

# Written evidence submitted by Dr Claire Crawford and Dr Laura Outhwaite on behalf of the UCL Centre for Education Policy & Equalising Opportunities

We are academic researchers based in a research centre whose aim is to provide new evidence on barriers to equality across the life course and explore approaches to reducing or eliminating those barriers. Our work most closely related to this inquiry explores the impact of childcare and early education on the outcomes of parents and children. We have also investigated the impact of the pandemic on the childcare market, from the perspectives of both families and providers, and are currently exploring strategies to increase the take-up of the early education entitlements.

## Summary of key points made in this submission:

- High quality early education benefits children, especially those from disadvantaged backgrounds, in both the short-term and the longer-term, although there is no clearcut 'optimal' number of hours for children of different ages.
- The current system of financial support for childcare and early education is complex and underutilised by some families.
- The amount of financial support varies hugely across children of different ages, with support lowest when costs are highest (for children aged 1-2). This makes it challenging to retain mothers in the workforce at the end of maternity leave.
- Childcare could be made more affordable for families by:
  - Ensuring that the funding rate paid by the government to local authorities to cover the early education entitlements is closer to the true cost of provision, to reduce the extent to which providers charge parents for 'extras' or cross-subsidise by charging more for younger children.
  - Extending the early education entitlements outside term-time.
  - Increasing the subsidy rate available via Tax Free Childcare or extending the early education entitlements to all parents of 0–2-year-olds.
- These changes would increase wages net of childcare costs for parents and may therefore encourage parents, especially mothers, to work more. They may also have mental health benefits for mothers and developmental benefits for children.
- The benefits of early education are greatest when children attend high quality settings. If childcare were to be made more affordable for families by lowering the quality of provision, this could reduce the benefits to children of attending.

## Childcare Entitlements

**How affordable and easy to understand is the current provision of childcare in England and what steps, if any, could be taken to improve it, especially in relation to families living within the most deprived areas in England?**

1. The system of financial support for childcare is hugely complex, with a variety of early education entitlements for families meeting different criteria (universal entitlement for 3–4-year-olds; extended entitlement for 3–4-year-olds in working families; entitlement for disadvantaged 2-year-olds), plus Tax Free Childcare (TFC), again for working families, and childcare support via Universal Credit (UC) for those (largely out-of-work families) on lower incomes. Lack of knowledge and

understanding of these entitlements can be a barrier to take-up, potentially compromising affordability, a point we return to in paragraphs 12-16 below.

2. In terms of costs, the evidence suggests that there is huge variation across families. Research shows that, looking across *all families with children aged 1-4*, the median family is paying nothing for childcare. This means that, if we were to line up all children of a given age according to how much their families spent on childcare for them, from least to most, more than half of families are paying nothing. This is either because they are not using it (most likely for 1-2-year-olds) or because they are only using the early education entitlements (3-4-year-olds).
3. However, amongst *families of 1-4-year-olds using formal childcare*, the cost varies substantially, both within and across ages. For example, the same research suggests that, amongst families using formal childcare, over half of families of 1-year-olds spend more than £80 per week, compared to around a third of families of 2-year-olds and around a sixth of families of 3-4 year olds. But at the same time, a fifth of families of 1-year-olds, a third of families of 2-year-olds and two thirds of families of 3-4-year-olds spend less than £20 per week.
4. This variation by age is driven to some extent by differences in the number of hours of care being used by families with children of different ages and the fact that the fees charged by providers for younger children tend to be higher than those charged for older children. But the primary driver is differential access to early education entitlements for children of different ages: all 3–4-year-olds have access to up to 15 hours of ‘free’ care per week, meaning that many of the 85% of 3–4-year-olds using formal childcare will not be paying anything, while this does not apply to any of the 36% of 1-year-olds who are using formal care.
5. Of course, it is important to remember that these figures on childcare spending only include those using formal childcare at each age – a decision which is likely to depend strongly on the cost and financial support available. Some families could be put off from using formal childcare because the cost is unaffordable or may be using less childcare than they ideally would because of the cost. It is difficult to robustly evidence the number of families in this position. However, data from the Department for Education’s own survey suggests that 16% of families of 0-4 year olds using formal childcare report finding it difficult or very difficult to manage the costs, with those in the middle of the income distribution, earning £30-£65k per year, the most likely to report difficulties.<sup>1</sup>
6. We recommend that the following steps are taken to make childcare more affordable for parents:
  - Ensure that the funding rate paid by the government to local authorities to fund the early education entitlements covers:
    - ‘extras’, such as food and nappies;
    - imposed cost rises, such as increases to the National Living Wage or as a result of inflationary pressures on food and energy prices;
    - a ‘cross-subsidy’ contribution, to reduce the extent to which providers are expected to increase fees for younger children in compensation.
  - Extend the early education entitlements outside term-time. The vast majority of working parents will not be able to tailor their working hours to term-time only, and a substantial proportion will be using provision which is open throughout the year. Many families will therefore be paying for care during the holidays, often at the same level as they have been using during term-time, in order to maintain their place. Alongside paying for ‘extras’, this is another potential ‘hidden cost’ for parents of the ‘free’ early education entitlements.<sup>2</sup>

---

<sup>1</sup> This may be because those on lower incomes receive greater financial support via Universal Credit or are more likely to only use the early education entitlements.

- Increase the subsidy rate available via Tax Free Childcare (TFC) or extend the early education entitlements to all parents of 0–2-year-olds. For most parents of 0–2-year-olds, TFC is the only financial support available to help with childcare costs. This effectively provides a 25% subsidy rate: for every £1 parents pay towards childcare, the government will pay 20p (up to a limit of £2,000 per child per year). This is much less generous than both the early education entitlements – effectively a 100% subsidy rate for those 15 hours of care per week during term-time – and Universal Credit (UC), which provides an 85% subsidy rate, again up to an annual limit). This means that parents who are not eligible for UC may face significant childcare costs until the early education entitlements kick in, potentially limiting their labour supply and/or harming their mental health, especially amongst mothers, as we outline in paragraph 9 below.

While there may be some limitations to the appeal of TFC, as summarised in paragraphs 12-16 below, making the system more generous, alongside some of the suggestions therein, could potentially increase take-up. Alternatively, if it was felt that the limitations of TFC were too substantial to overcome, then the early education entitlements could be extended to younger children. As we will summarise in a forthcoming briefing note (draft available on request), the evidence on the optimal number of hours of care for children below age 3 is not clear, but there is no evidence that 15 hours of high quality care per week would be detrimental for their development.

7. The government recently consulted on increasing the number of children that could be looked after by each member of staff as a way of reducing childcare costs. Our [recently published review](#) of the evidence on the links between childcare ratios and children’s outcomes provides no strong indication that the proposed ratio changes are likely to *directly* worsen children’s outcomes, but the evidence is fragmented and generally of low quality. However, there may be indirect implications for children’s outcomes, as there is a risk that the proposed changes in ratios may further damage workforce morale, which is already low. This could potentially lead to higher staff turnover, which has been shown to detrimentally affect children’s outcomes. The extent to which this change would make a material difference to the costs of childcare for many parents is also uncertain. Overall, changing childcare ratios would be a risk with uncertain rewards, and not one we would recommend pursuing as a way to make childcare more affordable.

**Are the current entitlements providing parents/carers with sufficient childcare, and to what extent are childcare costs affecting parents/carers from returning to work full-time?**

8. One of the challenges for childcare and early education policy is the need/desire to balance the development needs of children against the labour supply needs of the economy and consequent childcare needs of parents. As we discuss further in paragraphs 17-21, while there is clear evidence that children benefit, on average, from attending high quality early education and care, the evidence on the optimal number of hours for children of different ages is not clearcut.
9. From the perspective of working parents, the fact that the early education entitlements are available for only a limited number of hours per week during term-time clearly means they don’t cover all of their childcare needs, especially for those working full-time. Is this likely to hamper labour market participation? [Our own research](#) provides little evidence that the part-time early education entitlements have encouraged more parents into work (or to work more hours). By comparison, a ‘full-time’ entitlement – like the extended 30-hour entitlement, similar to the move into reception – increases the likelihood of mothers with no younger children being in work by 3.5 percentage points after one year, suggesting that childcare costs may act as a barrier to those

---

<sup>2</sup> If such an approach were taken, parents using provision which is open term-time only could be allowed to use the additional holiday hours to ‘top-up’ their term-time entitlement if they wished.

wishing to work (more). Evidence from the pandemic suggests that access to full-time childcare (vs. no childcare) also benefits mothers' mental health.

10. These effects on labour supply are quite small given the scale of investment, however. This may be because of the restricted way in which these hours of care must be used, and the fact that they are only available during term-time. Offering a similar level of weekly subsidy in the holidays as well may increase the labour supply response, as may enabling parents more flexibility in the way they use the subsidy. But not all parents will want to work (full-time) even if childcare was considerably cheaper.
11. It is not only childcare costs during the early years which can be challenging for parents. Before and after school care for children of school-age children is also problematic for working parents, especially those working full-time. Not all schools offer breakfast and after school clubs, leaving many working parents relying on informal childcare to cover school drop-offs and pick-ups. For those without family in their local area, this can be a hindrance to labour supply.

**Whether the current Tax-Free Childcare scheme, and support for childcare from the benefits and tax credit system, is working effectively or whether these subsidies could be better used within other childcare subsidies**

12. As highlighted in the committee's terms of reference for this inquiry, Tax Free Childcare (TFC) is not being used by all eligible families. Indeed, evidence suggests that only around half of eligible families are aware of the programme. There are also a significant minority of eligible families who are aware of TFC but do not apply, for a range of reasons, including the fact that they don't believe they are eligible; that they don't understand what it covers; that they found the application process too confusing; or that they thought the financial benefit was too low. These are all issues that could potentially be addressed.
13. The fact that there are two different systems providing subsidies for childcare (TFC and Universal Credit, UC) offering very different subsidy rates is potentially confusing and challenging for families who may be cycling into and out of low paid work/UC. Combining these two approaches – or at least reducing the gap in subsidy rates between the two – would help simplify the system.
14. One of the ways in which this could potentially be achieved within the existing funding envelope would be by eliminating the extended entitlement – the additional 15 hours per week of care during term-time for children in working families – and using the money to increase the TFC subsidy rate instead. The extended entitlement is not fit for purpose: while it ostensibly offers support for working families, it is only available during term-time, which doesn't fit the working patterns of many families. Alternatively (or in addition), lowering the earnings limit from £100k per partner per year to something lower – perhaps in line with the child benefit earnings limit – could also enable the subsidy rate to be increased for the remaining eligible families, and would better target it on lower earners, who struggle more to meet their childcare costs. Offering a higher subsidy rate via TFC could additionally help encourage more eligible families to take it up.
15. There are also other ways in which take-up of TFC could potentially be increased. As some local authorities do for the early education entitlement for disadvantaged 2-year-olds, families who are likely to be eligible for TFC could be contacted directly to advise them of their likely entitlement and provide further details of how to apply.<sup>3</sup> The TFC website could also include a calculator enabling parents to input their childcare bill and be told how much they need to add to their TFC

---

<sup>3</sup> Identifying eligible families would be more challenging than for the 2 year old offer, but it would be feasible to identify individual parents who might potentially be eligible if their partner also met the conditions by linking together existing administrative datasets (e.g. child benefit and tax records).

account in order to make this payment, as understanding how the subsidy works seems to be a barrier for some parents in accessing TFC.

16. Our view is that the money from these systems should NOT instead be used to deliver more funded entitlements unless: a) the funded entitlements were to cover children of all ages, and b) the funded entitlements were available across the year, not just during term-time. TFC/UC are the only financial support for families of 1-year-olds and most families of 2-year-olds, who have the highest childcare costs, and also for the families of school-aged children, who may still incur significant childcare costs before and after school, and during the holidays. The existing early education entitlements are not a perfect substitute for these.

### **Early years provision**

#### **To what extent does the early years system adequately prepare young children for their transition into primary education, particularly children from disadvantaged backgrounds**

17. There is strong evidence of both short- and longer-term benefits for children of attending early education. These benefits primarily arise amongst those attending high quality provision and are often found to be larger for children from more disadvantaged backgrounds.
18. There is less clarity about the ‘optimal’ number of hours of early education for children of different ages: are the current early education entitlements sufficient to attain these benefits, or would more be better? Similarly, is there any evidence that a large number of hours in formal care for younger children has any detrimental effects? And does this vary according to family context?
19. The evidence to address these questions in the UK is mixed but is limited to comparisons between children whose parents have opted to use different numbers of hours of formal childcare. Even in studies which capture rich measures of family context and parental investments, there may be differences between these children – e.g., in terms of the perceived benefits or ‘ability to cope’ with a larger or smaller number of hours of formal childcare per week – which make it difficult to draw robust conclusions from such comparisons.
20. However, robust international evidence suggests that lower income children who accessed formal childcare full-time (for an average of 33.5 hours a week) had significantly better outcomes across a range of dimensions, including socio-emotional development, than those accessing part-time provision (for an average of 12 hours a week). This suggests that there could be benefits for children as well as families and the economy by increasing the amount of childcare support available, especially for disadvantaged children.
21. These benefits are likely to be greatest if any additional time in formal care is spent in higher quality provision. In line with the evidence on the determinants of school quality, the ‘quality’ of early years educators – in terms of their qualifications, their interactions with children, and so on – are amongst the most important determinants of childcare quality. This means that a funding system sufficient to enable providers to recruit, train and retain high quality staff is likely to be one that contributes significantly to higher childcare quality, better children’s outcomes, and potentially also greater labour supply and better mental health for mothers. Reforms which seek to reduce the cost of childcare by comprising on quality are highly unlikely to produce the same benefits.

January 2023