the centres, and the reduction and closure of many services (ibid).

The government has committed to increasing the offer for 3- and 4-year-olds to 30 hours a week (for 38 weeks a year) for children with working parents – although the government has stated that the additional 15 hours are for childcare rather than early education. At present just over half of 3- and 4-year-olds (56 and 58 per cent respectively) are in working families (IFS 2014).[6] This policy is set to be rolled out in September 2017, with pilots in operation from September 2016.[7] This extension is welcome. Free hours bring down the overall cost of childcare for parents, enabling parents to work if they want or need to. The free offer of 15 hours a week (usually delivered in five sets of 3-hour sessions) was designed to support child development, with any beneficial impacts on maternal employment a welcome side effect. Though it is not sufficient to cover the needs or preferences of parents who work full-time, 30 hours a week will do a better job of supporting maternal employment, while also providing more early education to under-5s.

The DfE funding for the current free offer is channelled through local authorities, who then pay providers a centrally determined hourly rate. The level at which this rate is a set is a key determinant of the quality and availability of childcare. Yet these rates have largely stagnated, despite increases in the national minimum wage, rents and other costs to providers. Following sustained calls from the sector to address chronic underfunding, these rates are currently under review, with a government response expected in autumn 2015.

6 The IFS defines 'working familes' as those who are in the labour market, whereas the government, in the context of this policy, defines defines working parents as those who are earning at least the equivalent of eight hours per week on the minimum wage (this applies to both parents in couple families, as well as to single parents). The proportion of families that will become eligible under this policy will therefore be slightly lower than in the IFS estimate. For eligibility criteria, see https://www.gov.uk/government/publications/childcare-bill-policy-statement

7 The extension will become law with the ascension of the childcare bill 2015-16.

Other upcoming key decision-points in relation to the proposed extension of free hours include the following.

- **The spending review:** This is an opportunity for the government to incorporate new rates, as per the rates review, into policy costings, including appropriate commitments for future years to 2020/21, in order to correct both immediate and long-term underfunding.
- **Implementation taskforce:** Department for Work and Pensions employment minister Priti Patel is leading an implementation taskforce to ensure that the sector can deliver the policy. This taskforce is yet to report on its findings.
- **Pilots:** In selected areas, pilots of the extension will begin in September 2016. The government has called on innovative providers to nominate themselves (DfE et al 2015).

The extension will become law with the ascension of the childcare bill 2015-16, which will pass to report stage in the House of Lords in mid-October 2015.

Childcare: why it matters

High quality, affordable childcare and early years education can deliver three key outcomes: child development, maternal employment and gender equity.

Child development

High quality childcare and early years education boosts children's cognitive and emotional development, both in the immediate term and on into secondary school and young adulthood (Parker 2013a). Moreover, it also acts as an equaliser, narrowing the otherwise stubborn gaps in school-readiness between children living with high and low levels of disadvantage (ibid).

Maternal employment

The gap in employment rates for mothers and fathers in the UK is around 20 percentage points, and does not close even after children have left school (DWP 2013). Yet maternal employment is important: it provides a key component of income growth among low-to-middle-income households (Resolution Foundation 2013) and, moreover, dual-earning (for couple households) or employment (for single parent households) has been demonstrated to be the best route out of poverty (Lawton and Thompson 2013). Supporting maternal employment also makes economic sense for the UK. Increasing maternal employment by only 5 percentage points would be worth around £750 million annually in increased tax revenue and reduced benefit spending (Ben-Galim and Thompson 2014). Bringing down the cost of childcare would enable many more parents to work: 43 per cent of parents of 3- and 4-year-olds who said they wanted to enter employment, or to work more, cited childcare affordability as a barrier to that (Borg and Stocks 2012).

Gender equality

Those women who are in work face intrinsic and explicit discrimination, and a persistently large pay gap that currently stands at 19.1 per cent (ONS 2014). They are underrepresented at senior ranks and in high-skill professions, despite being just as qualified as men (ONS 2013). These inequalities will persist until parents are able to properly balance their work and care responsibilities. Access to high quality, affordable childcare is essential in this regard.

Childcare is vital, but there are other measures that also need to be taken if maternal employment is to be boosted. These include protecting and extending parental leave, improving access to good quality flexible employment, and removing financial disincentives for second-earners under universal credit. The government should not be reticent about adequately funding measures to support mothers to work. It pays dividends (Ben-Galim and Thompson 2014).

2.2 Delivery challenges and concerns

We are concerned that the government may deliver the extension to the free offer of childcare hours in a way that does not benefit children or families, and does not make the sector more sustainable. This section sets out two interrelated concerns, alongside our recommendations for minimising the risks in each case.

Our concerns relate to a combination of existing problems and emerging ones.

- **Underfunding:** The extension is currently underfunded. This will exacerbate existing problems in the childcare market, and is likely to create new ones.
- **Loosening regulation:** underfunding could lead the government to cut costs in ways that reduce the quality and effectiveness of childcare provision.

Underfunding

The free offer currently accounts for around half of public spending on childcare. Of the £5.2 billion total spend (excluding spending on children's centres), £2.1 billion is spent on the free offer of 15 hours for 3- and 4-year-olds, and a further £800 million on the 15 hours for the 40 per cent most disadvantaged 2-year-olds (HoL SCoAC: 106). Nevertheless, the system struggles to meet demand. Many local authorities do not have enough childcare available in their areas: in November 2014 less than half (43 per cent) of those in England reported having sufficient provision for parents who work full-time (Rutter 2015a: 18), and there is a considerable and growing body of evidence demonstrating that the hourly rates paid to providers are too low to cover their costs (see for example NDNA 2015 and Ceeda 2014).

The government has costed the extension of an additional 15 hours for 3- and 4-year-olds in working families at **£365 million** in 2017/18 (its first year), rising to £670 million in 2020/21 (HM Treasury 2015). It provided these figures in the 2015 summer budget, at which time the (ongoing) rates review had not yet concluded. It is therefore to be expected that the government, on completion of the review, should amend the costing to reflect the revised rates. However, even with this caveat taken into consideration, the costing appears inexplicably low in comparison to current funding, as well as to figures arrived at in other analyses.

- Current annual spending on the free offer for 3- and 4-year-olds (15 hours a week for 38 weeks a year) is £2.1 billion (HoL SCoAC 2015). More than half of 3- and 4-year-olds are in working families (IFS 2014). Given that the extension will double the number of free hours available to those families, and that the policy will have an approximately linear cost per extra hour (as there is no upfront funding associated with the extension), this suggests that the extension would cost at least £1 billion annually at current hourly rates. In addition to the expected rise in hourly rates following the government's review (see below), this estimate further supports the suggestion that the policy is significantly underfunded.
- The extension of the 15-hours-per-week (for 38 weeks a year) offer to the 40 per cent most disadvantaged 2-year-olds, which was rolled out over the course of the last parliament, cost £755 million in 2014/15, and targeted more than 260,000 2-year-olds (DfE et al 2013). Although childcare for 2-year-olds is more expensive per hour than it is for 3- and 4-year-olds, the cost differential is far smaller than the per-head funding difference in this policy compared to the current extension – again suggesting that the proposed extension is underfunded.
- The Institute for Fiscal Studies put the annual cost of increasing the free entitlement for working families by 10 hours to 25 hours a week (for 38 weeks of the year) at £435 million (Emmerson et al 2014). The government's planned extension will offer more hours, yet comes with a smaller price tag.

- Similarly, in 2013 the Labour party costed a similar increase (by 10 hours to 25 hours per week, for 38 weeks per year, for working families) at £800 million (Balls 2013).
- The coalition government costed the above Labour party policy. In January 2015, childcare minister Sam Gyimah estimated that this proposal would cost £1.6 billion (McCardle 2015).
- The SNP government in Scotland has committed to expanding the free childcare offer from 16 to 30 hours a week (that is, from 600 to 1,140 hours per year) if it is re-elected in 2016. This would cover all currently eligible children – all 3- and 4-year-olds and the most disadvantaged 2-year-olds (approximately a quarter of all 2-year-olds). The Scottish government's costings project that under these plans, annual spending on early learning and childcare in Scotland will rise from £439 million in 2014/15 to £880 million by 2019/20, when the expansion will be fully implemented; additional capital funding will also be required (Scottish Government 2015). There are at least four times as many eligible children in England than there are in Scotland,[8] yet the English policy is set to receive significantly less funding.

IPPR has costed this proposal. We find that the extension of the current offer by 15 hours to 30 hours a week for 3- and 4-year-olds in working families would cost **£1.6 billion per year** (assuming roll-out in 2017/18; in 2015/16 prices) (Thompson and Stirling 2015). It should be noted that the government's estimate is dynamic – that is, it takes into account savings from tax credits/universal credit and other elements of the welfare budget. IPPR's estimate, by contrast, is static – it refers to the direct cost of the extension, and does not take other savings into account. However, even when these dynamic effects are taken into account, the government's estimate is still significantly lower than would be expected.[9] **Taking into account potential dynamic effects, our costing suggests a funding gap of around £1 billion in 2017/18**.[10]

Underfunding the 30 hours offer would lead to a smaller, less flexible market as providers (both for-profit and not-for-profit) either exit, reduce the breadth of services that they offer, take on fewer children, or refuse to offer the free hours (see for example NAHT 2015 and Gaunt 2015).[11] This would reduce parental choice and potentially push up costs for paid hours or other services outside of the free offer, such as childcare for most under-3s, wraparound care and holiday care, while also pushing down quality. Families in poorer areas may be particularly adversely affected. Already faced with fewer local providers, some parents would experience reduced access to childcare, and less flexible provision, which would in turn impact upon their access to work, particularly to jobs that involve non-standard hours.

The rates review

As mentioned above, the DfE is currently undertaking a review of hourly rates paid to providers in response to long-running complaints of underfunding from the sector. **This is a welcome opportunity to correct historic imbalances before the policy is expanded.** Understanding childcare costs is a challenge. Most of the market consists of private, voluntary and independent (PVI) providers, who are under no obligation to open their books to public scrutiny – a set-up that makes it difficult for central government to fully grasp how much childcare costs and how those costs vary between areas, settings and ages.

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8 Author's calculations based on Scottish government statistics (Scottish Government 2014) and the UK government's assessment that 600,000 *families* will benefit from the extension in England (see for example http://www.bbc.co.uk/news/education-32928117).

9 See the appendix to this paper for a further discussion of the government's and IPPR's costings.

10 See the annex to this paper for a technical note on our costing.

11 The NAHT's survey (2015) found that schools would be likely to take fewer nursery pupils as a result of the proposed expansion of the free childcare hours offer.

The rates review should consider and reflect the following major considerations.

- Keeping hourly rates artificially low will have a damaging impact on provision and a distorting effect on the market. **The government should base the new rates on a thorough understanding of providers' costs to ensure that rates are sufficient to guarantee a good quality provision.**
- The rates review should also take the national minimum wage (NMW) into account. In the 2015 budget, the chancellor announced an increase to the NMW for over-25s from April 2016. This change is likely to have a considerable impact on the sector, which is both staff-intensive[12] and low-paid – a considerable proportion of the childcare workforce receives the NMW, or close to it.[13] This increase will have a significant impact on the cost to providers of both the current offer and the extended one (PSLA 2015). **The government should take the higher NMW rates into account in the rates review, and ensure that annual increases in the NMW are reflected in the rates paid to providers each year (rather than suggesting a one-off rate uplift).**
- As the NMW increases begin in April 2016, the **new rates should be introduced as close to this date as possible**, or in September 2016 at the latest.
- The government is pushing for graduates to become more prevalent in the childcare workforce. This is a laudable aim – one that, if it is achieved, would increase the quality of provision and the pay of the workforce. **The new rates should reflect this ambition and the price tag that comes with it.**
- Rates should also reflect the impact of **pension auto-enrolment**. As small and medium-sized businesses are phased in to the new system, an increasing proportion of the childcare workforce will be affected. The minimum employer contribution rate will also increase in 2017 and again in 2018,[14] adding to the wage bill.
- The rates review may also want to consider broader funding issues, such as the unaccountably high level of local variation in rates in between local authorities. Though some variability is to be expected and can be attributed to specific factors, it is not clear why rates vary to such a high degree (NAO 2012). This **local variation should be better understood, and funding formulae revised if it is necessary to ensure that variability properly reflects local factors between English local authorities.**

Is there capacity?

It should not be taken for granted that the sector can respond to a step-change in demand, particularly without upfront financial support to do so. Previous reforms that increased eligibility for childcare were supported by upfront investment to ensure that the sector was able to respond,[15] yet none has been offered in connection with the reforms currently proposed. The ability and willingness of providers to increase supply will depend on both the amount and availability of upfront investment, and the adequacy of hourly rates. At present the former is absent, and the latter insufficient. **Government should provide upfront investment to providers that want to expand their capacity but are otherwise unable to do so.**

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12 Staff costs account for 77 per cent, on average, of group-based providers' costs (Brind et al 2012).

13 The mean hourly pay of all staff in group-based full day care settings was £8.40 in 2013; for paid staff that were not senior managers or supervisors, this figure was £6.80 (Brind et al 2014). The NMW was £6.19 in the year to October 2013.
The workforce does have a significant proportion of younger staff who will be unaffected by the NMW premiums: 18 per cent of paid staff at group-based settings offering full day care were under 25 in 2013 (DfE (2013) Providers survey). Nonetheless the majority of the workforce do not fall into this category

14 http://www.thepensionsregulator.gov.uk/employers/contributions-funding-tax.aspx

15 For example, the Labour government's 10-year strategy for childcare, published in 2004 (HM Treasury et al 2004), included up-front investment to expand provision.

Childcare in numbers

At present the UK has a complex funding system, consisting of three elements.

- **Direct state provision** (children's centres and maintained nursery classes/schools), which account for just under £1 billion of public spending annually (Waldegrave 2013).
- **Supply-side (but demand-led) funding for PVI providers** via the free hours entitlement, which accounts for £2.9 billion per annum (excluding funding for the proposed extension) (HoL SCoAC 2014).
- **Demand-side subsidies for parents** via working tax credits/universal credit, employer-supported childcare vouchers and the forthcoming tax-free childcare. Current expenditure on such subsidies accounts for £2.3 billion per annum (ibid).

The majority of childcare funding is demand-side (cash subsidies) or demand-led (the free offer), going direct to PVI providers or parents. The result of this is that the supply of publicly-delivered childcare settings is low. The current split between supply- and demand-side childcare is a historical accident, one that reflects years of conflicting policy changes from both central and local government.[16]

The proportion of funding that goes to demand-side and demand-led subsidies is set to increase over the coming years, as families move from tax credits to the relatively generous childcare support available under universal credit; as tax-free childcare is rolled out; as the supply-side but demand-led free entitlement is extended; and as local authority children's centre budgets continue to be squeezed or cut completely.

Loosening regulations

Given the degree to which the extension is underfunded, we are concerned that the government will be tempted to cut costs in ways that reduce the quality of childcare – such as changing staff-to-children ratio limits or other regulations, or expanding the provider base – without giving due consideration to the impact these changes would have on children and families.

The government may well be tempted to relax ratios in order to cut costs, despite likely reductions in quality as a consequence. A survey of childminders conducted by IPPR in 2013 found that a majority (74 per cent) would not be willing to increase the number of children that they cared for (despite the fact that doing so could boost their earnings), because they felt it might compromise the quality or safety of their care (Parker 2013b). Childminders also rejected the suggestion of cutting regulation, such as minimum qualifications or ratios[17]; in fact, the majority (57.7 per cent) thought that *more* regulation would have a *positive* impact on the sector (ibid). Therefore, **any change in ratios or regulations needs to reflect the evidence base, and place paramount importance on the safety of children, their developmental outcomes, and the quality of care.**

At present the free offer is limited to regulated providers: nurseries and nursery classes, playgroups and pre-schools, childminders and Sure Start children's centres. Expanding the provider pool to include cheaper options, such as unregulated playgroups and nannies, would bring down the aggregate cost of the extension, but would also reduce the policy's beneficial impacts. The latter is not true of children's centres, most of which do not currently offer free hours but which may be able to expand their provision to include the offer. However, any change in their remit should follow detailed discussions with the centres, their users, and local authorities. **The government should expand the provider pool only when doing so will raise the overall quality of provision, will have clear beneficial impacts for children and families, and aligns with the desired outcomes of the policy**.

16 For a discussion of the evolution of government-funded childcare provision see Hillman J and Williams T (2015) *Early years education and childcare: Lessons from evidence and future priorities*, Nuffield Foundation. http://www.nuffieldfoundation.org/sites/default/files/files/Early_years_education_and_childcare_Nuffield_FINAL.pdf

17 61.8 per cent of respondents thought that this would have a negative impact, and only 7 per cent supported the idea of moving away from individual Ofsted inspections (towards collective agency assessment) (Parker 2013b).

3.
BETTER ALTERNATIVES

This paper has set out a more strategic approach to delivering the extension to the free offer that would not have adverse impacts on children, families or the market. However, even if all of our recommendations pertaining to it are acted upon, this expansion of the offer for 3- and 4-year-olds is not the best way to support families. In this section we propose some questions for longer-term strategic approaches to childcare.

Universalise the offer for 2-year-olds

Childcare costs are a barrier to work for many parents. However, parents of children under the age of 3 are more likely than those of 3- and 4-year-olds to be locked out of work because of unaffordable childcare (Borg and Stocks 2012). These parents face higher hourly costs for childcare than parents of older children, yet they receive less support. Previous IPPR research has demonstrated that greater provision for the under-3s could help close the gender gap in both employment rates and wages, and increase household living standards (Ben-Galim and Thompson 2014). We recommend that the government prioritise **universalising the offer to 2-year-olds** over extending the offer to 3- and 4-year-olds. Extending the free offer for under-3s in this way would ease care costs for parents of younger children, and enable more of them to return to work. Under the previous, coalition government the offer of free hours was introduced for the 20 per cent most disadvantaged 2-year-olds in 2013, and was expanded to cover the 40 per cent most disadvantaged in 2014. A further extension of the offer to cover all 2-year-olds would be likely to have a significant positive impact on maternal employment. However, the current government has remained silent on this proposal. **It would cost £900 million annually.**[18]

Extend the offer to cover holiday care

Another challenge for parents is the cost and availability of holiday care. At present, the offer covers 38 weeks of the year, leaving working parents struggling to secure holiday care, which tends to be both expensive and hard to find. Despite having a legal duty to do so, 87 per cent of English local authorities did not have sufficient holiday childcare for working parents in 2015 (Rutter 2015b). The lack of affordable holiday care has impacts on continuity of care for children as well as on parents' employment – a survey run for the Family and Childcare Trust via Mumsnet in 2014 found that a quarter of respondents had been forced to cut their working hours during school holidays (Rutter J and Lugton D 2014: 18). **Extending the offer to cover 10 additional weeks per year** (that is, from 38 to 48 weeks) would improve affordability, and would also be likely to stimulate supply. Doing so would benefit all working families.

As a first step towards delivering this extension to all working families, an initial phase could target this additional provision at 2–4-year-olds in families within the poorest 40 per cent of the income distribution. This would cost **£550 million per year from 2017/18**[19] (Thompson and Stirling 2015: 27). These families, who currently face the most significant barriers to work, will see their incomes fall as a result of measures introduced in the 2015 summer budget (Hood 2015). Further childcare support is needed to enable parents to work if they want or need to do so.

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18 In 2015/16 prices. This calculation uses the same assumptions as our other costings, taking into account the higher cost of provision for younger children.

19 In 2015/16 prices.

4.
TOWARDS A BETTER STRATEGY FOR CHILDCARE

The offer of free hours opens up access to childcare, supports child development and helps parents to work – but it is not the only pillar of childcare support in the UK. Rather, it sits amid a messy, mixed system of support. Beyond the *level* of government funding for childcare, the channels and mechanisms by which is it delivered and funded will continue to affect the nature, quality and effectiveness of provision. Understanding how the interplay of these various funding streams, and fees paid directly by parents, help to shape and influence our mixed childcare market is essential if the UK's broader childcare policy is to be successful. The current childcare offer is an accident of history. The system would deliver better outcomes for children and parents, and better value for money for the government, if it were redesigned in a way that takes into account the large and growing body of evidence on what constitutes effective childcare provision. The solution is likely to involve a greater emphasis on supply-side funding, which provides a more sustainable, equitable and better quality offer than a predominately private market.

Childcare is a sound investment: fund it now and we'll reap the benefits for years to come in terms of rising levels of maternal employment (bringing in additional tax revenues), falling child poverty and improved child development outcomes. The rationale is simple; delivering an effective, efficient, responsive system is less so. Yet the strong case and high level of public support for it have not translated into a well-funded system that is equitable, consistently high-quality, sustainable and sufficient to meet demand. Bigger innovations than the ones proposed are possible. **The government should invest in childcare in a way that secures high-quality, sustainable, flexible provision, takes into account the wealth of available evidence on which policies can deliver positive outcomes, and puts the market onto a stronger and more strategic footing for the longer term.**

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APPENDIX
NOTE ON COSTINGS

The IPPR analysis presented in this paper (and previously in Thompson and Stirling 2015) uses a static estimate of the cost of extending the free offer. It does not take into account potential savings that this extension could achieve by reducing the amount of childcare support claimed under tax credits or universal credit. However, as noted by the IFS (Brewer et al 2014), these savings are likely to be small (Brewer et al 2014). Our estimates suggest that these savings may be between £200 and £400 million per year. Nevertheless, this still leaves a significant disparity of at least £800 million between the government's costing and IPPR's own costing.

However, there is a considerable degree of uncertainty about the amount of savings that could be achieved by a reduction in childcare support claimed under tax credits/universal credit (TC/UC), tax-free childcare and, to a lesser degree, employer-supported vouchers. Parents' behavioural response to the extension is unknown: although the majority of working parents are likely to take up the extra free hours, it is unclear whether these parents will opt *not* to change their overall childcare hours/arrangements, and therefore claim less in support through TC/UC, or opt to *increase* their childcare hours and/or change their arrangements as a result of the extension. A straightforward assumption that an increase in free hours will result in a corresponding reduction in the childcare hours claimed for under TC/UC is likely to be incorrect. Moreover, the cuts made to TC/UC in the 2015 summer budget will reduce the childcare support available to families, thereby reducing the savings that HM Treasury would accrue from a reduction in childcare support claims.

IPPR's analysis used assumptions for take-up, hourly rates and population published in the Institute for Fiscal Studies' *Green Budget 2014* (Emmerson et al 2014). Our costings are in 2015/16 prices, and do not take into account the proposed increases to the national minimum wage that will take effect from April 2016, or revisions to the hourly rates paid to providers (which are currently under review); they therefore act as a minimum estimate.

The government announced the eligibility criteria for 'working parents' in its October 2015 policy statement.[20] The policy will cover families in which single parents and both parents in couple families are earning the equivalent of at least eight hours at the national minimum wage. Our costing uses a broader definition of working families, one that includes all families in which all parents are working, irrespective of their wage; this is also in line with the the assumptions of the IFS. Therefore, the number of children who will become eligible under this new policy will be slightly lower than the number assumed in our analysis. However, this difference is likely to be slight given the small proportion of working parents who are below this threshold.

20 https://www.gov.uk/government/publications/childcare-bill-policy-statement