HOUSE OF LORDS

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The Select Committee on Affordable Childcare

Inquiry on

AFFORDABLE CHILDCARE

Evidence Session No. 9 *Heard in Public* *Questions 166 - 179*

WEDNESDAY 26 NOVEMBER 2014

10.40 am

Witness: Sam Gyimah MP

Members present

Lord Sutherland of Houndwood (Chairman)
Lord Brabazon of Tara
Baroness Gould of Potternewton
Baroness Kennedy of Cradley
Baroness Massey of Darwen
Baroness Morris of Bolton
Lord Sawyer
Baroness Tyler of Enfield
Baroness Walmsley

Examination of Witness

Sam Gyimah, Parliamentary Under-Secretary of State, Department for Education

Q166 The Chairman: May I welcome the Minister? I am pleased to see you here, and congratulations on your now not so new appointment. You have obviously been taking it at the flood, which we appreciate, and we have seen the speeches that you have made that are relevant to the issues of today, which we also appreciate. I remind you that, as the sign up there says, we are now broadcasting, so everything goes out on the web, including every little nervous tick, so you may wish to keep that in mind.

Secondly, I also remind you that we make a record of the discussion today, which will eventually be published but will be sent to your office, Minister, as soon as it is ready, should there be any points for action or whatever.

Lastly, clearly if there are any points that you feel we should have paid attention to and you did not get the opportunity to say things that you wanted to say, please feel free to let us have a written statement. That would be much appreciated.

Sam Gyimah: Thank you. Do you mind if you take my jacket off?

The Chairman: No, indeed. I have taken off one undergarment but nothing too obvious. If you come down on an early morning train from Edinburgh, it is quite cold on the train and you need more than the system in the House of Lords requires.

I do not know whether you want to say anything at the outset or whether we can just launch into our range of questions.

Sam Gyimah: I think I am ready to start with questions.

Q167 The Chairman: This is partly for the benefit of those listening here or outside. The role of the Committee is to look at the affordability of childcare. The House of Lords wanted to set up a Committee because it is very likely that all major political parties will have something on this in their manifesto at the next election. Our intention is to report in good time, not that we will be taking sides—I am a Cross-Bencher and I am against taking sides—rather, we will try to analyse the issues so that the population, should they wish to read our report, can make an informed assessment of the varied policies that will be presented by each of the parties.

I will start on that issue of policies. The current coalition Government has put forward, and indeed is putting forward, further policy material. What, in your estimation, are the public policy aims of the state in intervening in childcare? What does the state hope to get out of this?

Sam Gyimah: Lord Sutherland, thanks for having me here today. That is a very good question, which you framed as the state's policy aims in childcare. In fact, when I look at it, and as a recently new Minister I have had to ask myself a similar question, we talk about childcare but actually comprises two elements: early years and early education, and childcare. They are two very different things, although in policy terms we discuss them as though they are one and the same. For the purposes of today I will use the word "childcare" to mean both.

Therein lies the clue to the stated aims of the state. One aim of the state is early years and early education, which benefits the child and is not so much about the parents. All our evidence, and this evidence has been gathered over many years, is that there are significant benefits to children from early education, so to that extent there has been a consensus across Governments—the previous Government, this Government and within the current Government—to support early education.

Historically, and in a lot of people's minds, childcare is where parents leave their children in order to be able to go to work, have respite or whatever else they need to do. In this context the aim of the state is to help parents get to work, in particular because of the recognition that work is the best route out of poverty and that childcare can be a barrier for some parents in accessing work. That is one aim of the state in that context.

There is another aim of the state in relation to childcare and early years, and that is narrowing the gap. Given that we have seen evidence that early education does make a difference to school readiness and school attainment, being able to invest in it early, especially for the disadvantaged, should help to narrow that gap. That is another aim of the state.

There are side effects of investment on any of those three levels, such as helping with the cost of living. That is one side effect of investment in childcare, but I can come on to that later if you want me to.

The Chairman: Can I just pick you up on that very last point? I am interested in how you put it: that that is a side-effect rather than a main policy objective. Occasionally, politicians—not necessarily the Government—who speak on this regard increasing the number of people in employment as a major policy direction rather than as a side effect.

Sam Gyimah: What I meant by "side-effect" is that one of the consequences of supporting parents to get to work, for example, is that the cost of childcare, which they could have borne, or had to bear entirely on their own—not all parents but some parents—is diminished. A consequence of that is that parents could have a bit more cash in their pocket to spend on a new car or to enjoy the things that families like to enjoy and spend their disposable income on. That is a side effect, because if your intention was simply to put money into parents' pockets, a tax cut would be a more direct way of doing that. Indeed, the personal allowance, which is offered as a tax cut for about 30 million people, is precisely to deliver that. But if by supporting parents to purchase childcare, which is what we do through working tax credits and what would happen with tax-free childcare, they have more disposable income, supporting them with their cost of living, say, is a side effect of stated policy.

The Chairman: Is the hope of increasing the number of people who are able to go into the workforce a significant part of government policy?

Sam Gyimah: I think it is, but this all depends on which government department you are speaking to when it comes to childcare. I am a Minister in the Department for Education, and when we look at childcare we look very much at early education and early years but also at the social mobility implications: i.e. the opportunity for that child to attain the same level as their better-off peers. If you were to speak to the DWP, it would be specifically the barriers that people face in getting to work, so the incentive structures that it would come up with would all be about hours and getting people into work.

To answer your question, if you were to speak to the Treasury, employment would be a key aspect of stated policy and, I believe, rightly so. If you look across the OECD, the UK could do a lot better on the rates of maternal employment, and although in this day and age childcare is not purely a maternal issue—it is a parental issue—it is often the mother who has to think about whether she has the choice and the ability, given the finances, to go to work, and if she does go back to work whether significant parts of her paycheque will just be paying for childcare. So to that extent, if you are coming at the issue from the Treasury perspective, maternal employment will quite rightly be a key objective.

Q168 The Chairman: I think you are putting into your answer, very helpfully and clearly, a number of different strands. One of the difficulties that we have had as a Committee is juggling these strands, because there seem to be two or three different policies, hopes or aspirations of either legislation or potential legislation, and I cannot resist saying, since you have mentioned it, that we would love to talk to the Treasury but they do not seem very keen to talk to us. That is on the record now, so I will not go back to it.

The question is about balance and how you spend the money coming from the centre, whether it is on early child education, or effectively childminding, or effectively trying to subsidise the route to employment. These are different policies. We will come back to this, but are they all equally accepted? I can understand what the Department for Education focuses on, but you see our difficulty.

Sam Gyimah: I can see where you are coming from. If what you are looking for here is the clarity of an intellectual purist—

The Chairman: Oh, never.

Sam Gyimah: —it does not seem apparent here. I do not think that they are mutually exclusive, because I look at this from the point of view of the parent rather than government policy. As a parent—I have a seven month-old—it matters as much to me that my seven month-old gets good early education as it does that our family finances work. When I look at government policy, I am not trying to differentiate one from the other; I am trying to see whether government policy supports me as a parent. I suspect that that is the way in which a lot of parents look at it. In fact, a lot of parents go further than the policies that we are discussing here today. Paternity leave, shared parental leave and flexible working, for example, are about time with their children and affect early development, and are key factors in the way parents look at whether or not the state is supporting, not supplanting, them in their role as parents. So while I agree that the picture can appear hazy in terms of the hierarchy of objectives and which part we put more money into versus another, I do not think that is really how parents look at it. We have to support parents in all the ways we can.

The Chairman: That I understand, but this Committee is interested in the way in which the Government will target their limited resources, because there is no open chequebook anywhere. We will probably come back to that.

Q169 Baroness Massey of Darwen: Welcome, Minister, and thank you for coming. I am afraid that I have to leave at 11.15 am for family reasons. I would like to ask you a question that has come up before in evidence and in written submissions. It seems that lower-income families are not benefiting much from this very complex system. Could you respond to that?

Sam Gyimah: Yes, I can. I am not sure which quarter that assertion has come from—

Baroness Massey of Darwen: Several.

Sam Gyimah: —but I firmly disagree with it. Just walking through the different childcare policies and how they affect lower incomes, the two year-old entitlement, for example, which entitles parents to 15 hours of free childcare, applies to 40% of the most disadvantaged households. That is roughly the equivalent of £2,200 of childcare per year. In addition, if one of those families were to go on to work and therefore needed to buy more hours, under the working tax credits scheme 70% of the additional hours they buy will be subsidised by the Government. For such a family that could equate to a subsidy of up to £6,000 from the Government, so in total it would get £8,000 of subsidy towards the cost of childcare. Unless you live in central London and are buying some of the most expensive childcare, £8,000 towards childcare anywhere around the country is a substantial amount of money. If anything, I would say that our childcare intervention is very favourable towards lower-income families. The criticism has been about tax-free childcare, which is a new policy that comes into force in 2015 and the fact that it extends right up the scale to parents who are earn around £150,000. Even then, what they would get as a subsidy does not compare to what people on a lower-income would get, especially those on working tax credits.

Lord Brabazon of Tara: I think my main question has already been dealt with, but I might ask one of the supplementary questions. Which is more important in tackling child poverty: high-quality early education to improve social mobility in the longer term, or increasing the family income in the short term? Does that make sense?

Sam Gyimah: I think you want to be able to do both. Helping families to deal with the day to day costs is important, but at the same time ideally you want the children of those families to be able to live a much life than their parents could afford. However, I think the policy tools are different. I mentioned the personal allowance, for example. I am a Conservative and I believe that people should be able to keep more of what they earn, and I think that policies that are about employment and helping people to keep more of what they earn tackles poverty within the family, but at the same time you do not want children arriving at school and being in a disadvantaged position compared with their well-off peers. A tax cut for the parents does not address that particular problem, which is what free early education is about. As I said, we offer 15 hours for disadvantaged two year-olds, 15 hours for three year-olds and 15 hours for four year-olds. We are probably one of a few countries in the OECD that has over 90% of three and four year-olds enrolled in some form of early education. The early education that makes an impact on attainment is little and often rather than 8 till 6. That is why we have structured our intervention around 15 hours.

The Chairman: Back to Baroness Massey again.

Q170 Baroness Massey of Darwen: Could you say a little more about what the mechanisms for cross-departmental discussion of policy objectives for childcare should be and their implication for other policy areas? My question is really about collaboration between departments on this. Does the new family test for all policies include assessing the impact on childcare arrangements? If so, how is that co-ordinated across Whitehall?

Sam Gyimah: That is a very good question. As I said right at the start, different departments have an interest in childcare. So far I have mentioned the DWP, the Treasury and the DfE, and I would add the Department of Health—health visitors and investment in health visitors have an impact on childcare and child development—and BIS in terms of getting employers to be supportive of families who need childcare: I mentioned parental leave, paternity leave and flexible working. Dealing with childcare, not surprisingly, runs across several departments, and when we have specific issues, such as dealing with troubled families, you find that the Home Office, the Ministry of Justice and the Department for Communities and Local Government are also involved.

There are formal structures to help to co-ordinate some of this thinking, such as the cross-Whitehall programme board on funded early education for two year-olds, a tax-free childcare advisory group, and the childcare analysis hub. Those are three formal structures across Whitehall.

The family test is a new policy that was announced by the Prime Minister in August this year, and we are working on how to deliver that. But I think you are right to ask the question. Given how much interest there is across Whitehall and given the need to get it right, these formal structures are critical to delivering that.

Baroness Massey of Darwen: So where does the question come up? Does it come up at Cabinet level? Do you all meet and talk through these things at Cabinet level? What is the level of this discussion?

Sam Gyimah: I do not sit in the Cabinet—

The Chairman: Yet.

Sam Gyimah: —so I cannot really comment on what discussions happen there. Given the importance of childcare and maternal employment, the departments with an interest all develop policies and inevitably in their interaction with the Treasury, which in some ways is the arbiter for some of this, the Treasury becomes the clearing house for some of these policies, because they all require money ultimately.

Baroness Tyler of Enfield: I have a quick supplementary question. You mentioned three cross-government mechanisms. Do you know whether they are chaired at ministerial or official level, and through which of the three mechanisms are there the discussions about some of what I call the big-picture policy trade-offs—i.e. between quality and affordability, and between maternal employment and child outcomes? Where are those high-level discussions held?

Sam Gyimah: I can write to the Committee and give more colour specifically on how these departments work, but as to whether we are investing in quality or affordability, I would say that as the Childcare Minister that is a question I grapple with every day. It is very much within my brief. We have the “maternal employment versus free early entitlement” discussion partially in the department but also when we go to the Treasury with our submission. Whether it relates to the budget or whatever, we need to be able to justify the grounds, and I am sure it is the same for the DWP. That is the level on which it happens. It is for our Ministers to decide what the priorities are.

The Chairman: Can I just put a point in here? It is not so much a question—well, I suppose it is a question. You have described an incredibly complex situation, and done it very clearly, much to our benefit. We have asked how issues are resolved in that complex situation. You started rightly by saying that the focus is on the family. Our evidence is that folks out there do not understand this process, so they do not have a clear picture of whether they have entitlement, what the routes are or what the real choices are. Some parents want to say at home, some want to go out to work. It varies. In order to come to an internal family decision, they might look to a single source in government that could inform them. Is that too optimistic?

Sam Gyimah: Again, that is another good question, but I would draw a distinction between how the Government decide on the policy priorities within the childcare sphere, what investment attaches to those priorities and how they deliver them from the task of communicating to parents what they are entitled to. Those two tasks are very different. In terms of communicating to parents, parents quite rightly want to know in a very simple way what they get and how much in order to be able to make that decision, and one of the things that I launched earlier this week is a campaign to do precisely that. In order to be able to quantify for parents the cash value of the support that they get, the department is also doing quite a lot of work on simplifying for parents the nature of provision that is available to them. I would add that this is not so much a problem of government childcare policy but a challenge in the childcare market that we have in the UK because of the nature of provision. We have mixed provision in the UK—we have childminders, nurseries and nursery schools, and some people use nannies—and they all offer different things and mean different things. I have learnt about some of them in my job, but I have also had to work out what they mean for my family at home. The market itself is not very clear about how the market operates. While that can appear to be a criticism, I think it is also a strength to the extent that there is no one-size-fits-all in childcare. Some parents want their child to be cared for in a domestic setting, and if that is not at their home they will think that a childminder is ideal. Some parents want their child to be in a nursery that offers 8 to 6 provision because that is what fits in with their working hours. So while it could appear to be a criticism that the mixed nature of provision means that the market itself is not clear, and not surprisingly the different interventions in that market are not always that easy to decipher, it is also a strength of the market. The Department for Education is working to do two things: clarify for parents what the cash value of their support is, and simplify the provision so that parents can know where to go to find particular provision. We are working with family information services and the stakeholders of the department, and we are using the internet and looking at some technological solutions to simplify this for parents.

The Chairman: Okay, I will not continue with that for the moment.

Q171 Baroness Gould of Potternewton: In some ways, my question follows on from that quite nicely. You have talked about the mixed provision and the fact that you use the internet and other places to get evidence, but that seems to me to be a rather loose way of arriving at the evidence that is required to come up with policy. You have talked a lot about the money. I understand all that, and obviously there are restrictions and differences in how much Governments might want to spend, but surely even with the money there has to be something that says, "We know what the evidence base is". You talked at the beginning about the difference between child development and maternal employment. Surely a balance has to be worked out. How do you work out that balance? Where do you get the information from that makes you know that every penny you spend is going to be of value?

Sam Gyimah: Thank you for that question. When I mentioned the internet, I was talking about the methods and ways of communicating our message to parents. You asked a very good question about evidence, and we should make policy in this area, and indeed in any other area, on the evidence. I see that Professor Kathy Sylva is here. She will know that a lot of our policy at DfE is driven by evidence that she has involved in, such as the EPPSE study, which was a longitudinal study of 3,000 children from 1997 that looked in detail at the benefits of early education. That study has come up with quite staggering results. We know, for example, that the difference between attending some pre-school and attending no pre-school at all could be the equivalent of seven GCSEs. That is pretty strong evidence for the Government to invest in some pre-school. We also know that the effects of pre-school for disadvantaged children is 10 times greater than for well-off children. We also know that the quality of pre-school matters a lot in terms of those outcomes.

That is UK evidence. Internationally, there is the Heckman and Cunha study, which also highlights the importance of early education. The key conclusion from that research, which I touched on earlier, is that when it comes to two, three and four year-olds, a little and often is best. So I would say that what we have arrived at—15 hours a week of free childcare—is realistic and sensible, given where the evidence on our investment points to. That is on the early education side of things.

You also mentioned maternal employment. We know that countries like Sweden, where there is great childcare support you have higher rates of maternal employment. That said, it has to be a matter of choice. There are significant cultural differences. In Sweden, it is very difficult to say as a mother that you want to stay at home to bring up your children. In the UK, we want to enable people to have the choice if they want to. So our policy in this respect is about enabling choice, not just driving maternal employment on its own.

Baroness Gould of Potternewton: I understand that, absolutely, but let me pick up on the 15 hours that you have described and the evidence behind it in relation to early education. When the Treasury for instance, or the DWP, is looking at the question of maternal employment—you said earlier that it was their responsibility—do you take into account the fact that the 15 hours also relates to maternal employment, because even part-time workers work longer than 15 hours? How do you balance the two and arrive at 15 hours?

Sam Gyimah: The policies have different origins and different objectives, but cumulatively for the parent they add up to something different. The 15 hours is specifically an intervention to provide free education. However, working tax credits and childcare support are specifically designed to help people into work. If I am a parent, I add those two things together and I know that my child is getting free early education and that I am also getting the support. I am not going to discriminate between those two, but I know that if I chose not to go to work my child would still get the early education, and that works for me just as well. Unless I misunderstood your question, I do not see why there is necessarily a problem with that.

Baroness Gould of Potternewton: Thank you very much. I will read those with interest.

Q172 Baroness Walmsley: Minister, first of all, I congratulate you on your recent announcement that you have integrated the health review for two year-olds and the early years assessment. There are a number of reasons. First, it is better for the child and its family, but it is probably also more cost-effective and it also gives early educators vital information about how to intervene early where there are problems. We know that Basel was very cost-effective, so in our brief we feel that affordability is not just about affordability for families but about affordability for Government. That, I think, is very relevant.

What are the mechanisms for assessing the fiscal costs and benefits of intervening in early education and childcare, and how wide do you cast the net when writing down the list of costs and benefits? Are the costs just the cost of the various subsidies, the free entitlement and all that, or do you include things like the two year-olds assessment, for example, in the list of costs? How wide to you cast the net when you are putting the benefits on the other side of the scale?

Sam Gyimah: Thank you. I am glad that you noticed the announcement about integrating the two year-olds health review and education review. We are very passionate about giving parents a complete picture of their child at the age of two. It is another example of two departments working together to address a problem for parents.

The other part of your question relates to the fiscal costs. I guess that we do not necessarily ask about the education space itself. I have been talking about early education because I feel that, although it is not mandatory, our understanding based on the evidence is that education starts earlier than reception year. We are not asking the same questions of what we perceive to be the traditional education system.

On the question of the fiscal costs, however, there is some evidence first on the free entitlement. I know that the IFS predicted an increase in earnings of £27,000. That is 7.9% over an individual's lifetime, and the associated savings to the Exchequer are predicted to be £11,000 per individual.

On maternal employment, there is evidence from the IPPR that over a single year an increase in maternal employment of 1 percentage point could have a net positive impact on the public finances of around £200 million.

We in the department have a study on early education called SEED, which will look at the impacts of childcare on later outcomes. That study has a strong value-for-money component to compare these benefits for the cost of provision.

Baroness Walmsley: Right, so it sounds as though you are gathering lots of different pieces of evidence together. Some of them are savings or benefits that are quite long term, and you are quite happy with that.

Sam Gyimah: The question about savings from maternity employment has been asked a number of times. If someone gets into work and is paying taxes et cetera, the savings are pretty much instant from the moment they get into work, and knowing the Treasury I am sure it will have its own internal investment return analysis of this. Investing in education is a long-term bet, and investing in education at the age of three or four is an even longer-term bet, but one thing that we do know—this also touches on the issue of value for money—is the fiscal cost of children who arrive at school not ready to learn, with speech and language difficulties, who can get statemented. It costs the Exchequer money to address that. So going back to your point about the integrated review of two year-olds, knowing that at the age of two a child is likely to have certain problems you can begin to deal with them then, including providing free early education. That is a way of dealing with those problems, and you can work out over time how much money you are saving from the costs in addressing those problems and from the smaller number of children who get statemented because there has been an early intervention. This is philosophically a problem with any early intervention policy in that it is not always easy to quantify the benefits. Here, you can actually get some quite firm evidence because of the data that are available.

Baroness Walmsley: I was very interested that you said, "Well, we do not ask whether there is a cost benefit from the rest of education", but people do tend to ask that question about early education, do they not, because it is not mandatory. Does Government feel that the costs and benefits need to balance each other at least, or even bring an additional benefit to the Exchequer, maybe in the long term?

Sam Gyimah: Of course. In any investment decision made by the Government, it is taxpayers' money and they have to justify it ultimately to the taxpayers. You cannot just say, "We are doing this just because we are doing this". In the area of early education, we recognise that the benefits are derived over a long-term period, but in the short term there are benefits that we should be able to see for the child, such as school readiness, cognitive development and behavioural development, but also more broadly emotional and social development. Those are all important things for us to do in the school system, and it is good to do them here.

We also know that the availability of the free 15 hours is one of the steps that help parents to decide whether or not one of them can go to work. It is not the driving factor, but we are aware that it is one of them, because with 15 hours free they can buy extra hours themselves or they are entitled to a subsidy to get the extra hours and it adds up to a package that allows the family to make a choice.

Q173 Baroness Tyler of Enfield: Minister, you have described very clearly the significant amounts of state subsidy going into childcare, yet so much of the evidence that we have heard as a Committee is that the costs to parents are, they feel, just too high for them to be able to sustain it, particularly when you look at the costs in other countries. But despite those very high costs, the workforce itself is characterised by low qualifications, low pay and, indeed, low status. So given that dynamic, I am interested to know who you feel is accountable for achieving value for money from the state subsidy that is going in—it is very complex, as you have set out—and how they held to account. At what level in the system are people held to account for that value for money?

Sam Gyimah: There were quite a lot of questions there. The money for the free entitlement goes from central government to local authorities, and we are attaching no conditions to their drawing down money to deliver the free entitlement bar the fact that they have to be good or outstanding, unless there are exceptional cases where they are not. The criterion is that they have to be delivering quality early education. We have arrived at an assessment of what that should be on a per hour basis. The Government essentially pay for it on a per hour basis.

The value for money question, alternatively, also comes in later on at the end of the reception year. We have the early years foundation stage profile, where we can assess whether children have reached what we consider to be a good level of development. That is one way of doing it.

The other part of your question—I will be happy to give a supplementary answer, because it was quite a long question—was about the sector being characterised by low pay and low status. I would say that what we have here is a feature of all the caring professions: the people who do the jobs that robots cannot do, essentially. You have the same challenge in social care, to some extent. As a society we have not valued them as highly as we should have done. That said, I would say in defence of the early years sector that the qualifications are improving. In 2003, 57% of full-time day-care staff were qualified to at least level 3. By 2011, it was 84%. The proportion of graduates in the workforce more than doubled between 2007 and 2011 from a lower base of 4% to 11%. There is still a long way to go in raising the quality of the status. Some might say that that also attracts more men into the sector. Those are the quality issues that we have to deal with.

You started off by talking about the high cost to parents. One thing that we should remember is that 80% of the childcare market in the UK is private; it is not within the state sector, although there is state subsidy going into that market. When I look at the market with my business hat on, I can see is that there is an opportunity for the sector to drive up utilisation costs and to innovate to drive down some of the costs for parents. One simple example is that if you have a graduate in a setting for three year-olds and upwards, you could operate on a ratio of one to 13. Most providers, however, choose to operate on a ratio of one to eight. Maybe that is parents want and they are delivering what parents want, but given how labour intensive childcare is, and given the huge percentage of the cost base that is staff, there is a lot of gearing with that. Moving slightly from one to eight towards one to 13 will change the economics for a lot of the businesses and should help to deliver lower costs for parents.

The other feature of the market is that many nursery settings are quite small, are private, and pay business rates as private companies, and there is a question as to whether economies of scale could help to deliver better costs for parents. So the feature of the industry here is that we have a long tail of small providers and very few large providers.

There is also the question of how you use spare capacity, because utilisation rates are extremely high. As I have discovered myself, if you are on a waiting list for a nursery, every nursery will tell you that Tuesdays, Wednesdays and Thursdays are very busy, Mondays and Fridays less so. I wondered why don’t you give me a discount for Fridays because we may reorganise our time so that you get better utilisation on Fridays and help to drive up your profitability. I wonder whether there can be more innovation to drive up their profitability and deliver lower costs.

Baroness Tyler of Enfield: Could I ask just one quick supplementary question? I fully accept that my question was multifaceted, and thank you for that very comprehensive reply. If our basic conundrum is that costs are too high for many parents, there is significant state subsidy going in in a climate where there is not going to be scope for lots of additional money going in, there is a slight question mark about whether the complexity is as effective as it might be, and there is low pay, is there a missing element of the money that needs to finance that, and if so is that basically employers? You have talked about innovation, which is important, but would greater employer contribution start to make this equation work better?

Sam Gyimah: First, let me deal with part of the premise of your question: that the costs are too high for parents. Part of the reason is the regulation and how we as a country have chosen to regulate this sector. I am not suggesting that we change that, but part of what drives costs is regulation.

The second part of the premise that I would like to deal with which is implied in your point about the costs being too high is that somehow there is not enough good money going to parents. In the speech that I gave at the Family and Childcare Trust conference yesterday I highlighted how much cash is actually going to parents from the state to help with the cost of childcare and to enable parents to make those choices. I gave the example of a parent on working tax credits. Eight thousand pounds is a lot of money to go towards the care of a child, but we have to deal somehow with the myth that childcare is so expensive that parents cannot afford it.

There is a lot of support in the system. I do think that the system has to work better, but your question was about what employers do. Currently, employers support childcare through flexible leave, flexible working, maternity leave, paternity leave and, in due course, shared parental leave, but parents also support the childcare market via employer vouchers. That has been the nature of employment support until now, and it still is. The challenge with that model is that it depends on whether your employer can provide it, does provide it and how much they provide. Fifteen per cent of employers in the UK provide employer vouchers, and because a lot of them are large employers roughly 50% of employees are covered by that. But the nature of work in the world of work is changing. More people work flexibly. If you look at the recent growth in employment, more and more people are choosing to be self-employed, for example. If you look at the media industry and the creative industries, it is very difficult to find a creative person who is on a full-time permanent contract. Most of them are freelancers. So I think we have to design a system that works for every type of employee, rather than systems that work if you work for a large company or organisation such as the BBC. Tax-free childcare does precisely that. It supports working parents. Twenty per cent of childcare costs are capped at £2,000. You can spend it on any form of childcare, whether it is wraparound care, holiday care or nurseries, and it is available up to the age of 12. Whether you are self-employed or employed, you can tap into it. That policy replaces and increases the employer voucher scheme, which is about £600 million. Tax-free childcare is over £1 billion and affects 2 million families. That is our way of dealing with that part of the equation. If you are on working tax credits you do not get tax-free childcare, but anyone else will be eligible for tax-free childcare provided that both parents are in work.

Baroness Walmsley: I just want to pick up a small point, Minister. You are not the only one who has told us that economies of scale can make a difference to affordability. I worry a little about very large units in relation to very young children, and I wonder—you may need to write to us about this—whether there is any research on how well children thrive in small units compared with larger units and whether this varies with the age of the young child. If we are talking about upscaling in order to save money, we need to do it cautiously and ensure that there is no downside to that.

Sam Gyimah: That is a brilliant point. I was not suggesting when I made the point about economies of scale that we have a pile-them-in, slash-the-cost sort of thing. An economy of scale could be a company that has many nurseries and each nursery setting could have 20 or 30 children, but in each nursery you load balance your staff. On Friday, when your setting in suburban London is not full you could move some of those staff to help and support the setting central London that is full. Being able to deploy staff efficiently, given that staff are the biggest cost, is one of the things that could help. I was not for a second suggesting that we should have bigger settings with more children in them, but the broader your footprint the more you spread your costs over a much broader base than you have for a small nursery.

Baroness Walmsley: Thank you for that clarification.

Q174 Lord Sawyer: Good morning, Minister, and thank you for coming. I just want to go back to one of the questions that Baroness Massey asked you earlier about the role of early education in narrowing the attainment gap between the most deprived children and their peers. I would like to hear from you how you think the Government are getting on with this. Do you think it has been successful, or are there more things to do? I have in mind particularly the quality. Some of the surveys that we have seen show that low-quality provision will not address the equality gap. You might want to talk about ratios. I would just like to hear to talk about the big picture in closing this gap, what you think you are doing and what you would like to be doing.

Sam Gyimah: Thank you for that. Narrowing the attainment gap, as I said right at the start, is one of the stated objectives when it comes to childcare and the early education aspect of it in particular. I have already mentioned the evidence that we have from the EPPSE research, which tells us that there is a big difference not just in attainment but in lifetime earnings from having some pre-school versus no pre-school education at all. Based on that evidence, we rolled out the two year-old entitlement, which is targeted at 40% of disadvantaged children, and increased the number of hours for three and four year-olds from 12.5 hours to 15 hours at the start of this Parliament. Also based on that evidence and on international studies, we have introduced the early years pupil premium, which is roughly £300 per child for three and four year-olds. The total envelope is £50 million to help some disadvantaged children who need to catch up at the age of three. Those are the things that we are doing in terms of hours and money to ensure that there is school readiness, that when children get to school and have an adult who is not their parent telling them what to do they can respond and understand that the letters on the page are not just squiggly things but words and that when they link them together they form sentences, and that they know how to learn and behave with other children. That is what all that is going towards.

Obviously you are quite right when you suggest that it is not just the money; the quality of the setting is very important as well. There are two ways to drive up the quality in the sector. One way is through the demands that Ofsted makes of settings at registration and inspection and the outcomes from that. It is encouraging to see that Ofsted's ratings certainly of private and voluntary providers have improved substantially. Eighty-two per cent of childcare providers were rated good or outstanding as at March 2014 compared with 76% as at August 2009. We are doing quite a lot of work, which I can go into in detail if you want me to, on a common inspection framework for Ofsted.

The other way of driving up quality in the sector is through better educated staff, because again the evidence shows that, simply put, if you have a graduate in the setting that helps to drive up the quality. Because children are learning literacy and numeracy et cetera, the better educated the staff are the better it is. That has required us to encourage a shift in the perception of childcarers as just loving and caring. Although it is very important to be loving and caring towards the child, it is also important to help the child in their development. So we are raising the bar on quality across the board. We have introduced the early years educator qualification, and anyone who gains that qualification has to have literacy and numeracy: i.e. GSCE A to C in maths and English. I do not think that is a particular onerous bar, but it is important that people who work in the early years sector meet that standard. Graduates who want to enter the early years sector are also now taking the same skills tests as graduates who want to be primary school teachers, and that is another way of ensuring quality.

But it is not just about setting the standards; it is also about helping people financially to reach those standards. For people who are in work who want to gain what we call early years teacher status, we support employers to the tune of £14,000 to help those people to get those qualifications. That is what we are doing on quality. We are not just offering the entitlement; we want to ensure that children, particularly from disadvantaged backgrounds, get the quality education that they need. In that context—we may come on to this later—that is why we also talk about schools getting involved in early education.

Among my big-picture comments, which you asked for, we should also not forget that the home learning environment is very important and we should not slip into thinking that development is all for the state to do. We are here to help parents, but the home learning environment is just as critical for development. Some parents do a very good job of it, but some parents can need help, and we hope that these policies help to support those parents who do.

Lord Sawyer: Briefly, there are those who would say that the time and the financial interventions are inadequate and that we should do more. Even within those constraints, if the evidence continued to show that the gap was not being addressed, do you think that the quality, time and financial interventions could be skewed more towards helping disadvantaged families?

Sam Gyimah: I think that we have got the balance just about right with the 15 hours. That is roughly £750 million for disadvantaged two year-olds and a lot more for three and four year-olds across the board. If we benchmark ourselves against other OECD countries, what we are offering is way above what a lot of other OECD countries offer, particularly to disadvantaged children. I also think that we are very much in the foothills of this sort of intervention. Before we talk about more money going into the system, there is a question of making sure that the money that is in the system, to go back to some of the value for money questions that were asked earlier, is actually working. We have just finished a consultation on the early years pupil premium. We are piloting it in January and it is going to be rolled out in April next year. So for me, before we start talking about increasing that £50 million, I want to see that we have got that model right and that first £50 million is actually working. There is a tension here, especially with a general election in the offing, and being tempted to offer more and more when I do not think that is necessarily the solution.

More broadly on the 15 hours, there are some other parties who would say, “Why do you not offer 25 hours?”, for example. But the EPPSE evidence tells us that a little and often is best. Also, I am not sure that providers necessarily want to deliver 25 hours of state-subsidised childcare, because it limits their ability to offer other childcare that may come to them at a higher rate, to be brutally honest. The increased cost of that is quite enormous. Going from something like 15 hours to 25 hours would cost an extra £1.5 billion at least.

Lord Sawyer: I cannot take any more time, but in the meantime, thank you Minister.

The Chairman: We must move on, but Baroness Tyler, would you like to pick up the point about Ofsted that came up.

Baroness Tyler of Enfield: Briefly, you talked about ways of driving up quality. A number of people who have given evidence to this Committee have questioned whether the current assessment framework that Ofsted is using is sufficient to secure the quality improvements that I think we would all like to see in the outcomes for children.

Sam Gyimah: I think that we should focus relentlessly on quality. If our stated objective is to help with early education but to narrow the gap, it follows that we have to focus relentlessly on that. The new foundation stage profile in revised EYFS has a stronger emphasis on the three prime areas that are most essential for children's healthy development: communication and language development, physical development, and personal, social and emotional development. That is what the framework is focused on. It is not focused only on the welfare and safeguarding aspects, although those are very important.

In terms of driving up what Ofsted is doing, I mentioned the common inspection framework, which will help to ensure greater consistency and comparability between different types of setting, such as comparing the inspection of a nursery with the inspection of a childminder or a school in a nursery. They all have to tell you the same thing. We know that Ofsted has strengthened its processes for registering new providers to ensure that new applicants can fully demonstrate their ability to deliver both safeguarding and the learning and development requirements that the EYFS has set out. I think this has resulted in a much stronger grade profile from the first inspection of new providers.

Finally, since November 2013, Ofsted has toughened its approach, and the "satisfactory" grade has been replaced with "requires improvement" to make clear that anything that is less than "good" is not good enough for young children.

Q175 Baroness Morris of Bolton: Minister, thank you very much, and thank you very much for your very clear and full answers, which means that obviously you will have already touched on things that I am going to ask you. You have already mentioned some of the studies that show that some rather than no early years provision is good in narrowing the gap and making an impact on child development, but there has been some recent evidence that questions whether the free early education as it is currently delivered has had a significant impact on child development. I would particularly like your views on that, not least because the Institute for Fiscal Studies has suggested that the main outcome of this policy has been simply to provide a cash transfer to parents. I am going to ask you another question on quality, but I will let you answer that one first.

Sam Gyimah: I think that you are referring to the Jo Blanden research, which found that there are small impacts on children's attainment at age five and that these decreased at age seven and disappeared by 11. The question that I would pose with regard to that research is that it covers 2000 to 2007, when the quality of settings in the PVI sector was not as high as it is today. As I said right at the outset, our understanding of childcare and its role has evolved over the last 20 years from childcare just being about where you leave children to being about development. PVIs have had to adapt and evolve that that. Now we have the EYFS, for example, in place.

My second point, which is similar to the point that I made in response to the question on the integrated review, is that while it is difficult to cost things accurately, we know that if we spent nothing at all on pre-school provision we would probably have to spend quite a lot of money to deal with more children with speech and language difficulties, behavioural or social issues, and lower literacy and numeracy. First, the research predates a lot of thinking about this. The sector has moved on a great deal, but I would challenge anyone to say that somehow if you did not invest in pre-school you would magically have children arriving at school ready to learn, capable of learning and doing everything that is expected of them at the age of four/five.

Baroness Morris of Bolton: I think that we would all agree on that. You said in answer to Lord Sawyer's question that you focus relentlessly on quality, but quality is expensive and I just wonder whether we can deliver on the current child development policies without further investment in quality.

Sam Gyimah: I think we can. As I said in my speech yesterday, we have £6 billion coming into the sector, which is a significant amount of money by any standard international comparison. We have to be innovative in the way we use the money that is going into the sector. If, for example, a PVI was collaborating with a school to deliver some of its early years provision, it could get some of the quality—i.e. graduates—into its setting.

Baroness Morris of Bolton: Do you have any examples of where that is happening.

Sam Gyimah: I could provide the Committee with a lot of examples of where it is helping to deliver quality. In other policies, we have teaching schools, for example.

The Chairman: That would be helpful, especially on PVIs in the state school setting.

Sam Gyimah: You are right to say that there is a tension between delivering Rolls-Royce quality and having affordable childcare, but between those two extremes there is a balance that we can strike, such as supporting early years teachers and employers getting graduates into the system. That is one way of doing it. When I spoke to Andreas Schleicher, who is the author of the PISA rankings, and discussed this issue of quality, one of the interesting points that he made was that quality is not just about the salary at which you can attract a graduate into a setting. If you want to keep quality, you also need to provide that graduate with career development opportunities. That also touches on the point about scale, because graduates might want to move on. Having more challenges not only allows you to improve your profitability but attracts better-quality staff and gives them the opportunities to carry on and stay with that organisation. That is why the economies of scale point is very important for this sector.

Baroness Gould of Potternewton: Very quickly, on the opportunities for career development, you referred to graduates, and I understand that, but surely there are other people working in the field who could also benefit from having those sorts of opportunities.

Sam Gyimah: Absolutely. I dwelt on graduates, because the data show that the sector had 4%, but that has now gone up to 11%. That is where there is a lot of room for improvement. But yes, we want to see more people who are qualified at level 2 go up to level 3, and at level 3 we want more people who have the literacy and numeracy skills. We should be raising the quality at every level in the sector. I made the graduate point because obviously a number of independent reviews have suggested that it is important to have graduates in the settings, and that is another reason why I have responded specifically by focusing on graduates. For the benefit of those who are not in this room, I am not suggesting that the only way to have quality in the sector is by having a graduate and that if you do not have a graduate you are not a quality setting. There are a lot of good quality settings, but it is an indicator. If we are able to attract those people into the setting, I think it would be a good thing.

The Chairman: One very quick point before I go to Lord Brabazon. One possibility that may need attention, and you might want to get someone to write to us about this, is professional development within the profession. There is evidence that that is one of the most important factors for quality in the classroom or in the care setting. If there is anything that could be said about that, in the Government's view, that would be helpful.

Sam Gyimah: It is obviously important, as I said. The £14,000, which I have mentioned twice already, is a way of helping professional development in the setting and is not an insignificant amount of money. The question is whether, where you have private companies, it also falls to the Government to pay for those companies to develop their staff. The Government will play their part, but the companies also have their own role to play in developing their staff. The Government take their part very seriously.

The Chairman: I understand that it is not the job of the Government to do that. On the other hand, if Ofsted were to look at the question of professional development within a PVI setting, that would be very important.

Q176 Lord Brabazon of Tara: Going back to the cost of all this, the Government spends in the region of £3 billion on free early education for two, three and four year-olds, but some of the providers have told us that that is insufficient, and that the hourly rate they receive is often insufficient. Following on from that, do the Government first of all accept that, and do they accept the evidence that parents are in effect subsidising free early education by paying more for the additional hours? Should the Government be worried about this or not?

Sam Gyimah: I am very familiar with that line of argument and I have heard it a number of times. The first point that I would make is that I would treat some of this research with caution. I will come on to other points later. We obviously welcome independent research, but one of the recent findings drew conclusions for London based on seven responses, despite inviting many more, so we have to be cautious. To dwell on the low response rate point, in this particular case they said that they had contacted one in five of 18,919 childcare providers on the early years register. In theory this provided a random sample, but when we looked at it, of those contacted only 557—14%—expressed an interest, and only 100 providers took part in the actual study, which resulted in a low response rate of 3%. Academics might describe this kind of situation as potentially having response bias.

That said, there are a number of things that we are aware of. We are aware, for example, that the rate paid to providers can differ in different parts of the country and from local authority to local authority because of how the local authorities administer the funding. Some local authorities rightly hold some money back for good reason, such as for extra SEN spending or providing information and support.

To answer your question about whether the Government care about this at all, of course they do. They are investing £3 billion, as you said. We want to make sure that as much of it reaches the front line as possible. My approach is not to go for the headline-grabbing initiative but to try to analyse the data. That is why we published a benchmarking tool: in order to compare the funding levels and the relative proportion of the early years funding that is received by local authorities that goes to the front line. Those data will provide us with the insight.

But there is a more general point. Some providers are delivering funded early years and paid-for childcare, so there is the question of what a sufficient rate is. In this case what I think is a sufficient rate is that the Government pay their share of the providers' cost to deliver funded places, including a share of the fixed costs and overheads, and paid-for hours are delivered alongside each other. However, providers need to structure their costs so that paid-for places are not cross-subsidised by free places, or vice versa, if you get what I mean. There is a question here as to what exactly recovering your costs means. If you have a cost base, that relies on delivering both the free-entitlement places and the paid-for places. The Government would pay an hourly rate only for the free entitlement, not for the paid-for element. There are settings in the sector that deliver only the free entitlement that are thriving, and there are settings in the sector that do not find the rate sufficient. So a lot of work needs to be done here.

The big picture, however, is that we now have more registered full-day settings in the country than we have ever had, and we have more of them in disadvantaged areas. Looking at the headlines generated by some of this research you would think that we had a sector in crisis, but actually we have a sector that is thriving.

The Chairman: I think that we understand that, but when you say that there is more work to be done, is that by your department, the Treasury, or where?

Sam Gyimah: My department is doing this work. We have published the benchmarking tool, we will look at the analysis and the numbers that come out of that and we will take the appropriate action. Of course this is a flagship area of policy for the Government, and we want to make sure that where there are settings that are delivering this they have the appropriate funding in order to deliver it. What I am cautioning against is headline-grabbing research that does not necessarily look at the picture across the country.

The Chairman: I think you can be reassured that in the House of Lords we are all long enough in the tooth to be able to recognise that kind of thing, but we have had fairly insistent submissions, sometimes from the providers, that suggest that there is an undersupply of cash. We are quite happy to share this information with your department if you are carrying the work forward.

Sam Gyimah: It is a moot point. The hourly rate in cash terms has been frozen for the last three years. There are two ways of looking at that. One is that it has been frozen at a time of austerity, and that shows the Government's commitment. Someone else may say that it has not been increased, so the Government are not committed. But I think that being able to freeze the hourly rate, given the austerity that we see all around us, and necessarily so, shows the Government's commitment to this sector and to getting it right.

The Chairman: Thank you. Baroness Walmsley, you are going to pick up the next theme.

Baroness Walmsley: I just want to pick up one point, Minister. You have just said that you do not think that the paid-for hours should subsidise the free hours, but earlier when we were talking about the possibility of increasing the number of paid-for hours to 25, you suggested that that might make some settings unsustainable, because they would not have enough hours left to charge parents for. I do think there is a slight contradiction between those two answers.

Sam Gyimah: Right. The point I was making is that I do not detect enthusiasm from settings to deliver more free entitlement. In fact, when this point was made at the Nursery World conference, one provider stood up and said, "No, we are happy with the free entitlement as it stands", because they are private businesses and they might want other ways to drive up profitability in their business. In that context, the state's objective is not 100% aligned with their objective. The state's objective is to provide a fair hourly rate to deliver free entitlement. If I have set up a private business, my objective will obviously be to deliver that, where it is available, but also overall to improve the profits of my setting. I am not saying that that is what drives all of them, but it would be understandable if that was the objective, and to that extent you cannot expect them to subsist fully on the subsidised element.

Q177 Baroness Walmsley: Thank you. It could be that we find that the nursery premium solves the problem to some extent, because some children are more expensive to service adequately than others are, but we will see; we will get evidence about that in due course, won't we?

I want to move on now to parental employment. The Government spend £2 billion each year on direct childcare subsidy to parents through a very complex system of different kinds of support and tax relief. What evidence is there that that results in increased parental employment?

Sam Gyimah: In answering that, can I just pick up on the point about complexity, which is the thread running through this session? I see it simply as two types of support. One type of support is funded free hours, and the other type of support goes directly to the parent. The support that goes directly to the parent goes via working tax credits or, from autumn 2015, via tax-free childcare. It is not the simplest system, but I do not see that as being as overly complex as has been suggested so far. There are two types of support: one delivers subsidised hours, the other delivers cash that goes thoroughly to parents.

The question you asked me about maternal employment and whether or not the £2 billion actually leads to increased employment should be posed to the Treasury, but what I can say is that we have more people in work in this country than ever before and we have more women in work than ever before. In fact I think I said in my speech yesterday that we now have 14.4 million women in work, which is up 60% since the early 1970s. To some extent this will be part of our general economic policy. There is education and the way our labour market is structured and functions, but from where I sit it is helpful that we are giving women the choice and the ability to work.

Baroness Walmsley: A lot more people are in work, but a lot of the people who are in work as a result of being able to access childcare and subsidies are in low-paid work. Now that we have increased the personal tax allowance they are not paying any tax, so that tax revenue is not coming in from that. Is that an issue for you?

Sam Gyimah: They pay national insurance and they pay VAT on their purchases, so they pay some taxes. It is the first £10,000 that is free of income tax, so there is a return. But you also have to look at the opportunity cost. If they were not in work paying national insurance and VAT on sales and they were out of work, the state would be picking up the tab with all the other social security benefits. That is why I cannot give any quantitative analysis on this, because I am not in the Treasury or the DWP, which look at this.

Baroness Walmsley: Well, we very much appreciate your coming to talk to us. It sounds to me from what you are saying that you do not really think that any further simplification in the system of support for parents is required, but that perhaps more information is. You talked about that earlier.

Sam Gyimah: There is, first, a challenge in communicating what the offer is to parents. In terms of accessing it, et cetera, there is definitely scope for simplification. It is possible that with the tax-free childcare system—I am thinking on the spot here—where every working parent has a childcare account and it is clear how much they are spending on childcare. That could be the basis, or the beginning, of some kind of simplification so that it is all in one place. There is definitely scope for simplification when it comes to how the retail offer works for parents.

One of the reasons why it is not as straightforward as it could be is the fact that parents access different types of support in different places. It is the responsibility of local authorities to make sure that there are enough nursery places, and if you have any extra needs as a parent you will deal with the local authority. The early years pupil premium, for example, comes via the local authority. If you have a child with disabilities and they have a health and care plan, you will deal with the local authority as far as that aspect is concerned. For any other services, such as your tax credits, you might deal with a different entity, and this is a feature throughout our system to some extent, not just in childcare.

Baroness Walmsley: Do you think that we should be talking to a DWP Minister about some of this?

Sam Gyimah: I cannot speak for other departments.

The Chairman: We thought that there might be an indiscretion coming on. Perhaps we should move on, because time is running out.

Q178 Lord Sawyer: You may feel the same about this question, but I wanted to ask you whether your department has made any projections on the expected impact of parental employment opportunities to be introduced through universal credit and tax-free childcare.

Sam Gyimah: My department has made no projections on that, given that it is not in our area of responsibility.

The Chairman: Well, you are part of the Government as well as an individual department. We are interested in the role of the Government across the board on this.

Lord Sawyer: It is quite difficult when one of your stated objectives is to improve parental employment opportunities, yet you say that you have no answers to questions relating to that.

Sam Gyimah: Pushing back on my answer, I would say that one of the challenges—and this does not mean that there is no research—in looking at the effect of policy directly on parental employment is that there is also a strong cultural interaction with policy here. In relation to maternal employment, there are some mothers who would not want to go back to work, even if the policies were available, if they have children not at school-going age. To make the family finances work, some people have to go back to work as soon as possible, while some choose to interact with the labour market in a stepped way—they start off part-time and become permanent later on. In analysing the question whether this has driven parental employment, you need to allow not only for the cultural factors but for your definition of maternal employment in this context. If someone decides to volunteer for a charity because there is a lot of flexibility in that while looking after their child, is that employment or not employment? Well, they are not paid. What about someone who is self-employed or someone who is doing a bit of freelance work part-time here and there? I am not pushing back just because this is about the Treasury; I do not think that the question is that easy to analyse. What we know is that, where there is choice for mothers, you are more likely to get more mothers choosing to go to work, because the cost of childcare is not insignificant.

Baroness Gould of Potternewton: I think that a great deal of question 15 has already been responded to in answers to different questions, but I would like to ask a supplementary, which relates to the last question. Is there any policy or idea that the Government might come up with at some time to enhance the number of women who work? You quoted the figure that more women work and you are very proud of that, so are you thinking of anything that might say, “Yes, we’re going to try to enhance it to make sure that more women with young children can actually work.”?

Sam Gyimah: I think so. As we have discussed, part of the childcare intervention, whether it is tax-free childcare or working tax credits, is enabling people to have that choice. There is more that we could look at—for example, the cost of holiday care is something that parents complain about, but there is also wraparound care, which parents talk about. These are all areas in which we could provide more support to parents.

The Chairman: I think that this has to be the last question.

Baroness Kennedy of Cradley: You have spoken a lot about economies of scale reducing cost, but we wondered whether there is any evidence—perhaps best practice that you have seen out there in the sector or government research—that the economies of scale actually reduce delivery costs.

Sam Gyimah: Economies of scale improving delivery costs is a fundamental principle of business. If you go back to the theory of the firm, the reason why neither you nor I choose to do everything for ourselves is that we work out that we are better off focusing on what we are best at and buying services from other people. That is the origin of the very idea of a firm—an organisation that develops scale and provides services. It is why we are not all freelancers and we work for organisations. It is quite well grounded in economic theory. I think that it was Ronald Coase who came up with it and he won a Nobel prize for economics. In the childcare sector specifically, one way to answer the question about economies of scale is to look at a school versus a small PVI setting. A school does not pay business rates. A school could have facilities that are lying dormant that it could use for nursery provision. A school could deploy its staff resource a lot more flexibly than a very small setting. If you could replicate some of that flexibility in that PVI, that would bring your costs down. Having said that, PVIs are very good at responding to the market and offering, say, 8 till 6 provision. Schools have so far been less good at doing that in offering term-time provision within school hours. If you could see some of the advantages of a school and create those within PVI settings, you would be creating some of the elements of scale that could help to deliver lower costs. We can see what we have internally, and if there is anything I will come back to you. As I said, this is grounded in economic theory.

Q179 The Chairman: Going beyond that, we have had evidence given to us that school settings have advantages educationally and in terms of child development. One of the counters to that is the question of how many schools, first, are willing to do this and see this as part of their business plan, if you like, moving down the age range, and, secondly, have the physical capacity. We know that numbers at that age range are growing very fast. The evidence that we are getting is that there may not be enough physical or spatial capacity to meet this. Is any work going on on this in the department?

Sam Gyimah: In terms of developing capacity in the sector, two years ago when the two year-olds entitlement was introduced, the Government invested £100 million in nursery capacity. That £100 million created 67,000 nursery places in schools and private nurseries. We are aware of the need for increased supply and a significant amount of money has gone into the system to increase supply for local authorities. Schools are very much at the heart of our plan to increase nursery provision. On the deregulation side, the Small Business, Enterprise and Employment Bill, which I think is heading to you from the other place imminently, removes the requirement for schools to have a separate Ofsted registration to take two year-olds, for example, which should allow them to widen their age range. At the moment, 44% of primary schools in the UK have nurseries, so this is not radically new; it is already happening in the system. We want to encourage more schools to think about it and more schools to offer it, because we see them very much as part of the system. In particular in disadvantaged areas, school provision makes a difference, to go back to the point made earlier, not just to quality but in helping to narrow the gap.

The Chairman: That is why I was just letting you know what the evidence coming to us was from school providers. Baroness Morris, I think that this has to be the last point.

Baroness Morris of Bolton: I absolutely understand what you are saying about schools and scale, but I am worried about the under-twos. If we are concentrating on schools, that means leaving the private and voluntary sector with high costs. Quite a lot of research shows that, if you relax the ratios there, you do not have high-quality care. We would leave them with the most costly part of childcare. I just wonder how the private and voluntary sector will cope, given that the whole provision of free care has been a bit of a bombshell in that sector.

Sam Gyimah: On your final point about free entitlement being a bombshell for the sector, it does not look like that, looking at the number of nursery settings that are being set up month in, month out. That is my first point. The second point is that there is a tendency in the childcare market to think that any mention of schools means that you are negative on any other type of provider. That is certainly not the case. You can talk about schools and still be pro-childminders and pro-nurseries. The truth is that the picture of childcare provision varies enormously around the country. In some parts of the country, most childcare is provided by private providers, but in some parts of the country schools play a big role and in other parts of the country nursery schools, which we have not touched on today, play a big role. The ultimate arbiter of which setting will be used is the parent. Parents choose the setting that is best for them. We want to stimulate a sector that is high quality, so that, whichever setting parents choose, it works well for them and delivers our expectation of early years and childcare. We should not be in the business of saying that everyone has to use a particular setting.

The Chairman: Thank you very much indeed. We have worked you very hard. We have appreciated the clarity of your answers and the care with which you have clearly thought through so many of the issues. On the point that you raised about some questions being better focused on the Treasury, we reserve the right to send some of these questions additionally to the Treasury. Not unreasonably you have come as someone from DfE—that has been your responsibility. We just want to let you and your chums back in the Government know that we might well consider sending some questions to the Treasury as a result of this. This has been a very useful session indeed and we are very appreciative of your time and of your care, so thank you very much.

Sam Gyimah: Thank you. I will write to you on the points that I said I was going to.