

London Development Agency

THE LONDON CHILDCARE MARKET



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TYM & PARTNERS
Planners and Development Economists

with



MAYOR OF LONDON

ROGER TYM & PARTNERS

Fairfax House
15 Fulwood Place
London
WC1V 6HU

t (020) 7831 2711
f (020) 7831 7653
e london@tymconsult.com
w www.tymconsult.com

as Authors:

Andrew Clarke & Dave Lawrence, Roger Tym & Partners
Eva Lloyd & Helen Penn, University of East London
Philip Blackburn, Laing & Buisson

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EXECUTIVE SUMMARY

1. **This report investigates the London Childcare Market.** It was written for the London Development Agency by a team comprised of Roger Tym & Partners, Laing Buisson and the University of East London.
2. The LDA is concerned that there may be market failures operating in London which cause problems in the provision of childcare services. The hypothesis is that if these failures were corrected, then childcare in London might be more available and affordable. If this were the case, goes the logic, then parents would be able to return to the labour market, raising output and lifting more children out of poverty.
3. This report concentrates on paid for (formal) childcare provided for early years (0-5 years) children by OFSTED-registered establishments and individuals. In less detail, we also cover childcare for children aged 5, 6 and 7 years provided in OFSTED registered childcare settings such as out of school clubs and by OFSTED registered individuals such as childminders.

Defining the grounds for Government intervention in markets

4. **Market failure is a concept that is commonly misunderstood.** The term is often mistakenly used to describe market outcomes which are in some way thought unpleasant. But this is not the case: **the definition of market failure instead rests on a set of conditions being met which mean that markets cannot generate economically efficient outcomes.** According to the prevailing theories, Government intervention can be justified in the following instances.
 - When there is a need to fix failing markets which are not allocating resources in an economically efficient way.
 - When there is a need to correct the outcomes of markets when democratically accountable politicians think that they are damagingly unfair. These are known as “equity objectives”.

Profile of the London childcare market

5. **The London childcare market is worth an estimated £1 billion,** and represents 18% of childcare spending in England.
6. **The childcare market in England has now matured following a period of strong growth. Childcare places in London grew more strongly than any other English region over the period,** increasing by 32.5% between the end March 2003 and end August 2008 inclusive. However, in London not all types of provision grew at the same rate. Full day care nursery growth was the slowest in England. In response to recession, childcare places in London have fallen, but have not been as affected as elsewhere.
7. **London's levels of private provision mirror England as a whole.** Penetration of childcare groups (operating three or more settings) are similar to England as a whole, but London has proportionately fewer third sector providers, and more public sector providers than England as a whole.

8. Compared to the rest of the country, London's childcare market provides comparatively high levels of out of school provision, and comparatively lower levels of day nurseries, playgroups and pre-schools.

The barriers to childcare take-up

9. **We then look at the barriers that the current childcare market is said to place in the way to the take-up of childcare.** Typically, these are availability; price; flexibility; quality; and information. We explore the nature of these barriers to demand, and look at the extent to which these barriers are *caused by* market failures, and the extent to which these barriers themselves *create or are manifestations of* equity failures.

Availability barriers: there is little evidence of frustrated demand, and no evidence of market failure. There is evidence of possible equity failures

10. **Supply of childcare per capita is relatively low in London.** Including in-school and out-of-school childcare for the under 5s, the numbers show that London supply per capita for all early years education and childcare is estimated to be 13% below the average for England.
11. **However, observing that that London has fewer childcare places per child in itself does not prove that the market for childcare suffers from a supply shortage. To prove that there was a supply shortage in London, we would need strong evidence of excess demand.** However, a clear picture of demand across regions does not exist, and the complex factors that influence demand are currently not well understood. For example, relatively high unemployment in certain parts of London might depress demand, and nannies may absorb a higher share of formal childcare in the metropolitan area (at least anecdotally). London has the highest childcare occupancy of all regions, which works to make up for apparent shortages in provision. Apparent shortages in provision are also reduced by the fact that London parents have a lower demand for informal childcare. Parents appear to think that there is a shortage of places, but this may be a misperception. Vacancy rates do not suggest evidence of frustrated demand.
12. **Overall, there is little hard evidence of an overall formal childcare supply shortage in London.** Although growth of places in more deprived areas appears to have been strong, the more deprived areas still have relatively low supply density of places.

The causes for lower availability of childcare in London are complex. There appears to be a relationship to lower female labour market participation - but it is unclear whether low labour market participation rates are a cause of low childcare supply, or an effect

13. **There appears to be a relationship between female labour market trends and childcare demand across regions,** illustrated by market supply. Lower employment rates are accompanied by lower levels of childcare supply. This picture is replicated within London. The boroughs with the lowest childcare density - most notably Newham and Tower Hamlets - also have the highest unemployment rates within London. However, the relationship between employment and childcare demand/ supply does not behave in a

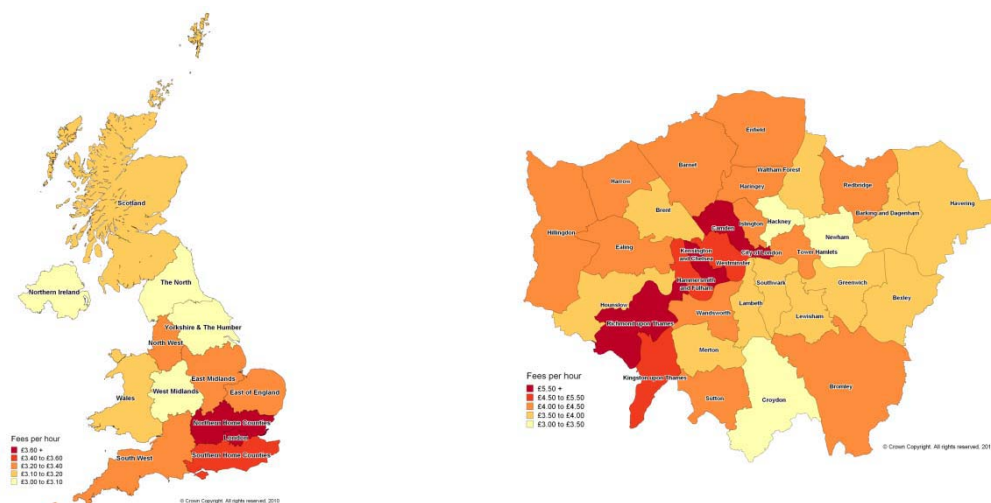
consistent way. There appears to be no simple relationship between increasing childcare provision and raising female employment rates.

14. **In a number of past studies, it has been assumed that a key reason for women not securing work is because of barriers to childcare access.** The broad argument went that overcoming these barriers increasing childcare supply would raise female employment rates.
15. However, whilst childcare may represent a real barrier to employment, we are not sure that positive correlation between female employment rates and childcare provision implies a one-way direction of causality. The opposite view could also be taken - that low levels of employment (particularly female employment) might mean that low levels of childcare were demanded - because parents are able to look after children themselves. In a working market, low levels of childcare demand would stimulate low levels of supply. In such an environment, increasing childcare supply would have little or no effect on female labour market participation.
16. Neither of these views on the processes of causality behind the relationship between childcare provision and labour market participation have been satisfactorily proven. There does not appear to be strong evidence-based research to support a firm view either way.
17. **There is no evidence of market failure on childcare availability.** Lower levels of provision in some areas of London might be against policy objectives, but we suggest (although cannot prove) that these might be market outcomes, not market failures.

Price barriers: London childcare prices are comparatively high, but this reflects higher running costs rather than a market failure. There are potential equity failures. The extent of equity failure depends on the tax and benefit system

18. **Progress has been made on childcare costs through the introduction of tax credits and universally available free part time early years education for three to four year olds.** Costs for other types of childcare provision have been supported through a mixture of fixed-term government funding supplemented in some cases by demand-side funding such as tax credits. We say more about how price affects different groups below, when we discuss equity failure.
19. **Looking within the UK, childcare fees in London are significantly higher than the national average.** They also vary significantly within London, as shown in the maps below.

Figure 0.1 Regional and London childcare fees per hour



Source: Laing and Buisson survey data/ RTP

20. **High prices for childcare in London do not represent a market failure. They are a market outcome.** Our analysis suggests that higher staff costs and higher accommodation costs - and no offsetting rise in local authority free entitlement payments - explain the price differential between London childcare and childcare elsewhere in the country. There is no evidence of unreasonable barriers to market entry, monopolistic markets, or excessive profits affecting the price of childcare in London.
21. **There is a potential equity failure on price - but much depends on prevailing tax and benefit policy.** Research shows that around a quarter of people find paying for childcare either difficult or very difficult. Nationally, lone parents report being disproportionately affected by childcare costs, as do the low paid report and those with larger families. Whilst of significant help, tax credit take-up is problematic. Take-up for single parent working families in London is above average, but take-up for working couples in London is acutely low. Whilst wages in London are relatively high, once housing costs are accounted for, many London areas move into the bottom income bands. This may be a contributory reason to why high childcare costs act as a barrier to part-time employment in London - which particularly affects mothers' rates of employment.
22. **This is not a simple equity failure of wealthier "haves" and poorer "have nots". At the heart of this issue is the way that the benefits system operates for people in different circumstances.** More work is needed on the precise interaction between the tax and benefit system and housing costs in London.

Flexibility barriers: perceived shortages of flexible provision are a market outcome, not a market failure. But some lone parents are more negatively affected than others

23. **A substantial minority of mothers report that atypical hours cause problems with childcare.** Working atypical hours is relatively common.

24. **A lack of flexible hours in childcare settings is a market outcome, not a market failure.** Research shows that the private for-profit sector tends to operate a core hour service, because the profit margins are less for childcare outside these core hours.
25. **Lone parents' childcare arrangements are disproportionately affected by atypical working.** This represents a potential equity failure.
- Quality barriers: perceived poor quality could represent a barrier to take-up. But these perceptions are not caused by a market failure. Equity failures appear to exist*
26. **Nationally, there doubts about quality for a significant number of parents:** 40% of parents think quality is poor, or are "not sure". Perceptions of quality could therefore represent a potential barrier to childcare take-up.
27. **It has been argued that childcare funding is too low to secure high quality care from trained staff. But the inability of the market to generate income from parents to support aspirations for this very expensive, high quality model of provision does not constitute a market failure as properly understood.** Instead, it represents a reasonable outcome of market supply, market demand and production costs. Whether this "high quality" model of childcare is something that should be provided from a public policy perspective is a different question and relates more to the role of Early Years Education, which is beyond the remit of this study.
28. **There is evidence that the quality of childcare is perceived as worse in more deprived areas. More objective OFSTED evidence agrees. This is evidence of an equity failure.** There is also evidence that ethnic minorities do not use childcare services to the same degree. This could be evidence of an equity failure caused by perceptions of the quality of care, relative to that which could be provided by the family. But these differences may reflect a positive cultural preference in ethnic minority parents.
- Information barriers: there appears to be enough information available to make a rational choice between providers, but deprived parents may be underestimating the positive impact that early years provision can have, and may find it harder to access the information that exists*
29. **Although information issues are often quoted as being a significant barrier to childcare access, our work suggests that generally, this barrier is being overcome.** This would indicate that there is little systemic information market failure. Although a majority of parents say they would like to be better informed, consumers appear to be *sufficiently* informed to make a rational choice.
30. **Some parents may under-estimate the positive impact of early years provision on their children.** This is a potential information market failure
31. **More disadvantaged groups find it harder to access services.** This is a potential equity failure. Equitable arrangements require that this imbalance is readdressed.

Conclusions

32. No-one can give a blanket answer that fits all families in all circumstances, but it appears to us that
- **There has been genuine progress in addressing the “barriers to childcare” in the last decade or so.** As a result, the barriers sometimes do not appear to exist to quite the extent imagined.
 - Where these barriers (covered here under the headings of availability, price, flexibility, quality and information) do operate, **they tend not to be caused by market failures, and instead represent market outcomes.**
 - **When market outcomes are unwanted, they should not be confused with market failures.** If the desired policy outcomes are not achieved by using market-based policies, then this is a different matter.
 - **Equity failures potentially affect the childcare market** in each of the barrier categories we looked at.
 - **The causality of the processes involved in creating and maintaining childcare barriers to take-up are open to different interpretations.**
33. We then broadened out our research to look at other barriers to childcare take-up not covered above, and put childcare provision in context alongside the other determinants of parents labour market participation and child poverty.

What are the other barriers to childcare take-up?

34. **It is clear that some parents do not want childcare, irrespective of price, quality, accessibility or information considerations.** Further work on reducing the “barriers to childcare take-up” may have little effect on childcare take-up rates with these parents. Research also suggests that some parents, particularly those in lower socio-economic groups and some ethnic groups, often believe that they should be looking after their young children themselves.

What are the other barriers to parents’ return to the labour market?

35. Above, we discussed the other, often overlooked obstacles to the *take-up of childcare*. Here, we go one stage further to look at the obstacles for *parents’ working*.
36. **The literature covers two possible sets of reasons why parents are not working. The first group are childcare-specific and broadly are that children remain dependent on their parents;** the second group of reasons are not childcare-specific, and take in a range of reasons. Aside from circumstantial reasons for being outside the labour market such as illness, caring responsibilities and training, **the major reasons for not mothers not working can be typified as being a) it is not worth working, b) a lack of suitable jobs and c) a job is not wanted.**
37. Work on reducing barriers to access may have little effect on labour market participation (and consequently on child poverty) for this latter group.

What is the relationship between childcare and reducing child poverty?

38. **Research suggests that for most families in poverty, problems with childcare are not the sole or even the most important barrier to moving out of poverty.**
39. **Together, these findings suggest that labour market policies for parents that focus exclusively on childcare issues may have limited success in raising employment rates and reducing child poverty.**

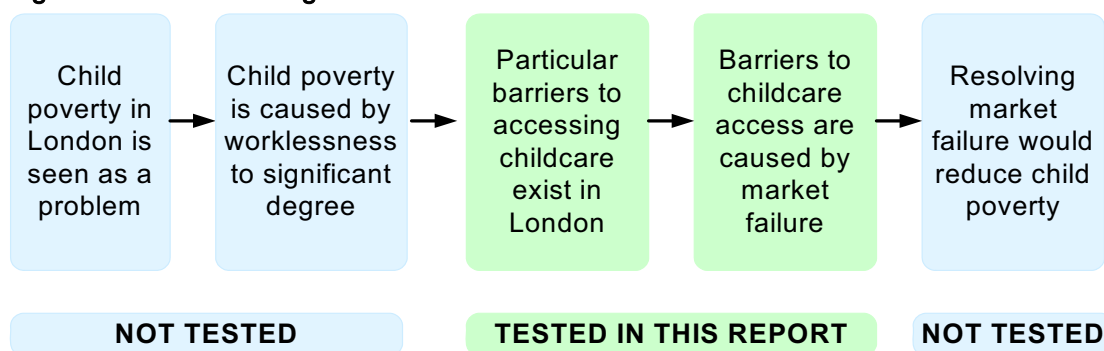
Next steps

40. The next steps that could be taken are as follows.
 - **National Centre for Social Research work is very valuable.** It would be useful for the LDA to get the statistical background showing the London-only statistical breaks.
 - **Application of typical rational choices theory (which assumes that consumers make judgements around price, availability, and quality) might not particularly appropriate in this marketplace.** Much of the work around childcare take-up motives and barriers revolves around very fine grained decisions. **Focus group and ethnographic techniques can be better than surveys at picking these issues up.** This is important, because understanding more emotional drivers might allow the better tailoring of policy responses. There might also be interesting applications of behavioural economics' "Nudge"-type concepts with relation to childcare.
 - **A significant issue in London is the relationship between housing costs, income, tax and subsidy.** In London, childcare costs may act as a disincentive to lower paid part-time employment. We understand that these issues are being dealt with as part of the "21st Century Welfare" Consultation.
 - **Any policy to reduce 'equity failures' in London would need to be highly targeted.**
41. There is evidence that parents regard the idea of "early years education" more positively than the idea of "childcare". Future policy for early years education will in part determine the market for childcare.

1 INTRODUCTION

- 1.1 This report investigates the London Childcare Market. It was written for the London Development Agency by a team comprised of Roger Tym & Partners, Laing Buisson and the University of East London.
- 1.2 The London Development Agency's interest in this area results from the LDA's objective to close the employment rate gap between London and the rest of the UK, and to ensure that child poverty is reduced. There is a concern that there may be market failures operating in London which cause problems in the provision of childcare services, and that if these failures were corrected (perhaps by public sector intervention), then childcare in London might be more readily available and more affordable. If this were the case, goes the logic, then parents would be able to return to the labour market, raising output and so lifting their children out of poverty.
- 1.3 We do not set out to test all of this logic chain. As Figure 1.1 below shows, we are focusing on a small part of it. In particular, we address whether there are significant market failures affecting the provision of childcare which might represent a prima facie case for public sector intervention.

Figure 2.1 The LDA's logic model for intervention in childcare markets



- 1.4 The Mayor's Economic Development Strategy strategy notes that market failure is "the most significant test" of intervention.¹ As the London Economic Development Strategy states, "striking at the cause [of market failure] is more effective than supplanting the market. Good policy-making identifies the cause, diagnoses the failure, and analyses ways of tackling it." Work by the LDA also points to a second rationale for Government intervention in markets. This is known as the "equity rationale", which seeks to correct unacceptable inequalities. In addition to market failure, then, we will examine the extent to which intervention might be justified by the existence of these inequalities.
- 1.5 We begin by defining the grounds for Government intervention in childcare markets, and then examine the main features of the market for childcare services in London. We then look at the barriers that the current childcare market is said to place in the way of accessing more childcare. Our review of the literature, and conversations with public and

¹ Mayor's Economic Development Strategy for London (Vision and Objectives) <http://lda-consult.limehouse.co.uk/portal/eds/eds?pointId=123>

private sector stakeholders, has suggested that there are a number of what are often called “barriers to access”. These are relatively well rehearsed in the literature. Typically, these are

- availability
- price
- flexibility
- quality
- information

- 1.6 We explore the nature of these barriers. Some of these issues are likely to affect London particularly acutely, although in some instances data is not available that specifically isolates London.
- 1.7 The above barriers should be understood as being *barriers to demand* from parents. These are factors which might reduce parents’ ability or willingness to put their children in childcare. As we have shown above, the LDA is concerned about these barriers because they represent an obstacle to parents’ labour market access, and so obstruct the reduction of child poverty.
- 1.8 We explore the nature of these barriers to demand, and look at
 - the extent to which these barriers are *caused by* market failures, and
 - the extent to which these barriers themselves *create or are manifestations of* equity failures.
- 1.9 Evidence of either equity failures or market failures would represent a prima facie case for public sector intervention.
- 1.10 This is necessarily a long and detailed report. However, we have tried to clarify the issues, rather than further obscure them. A quick understanding of the report can be reached by simply reading the “headline” sub-titles, whilst more detail is contained in the supporting text.

2 THE SCOPE AND CONTEXT OF THIS REPORT

Introduction

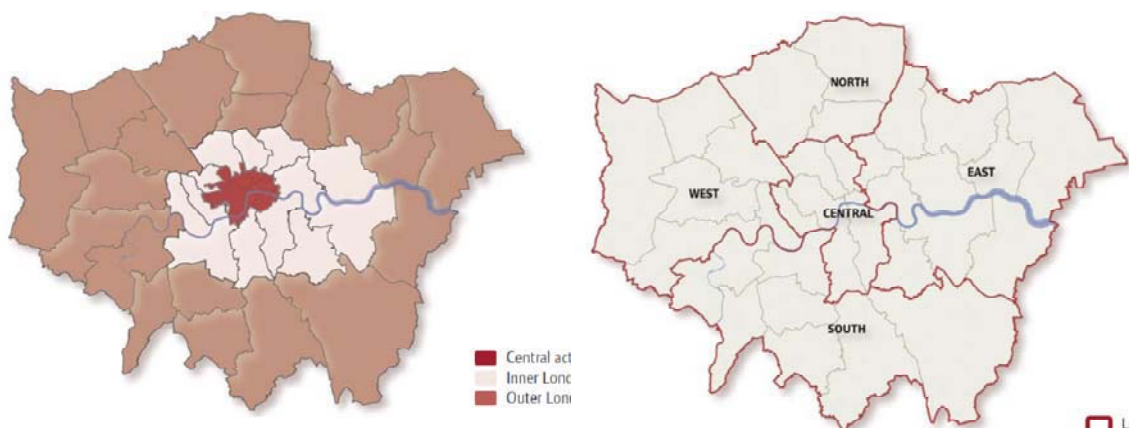
2.1 In this section we define the scope and context of this report.

The geographical area covered in this report

2.2 This report covers the Greater London area.

2.3 Where relevant, we have used the GLA's own spatial distinctions between the London sub-regions and the central and outer area.

Table 2.1 London sub-regions and central and outer area



Source: London Plan Consultation Draft replacement plan October 2009

Types of childcare provision we are looking at in this report

2.4 This report concentrates on paid for (formal) childcare provided by establishments and individuals that are registered with OFSTED to care for early years (0-5 years) children.

2.5 We also cover childcare for children aged 5, 6 and 7 years provided in OFSTED registered childcare settings such as out of school clubs² and by OFSTED registered individuals such as childminders.³ We cover these matters in less detail, because less

² Registered establishments covers nurseries, pre-schools, playgroups, childcare and family centres, out of school clubs and any other establishments registered for early years childcare. OFSTED now label these generically as childcare on 'non-domestic' premises. The type of childcare provided by these establishments is distinguished by their opening hours. Nurseries are typically open throughout the working day and are defined in this report as 'full day'. Other establishments such as pre-schools and playgroups are typically open part-day, often matching school opening hours, and are defined in this report as 'part day'. The remaining establishments are out of school clubs which provide childcare before and after school hours for children aged under 8 years, which we define as 'out of school'.

³ OFSTED registered individuals providing childcare cover childminders and large groups of individuals providing childcare on domestic premises. OFSTED now label these generically as childcare on 'domestic' premises. The large majority of these are childminders. Childminders are typically open throughout the working day, similar to 'full day' nurseries. Large groups covers domestic premises where 4 or more individuals are providing care at the same time. Less than 4 individuals on domestic premises remains classified as childminding

data and research is available, and because childcare for older children appears to be less of a labour market barrier.

- 2.6 Excluded from our scope is any education and childcare not registered for early years childcare by OFSTED. This generally covers
- Nursery education in schools - typically for 3 and 4 year olds covering nursery/reception classes in primary schools and nursery schools. This is because Ofsted do not include this in their childcare definition.
 - Establishments offering childcare for older children (covering 5+ years) but no early years childcare (for under 5s), which mainly covers holiday clubs.
 - Crèche or similar convenient 'drop-off' facilities where there is no long-term childcare commitment, i.e. children do not attend on a regular (daily) basis
 - Unpaid childcare for children of any age such as care by grandparents, and other family members and friends.
 - "Grey market" childcare, where paid but undeclared childcare services are provided informally to parents.
- 2.7 Whilst these areas are excluded, they may be referred to in relationship to the area of our study.

A typology of provision

- 2.8 The childcare sector uses a range of different terms. We have attached a typology as appendix 1.

What is "the childcare market"?

- 2.9 A market is an area over which buyers and sellers negotiate the exchange of goods or services - in this case childcare. Typically, marketplaces are conceptualised as being free of Government intervention. However, in line with the rest of the UK, the market for childcare in London is highly regulated and subject to a number of different public policy interventions (including subsidy) that are expressly designed to alter its functioning and outcomes.
- 2.10 The relationship between market (i.e., paid for) childcare provision and state provision varies depending on the age of the child. There are also some local differences in levels of provision, depending on a) the education authority, and b) any special circumstances of the child in question. We provide a simple summary of these interrelationships below.

Table 2.2 Summary of the relationship between paid for childcare/education and provision free at point of use

Age of child (mth)	Is free provision available?	Is paid-for provision available?
0-12 months	No. There is no state provision or subsidy ordinarily available for children in this age range. Some provision may be available for special needs children or those on the Child Protection Register.	Yes. Paid for provision exists through childminders, day nurseries and crèches.
From age 1 to 2	No. There is no state provision or subsidy ordinarily available for children in this age range. However, some subsidies are available from Local Authorities for children with physical or learning disabilities. These children are entitled to provision from age 2. The previous Government piloted 7.5 up to 12.5 hours of free early education per week for over 13,600 disadvantaged 2 year olds. The Coalition Government recently announced it will continue the roll-out of this programme for the same number of children targeted to date, up to 20,000.	Yes
3-4 year olds	Yes. All 3 and 4 yr olds are entitled to pre-school provision of 12.5hrs per week, 38 wks year; some did already receive 15 hours delivered flexibly. The Coalition Government has committed to rolling out this 15 hours free early education, entitlement which may also be delivered by childminders. This free provision is made through the Early Education Grant. This is a subsidy to providers. The Early Education Grant can be paid to either private or state providers; it is distributed by local authorities to schools and early years settings, including childminders, wherever they provide childcare to 3 and 4 year olds (e.g. through primary or nursery schools). The amount paid to providers varies between local authorities. Private providers argue that a) the level of subsidy is insufficient, and b) that nursery education delivered in state-funded settings (such as maintained schools) get effective cross-subsidies from mainstream education provision.	Yes. Parents have the choice of buying private nursery education if they wish. Nurseries that offer paid-for provision have opted out of the Early Education Grant scheme, which is provided through the Dedicated Schools Grant. The Labour Government tried to expressly halt any "top up" payments to vouchers to private nursery schools. Nurseries which have opted out of the voucher scheme are more prevalent in affluent areas, where parents are wealthy enough to pay full fees. While incoming Education Secretary Michael Gove has suggested that top up payments may be allowable in future, there is no official policy on this at the time of writing.
5 years old +	Although the statutory age for compulsory education is 5 years, most Reception classes take children before they turn 5. State provision for all. Note that this is outside the scope of this study. It is outside the OFSTED definition of childcare. Registered out-of-School provision may be available for this and younger age groups, especially in schools taking part in the Extended Schools Programme.	State provision for all. Private provision widely available. Note that this is outside the scope of this study. It is outside the OFSTED definition of childcare. Parents pay fees for breakfast clubs, after-school and holiday clubs, provided within schools with help from Extended Schools Initiative funding, or in separate locations.

2.11 Given the complex interaction between the public and private sector, the way that subsidy and private provision interact, the use of the concept of a "market" has its limits. But it can still make sense to use the market concept - because demand and supply analysis can still give us insights into problems of allocating resources, and deciding whether and how Government might intervene to solve problems and inequalities in provision.

The policy context for the London childcare market

- 2.12 Given that the London childcare market operates in a highly regulated environment, it is important to understand that environment. Some background on the policy background and environment may help.
- 2.13 Here we will only summarise key national and London policy developments impacting on the London childcare market, rather than providing a detailed summary of the wide range of initiatives developed during this period⁴. As we are on the cusp of alternative childcare policy developments under the new Conservative/Liberal Democrat coalition government, the future direction of current childcare policies and systems is as yet difficult to predict.

The London childcare market before 1997

- 2.14 A childcare market offering provision for children of working parents aged 0 to 5 existed in London well before 1997.

Like other local childcare markets, the London market consisted of a mixed economy

- 2.15 The London market consisted of a mixed state and private provision. Provision was made up of mostly small, private-for-profit and not-for-profit businesses, including day nurseries, community nurseries, playgroups and out-of-school clubs⁵ delivering group care, and family daycare delivered by childminders in their own homes. Many better-off families, especially in London, used private nannies.⁶ Registered breakfast clubs, after-school and holiday provision may be available within schools operating as part of the Extended Schools Initiative⁷, which provides Government support for all schools to establish and run or commission such services by September 2010, although parents still pay fees. Out-of-school clubs are also run separately from schools.
- 2.16 Such private childcare businesses operated alongside social services and voluntary sector provision aimed at targeted children considered 'in need' of childcare under the Children Act 1989, on the grounds of disability, or socio-economic or child protection issues. Parents of children not 'in need' were expected to pay full childcare costs. Informal care by family and friends was and remains the most popular form of non-parental care for children aged under two.⁸

⁴ Lloyd, E. (2008) 'The interface between childcare, family support and child poverty strategies under New Labour: tensions and contradictions.' *Social Policy & Society*, 7(4): 479-494

⁵ This report focuses on the pre-school childcare market, so developments in out-of-school provision are excluded from further discussion

⁶ Even now no reliable statistics are available on the number of nannies working. Registration remains voluntary.

⁷ Department for Children, Schools and Families (2008) *Extended Schools: Building on Experience*. London: DCSF

⁸ Speight, S, Smith, R., La Valle, I., Schneider, V. And Perry, J. Withwith Coshall, C. And Tipping, S. (2009) *Childcare and Early Years Survey of Parents 2009*. Research Report No DCSF-RR136. London: DCSF

There was some - geographically patchy - provision of state nursery education for 3 and 4 yr olds

- 2.17 In England there was a separate long-standing tradition of state-funded part- or full-time nursery education for 3 and 4 year old children in maintained, i.e. state funded, nursery schools and nursery classes attached to primary schools. In the absence of a national early childhood education and care policy, such early education was mostly confined to disadvantaged areas. In London, most Outer London Education Departments and the Inner London Education Authority supported nursery education. After ILEA's 1990 abolition, the London Boroughs' new Education Departments tended to continue this support.
- 2.18 Up to this point, the location of both childcare markets and state -funded early education was largely determined by the political colour of local government, with Labour controlled authorities spending more on such provision, whereas in some shire counties it might be almost entirely lacking⁹.

Lines of responsibility were complex and fractured

- 2.19 Children Act 1989 Regulations and Guidance informed local authority childcare registration and regulation requirements, covering such aspects as staff child ratios, minimum staffing qualifications and space per child for formal childcare provision, while ultimate responsibility rested with the Department of Health. Early education was regulated on behalf of the Department of Education and Employment by the schools inspectorate, which became Ofsted in 1992. In contrast, early education delivered in independent schools was covered by the separate independent schools inspection system.

The national childcare policy environment after 1997

- 2.20 From 1997 onwards, the introduction of the National Childcare Strategy by the new Labour government ushered in a period of rapid and major change in the creation and distribution, regulation and public funding for early education and childcare in the UK. The Governments used the term childcare for both early education and childcare, a cause of some confusion, but eventually started employing the wording 'childcare and early learning' to distinguish between the two forms of provision .

The concept of a "mixed" economy of private and public provision continued

- 2.21 The mixed economy of state funded private childcare and the concept of a childcare market remained at the centre of these policy developments, though, as well as several other policy continuities, and were never put up as an issue for national debate¹⁰.

⁹ Penn, H. and Randall, V. (2005) 'Childcare policy and local partnerships under Labour,' *Journal of Social Policy*, 32(1), 313-323

¹⁰ Cohen, B., Moss, P., Petrie, P. and Wallace, J. (2004) *A New Deal for Children? Re-forming Education and Care in England, Scotland and Sweden*. Bristol: The Policy Press

- 2.22 After Devolution in 1998, divergent childcare policies and strategies emerged in the four countries making up the UK, but the London childcare scene, certainly initially, reflected developments in England as a whole.

Policy objectives were around education and parents' labour market participation

- 2.23 The new government's initiatives had a two-fold aim, underpinned by a growing recognition to tackle child poverty and its impact on children's life chances:
- to ensure better educational outcomes for children, including readiness to learn at the start of compulsory education because of the delivery of a universal entitlement to free early education for all 3 and 4 year old children, later extended to disadvantaged 2 year olds
 - to ensure more opportunities for parents, particularly mothers, to take up employment, education or training because of the increased number of good quality, accessible and affordable childcare places.
- 2.24 The three main characteristics of this strategy were
- the introduction of an entitlement for 3 and 4 year old children to universal and free part-time early education in order to benefit their development;
 - an entitlement for employed parents or those in education or training for public support with childcare costs via the tax and benefit system in order to promote parental, particularly maternal, employment; and
 - support for children and families in disadvantaged areas or circumstances to make use of such opportunities in order to promote equality of opportunity.

Equality of opportunity was pursued through Sure Start

- 2.25 The most visible part of the latter strand took the form of the Sure Start programme, a high-profile inter-departmental initiative. Sure Start centres offered a range of health and family support services and early childhood provision to all children under 4 and their families living in some 500 disadvantaged areas. By 2010 this initiative had been transformed into the Sure Start Children's Centres programme and rolled out to 3500 locations across England.

Childcare funding and regulation under New Labour

The market was stimulated was through a mix of demand and supply side subsidies

- 2.26 The chosen funding mechanism for the National Childcare Strategy's implementation was a mix of
- supply-side subsidies in the form of start-up and other business support grants to childcare businesses in what came to be called the PVI sector (of Private, Voluntary and Independent providers); and
 - demand-side subsidies, i.e. tax credits, for parents to help them buy registered childcare in the childcare market.

The administration of these subsidies has been seen by some in the PVI sector as unfair

- 2.27 The early education grant became a key provider subsidy; this was a per capita funding to deliver 12.5 hours of early education during term time (now for 38 weeks per year) to 3 and 4 year old children whose parents wanted it. In order to qualify, childcare businesses needed to meet structural quality criteria pertaining to an early years curriculum, staff qualifications and ratios.
- 2.28 Critically, early education grant funding followed the child. The hourly rate for this entitlement was determined by local authorities. That meant that the early education grant could be paid to either private providers, including childminders, or local authorities' themselves wherever they provided childcare to 3 and 4 year olds. Payment levels are locally variable at the discretion of Local Authorities, and this local variation has been contested ever since by the PVI sector. The PVI sector object on the grounds of unfair competition: they state that nursery education delivered in state-funded settings (such as nursery classes in maintained primary and in nursery schools) get effective cross-subsidies from mainstream education provision. For example, payroll administration is done through the mainstream mechanism; other overheads and staff costs are paid for from other mainstream funds. At the time of the May 2010 election, the previous government was planning the introduction of an early years single funding formula designed to bolster private childcare business sustainability. Top-up fees had frequently been charged by the private sector, although the previous Government tried to eliminate this practice because if top-up fees became the norm this would discourage take-up.¹¹

Other subsidy mechanisms have been difficult to administer straightforwardly

- 2.29 A range of support measures were introduced to help with the affordability of childcare in all or some local authorities. All are now likely to be reviewed. These included
- The Child Tax Credit can be claimed by families under a certain income. Credits available grow with the number of children in the family.
 - The Working Tax Credit targets specific help at lower income families with parents in work. It is means tested, and can currently pay up to 80% of childcare costs.¹² In London there is a ceiling of £175 on weekly fees that can be claimed for one child as part of the childcare element of this credit, and £300 for two. Many London nurseries operate higher fees than this.
 - Student support for studying parents is available through a number of sources including universities and colleges, the Student Loan Company and a number of government bursaries.
 - The Sure Start, Early Years and Childcare Grant to local authorities helps them support different aspects of early education and childcare such as outcomes, quality and inclusion, the Graduate Leader Fund and Black and minority ethnic take up.

¹¹ Butt, S., Goddard, K. & La Valle, I. with Hill, M. (2007) *Childcare Nation? Progress on the Childcare Strategy and Priorities for the Future*. London: National Centre for Social Research and Daycare Trust

¹² http://www.4children.org.uk/uploads/information/WTC_final.pdf

- In London the Childcare Affordability Programme was launched in 2005; see section 2.43 below.
- 2.30 The system of tax credits introduced to help parents working 16 hours or more to pay for registered childcare was also the subject of controversy, as early overpayments were being clawed back¹³. Hence their uptake increased only slowly.
- 2.31 From 2005 there was a drive toward employer support in the form of childcare voucher schemes to help employees with the costs of registered childcare free from income tax and national insurance, in the form of either a salary sacrifice scheme or workplace provision. Each parent can receive up to £243 worth of vouchers each month free from income tax and NICs. Early on the uptake of such schemes tends to be among major employers, while London employers were among the most likely to offer their employees the opportunity to participate in such schemes¹⁴. More recently, in 2006/7, some 160,000 individuals surveyed for the Family Resources Survey were receiving such vouchers¹⁵

Standardisation and centralisation characterised childcare regulation under New Labour

- 2.32 Central government responsibility for childcare was transferred from the Department of Health into the Department for Education and Skills in 2001 and integrated with that for early education, whereas employment issues went over to the newly created Department of Work and Pensions. Ofsted took over the registration and inspection of all early childhood education and care provision.
- 2.33 An authoritative 2009 estimate of recent total government spending on all these separate aspects of early childhood education and care provision in England concluded that this amounted to between £3.5 and £4.1 billion a year. This figure did not include spending such as capital costs within the Children's Centre programme.¹⁶ Altogether this equals about 0.5 % of GDP, and is almost twice the sum spent around 1997, though still less than is spent on equivalent services in some other OECD member states, which average 0.6%.

Progress with national childcare policies and strategies

- 2.34 Since 1998 childcare policies and strategies were reviewed several times, against the background of a major structural reform plan for all children's services as part of the *Every Child Matters* agenda.¹⁷ Given legal force in the 2004 Children Act, this entailed an emphasis on multi-professional working in integrated teams to improve both early childhood provision and other targeted children's services (formerly described as family

¹³ House of Commons Committee of Public Accounts (2007) *Tax Credits. Twenty-Second Report of Session 2006-07*. London: The Stationary Office

¹⁴ Kazimirski, A., Smith, R., Mogensen, E. And Lemetti, F. (2006) *Monitoring of the Reform of the Income Tax and National Insurance Rules for Employer-Supported Childcare*. London: HM Revenue & Customs

¹⁵ Goddard, K. & Knights, E. (2009) *Quality Costs: Paying for Early Childhood Education and Care*. London: Daycare Trust

¹⁶ Goddard, K. And Knights, E. (2009) *Quality Costs: Paying for Early Childhood Education and Care*. London: Daycare Trust

¹⁷ DfES (2003) *Every Child Matters. The Green Paper*. London: The Stationary Office

support services). The ultimate aim was the reduction of the health and educational attainment gap between poor and better-off children. At local authority level social services and education departments were now combined into children's services departments.

Evidence was mounting which suggested that the childcare market was problematic in several respects

- 2.35 Evidence grew that the "mixed economy" of the childcare market was not fully achieving policy objectives. Problems were as follows.
- Searching questions relating to the sustainability of local childcare markets had been raised in two reports commissioned by the DfES: basically, parents in deprived areas appeared not to have enough money to afford the paid-for components of childcare provision.¹⁸
 - The provision of childcare for the children of unemployed parents, or those working in the 'grey' economy was problematic, as was that for children in large families, families with a disabled child or parent and Black and minority ethnic families¹⁹.
 - The Neighbourhood Nurseries programme, established by the Government to demonstrate the sustainability of childcare provision in disadvantaged areas, was at risk due to the withdrawal of start-up subsidies.²⁰
- 2.36 The 2004 Ten Year Strategy for Childcare²¹ directly addressed pressing child poverty issues and acknowledged that, without further intervention, childcare provision might cost too much for deprived parents to access. It proposed additional measures to ensure that parents would benefit from an improved work-life balance and that all young children would have access to a choice of affordable, high quality and flexible early childhood care and education; such access had been found lacking in a National Audit Office impact analysis of the childcare strategy.²²
- 2.37 Such measures included changes to tax credits, to paid maternity leave, the roll-out of the Sure Start Children's Centres programme and of the Extended Schools programme, which would also offer childcare, the extension of the free early education entitlement to 15 hours weekly from 2010, as well as moves to professionalise the childcare workforce

¹⁸ Dickins, S., Taylor, J. and La Valle, I. (2005) *Local Childcare Markets: A Longitudinal Study*. Research Report SSU/2005/016. London: DfES

Harries, T., La Valle, I. And Dickens, S. (2004) *Childcare: How Local Markets Respond to National Initiatives*. DfES Research Report-RR526. London: DfES

¹⁹ House of Commons Work and Pensions Select Committee (2004) *Child Poverty in the UK. Volume I*. London: The Stationary office

Kazimirski, A., Southwood, H. And Bryson, C. (2006) *Childcare and Early Years Provision for Minority Ethnic Families*. London: Daycare Trust & National Centre for Social Research

²⁰ Smith, T., Coxon, C. And Sigala, M. (2007) *National Evaluation of the Neighbourhood Nurseries Initiative: Implementation Study*, SSU Research Report 021. London: DfES

²¹ HM Treasury (2004) *Choice for Parents, The Best Start for Children: A Ten Year Strategy for Childcare*. London: The Stationary Office

and regulatory reform. Crucially for London, this strategy document also announced the establishment of the Childcare Affordability Programme for London. (We say more about this below).

- 2.38 Several reports from management consultants PriceWaterhouseCoopers²³ commissioned by the Department for Education and Skills, explored the operation of the childcare and children's services markets with a view to recommending improvements. These centred on the relationship and perceived competition between the private childcare sector and local authority supported provision.

The evolution of the childcare market in England

- 2.39 The expansion of early childhood education and care provision in England under the previous Labour government took office in 1997 continued to take place largely in the private for-profit sector. This trend reflected the new government's approach to promoting markets in public services in general. The UK Government had entirely reshaped its role in developing this provision and the policies it rolled out contrasted with those in many OECD member states.²⁴

The Childcare Act 2006 promoted childcare markets - but inserted aspects of local government oversight

- 2.40 The Government's own considerations concerning the childcare market culminated in the Childcare Act 2006. This legislation explicitly promoted childcare markets. The stipulation in the Act that early education should be delivered alongside childcare in a market composed largely of for-profit and not-for-profit businesses puts England in an almost unique position in Europe²⁵.
- 2.41 Two key features characterised this Act.
- Under the Act's 'childcare sufficiency' duty English local authorities must ensure the efficient operation of the local childcare and early education market of private providers. Local government itself can only act as a 'provider of last resort' if insufficient childcare were available locally to meet demand.
 - The second duty imposed on local government was to 'narrow the gap' between vulnerable and other children in respect of educational attainment and life chances through the delivery of early childhood education and care.
- 2.42 The 2006 Act also provides the statutory framework for the Early Years Foundation Stage, a programme combining regulations and curricular instructions to ensure a quality standard which early childhood settings must adhere to in order to qualify for registration. Childminders are also included in this. Aspects of this, too, have been the subject of some

²³ PricewaterhouseCoopers (2006a) DfES Children's Services - The Childcare Market. London: PWC

²⁴ Penn, H. (2007) 'Childcare market management: how the United Kingdom Government has reshaped its role in developing early childhood education and care,' *Contemporary issues in Early Childhood*, 8(3): 192-207

²⁵ Penn, H. (2009) 'International perspectives on quality in mixed economies of childcare,' *National Institute Economic Review*, 207, January; 1-6

lobbying for its reform by sections of the private childcare sector as well as educationalists, but the sector as a whole views it as a welcome form of quality assurance.

The London childcare market policy environment

Some issues affected London particularly badly

- 2.43 In the London childcare market the same policy developments applied as in the rest of England, but the capital's socio-economic context differed. Among the characteristics differentiating London from the other English regions were the highest child poverty rates in England, 48% as against 30% nationally, low maternal employment rates, 54% as compared with 65% of mothers nationally, childcare costs 25% higher and the lowest uptake of Working Tax Credit in the country.
- 2.44 Low qualification levels and high rates of worklessness and considerable income inequalities disproportionately affecting BME and lone parent families were typical of the London population as a whole. Other factors impacting on childcare uptake and employment rates particularly affecting London women included relatively high levels of lone motherhood, atypical working patterns in various industries, low pay and a relatively high gender pay gap, in the context of high housing, living and transport costs. These were documented in a series of GLA Economics reports on women in London's economy published since 2005.²⁶
- 2.45 Two authoritative sociological studies of childcare choices among middle-class and working class families in two Inner London areas, Stoke Newington and Battersea, suggested that the picture might be more complicated than was captured in a purely economic analysis. These studies demonstrated heavy social segregation in provision and uptake, reflecting divergent parental attitudes within 'local childcare cultures.'²⁷ The findings on the complex interplay between factors affecting parental childcare choices in these small-scale qualitative studies appeared to correspond to those in an analysis of Family and Children Study survey data.²⁸

London-specific policy aimed to make high quality childcare affordable for all

- 2.46 In response London's first mayor instigated the development of a separate childcare strategy by the London Development Agency's childcare team. This differed from the national childcare strategy in certain important respects.²⁹
- 2.47 The new strategy was informed by a PWC cost benefit analysis concluding with a recommendation of universal publicly funded childcare provision for UK children aged

²⁶ Mayor and GLA Economics (2005) Women in London's Economy. London: GLA

²⁷ Vincent, C., Braun, A. And Ball, S. (2008) 'Childcare, choice and social class.' *Critical Social Policy*, 26(1): 5-26

²⁸ D'Souza, J., Connolly, A. and Purdon, S. (2008) Analysis of the Choices and Constraints Questions on the Families and Children Study. DWP Research Report No 481. London: DWP

²⁹ Mayor of London (2003) The London Childcare Strategy - Towards Affordable Good Quality Childcare for All. London: London Development Agency

nought to 4.³⁰ The strategy aimed to put high quality, affordable childcare within reach of all London's families, regardless of their income or employment status. It further aimed to boost economic growth and reduce poverty through family friendly employment practices.

The Childcare Affordability Programme CAP-2005

- 2.48 The London childcare strategy objectives were further developed into a 3- year large-scale childcare investment programme targeted specifically at affordability, the Childcare Affordability Programme. This started off in 2005 essentially as a pilot, was jointly funded by DCSF and was evaluated over a three year period³¹. Its aims included the creation of a range of up to 10,000 affordable childcare places with childminders and in group settings in order to promote equality of opportunity for children and families and help eradicate child poverty in the Capital by 2020.
- 2.49 Its main method consisted of a subsidy to providers to incentivise them to offer up to 50% of their full daycare places for a minimum of 6 hours a day for 48 weeks of the year. Providers were also encouraged to offer more flexible provision in response to atypical working patterns and for children with special needs and/or disabilities. These places would only be available to lower income families in receipt of a higher rate of Child Tax Credit and this part of the programme proved the most popular. Additionally, innovative measures were piloted e.g. to help parents transition to work and create suitable provision for children with disabilities.³²
- 2.50 The pilot's evaluation could only provide limited information on the CAP-05's successful realisation of its aims, in view of lack of monitoring data on outputs and outcomes such as uptake of places and parents' work entry collected over the programme's lifetime. Overall, demand for the 10,000 subsidized childcare places was in line with the available funding, although the Transition to Employment aspect of the programme was initially oversubscribed. The evaluation concluded that CAP05 successfully employed supply-side funding to support improved access to childcare provision within a diverse market. Of a sample of 603 parents on the programme who were contacted in the middle of last year, 175 were in work at that point.

The Childcare Affordability Project CAP-2009

- 2.51 Although there were significant difficulties in getting the CAP 05 programme accurately evaluated, LDA agreed a new two-year phase of the Childcare Affordability Programme in early 2009. This takes the form of two pilots which will test different approaches focused on 16,000 out-of-work parents and single earner couples with household incomes of less than £20,000. The two pilots are the "supported offer" and "subsidised offer".
- 2.52 The subsidised offer will contribute to the cost of flexible, quality childcare places for families living in the boroughs of Brent, Ealing, Southwark and Westminster

³⁰ PricewaterhouseCoopers (2003) Universal Childcare Provision in the UK - Towards a Cost-Benefit Analysis. A Discussion Paper. London: PWC

³¹ SQW Consulting (2009) Childcare Affordability Programme 2005 - Pilot Review. London: SQW Consulting

³² LDA (2005) The Childcare Affordability Programme. London: LDA

- The support offer will offer parents professional, individual guidance about training, employment and finding childcare in the boroughs of Barking & Dagenham, Islington, and Harrow.

2.53 These pilots are being rolled out within the context of a wider programme of Child Poverty pilots organised by the inter-Departmental Child Poverty Unit. Six varied pilot initiatives have been designed to explore pioneering policy approaches towards the eradication of child poverty by 2020. Several of these additional pilots are operating in London boroughs, in some cases alongside the CAP09 projects. Since March 2010 the child poverty eradication policy goal has been enshrined in legislation, the Child Poverty Act, which applies to the UK, Scotland and Northern Ireland.

3 DEFINING THE GROUNDS FOR GOVERNMENT INTERVENTION IN MARKETS

Introduction

- 3.1 This report is required to investigating the childcare market for evidence of market failure. Evidence of market failure would represent an important finding of this report. As we have seen, the Mayor's strategy notes that market failure is "the most significant test" of intervention.³³
- 3.2 Given the importance of the concept in justifying public sector intervention in markets, it is important to be very clear about what - precisely - the concept means. In this section, we explain that we are broadening this focus on market failure to include equity considerations.

Common misunderstandings about market failure

- 3.3 Market failure is a concept that is commonly misunderstood. The term is often mistakenly used to describe market outcomes which are in some way thought damaging, unpleasant, or unpopular. But this is not the case: whilst market failures might be all these things, the definition of market failure instead rests on a set of conditions being met which mean that markets cannot generate economically efficient outcomes³⁴.
- 3.4 Some examples might illustrate the point. Throughout the UK and elsewhere, many groups diagnose 'unmet demand' or 'inflexibility in provision' or 'gaps in the market' for a large number of areas (including childcare). The first step in this approach is a survey which shows that many or most individuals aspire to a better, cheaper or more plentiful service than they are in fact receiving. Typically, this analysis then calculates an aggregate requirement based on the grossed-up survey results. The analysis then diagnoses "market failure" and recommends that the public sector provide or help pay for the corresponding provision at the desired (lower) price.
- 3.5 But this approach is often flawed. Often, what is being described is an example of a market actually *working*, rather than failing. Childcare, for example, might be seen as "expensive" for a number of perfectly good reasons, such as high staff-to-child ratios. High childcare costs might be unpopular, or be contrary to policy objectives, but would not on their own be evidence of market failure.
- 3.6 In this discussion of market failure, it will be helpful to distinguish between the three terms, using closer definitions as follows:
- *Aspiration* is what the user (in this case, a parent looking for childcare) *would like*.

³³ Mayor's Economic Development Strategy for London (Vision and Objectives) <http://lda-consult.limehouse.co.uk/portal/eds/eds?pointId=123>

³⁴ See for example Annex , The Green Book - HM Treasury (2003)

- *Demand* (sometimes called *effective demand*) is what the parent *would like and can afford* (is willing to pay for).
- *Need* is what the parent *would like and ought to have*.

3.7 Economics has a theoretical framework that can cope comfortably with all three of these concepts. While statements about aspirations and about demand report facts, statements about needs refer to values. A statement that someone *ought to have* something needs to be justified with reference to values, such as recognised policy objectives. As we will show below, democratically elected politicians can choose to intervene in markets that are not failing. They do so on equity grounds in order to secure the things that they think that parents in certain circumstances *ought to have*.

The golden rules: how we can justify intervention in the market

3.8 Any interventions made by the regional public bodies in support of improving the economic performance of the region must be justified with regard to the standard rules for government intervention. These state that:

3.9 “the rationale for government intervention, whether via a new or changed policy, a programme or a project...is essentially twofold:

- *The achievement of economic objectives by addressing inefficiencies in the operation of markets and institutions; and,*
- *The achievement of an equity objective, such as local or regional regeneration.*³⁵

3.10 Basically, then, we can intervene in the free market on two grounds: to fix failing or inefficient markets, or to correct the outcomes of markets when we think that they are damagingly unfair.

3.11 But there is a third condition which must be met before Government intervention can be justified. An intervention might address failing markets, or equity, but that does not mean that Government intervention should necessarily take place. It also needs to be shown that Government intervention will genuinely make an improvement, and that the benefits of intervention will exceed costs.

Golden rule 1: Government can intervene to fix failing markets

3.12 The underlying assumption is that perfect markets are the best way of allocating resources. However, the Government acknowledges that markets do have problems in some instances. It is in these cases that government should intervene, but only if it can achieve a better allocation of resources. Thus it needs to demonstrate where the market failure is occurring and how its intervention will help correct this failure.

3.13 There are five types of market failure where intervention may be appropriate. We explain each of these briefly below.

³⁵ HM Treasury (2003) The Green Book: Appraisal and Evaluation in Central Government

Markets fail when there is insufficient competition

- 3.14 One of the preconditions for economic efficiency is the existence of a large number of suppliers (and consumers) in the marketplace. In such a market, no monopoly supplier has the power to set prices. Instead, these prices are set by the interaction of market forces.
- 3.15 Correcting this kind of monopoly market failure problems would ordinarily be the responsibility for the Office of Fair Trading and the Competition Commission. But, in line with other examples of market failure, the LDA may also choose to intervene to correct these failures.

Markets fail when customers cannot easily be charged for what they use

- 3.16 Public goods require state intervention because of the difficulties in charging consumers for them. Without intervention the goods or services would not be provided. Frequently-quoted examples include street lighting and defence. Childcare does not fall readily into this category.

Markets fail when market prices are not a true reflection of the real costs or benefits of production

- 3.17 Externalities are costs or benefits which are not included in the price of a good or service. It is possible to have both positive and negative externalities.
- **Negative externalities** are caused, for example, where environmental costs such as pollution or carbon emissions get picked up by wider society rather than the counterparties to a transaction. Simply put, these goods and services are “too cheap”, and because of that, markets produce too much of these goods from the point of view of society as a whole because they are bearing the full cost.
 - **Positive externalities** occur when the full benefits of a transaction to society are not taken into account by the parties to the transaction. Because individuals do not enjoy the full benefits of these activities themselves, they will perform too few of these actions. This means that not enough of these goods are produced. For example, investment in childcare can be shown to be an important driver of subsequent educational performance for some social groups, and thus possibly has consequences for workplace skills and future economic growth.³⁶ Some of these

³⁶ On social benefits of pre-school education see for example:

Karoly, L.A., Kilburn, M.R. & Cannon, J.S. (2005) *Early Childhood Interventions: Proven Results, Future Promise*. Santa Monica: RAND Corporation. http://www.rand.org/pubs/monographs/2005/RAND_MG341.pdf

Nores, M., Belfield, C.R., Barnett, W.S. & Schweinhart, L. (2005) 'Updating the economic impacts of the High/Scope Perry Preschool Program,' *Educational Evaluation and Policy Analysis*, 27(3): 245-261 (by some of the researchers)

Heckman, J., J., Moon, S.H., Pinto, R., Savelyev, P.A. & Yavitz, A. (2010) 'The rate of return to the HighScope Perry Preschool Program,' *Journal of Public Economics*, 94(1/2): 114-128

But other papers have questioned the robustness of these findings. See for example:

What is known about the long-term economic impact of centre-based early childhood interventions? Helen Penn, Veronica Burton, Eva Lloyd, Miranda Mugford, Sylvia Potter and Zahirun Sayeed (2006)

educational benefits accrue to the child, but a slice of these benefits accrue to society as a whole, and these benefits are not reflected in the price that can be charged.

There could therefore be under-investment in this activity.

- 3.18 There is a role for the LDA and partners to intervene to correct both positive and negative externalities. In practice, LDA interventions in respect of the childcare market are most likely to be targeted at encouraging an increase in goods or services that are currently under-provided due to positive externalities.
- 3.19 It needs to be understood, however, that there are substantial time lags between the costs of implementing such interventions and the returns. To undertake cost benefit analysis of such interventions would require discounting for social time preference.

Markets fail when there is insufficient information to make a good decision

- 3.20 Markets work best when consumers are well informed so they can make the most rational decisions about demand and supply. But if consumers do not have enough information they may not buy the optimal quantity of goods and services. In childcare markets, for example, there might not be sufficiently available information to parents regarding childcare availability or quality, and that might represent a market failure.
- 3.21 Public sector intervention on this issue will often involve the direct provision of information or regulation to ensure that information is made available. This is indeed the case, and forms the rationale for OFSTED's testing of childcare quality.

Markets fail when a market is "missing"

- 3.22 In some instances, there is a role for the public sector to encourage and enable co-operation where an effective market for co-ordination services does not exist. This might be needed in complex projects or when responding to unforeseen events. Examples might include responding to a flood or other natural disaster.

Golden rule 2: Government can intervene to achieve equity objectives

- 3.23 Government intervention to correct market failure discussed above are about maximising economic efficiency - and so maximising output. But as Nobel Prize winning economist Amartya Sen notes, an economy can be perfectly efficient (technically known as "Pareto-optimal"), yet still "perfectly disgusting" by some ethical standards.³⁷ So there are other grounds for intervention the rest on the more subjective, ethical judgments of democratically accountable politicians, which are known as "equity objectives". This point is accepted by as representing grounds for intervention in a market, and is made both in HM Treasury's Green Book, and in work by the GLA.³⁸

³⁷ Sen, A. K. (1970) *Collective Choice and Social Welfare* (22)

³⁸ The Green Book: Appraisal and Evaluation in Central Government - HM Treasury (2003); GLA (2008) *The Rationale for Public Sector Intervention in the Economy II* (21)

- 3.24 This rationale forms the basis for targeting child poverty (although the *means* by which child poverty could be addressed might include dealing with some of the market failures which are seen to cause that poverty). It is worth noting that a reduction in child poverty and improving parental employment are linked, and have both been explicit aims of the childcare strategy.
- 3.25 Public sector intervention on equity grounds may
- Reduce unacceptable inequalities between rich and poor. This applies if the market outcome involves a level of inequality that society finds unjustifiable in moral terms.
 - Ensure people in similar circumstances are treated equally - for example in access to childcare services, or to reduce gender inequality in the labour market, in terms of pay and opportunities.
 - Ensure that future generations are not made worse off by the present generation.

Golden rule 3: the benefits of government intervention have got to exceed the costs

- 3.26 Large potential benefits do not necessarily justify intervention, and large potential costs do not necessarily make intervention unwise. What matters is that benefits exceed costs.
- 3.27 The costs of Government intervention fall into three categories. These are a) internal Government costs - such as support staff costs; b) direct external costs which fall the childcare sector - such as the costs of complying with childcare regulations; and c) indirect external costs which spread out across the entire economy - such as inefficiencies which might result from the effects of Government intervention in childcare markets distorting market signals.

Summary

- 3.28 So, to recap: the LDA and its partners can justify intervening in any markets on three basic grounds. These are in the following circumstances:
- Market failures - when market mechanisms won't work, or won't provide the most efficient outcome; *and/or*
 - Equity- when the market outcome leads to inequalities that are unacceptable to society; *and*
 - When the benefits of Government intervention exceed the costs.

4 PROFILE OF THE LONDON CHILDCARE MARKET

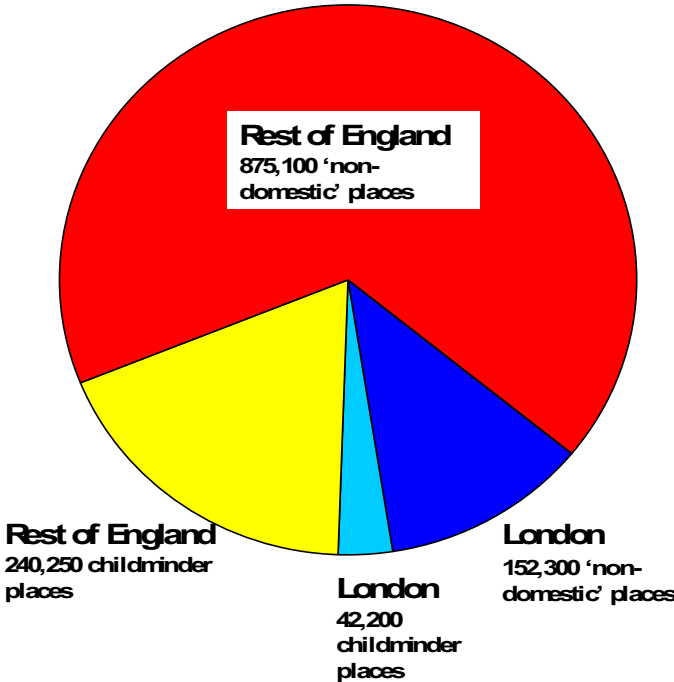
Introduction

4.1 This chapter provides a profile of the London Childcare market.

The size of the London childcare market

4.2 The London childcare market - covering 33 boroughs - is provided by approximately 194,500 registered places with 152,300 of these operated by nearly 3,900 childcare establishments, and 42,200 places offered by approaching 9,900 childminders including larger childminding groups.¹

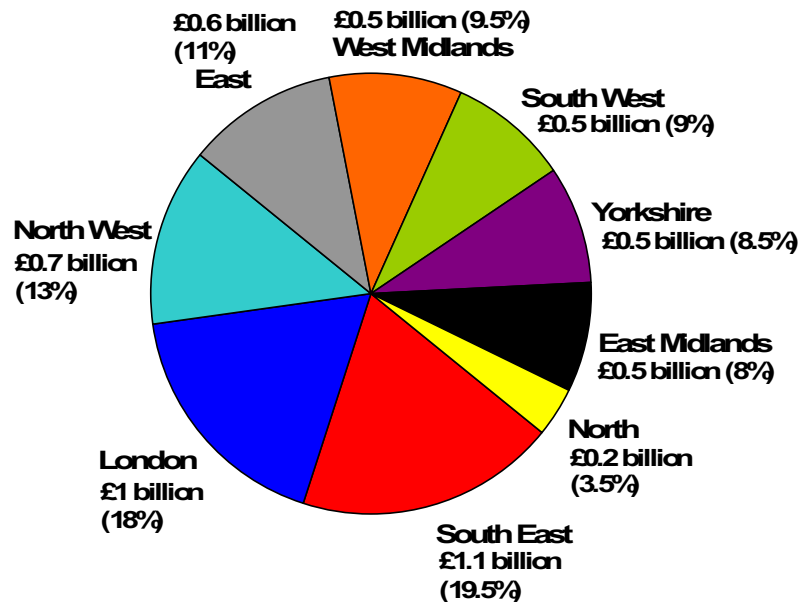
Figure 5.1 'Domestic' childminder and 'non-domestic' childcare places in London and Rest of England, at April 2010



Source: Ofsted

4.3 As measured by spending on childcare fees, the London childcare market is worth an estimated £1 billion, and represents 18% of childcare spending in England, which is estimated at an annualised £5.7 billion. Only the South East has higher overall childcare regional spending than London, worth an annualised £1.1 billion.

Figure 5.2 Spending on childcare in calendar 2009 by English region



Source: Laing and Buisson

- 4.4 Average childcare spending for each under 5s child in London is estimated at £1,835. This is marginally higher than an estimated average of £1,820 for England as whole. Highest spending per early years child is in the South East at £2,215 (21.5% above England average), and lowest is in the North East at £1,420 (22% below England average).
- 4.5 Including older childcare in demographic spending analysis indicates London per capita spending is relatively higher. Average childcare spending for each child under 10 years is estimated at £1,030, 8% higher than the England average of £955.

How has the London childcare market changed in recent years?

The childcare market in England has now matured following a period of strong growth

- 4.6 Between 31 March 2003, when Ofsted started publishing childcare statistics and 31 August 2008, when it last published a clear breakdown, overall childcare supply (places) in England grew by 21%. However, all growth took place in the first three years, as places grew by 22% between March 2003 and their peak at the end of December 2006, compared to a marginal fall of 0.7% between January 2007 and end of August 2008. The end of growth in childcare supply reflected a general maturing of the childcare market, as demand for childcare levelled off for the first time during 2006. At this time the large majority of childcare businesses put growth plans on hold to focus on keeping occupancy at profitable levels. The government backed Children's Centre programme was also

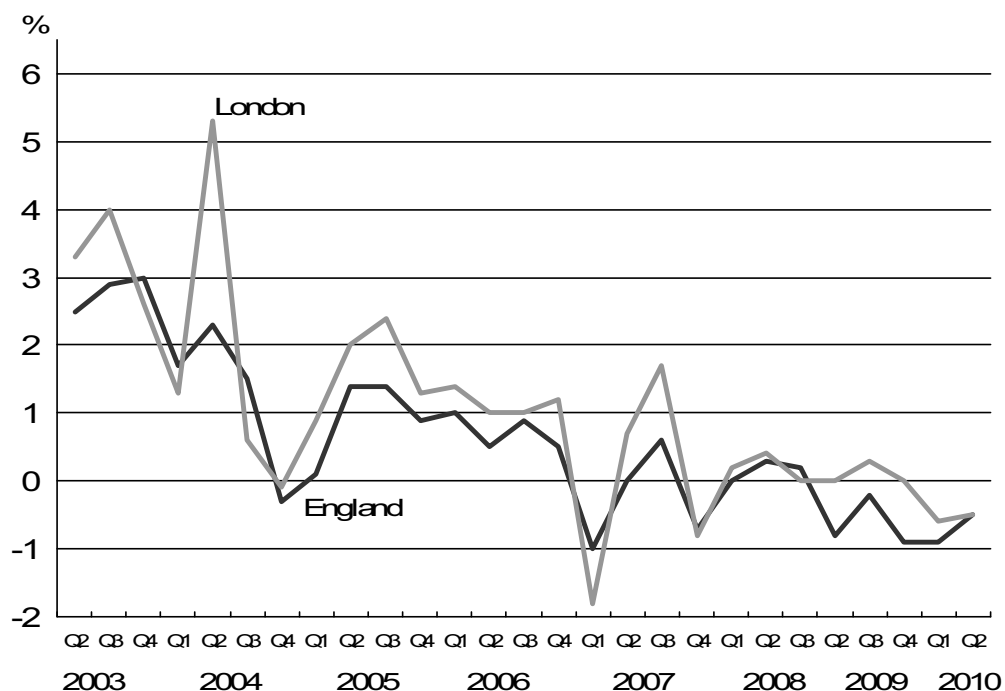
drawing to a close. The London childcare market matured in line with general nationwide trends at the end of 2006 (see Figure 4.3).

- 4.7 Some caution is necessary when interpreting Ofsted statistics since this period, as Ofsted reviewed the format in which these statistics are presented after June 2008 when a new form of registration was introduced. Since this date figures no longer distinguish between different types of childcare, e.g. full and sessional daycare and out of school care. Instead they refer to childcare on domestic and non-domestic premises and home childcarers.

In London, childcare places as a whole grew more strongly than any other English region from 2003-6

- 4.8 Childcare places in London grew more strongly than any other English region over the period, increasing by 32.5% between 31 March 2003 and 31 August 2008 inclusive. Almost all growth took place between March 2003 and December 2006 inclusive, as places rose by 32%. Places grew very marginally by 0.4% between January 2007 and August 2008 inclusive.

Figure 5.3 Quarterly growth in childcare places in London and England, 2003 Q2 - 2010 Q2



Source: Ofsted

London did not grow across the board. Full day care nursery growth was the slowest in England

- 4.9 London’s growth was not consistent across all childcare provider types. While London was the only region to record any significant growth in childminder places, saw the largest increase in out of school places, and the smallest fall in part-day places, it also saw the

lowest growth in full day care nursery places, at 56%, compared to the average for England which was approaching 67%.

Table 4.1 Growth in childcare places by type, 2003-2008

Growth in Places 2003-2008	Child-minder %	Full Day Care %	Part-Day Care %	Out of School %	All Non- Domestic* %	All Childcare %
London	12	56	-15.6	50.1	38.2	32.4
North West	-4.8	67.5	-31	47.6	37.8	28.6
North East & Yorkshire	-2.6	78.7	-35.6	31	34.3	23.5
East	0.3	74	-17.2	33.7	27.1	20.3
East Midlands	3.4	60.3	-18.8	10.6	22	17.6
West Midlands	-12.8	65.8	-35	15.6	24.6	16.2
South East	-2.2	63.5	-25.2	22.6	22	16.1
South West	-8.7	70	-36.4	16.2	16.8	10.9
England	-1.9	66.6	-26.5	30.2	28.6	21.4

How has the London childcare market responded to recession?

Childcare places in London have fallen, but have not been as affected as elsewhere

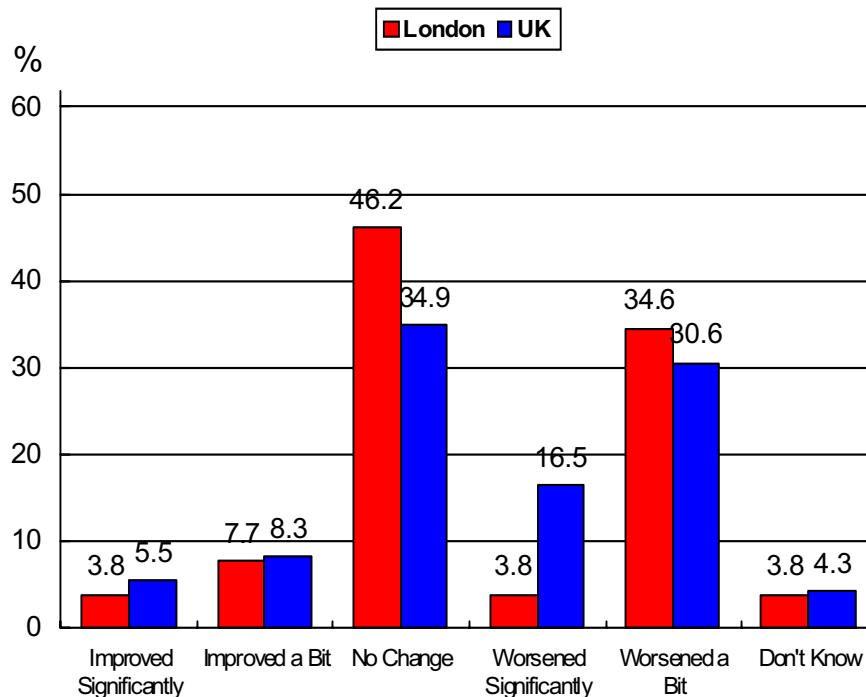
- 4.10 Recent growth trends indicate that the economic recession had a lesser downward impact on childcare in London than in other English regions. In the last 12 months (April 2009 to April 2010), childcare places in London fell very marginally by 0.4% (0.5% fall in non-domestic places and 0.1% in childminder places). This compared with a fall in childcare places of 2.7% for England as a whole (2.3% fall in non-domestic places and 4.2% in childminder places).

London nursery businesses appear to be faring better than elsewhere in the UK

- 4.11 This is supported by the latest Laing and Buisson's survey of UK children's day care nurseries carried out in March 2010 which asked nurseries how the recession had impacted on their business performance in 2009.
- 4.12 Responses overall suggest that nursery businesses in London fared marginally better than the UK average. The proportion that reported their business to have worsened significantly was notably lower in London than the UK overall. However, as the regional sample sizes are generally small, the results have of a low statistical confidence.

- 4.13 Figure 4.4 shows the responses of nurseries in London compared to the UK as a whole. A majority, some 46%, of nurseries in London reported no change in performance in 2008, followed by 39% which reported conditions had got worse.

Figure 5.4 Impact of Recession in 2009 on Nursery Business Performance, London and UK



Source: Laing and Buisson Survey of Children's Nurseries

How do London childcare market ownership patterns compare to elsewhere?

- 4.14 The majority of childcare places supplied on non-domestic premises in England, some 53%, are operated on a 'for profit' basis by private providers. Just over a third of places, 34%, in England are operated on a 'non-profit' basis by third sector organisations covering charities, voluntary organisations, social enterprises, and others. A minority of childcare places in England are provided 'non-profit' by the public sector, most of these operated by local authorities.
- 4.15 The childcare market is highly fragmented, as the large majority of providers are independent non-affiliated settings.

London's levels of private provision mirror England as a whole

- 4.16 Private sector provision in London fairly well mirrors the average private provision across England, with an estimated 54% of non-domestic childcare places owned and run by private companies, partnerships and sole traders, very marginally higher than in England.

Childcare groups (operating three or more settings) are similar to England as a whole

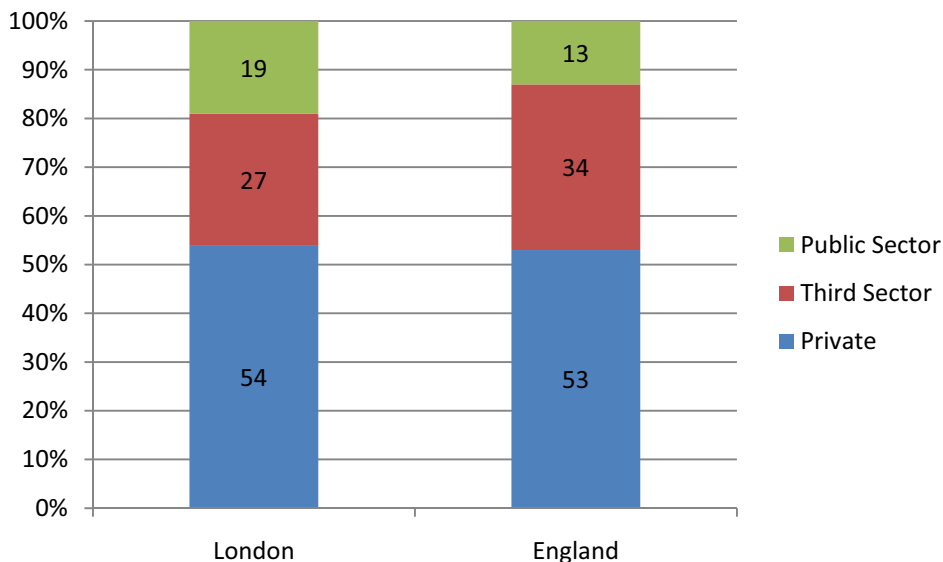
4.17 Penetration of childcare groups in the London childcare market is not discernibly different to the average for England. Laing and Buisson estimates that childcare groups - defined as providers operating 3 or more settings - account for 14.5% of non-domestic childcare provision in London, similar to the average of 15% for England as a whole.

London has proportionately fewer third sector providers, and more public sector than England

4.18 London has a noticeably lower third sector presence in its childcare market, and a noticeably higher public sector presence. Lower third sector involvement likely reflects its significantly lower density of part-day settings, where the third sector is heavily involved. According to the 2009 Early Years and Childcare Providers Survey, published by the Department for Education, more than two-thirds of part-day (sessional) childcare settings are operated by the third sector. The precise reasons for this are not known.

4.19 Higher than average public sector presence in the London childcare market - covering local authority owned and operated settings, NHS run childcare and maintained schools and colleges - is likely to reflect two historical trends. Firstly, LEAs in London may have a stronger subsidy policy, and secondly large public sector employers in London may have a higher preference/need for in-house childcare facilities.

Figure 5.5 Share of Non-Domestic Childcare Places by Sector, mid 2010



Source: Laing and Buisson's database of childcare providers

4.20 Childcare Groups, defined as private companies, sole trader/partnerships and third sector (not for profit) organisations owning or managing 3 or more childcare settings account for a similar proportion in London as nationally with 14.5% of total places in London and 15% in England as whole.

How do types of provision in London compare to elsewhere?

4.21 Table 4.2 shows that the largest childcare provider type in England is full day nurseries, which operate just over 47% of all childcare places in England, according to estimates by Laing and Buisson. The next largest provider type is childminders, accounting for approaching 22% of childcare supply, followed by out of school clubs, with just over 16%, and narrowly the smallest type is part-day settings, which provides approaching 15% of places.

Compared to the rest of the country, London provides comparatively high levels of out of school provision, and comparatively lower levels of day nurseries, playgroups and pre-schools

4.22 Table 4.2 shows that the distribution of childcare supply by type shows London to be a 'heavy' supplier of out of school facilities compared to other regions, about average for childminders, and 'light' in its supply of day nurseries and part-day settings (playgroups and pre-schools).

4.23 The following regional structural trends for childcare provider types can be observed:

- **Day Nurseries** -London's penetration by day nurseries is in the bottom half of the regional range, with 45% of childcare places provided by nurseries which are open for the full working day.
- **Childminders** -London's penetration by childminders mirrors the average across England, with approaching 22% of childcare places provided.
- **Out of School Clubs** - London's penetration is the highest in the country in this category.
- **Part Day Settings** - London's penetration is closer to the bottom end, at 13% of childcare places estimated to be provided by part-day settings such as playgroups and pre-schools.

Table 4.2 Share (%) of childcare places by childcare setting types, mid 2010

Region	Childminders % of Places	Day Nurseries % of Places	Part Day Settings % of Places	Out of School % of Places	All Childcare % of Places
England	21.6	47.3	14.8	16.3	100
East	22.7	41.2	22	14	100
East Midlands	22.9	46.5	17.1	13.5	100
London	21.7	44.9	12.9	20.5	100
		49.7			
North East	25.1		9.7	15.5	100
		51.4			
North West	17.7		11.2	19.7	100
		44.5			
South East	22.8		17.4	15.4	100
		48.2			
South West	21		17.2	13.6	100
		53.7			
West Midlands	18.9		11.4	15.9	100
Yorkshire	24.3	49.5	10.9	15.3	100

Source: Laing and Buisson's database of childcare providers

5 AVAILABILITY BARRIERS TO CHILDCARE TAKE-UP

Introduction

- 5.1 In this section, we test the idea that a lack of available childcare in London represents a barrier to more childcare take-up. We look at the evidence for whether this problem is caused by a market failure, and the extent to which it causes an equity failure.
- 5.2 Deciding whether there is “enough” childcare provision in London to meet parental demand available requires us to juxtapose effective supply against effective demand. This is a more awkward process than it might appear at first sight: there is a paucity of data on demand, and there are a range of non-market interventions that make judgement difficult.
- 5.3 By the end of March 2008 local authorities had undertaken their first ‘childcare sufficiency assessment’ under Section 11 of the Childcare Act 2006. Such surveys were meant to establish supply and demand with a view to assessing whether and how much extra childcare provision might be needed in their area. An Office for Public Management Report on the first round concluded that local authorities had encountered significant challenges in mapping supply and demand, and so it is difficult to rely on that data as a result.³⁹ The next assessment round is due in 2011 and it remains to be seen whether a more accurate mapping will be achieved.
- 5.4 Whilst there are these difficulties, it is possible to look at the available information on supply and demand, and to use non-market indicators (such as comparisons of the number of places against the number of children) in order to draw some conclusions.

What is the evidence for availability representing a barrier to childcare access?

Childcare density measures can be used to measure supply of places against the number of children - but data should be used carefully

- 5.5 Childcare density is expressed here as the number of childcare places per child. However, only comparisons in density are presented here, as density values on their own offer a limited interpretation of childcare supply. For instance, childcare density estimates exclude early education places for under 5s in schools.
- 5.6 Childcare density comparisons used here indicate the percentage difference between supply per capita population in London (and other regions) and supply per capita population in the English average. As an example, a childcare density figure in Region X of +10 indicates that Region X has 10% more supply per capita than the national average. A childcare density figure in Region X of -10 indicates that Region X has 10% less per

³⁹ OPM (2008) Reviewing Childcare Sufficiency Assessments. Report for the DCSF

capita than the national average. For the intra-London analysis later in the chapter, Boroughs are compared against the London regional average.

- 5.7 Two sets of density figures are provided, one for the Under 5s population covering early years, and one for the Under 10s population to include older children receiving childcare.
- 5.8 Childcare density should not be interpreted as indicating excess (+) or insufficient supply (-) since they do not take account of demand. For instance, Region X may have 10% more per capita supply than 'on average', but demand in Region X may be 10% or more higher than 'on average'.

Overall, London has a relatively low early years childcare supply density

- 5.9 Table 5.2 shows that childcare density (supply per capita) for the under 5s in London is just over 18 per cent lower than the average for England. The North East is the only English region with a lower under 5s childcare density than London, at more than 19% below the English average.
- 5.10 London's childcare density is nearly a third lower than the South East the most childcare dense region in England. The South East and South West have the highest childcare density for the under 5s in England with supply per capita over 13% and 10% above the national average respectively.

Childcare density for the under 10s is also lower than the English average

- 5.11 Childcare density for the under 10s in London is 10.5 per cent lower than the average for England. This confirms a significantly higher density than for the under 5s alone, which reflects a lower than average population for the 5-9 age group in London. (London under 5s population represents 18% of England, compared with only 15% for London's share of the 5-9 years population).

London's childcare supply per capita for day nurseries and part-day childcare settings is much lower than other regions

- 5.12 Table 5.1 shows that London's childcare supply per capita for day nurseries and part-day childcare settings is much lower estimated at approaching 25% and 36% respectively less than the national average. This confirms that childcare supply in London wholly focused on the under 5s age group has a significantly larger density gap than childcare settings which also provide care for older children.
- 5.13 London's childcare density gap for early years children becomes much wider when out of school childcare is excluded, where it is a 'heavy' provider. For day nurseries, London's density is the lowest of all English regions, a quarter below the national average.

Table 5.1 Density of childcare places by provider type, mid 2010

Region	Childminders Under 5s Density %	Day Nurseries Under 5s Density %	Part Day Settings Under 5s Density %	Out of School Under 5s Density %	All Childcare Under 5s Density %
England	0.0	0.0	0.0	0.0	0.0
East	5.4	-14.3	32.9	-16.1	0.3
East Midlands	12.1	5.1	19.3	-13.2	6.6
London	-17.5	-24.7	-35.6	6.0	-18.3
North East	-2.5	-13.5	-82.5	-25.3	-19.2
North West	-13.6	13.9	-24.2	22.6	6.5
South East	18.0	8.0	26.2	8.0	13.4
South West	7.8	11.8	22.4	-7.5	10.1
West Midlands	-20.2	7.2	-36.8	-8.0	-5.4
Yorkshire	1.2	-6.2	-51.6	-18.3	-11.2

Source: Laing and Buisson's database of childcare providers

London's supply of out of school places per under 5s capita is significantly higher than the national average

- 5.14 London's supply of out of school places per under 5s capita is significantly higher than the national average.

Table 5.2 Childcare density index by region, and population group, at April 2010

Region	Childminders		Non-Domestic		All Childcare	
	Under 5s Density %	Under 10s Density %	Under 5s Density %	Under 10s Density %	Under 5s Density %	Under 10s Density %
England	0.0	0.0	0.0	0.0	0.0	0.0
South East	+18.0	+16.2	+12.1	+10.2	+13.4	+11.6
South West	+7.8	+4.6	+10.8	+7.6	+10.1	+7.0
North West	-13.6	-14.1	-10.8	+10.4	+6.5	+6.1
East Midlands	+12.1	+10.6	+5.0	+3.5	+6.6	+5.1
East	+5.4	+3.6	-1.2	-3.1	+0.3	-1.6
West Midlands	-20.2	-20.8	-2.0	-2.6	-5.4	-6.0
London	-17.5	-9.6	-18.7	-10.5	-18.3	-10.3
Yorkshire & Humber	+1.2	+1.0	-15.2	-15.4	-11.2	-11.4
North East	-2.5	-3.6	-24.9	-26.3	-19.3	-20.6

Source: Laing and Buisson calculations based on Ofsted data

It is important to take account of childcare alternatives by incorporating childcare provision in schools into the statistics

- 5.15 Looking at combined (childcare and early years education in schools) density is likely to offer the most complete picture of sector supply. This is because in many cases schools provision can be viewed as a competitor to childcare provision, and so childcare supply and demand is directly influenced by the supply of early years places in the schools sector. In a number of regions in the UK, this relationship appears to hold good - so that as school-based provision rises, then other childcare provision falls - although no causality is assumed.

Combined supply density(childcare and early years education in schools) for the under 5s shows that London supply per capita for all early years education and childcare is estimated to be 13% below the average for England

- 5.16 However, in two regions - London and the North West - this inverse relationship between the two sectors does not appear to hold. In London, under 5s childcare density, at -18.3%, is well below the national average, but is not compensated by an above average density for early years school sector supply, which at -4.6%, indicates that it is also below the national average.

5.17 Combined density for the under 5s shows that London supply per capita for all early years education and childcare is estimated to be 13% below the average for England.

Table 5.3 Early years places in schools in 2009 and combined early years and childcare places, and density by region, April 2010

Region	Early Years Places in Schools	Under 5s Density %	Early Years & Childcare Places (Combined)	Combined Under 5s Density %
England	770,600	0.0	2,080,350	0.0
North West	119,500	+14.8	304,650	+9.8
East Midlands	59,800	-5.2	174,300	+2.6
South West	65,800	-4.5	195,900	+5.2
South East	100,500	-22.0	341,200	+3.0
East	78,900	-6.9	222,700	-2.3
West Midlands	91,400	+9.2	225,150	+0.5
North East & Yorkshire	125,200	+10.6	292,550	-3.3
London	129,400	-4.6	323,900	-12.8

Source: Department for Education, Ofsted and Laing and Buisson

A lower number of places relative to childcare does not necessarily mean that there is undersupply in London

- 5.18 Observing that that London has fewer childcare places per child in itself does not prove that the market for childcare suffers from a supply shortage.
- 5.19 To prove that there was a supply shortage in London, we would need strong evidence of excess demand. However, a clear picture of demand across regions does not exist, and the complex factors that influence demand are currently not well understood. For example, relatively high unemployment in certain parts of London might depress demand, and nannies may absorb a higher share of formal childcare in the metropolitan area (at least anecdotally). Demand proxies, such as occupancy/vacancy rates, do partly explain the shortages, as we discuss below. However, there is little hard evidence of an overall formal childcare supply shortage in London.

Apparent shortages in provision are made up in part by high occupancy rates: London has the highest childcare occupancy of all regions

- 5.20 London has the highest childcare occupancy of all regions in England. As shown in Table 5.5, Laing and Buisson estimated that the occupancy of children's day care nurseries in London was 85.5% at March 2010, compared to an average of 82.5% for England. Also in a 2006 survey of out of school childcare clubs, Laing and Buisson estimated that out of school clubs in London operated at an average occupancy of 81.5% compared with 77% for England as a whole.
- 5.21 Occupancy rates for full day nurseries range from 85.5% in London to 79.5% in the East Midlands, and occupancy for out of school childcare ranges from 81.5% in London to 71% in the Northern Home Counties.
- 5.22 With the lowest regional vacancy rate for nurseries and out of school at 14.5% and 18.5% respectively, London is least likely of all regions to have excess supply. However, equally these vacancy rates suggest there is little evidence of excess childcare demand in London within these childcare types.
- 5.23 The childcare area where there is most likely to be demand pressures is part-day facilities covering mainly pre-schools and playgroups. A vacancy rate of just 4% for part-day (sessional) settings in London, estimated by the Department for Education's Childcare and Early Years Providers Survey 2009, compared to 11% for England, indicates that many part-day settings in London are fully occupied. Unfortunately, there are no earlier estimates of regional vacancies by childcare type to corroborate this unusually low vacancy rate for London. Meanwhile the 2009 survey reported that average vacancies for childminders in London were 18% compared to 23% for England on average.
- 5.24 London's relatively high occupancy rate is likely to reflect relatively high operating cost pressures in the capital which require childcare providers to operate with less vacancies on average to 'break even', compared with other regions. This is particularly the case for part-day settings, which in many cases are likely to operate at 90%+ occupancy just to 'break even'.

Apparent shortages in provision are also reduced by the fact that London parents have a lower demand for informal or informal childcare

- 5.25 Parents in London, working or not working, have a lower demand for informal or informal childcare relative to other regions.
- 5.26 Results from the DWP's latest Families and Children Survey, shown in Table 5.4 below, indicate that the use of formal childcare in London by working parents with children under 16 years, taken by 32%, is actually higher than the average for Great Britain, taken at 28%. However, this comparison is likely to be slightly misleading because it covers childcare for older children.
- 5.27 In London nearly half (49%) of children under 16 with working parents require no formal or informal childcare (covering grandparents, other relatives, and friends), compared with 44% on average for Great Britain. In London, approaching three-quarters of children (73%) with mothers not working do not need childcare, compared to 70% for Great Britain.
- 5.28 This trend is driven by parents', working and not working, very low use of informal childcare relative to other regions, used by only 31% of children with working parents and 17% of children with parents not working. The low use of informal childcare solutions in London is often explained out due to families living further away from each other. However, a key driver for this may be a relatively high proportion of parents who are happy to look after children at home. High rates of female unemployment in London support this driver.

Table 5.4 Percentage of Children in Childcare and Type of Childcare

	Mother Working		Mother Not Working	
	London	Great Britain	London	Great Britain
	% of Children	% of Children	% of Children	% of Children
In Childcare	51	56	27	30
Formal Childcare	32	28	14	15
Informal Childcare	31	41	17	20
Other Childcare	1	0	0	0
Childcare Not Required	49	44	73	70

All children aged 0-16 years

Source: 2007 FACS, Department for Work and Pensions

Parents appear to think that there is a shortage of places, but this may be a misperception. Availability does not appear to be a significant barrier to childcare access

- 5.29 Work from the National Centre for Social Research finds that parents do still believe that there are insufficient childcare places available in their local area. These beliefs are particularly prevalent in lower socio-economic groups, and from those with children outside formal childcare. Overall, parents' perceptions of the availability of childcare provision in their local area showed no change over the period 2004-2008. Just over a third of parents (37%) believed there were not enough childcare places in their local area⁴⁰. But evidence of this belief does not represent genuine evidence of a barrier to childcare access. Parental perceptions may not accurately reflect general availability, and it would also be perfectly possible to hold this general view whilst having secured a childcare place oneself. When parents of children without a childcare place were asked why they did not have a place, only 6% of parents answered that a lack of available places was the reason, although lone parents, particularly those in work, appeared to find availability more of a problem than couples.⁴¹

Even in London, there is 15% vacancy in the full day nursery system, and more in out of school clubs and for childminders - suggesting no strong evidence of frustrated demand in these areas

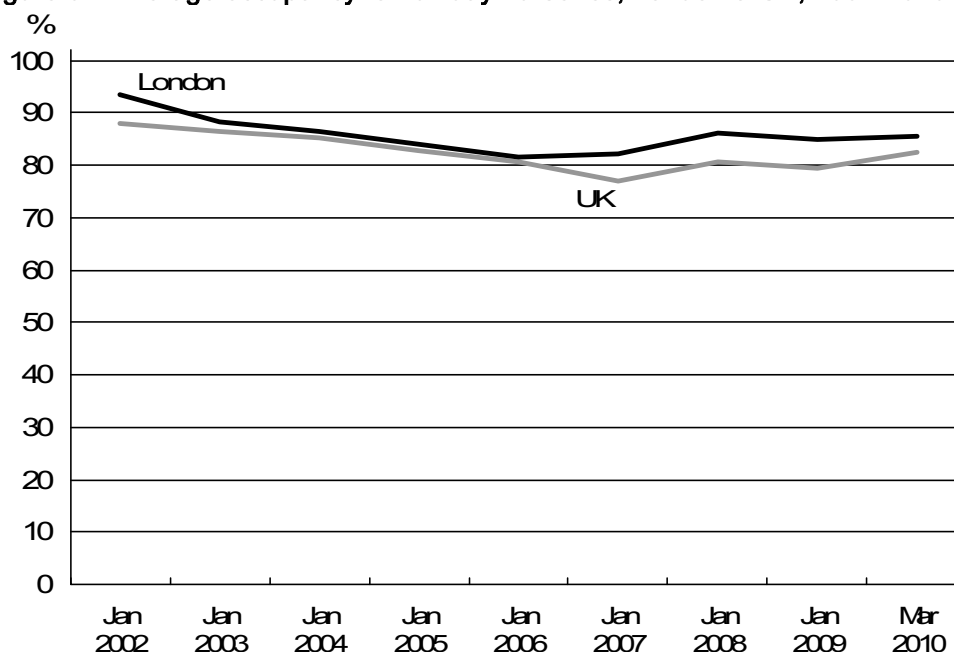
- 5.30 Childcare occupancy is higher in London than any other region, which confirms that excess supply is least likely in the capital. Equally vacancy rates of around 15% for day nurseries and higher for childminders and out of school childcare suggest there is relatively little evidence of childcare demand pressures in London for these types of childcare. We believe that current occupancy & vacancy levels in these childcare areas are a fair reflection of a mature childcare market following the end of sector's natural growth trend in 2006. Evidence of an unusually low average vacancy rate in part-day childcare settings in 2009, (see above) however, suggests childcare demand pressures in London could be evident for this particularly type of childcare. This type of childcare is commonly provided non-profit by the third sector, and has a notably low supply penetration in London (see above). Further investigation would be required to explore the reasons for this singular trend. However, our conclusion remains that there is no strong, consistent evidence of frustrated demand for childcare overall in London.
- 5.31 Evidence of an unusually low average vacancy rate in part-day childcare settings in 2009, see above, however, suggests childcare demand pressures in London could be evident for this particularly type of childcare. This type of childcare is commonly provided non-profit by the third sector, and has a notably low supply penetration in London, see above. Further investigation would be required to explore the reasons for this singular trend. However, our conclusion remains that there is no strong, consistent evidence of frustrated demand for childcare overall in London. To provide a comparable example from a

⁴⁰ National Centre for Social Research (2009) Childcare and Early Years Survey of Parents DCSF-RR136 (5)

⁴¹ National Centre for Social Research (2009) Childcare and Early Years Survey of Parents DCSF-RR136 (86)

different sector, the average occupancy rate for NHS residential day care beds in England in 2009/10 was 83.5%⁴².

Figure 6.1 Average occupancy for full day nurseries, London & UK, 2002-2010



Source: Laing and Buisson

Table 5.5 Occupancy rates by English region, Day Nurseries (March 2010) and Out of School Clubs (January 2006)

	Full Day Nurseries Occupancy Rate %	Out of School Clubs Occupancy Rate %
England	82.5	77.0
The North	83.5	73.5
Yorkshire & the Humber	83.0	81.0
North West	82.0	76.0
West Midlands	81.0	80.0
East Midlands	79.5	71.0
East Anglia	85.0	75.0
Northern Home Counties	82.5	72.5
Greater London	85.5	81.5
Southern Home Counties	84.0	80.5
The South West	80.5	75.5

Source: Department for Education, Ofsted and Laing and Buisson

There has been strong growth in available supply in some London boroughs - particularly in deprived parts of East London

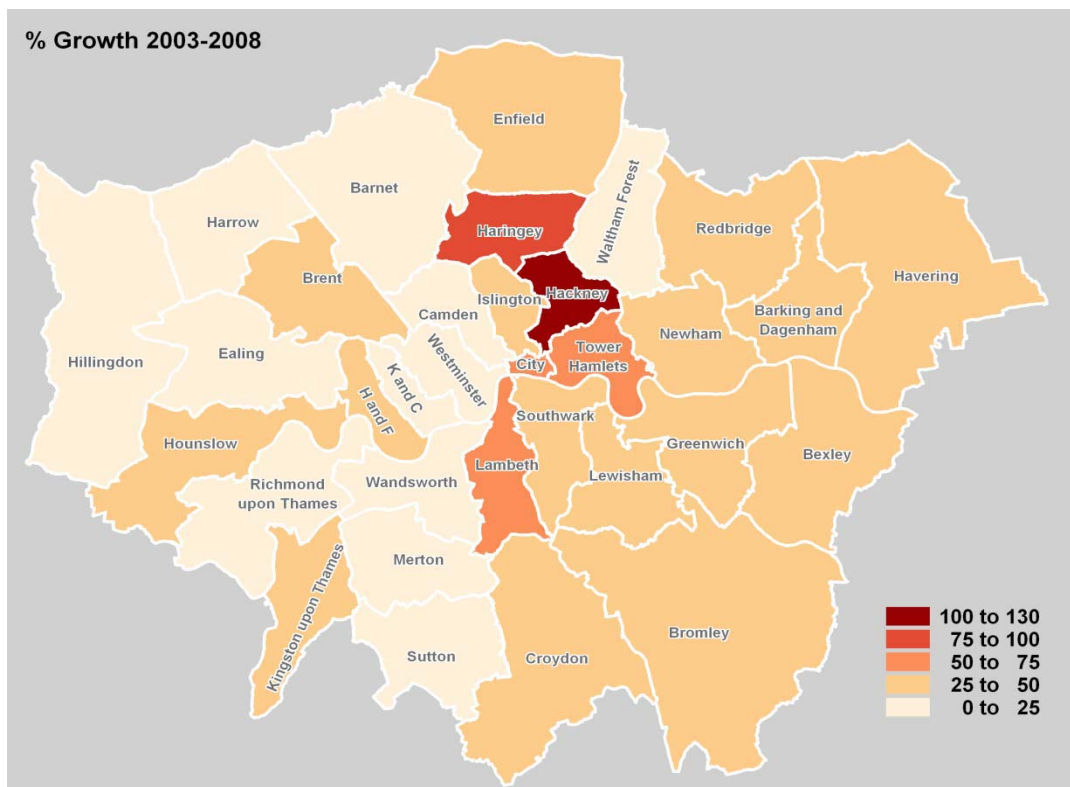
- 5.32 In a number of London boroughs between 2003 and 2008, childcare provision increased rapidly. In Hackney in particular, childcare places more than doubled (up over 125%), and

⁴² Department of Health Form KH03

Haringey saw its supply increased by almost 80%. Conversely, childcare provision in Kensington and Chelsea hardly changed and there were only very small gains in Wandsworth and Hillingdon.

- 5.33 Although we cannot be certain, we expect that this growth may reflect policy focus on these areas over the last few years. Some of this growth in the number of childcare places since 2003 may have been due to the roll-out of the Children’s Centres programme. For example, Hackney now has 23 Children’s Centres.

Figure 6.2 Growth in Childcare by London Borough, 2003-2008



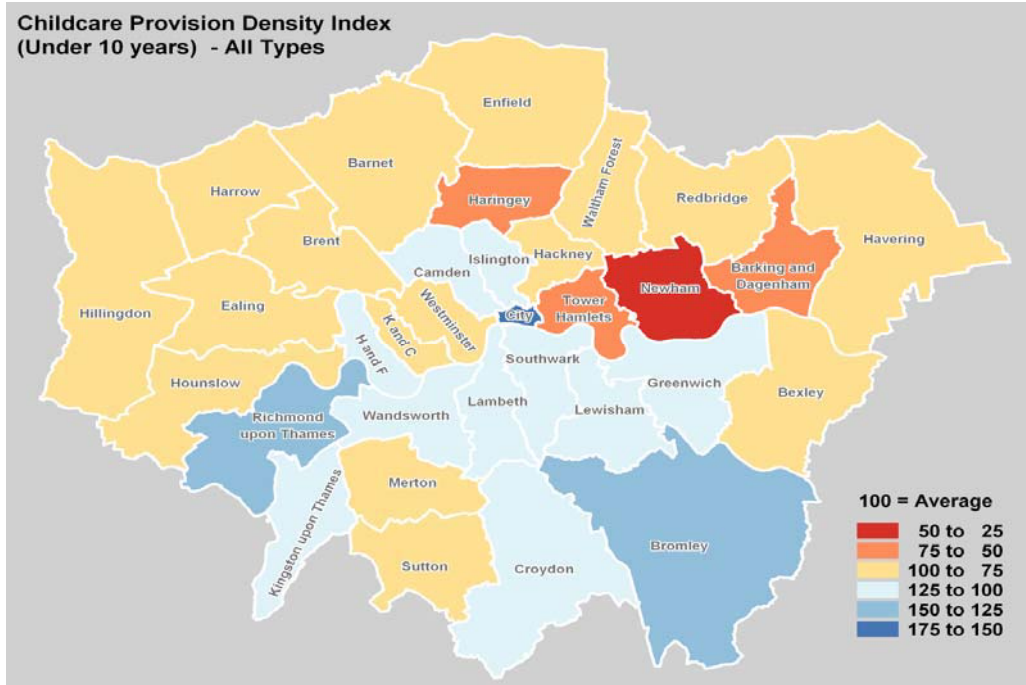
Source: Laing and Buisson

Although growth of places in more deprived areas appears to have been strong, there more deprived areas still have relatively low supply density of places. This could represent a barrier to access

- 5.34 Figure 5.3 to Figure 5.5 illustrate the wide fluctuations in childcare density across London boroughs. In Figure 5.3, covering all childcare types, the density width ranges from -72 to +62 (134 percentage points), with childcare supply more than 70% lower per population unit in Newham than the London average, and more than 60% higher per population unit in the City of London. Other boroughs with notable low density are Tower Hamlets and Barking and Dagenham, and with notably high density are Richmond-upon-Thames and Bromley.
- 5.35 Density for childminders specifically is acutely low in four London Boroughs - Kensington & Chelsea, Tower Hamlets, Westminster and Hackney. In Kensington & Chelsea supply

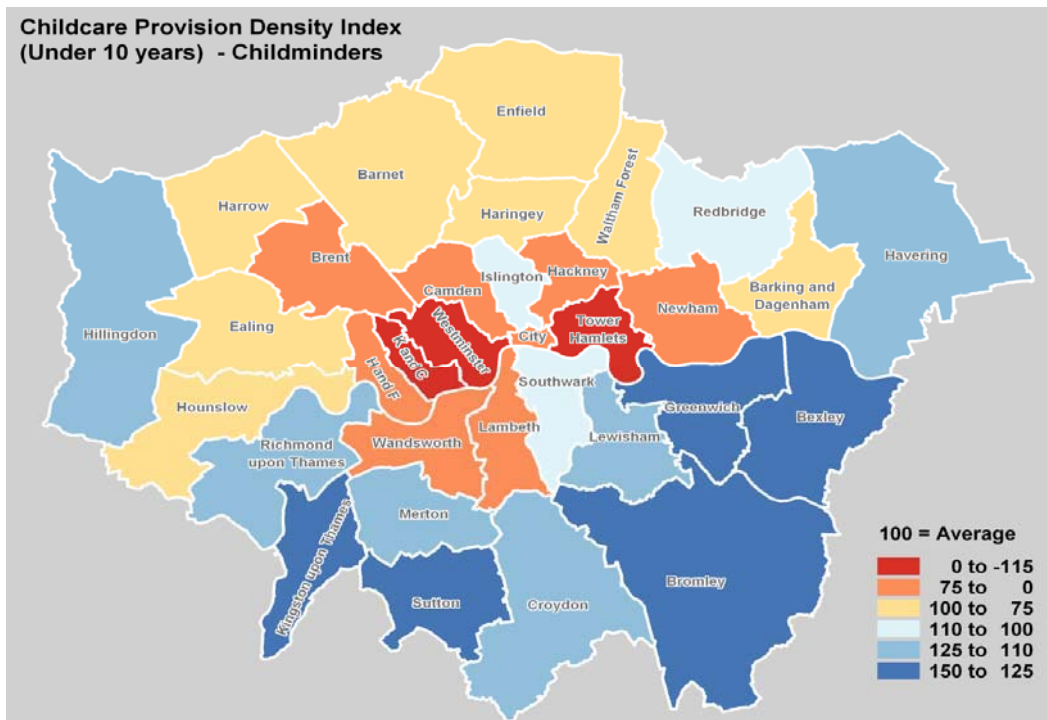
per unit of under 10s population is more than four times less than the average for London, and almost four times lower in Tower Hamlets.

Figure 6.3 Childcare provision density index (under 10 years) - all types



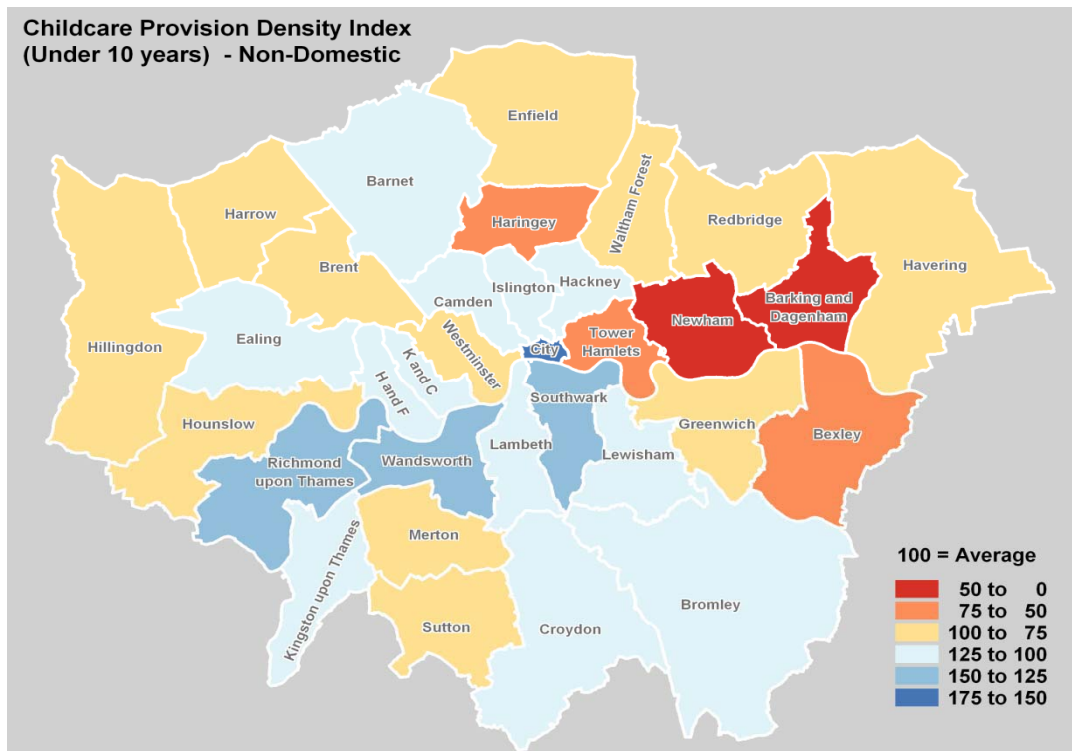
Source: Laing and Buisson

Figure 6.4 Childcare provision density index (under 10 years) - childminders



Source: Laing and Buisson

Figure 6.5 Childcare provision density index (under 10 years) - 'non-domestic'



Source: Laing and Buisson

What causes availability problems for childcare in London? Are availability problems caused by, or constitute, a market failure?

- 5.36 There appears to be enough availability in the system to cover demand. Therefore it appears that availability is not a significant barrier to childcare access.

What causes low supply density in some areas of London? Is there a relationship between labour market participation and childcare demand?

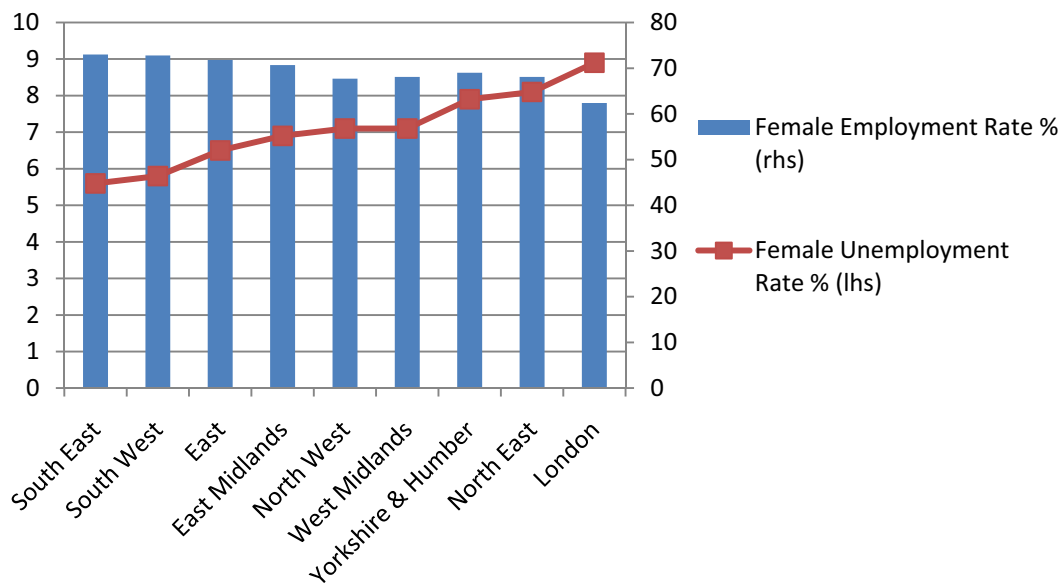
- 5.37 However, the fact remains that some areas in London have significantly less supply than others. This requires explanation.

There appears to be a relationship between female labour market trends and childcare demand across regions, illustrated by market supply. Lower employment rates are accompanied by lower levels of childcare supply

- 5.38 There appears to be a relationship between female labour market trends and childcare demand, illustrated by market supply. Lower than average employment rates and higher than average unemployment is accompanied by low childcare supply density.
- 5.39 Figure 5.6 shows that this is the case for London and the North East, and most particularly for London, which has a female unemployment rate of 8.9%. London has the lowest employment and highest unemployment rates in England, and the lowest early years childcare supply density.

5.40 Conversely higher than average employment rates and lower than average unemployment is characterised by high childcare supply density. The South East and South West clearly support this trend.

Figure 6.6 Female Unemployment Rate (16-54/65) & Female Employment Rate (16-54/65), 2009

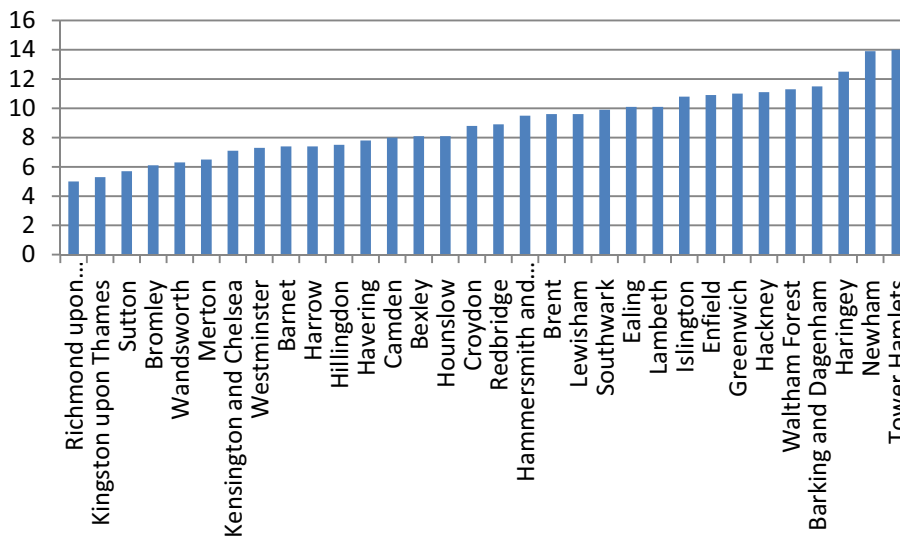


Source: APS

The boroughs with the lowest childcare density - most notably Newham and Tower Hamlets - also have the highest unemployment rates within London

5.41 The apparent relationship between childcare density and unemployment is again seen when intra-London labour trends are examined. The boroughs with the lowest childcare density shown in Figure 5.3 to Figure 5.5 - most notably Newham and Tower Hamlets - also have the highest unemployment rates within London (see Figure 5.7). Again, we must be clear that we are highlighting an apparent relationship. There is no clear evidence on causality between the two.

Figure 6.7 Unemployment Rate (All Persons) by London Borough, October Jan 2009 - December 2009



Source: APS

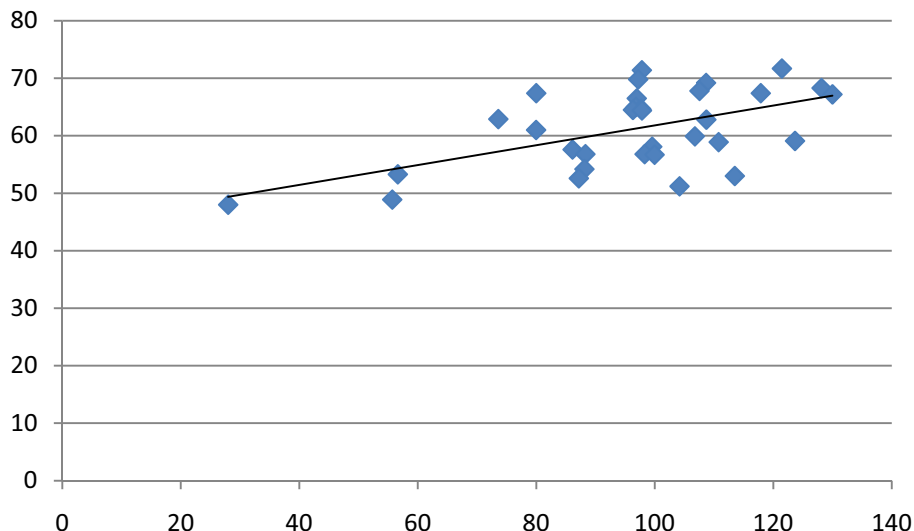
However, the relationship between employment and childcare demand/ supply does not behave in a very consistent way.

- 5.42 We looked at the relationship between the childcare provision and female labour market provision in London in two ways. Firstly we examined the relation between childcare supply and employment rates; secondly, we looked at the relationship between *growth* in childcare supply, and *growth* in female employment.
- 5.43 This analysis does not attempt to standardise for other factors. But does illustrate there is no simple relationship between increasing childcare provision and raising female employment rates.
- 5.44 These are explained below.

Test 1: comparing the level of childcare provision with female employment rates: there is a positive correlation, so higher levels of childcare provision accompany higher levels of female employment

- 5.45 The figure below plots for each London borough the female employment rate on the vertical axis against the childcare provision density index on the horizontal axis. The relationship is positive.

Figure 6.8 Female Employment Rates and Childcare Density for London Boroughs



Source: APS, Laing and Buisson Graph shows plot by London Borough Childcare Provision Density Index (horizontal axis) against female employment rates (vertical axis)

5.46 If we segment each of the boroughs by relative provision and level of female employment rates, we see a pattern that broadly reflects the spatial pattern of London, with low employment rates and low provision in the east and higher provision and higher employment rates to the south and west.

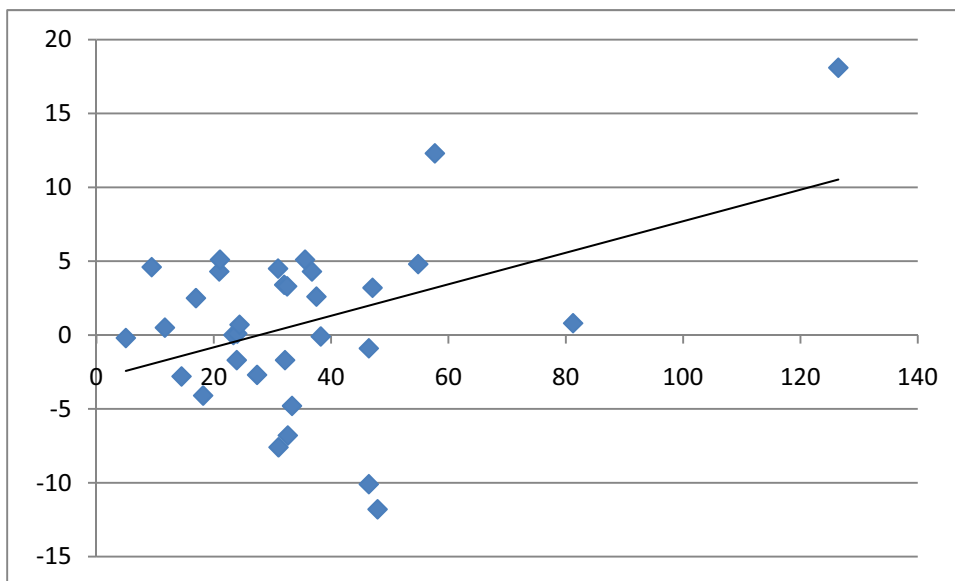
Figure 6.9 Segmentation by childcare provision and female employment rates

	Low Provision	High Employment Rate		High Provision	High Employment Rate
Kingston upon Thames	98	71.4	Wandsworth	121	71.7
Sutton	97	69.8	Lambeth	109	69.2
Hillingdon	80	67.4	Bromley	128	68.3
Harrow	97	66.5	Hounslow	108	67.8
Merton	97	65.0	Croydon	118	67.4
Hackney	98	64.7	Richmond	130	67.2
Havering	96	64.5	Lewisham	109	62.8
Bexley	98	64.4			
Hammersmith & Fulham	74	62.9			
	Low Provision	Low Employment Rate		High Provision	Low Employment Rate
Brent	80	61.0	Camden	107	59.9
Westminster	86	57.6	Southwark	124	59.1
Redbridge	88	56.8	Islington	111	58.9
Waltham Forest	98	56.8	Barnet	100	58.1
Haringey	88	54.2	Ealing	100	56.7
Barking and Dagenham	57	53.3	Kensington & Chelsea	113	53.0
Enfield	87	52.6	Greenwich	104	51.2
Tower Hamlets	56	48.9			
Newham	28	48.0			

Test 2: Comparing the changes in changes in childcare provision with changes in female employment: there is a positive relationship, but the picture is confused

- 5.47 Figure 5.10 presents changes in unemployment over time and changes in childcare places over a similar time period to assess whether a clearer pattern emerges in response to change rather than levels. The figure plots growth in childcare provision 2003-08 against change in female employment rate 2004-09. We have lagged the data a year to better test the proposition that there is a supply led effect.
- 5.48 Again whilst there is a positive correlation the relationship is even weaker than with levels. Hackney and Lambeth both saw a big increase in provision associated with a large rise in female employment rates. But Haringey which had the second largest increase in provision saw virtually no change in female employment rates. In Redbridge a 48% rise in provision was associated with a fall in the female employment rate of -11.8% and similarly in Greenwich an increase in provision of 46% was associated with a fall of -10.1% in the female employment rate.

Figure 6.10 Growth in Childcare Provision and Change in Female Employment Rates by London Borough



Source: APS, Laing and Buisson. Graph shows plot by London Borough of Growth in Childcare Provision Mar 2003-Aug 2008 (horizontal axis) against growth in female employment rates 2004-2009 (vertical axis)

There is a correlation between childcare availability and female employment rates, but the direction of causality is by no means clear

- 5.49 In a number of past studies, it has been assumed that a key reason for women not securing work is because of barriers to childcare. The broad argument went that overcoming these barriers by increasing childcare supply would raise female employment rates.
- 5.50 However lower levels of childcare supply in an area may not represent a causal factor of lower female participation rates. The opposite view could also be taken - that low levels of

employment (particularly female employment) might mean that low levels of childcare were demanded - because parents are able to look after children themselves. In a working market, low levels of demand would stimulate low levels of supply. In such an environment, increasing childcare supply would have little or no effect on female labour market participation.

- 5.51 Neither of these views have been satisfactorily proven. There does not appear to be strong evidence-based research to support a firm view either way.

This is not evidence of a market failure

- 5.52 There is no evidence of market failure here. Lower levels of provision in some areas might be against policy objectives, but we suggest (although cannot prove) that these might be market outcomes, not market failures.

Information market failures may have a small impact on availability of childcare

- 5.53 Childcare businesses themselves are at times subject to information failures. These information failures would cause lower levels of childcare supply than would otherwise be experienced. These problems do not cause *direct* barriers to parents' access to childcare, so we do not deal with them here.
- 5.54 But because these information failures which affect childcare businesses may *contribute* to difficulties in childcare availability, we have covered them as an appendix 3.

Does a lack of availability of childcare in London represent an equity failure?

- 5.55 We have shown above that provisions of childcare in London are uneven. This is prima facie evidence of an equity failure. However, we question the extent to which this is important. If supply is equal to, or exceeds demand - and there is some evidence that it might - the point is less relevant.

6 PRICE BARRIERS TO CHILDCARE TAKE-UP

Introduction

- 6.1 In this section, we test the idea that high prices are a barrier to accessing childcare, and that they are caused by market failures. We also then look at the extent to which childcare prices generate an equity failure.

What is the evidence for price representing a barrier to childcare access?

- 6.2 As with other goods and services, we can expect that as prices for childcare rise, demand will fall. But for us to be able to say confidently that price represents a barrier to childcare access, we cannot simply show that childcare costs are surprisingly expensive (recent surveys have shown that parents paying the highest reported costs could be paying £20,000 per year).⁴³ We must show that parents - particularly those parents from households at risk of child poverty - consider prices to be sufficiently high that they represent a barrier to the purchase of childcare and the subsequent return to work.

Internationally, higher use of full-time formal childcare is related to higher subsidy or public spending

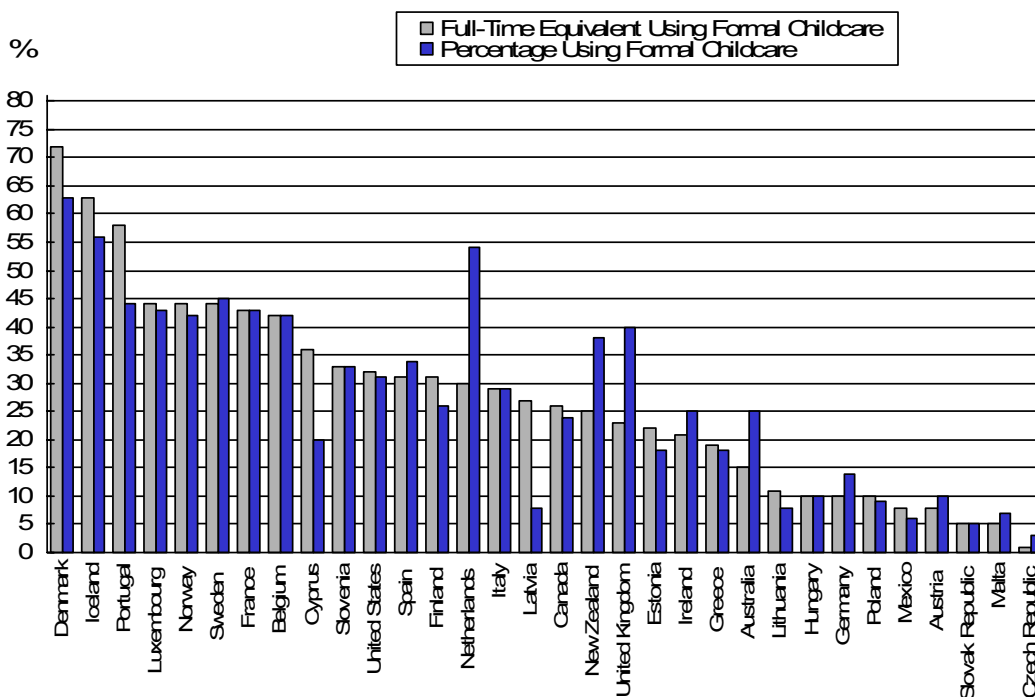
- 6.3 As shown in Figure 6.1, the highest users of formal childcare for babies and toddlers (children under 3 years), as indicated by full-time equivalent enrolment, are the Nordic countries, along with Portugal, Luxembourg, France, and Belgium.
- 6.4 In the main, high usage reflects high levels of public spending or subsidy of formal childcare. (Portugal, whilst dominated by a private formal childcare market for this age group has an industry which is heavily subsidised).

Countries with low levels of public spending generally have the highest usage of informal care

- 6.5 Other countries which are dominated by a private formal childcare market - notably the Netherlands, New Zealand, UK, Poland and Austria - have a significantly lower usage of formal childcare for children under 3 years. For the UK, full-time equivalent usage is estimated at 23%, though head-count usage is much higher at 40%. New Zealand has a similar profile as the UK, with formal childcare full-time equivalent usage at 25%, and head-count usage at 38%.

⁴³ Daycare Trust (2009) Childcare Costs Survey 2009

Figure 7.1 Proportion of children under 3 years enrolled in formal childcare, 2006

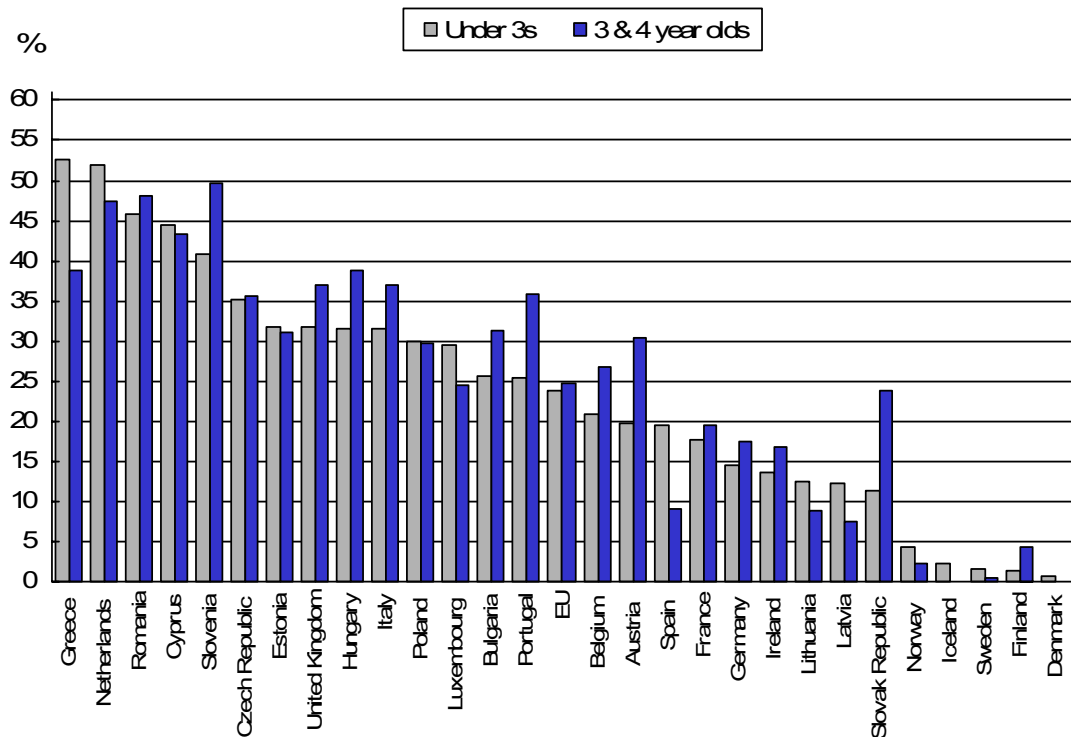


Source: OECD

The UK usage of informal childcare is higher than the EU average

6.6 As shown in Figure 6.2, the UK’s usage of informal childcare for early years children, at 32-37% depending on age, is higher than the EU average usage, reported at 24-25%. Low usage in the Nordic countries reflects high public spending on formal childcare. High usage of informal childcare reflects one of two trends - low public (and private) spending on formal childcare, and/or a high preference for informal childcare over formal childcare.

Figure 7.2 Percentage of early years children using informal childcare, 2008

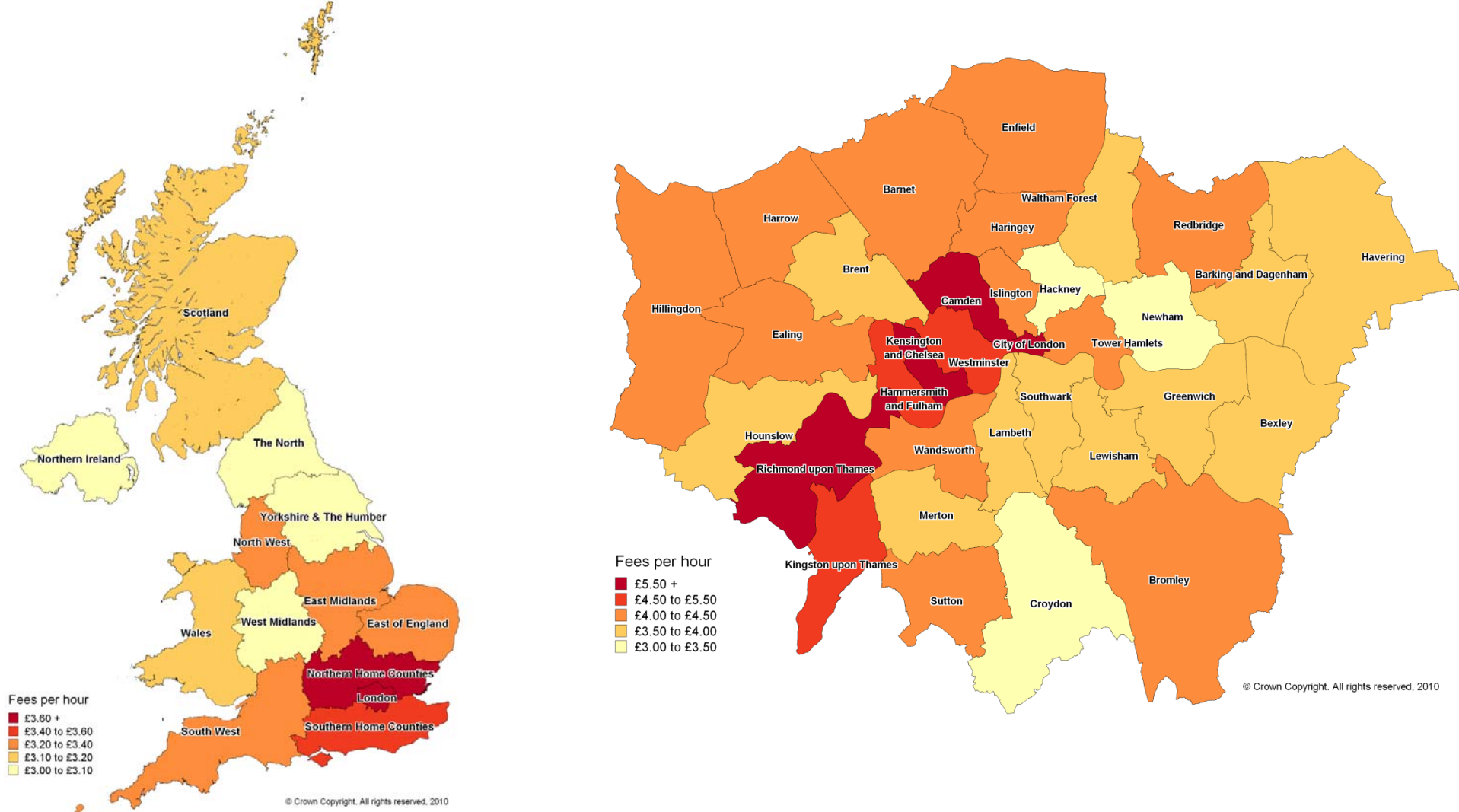


Source: OECD

Childcare fees in London are significantly higher than the national average. They also vary significantly within London

- 6.7 The latest Laing and Buisson estimates for children's day nurseries indicate that fees in London are between a quarter and a third higher than the UK average. At March 2010, average weekly nursery fees in London were estimated £197 compared to £156 for the UK (26% higher), and average daily nursery fees were estimated at £45 in London compared with £33.50 for the UK (34% higher).
- 6.8 Similarly, the Daycare Trust estimated that in 2009 nursery fees in London were between 13% and 35% more expensive than in England depending on location and age of child, with the difference more acute in inner London and for children aged under three years. In 2009, Daycare Trust also estimated that childminding fees were between 15% and 26% more expensive in London compared with the average for England.

Figure 7.3 Regional and London childcare fees per hour



Source: Laing and Buisson survey data

Progress has been made on childcare costs

- 6.9 Part time early years education is free for three to four year olds and universally available. The Coalition Government has agreed to the rolling out of the previous Government's policy on extending flexible free provision for 3 and 4 year olds. This will be extended to 15 hours weekly for 38 weeks of the year from September 2010, to be delivered flexibly in line with parental preferences. It is supported through ongoing government funding that should cover the full cost of the free entitlement. However, part-time provision (typically, a morning or afternoon session each day) does not on its own allow parents to return to the labour market.
- 6.10 Other types of childcare such as that for under threes, wrap-around childcare before and after "free" childcare sessions, and out of school services (e.g. in holidays, and before and after mainstream schooling) differs significantly. Waldfogel and Garnham note that "it is only partly funded, and funding is targeted at working parents and disadvantaged groups. Costs of provision have been supported through a mixture of fixed-term government funding given directly to providers, through initiatives such as the earlier Neighbourhood Nursery Initiative, and payment from parents, supplemented in some cases by demand-side funding such as tax credits."⁴⁴

Most parents do not report difficulties paying for childcare

- 6.11 An authoritative survey of parents of children is carried out in the Department for Education every two years since the late 1990s, and is worth quoting extensively in this section.⁴⁵
- 6.12 The 2009 and most recent report⁴⁶ found that most parents did not report difficulties in paying for childcare. Around 22% of parents reported difficulties. The research points out that this may reflect the fact that childcare costs are, to a certain extent, a discretionary spend and so families who find it difficult to pay either do not use paid childcare at all or adapt the type or amount of childcare they use accordingly.
- 6.13 Clearly, however, some families will find more difficulty than others in meeting these costs. We deal with these discrepancies below in the section on equity.

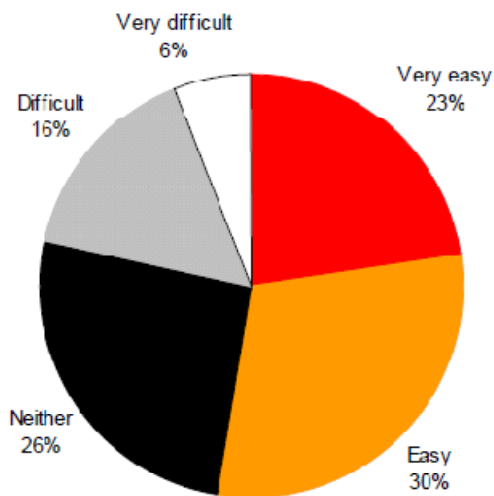
⁴⁴ Waldfogel and Garnham (2008) *Childcare and Child Poverty* JRF (8)

⁴⁵ National Centre for Social Research / Speight, S, Smith, R., La Valle, I., Schneider, V. And Perry, J. Withwith Coshall, C. And Tipping, S. (2009) *Childcare and Early Years Survey of Parents 2009*. Research Report No DCSF-RR136. London: DCSF

⁴⁶ National Centre for Social Research / Speight, S, Smith, R., La Valle, I., Schneider, V. And Perry, J. Withwith Coshall, C. And Tipping, S. (2009) *Childcare and Early Years Survey of Parents 2009*. Research Report No DCSF-RR136. London: DCSF

Figure 7.4 Difficulty in paying for childcare

Base: Families who paid for childcare



Source: National Centre for Social Research

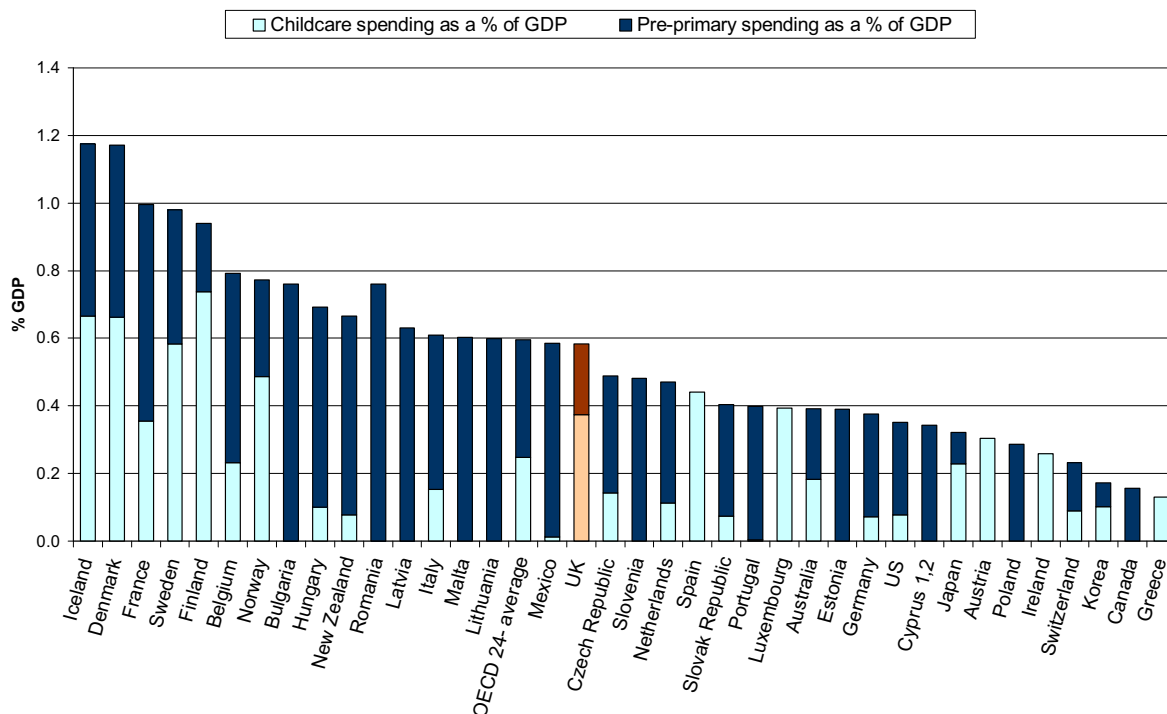
What causes high prices for childcare in London? Are high prices caused by, or constitute, a market failure?

Subsidy levels explain some of the differences in price between the London and countries abroad

- 6.14 We have shown above that there are differences in price between a) different areas of London, b) between London and the rest of the country, and c) between this country and abroad.
- 6.15 An EU comparison of early years care reported that “Childcare is considered to be expensive in Austria, Spain, Ireland and United Kingdom.”⁴⁷
- 6.16 Different subsidy levels will account for a significant portion of this difference. For example, the French state provides free childcare to those above the age of two and a half. Levels of taxpayer subsidy will, other things being equal, tend to reduce childcare charges faced by parents. OECD data presented below shows that there are significant international differences between this subsidy level.

⁴⁷ Plantenga and Remery (2009) Provision of childcare services - A comparative review of 30 European Countries

Figure 7.5 Public spending on childcare including pre-primary education, per cent of GDP, 2005



Source: OECD

Together, higher staff costs and higher accommodation costs - and no offsetting rise in local authority free entitlement payments - explain the price differential between London childcare and childcare elsewhere in the country

Staff costs in London are higher than elsewhere in the country, contributing to higher prices to London parents

- 6.17 The difference in fees is reflected in childcare operator's main business cost - staffing. Labour costs consume 60% of average fees for a child under two, and 24% for a child over 2.⁴⁸
- 6.18 Because of regulation stipulating specific childcare staff and children ratios that childcare operators must meet at all times, staff costs are largely a fixed cost, with only small variability. If the London childcare market is working efficiently regional differences in fees should be reflected in similar regional differences in staff wages.

⁴⁸ Owen quoted in Penn, H (2007) "Childcare Market Management: how the United Kingdom Govt has reshaped its role in developing early childhood education and care" Contemporary Issues in Early Childhood Vol 8, , No, 3

- 6.19 Latest survey figures from Laing and Buisson indicate that this is the case. Hourly pay rates for nursery managers in London were found to be 30% higher than the UK average at March 2010, and for qualified nursery nurses or equivalent, the difference was 22%.
- 6.20 Childcare pay rate information from the Department of Education's Childcare & Early Years Providers Survey in 2009 confirms the London staffing cost differentials closely reflect the difference in fees. Pay rates in full day care nurseries were around 22% higher than the average for England, around 16% for sessional establishments, and 24% for out of school clubs.
- 6.21 Childcare staff are generally low paid workers. Work by the Daycare Trust has shown that workers in childcare are generally poorly paid⁴⁹. This is corroborated by representative survey work by BMRB.⁵⁰ However, it is the case that wage rates for childcare workers are significantly higher in London than elsewhere in the country. Table 6.1 below shows that for full day care workers, hourly staff pay is 25% higher than costs in Yorkshire and Humberside and the North East. This means that, other things being equal, it will be more expensive to run a nursery in London than elsewhere in the UK.

Table 6.1 Average (mean) pay per hour by region

	East Midlands	East of England	London	North East	Yorkshire and Humber	North West	South East	South West	West Midlands
Full day care	£6.70	£7.20	£8.80	£7.00		£6.90	£7.30	£7.10	£7.00
Full day care in children's centres	£11.20	£8.80	£13.60	£9.60		£9.10	£9.60	£9.70	£9.80
Sessional	£6.80	£7.10	£8.60	£6.60		£7.30	£7.20	£7.00	£6.90
After school clubs	£6.80	£7.60	£9.70	£7.30		£7.40	£7.80	£7.60	£7.50
Holiday clubs	£7.20	£7.80	£9.70	£8.40		£8.10	£7.90	£7.80	£7.50
Nursery schools	£13.70‡	£12.90	£15.70	£13.00‡	£12.00‡	£14.30	£12.50	†	£11.60‡
Primary school with nursery and reception classes	£14.10	£12.50	£14.90	£13.30	£12.70	£13.00	£11.80	£11.70	£12.80
Primary schools with reception but no nursery classes	£15.20	£13.00	†	£13.70‡	£12.60	£15.00	£13.10	£13.20	£12.20

Base: All childcare providers 2008. All early years provision in maintained schools 2008.

Source: BMRB⁵¹

⁴⁹ Daycare Trust (2008) Raising The Bar: What next for the Early Childhood Education and Care Workforce

⁵⁰ BMRB (2009) Childcare and Early Years Providers Survey . London: DCSF

⁵¹ BMRB (2009) Childcare and Early Years Providers Survey . London: DCSF Table 5.20 (85)

The higher London staff costs for childcare are in line with other sectors

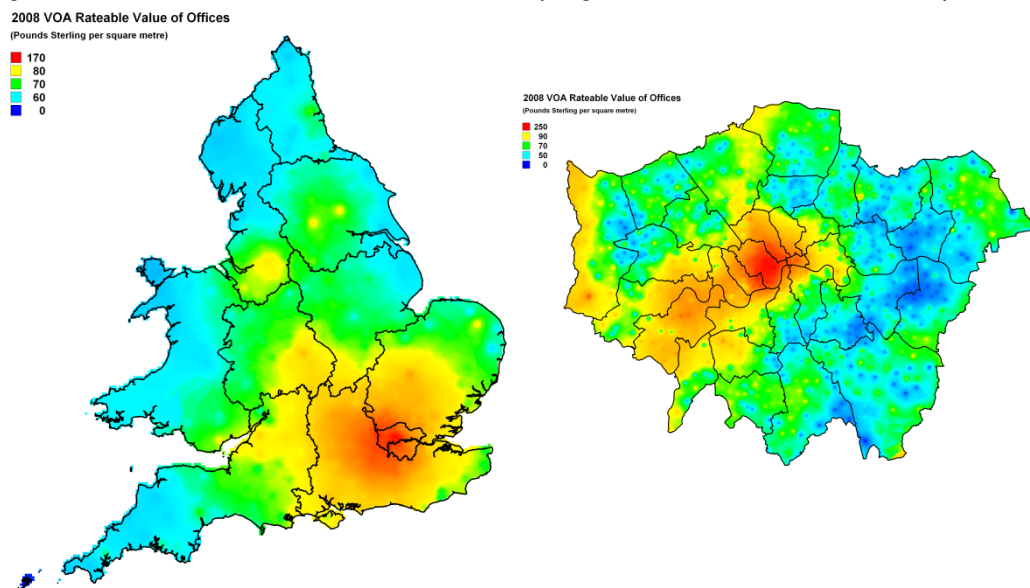
- 6.22 This generally reflects the higher operating costs of London where for all sectors the median wage is 39% above the UK average and even taking into account sector differences the London average is, for example, 32% higher for education and 36% higher for residential care⁵².

Nursery accommodation costs are significantly higher in London compared to the rest of the country, again contributing to higher prices to London parents

- 6.23 The Valuation Office Agency collects data for childcare nursery space. The Valuation Office estimates a rateable value for all commercial property which is then used to set business rates. This value is the estimated rent the property would attract if placed on the open market.
- 6.24 The data shows that rateable values for nursery space are much higher in London and the South East than other parts of the Country. For example the value for ground floor nursery space in Westminster is between £200 - £250 per square metre. Space is cheaper in the outer London Boroughs but still much more expensive than many other parts of the Country. Hounslow (outer west London) and Barking & Dagenham (outer east London) achieve between £100 - £150 per square metre with some reaching £200 in the more expensive parts of the Boroughs.
- 6.25 Reading outside of London but still in the expensive South East Region, achieves a RV of between £100 - £150 per square metre for ground floor nursery accommodation. Prices in other regions are dramatically lower. Rushcliffe (outer Nottingham) achieves between £60 - £90 and Stockport (Greater Manchester) £40 - £60 per square metre. Wyre, where office RVs are lowest achieves only £50 - £70 for nursery space.
- 6.26 Rateable values on nurseries cannot be effectively mapped to provide consistent regional and intra-London comparisons because of the way that it is supplied by the Valuation Office. In order to produce the maps below, we have used office Rateable Values as a proxy. We expect that these will be a reasonable guide for high and lower cost areas of London and the rest of the country. As the map below shows, in general, office space is much more expensive in London and the South East than elsewhere. The differentials are remarkable. For offices the average rateable value for ranges between £34 per square meter in Wyre district (Lancashire) to £265 in Westminster. Similar distinctions can be drawn within London. Premises costs are likely to vary widely, depending on local property markets.

⁵² Annual Survey of Hours and Earnings 2009 (Gross Weekly pay by region and industry)

Figure 7.6 Accommodation cost differentials (England and Wales and London)



Source: Valuation Office Agency, RTP

- 6.27 The Daycare Trust tentatively notes that price pressure on accommodation costs, saying that many settings have in the past benefited from low fee tenancy arrangements or peppercorn rents. Anecdotal evidence suggests that these arrangements are coming to an end as local authorities seek to recoup market-rate income from property.⁵³

Local authority funding for free entitlement - which could conceivably be set up to offset for these increased costs in London - does not reflect higher London costs

- 6.28 A key funding element that does not reflect the higher costs to childcare providers of providing childcare in London, however, is local authority funding of the free entitlement for 3 and 4 year olds. Laing and Buisson estimates average unit funding to be £3.68 per hour across the London boroughs, only 4% higher than the average for England of £3.54 per hour.
- 6.29 In its latest survey carried out in March 2010 Laing and Buisson reported that 60% of nurseries in the UK said that local authority funding of the 3 and 4 year old entitlement did not cover the costs of providing it. In London alone, this proportion was even higher at 80%, suggesting that sustainable local authority funding within London is a significant issue.

There is no evidence of unreasonable barriers to market entry affecting the price of childcare in London

- 6.30 High barriers to market would stop new entrants to a market, and so would allow incumbent firms to charge excessive prices (technically known as “economic rent”).

⁵³ Daycare Trust (2009) *Childcare Costs Survey* (3)

6.31 However, we find no evidence of unreasonable barriers to entry keeping prices high in this way. Work for the DfES (as was) suggested that in the private and voluntary sectors of the childcare market barriers to entry are few, and that barriers resulting from central and local government activity are “appropriate and fair”⁵⁴. Barriers to entry that did exist were as follows.

- In line with most businesses, there are start up costs associated with setting up a childcare facility (excluding childminding) and promotion.
- Childcare providers have to register with Ofsted, for which a fee is levied,⁵⁵ and they must submit to inspection.
- Childcare providers are subject to minimum staff-to-child ratios. These effectively set a floor on the costs of provision and form a significant part of the explanation of why staff costs make up a high proportion of the overall costs of childcare businesses. However, work for the DfES found that many childcare providers thought that regulation levels were both appropriate and beneficial to their businesses: minimum ratios “drive out sub-standard providers and improves the image of the market as a whole.”⁵⁶

6.32 In addition, we would suggest that the presence of these OFSTED inspections reduces the scope for information market failure, and so assist the general functioning of the market.

There is no evidence of monopolistic market conditions affecting the price of childcare in London

6.33 There is no evidence of market failure with regard to the existence of a monopoly or oligopoly that would be able to dictate market prices. In fact, the opposite is true: as we have shown above, the childcare market in both the London and the UK as a whole shows signs of being highly fractured, with many sellers of childcare competing for business from many buyers.

6.34 There is some evidence of gradual market consolidation but this is very far from being a market which has one dominant player. Just such a market in childcare can emerge: in Australia, where the ABC Nursery chain had a 30% market share nationally (70% in Queensland) before it went into receivership.⁵⁷

There is no evidence that London childcare providers are making abnormally high profits

6.35 Table 6.2 shows that in London, profitability was below average across regions, with a quarter of providers making a profit.

⁵⁴ PriceWaterhouse Coopers for DfES (undated) *The Childcare Market* (25)

⁵⁵ Ofsted charges a non-refundable application fee and then an annual registration fee for each setting allowed to register. Regulations are the 2008 Childcare Fee Regulations.

⁵⁶ PriceWaterhouse Coopers for DfES (undated) *The Childcare Market* (25)

⁵⁷ Brennan, Deborah, Oloman, Mab Spring 2009 “Child Care in Australia: A market failure and spectacular public policy disaster” *Our Schools, Our Selves*

- 6.36 However, a lesser share, some 17% of providers in London reported making a loss in 2009. The share of loss-makers in London was around average for England.

Table 6.2 Profitability of Childcare Providers in 2009 by English region

	Proportion of providers who made a profit in 2009 %	Proportion of providers who made a loss in 2009 %
South East	32	16
South West	32	19
East	30	18
Yorkshire & Humberside	29	15
North West	29	19
London	25	17
West Midlands	25	17
East Midlands	25	18
North East	16	28

Source: Department for Education

- 6.37 However, profitability in London varied significantly across provider types. Out of school providers were more likely to make loss than a profit, but day nurseries performed in line with other regions. Part-day nurseries were more profitable in London than most other regions.

The cost of childcare provision in London does not appear to be caused by market failures

- 6.38 The cost of childcare provision in London does not appear to be *caused* by market failures. Indeed, the comparatively high costs of childcare in London compared to the rest of the country can be explained as being the outcome of market processes reflecting differences in staff and premises costs. High costs in London are in fact evidence of the market working as it should.
- 6.39 Nor is the high price of childcare in London *evidence itself* of a market failure. As we have shown above in paragraph 3.2 onwards, the term “market failure” does not relate to the failure of a market to provide something at a hoped-for “fair” cost.
- 6.40 However, the high price of London childcare may represent an equity failure. Equity failures were defined in paragraph 3.23 above. We examine the evidence for equity failures in relation to price below.

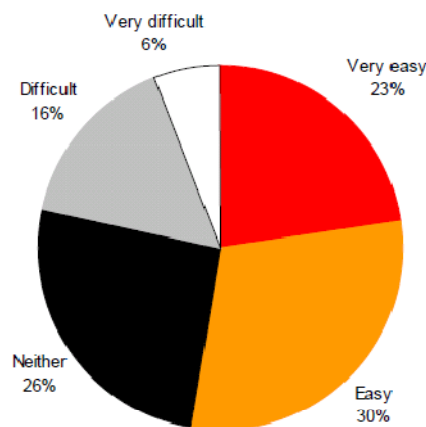
Does the high price of London childcare provision represent an equity failure?

Childcare costs are of differing importance depending on parents' circumstances

- 6.41 Research shows that around a quarter of people find paying for childcare either difficult or very difficult. The majority do not. This suggests an equity failure exists. We investigate this below.

Figure 7.7 Difficulty in paying for childcare

Base: Families who paid for childcare



Source: National Centre for Social Research^{58**}

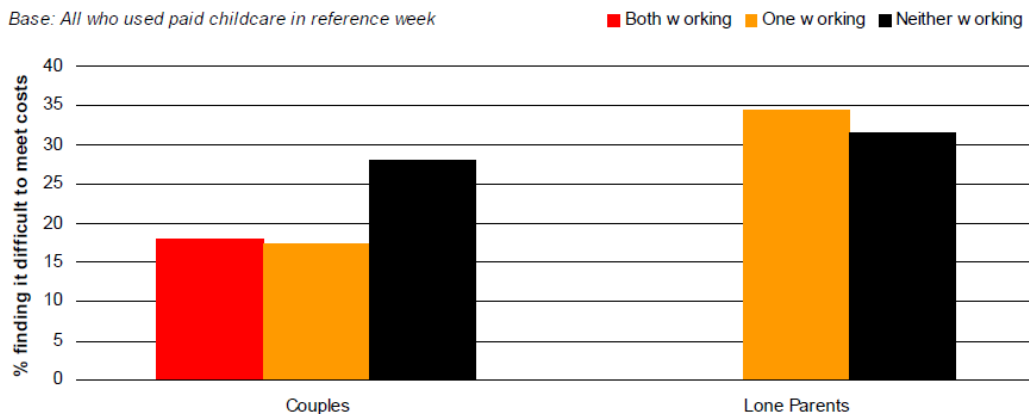
Nationally, lone parents report being disproportionately affected by childcare costs

- 6.42 The bi-annual survey of parents of children is carried out in the Department for Education, and is again worth quoting extensively in this section.⁵⁹
- 6.43 The same research found that the proportion of families finding it either “very difficult” or “difficult” to cover childcare costs differed according to family type. In particular, lone parents were much more likely to find covering childcare costs difficult than couples (34% compared with 18%). This remained the case even when work status was taken into account: working lone parents were much more likely than couples who were in work to find it difficult to meet childcare costs (35% of working lone parents said they found it ‘difficult’ or ‘very difficult’ to meet childcare costs, compared with 17% of couple families where one parent was in work and 18% of couple families where both parents were in work).

⁵⁸ Speight, S, Smith, R., La Valle, I., Schneider, V. And Perry, J. with Coshall, C. And Tipping, S. (2009) *Childcare and Early Years Survey of Parents 2009*. Research Report No DCSF-RR136. London: DCSF (72)

⁵⁹ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents DCSF-RR136*

Figure 7.8 Difficulty paying for childcare, by family type and work status



Source: National Centre for Social Research (2008)

The low paid report that they are particularly affected by childcare costs

6.44 Department for Education research found that the proportion of families who found it difficult to pay for childcare was significantly higher in deprived areas, corresponding to the higher proportion of non-working families and families on low incomes in these areas.⁶⁰

Those with larger families report greater difficulties with childcare costs

6.45 Evidence from a Joseph Rowntree Foundation study shows that mothers who identified childcare costs as a barrier to employment found these increased in direct relationship to the numbers and ages of children in their family.⁶¹

Working Families Tax Credit has been an important way of equalising access to childcare for low income families

6.46 The childcare element of the Working Tax Credit (WTC) subsidises childcare costs for low income families. It was paid to 53,800 families in London at April 2010 at an average subsidy of £95.16 per week. The value of the average WTC childcare element subsidy claimed in London is 36% higher than the average for England. This is consistent with the difference in regional childcare fees discussed above.

6.47 For future policy purposes it is probably not worthwhile exploring these issues in too much detail due to the changes that the Government has proposed as part of the 21st Century Welfare Consultation. These proposals set out the principles behind a wholesale reform of the tax and benefit system including the shift to a Universal Credit approach that is intended to integrate and improve the functionality of the existing system.

⁶⁰ National Centre for Social Research (2009) Childcare and Early Years Survey of Parents DCSF-RR136

⁶¹ The Joseph Rowntree Foundation, May 2003 *Running around in circles: Coordinating childcare, education and work*

Whilst of significant help, tax credit take-up is problematic. Take-up for single parent working families in London is above average, but take-up for working couples in London is acutely low

- 6.48 Take-up of WTC in London has been shown to be the lowest across all regions in England. The Joseph Rowntree Foundation sponsored 2007 study *The impact of tax credits on mothers' employment*, found that eligible families in the London were the least likely to be receiving Child Tax Credit and Working Tax Credit in 2004/2005, and WTC-eligible families were half as likely to be receiving WTC as eligible families in the region with the highest take-up.
- 6.49 Over three-quarters (78%) of London claimants were single parent families, the remaining minority (22%) being working couples. London claimants represented 13.3% of total claimants in England. This compares to a working population in London which is 16.1% of the England total, confirming that coverage of the WTC childcare subsidy in London is significantly below average. However, coverage is acutely different between single parent working families and working couples. While 17% of single parent families claiming the subsidy are in London, only 7.7% of working couples claiming live in London.
- 6.50 There are likely a number of factors responsible for the low take-up of the childcare element of WTC, and WTC in general in London. The underpinning reason is likely to revolve around effective communication of the subsidy to a diverse multicultural population.

At first sight, higher wages in London appear to more than compensate for higher childcare costs for those in work

- 6.51 One indicator of childcare affordability is hourly pay rates. For London, the gross hourly pay rate in 2009 across all residents was £14.33. For females only, the average was £13.22 per hour. These compare with averages of £11.17 and £9.77 respectively for England. Differences between London and England of 28% and 36% respectively confirm that average salaries certainly keep up with London childcare prices.⁶²

But average income figures are distorted by a relatively small proportion of high earners, and do not take account of London housing costs

- 6.52 The Families and Children Survey (FACS) 2007 survey reported that the median family weekly income in London was only £511 compared to an average for Great Britain of £493, only 4% higher. The mean average for London, however, is significantly higher, at £746, compared to £572, some 30% higher. However, this incorporates a relatively small proportion of very high earners, which significantly lifts the mean average. The median is more likely to reflect a more accurate reflection of circumstances for the majority.
- 6.53 Analysis by the Office for National Statistics provides more insight into household income, before and after, housing costs are absorbed. In 2007/2008 average weekly net income for London, before housing costs are paid for, was estimated at £620 compared to the

⁶² NOMIS

mid-point region for England (Yorkshire & the Humber) of £430, a difference of 44%. After housing costs are absorbed, average weekly net income for London falls to £510 compared to £380 for the mid-point region, a difference of 34%.

London has by far the largest variation in income levels amongst its population. Average weekly net incomes before housing costs ranged from £460 at the top of the 10% lowest incomes to £820 at the bottom of the 10% highest incomes, a difference of 78%. This compares with a range of 46% for England on average.

Once housing costs are accounted for, many London areas move into the bottom income bands

- 6.54 Before housing costs are absorbed there are no areas within London boroughs with average income levels in the bottom 10% and 25% net income for England and Wales. However, after housing costs are absorbed a number of areas in London move within the bottom income thresholds. Within the 10% threshold, were chiefly Tower Hamlets, and one area in each of Barking & Dagenham, Westminster, and Kensington & Chelsea. Within the 25% threshold moved areas in Brent, Havering, Enfield, Newham, Hackney and Southwark.

High childcare costs may act as a barrier to part-time employment in London. This particularly affects mothers

- 6.55 The Treasury paper on Worklessness in London⁶³ identified three reasons why the employment rate in London was lower than the rest of the UK:
- that it had a higher proportion of individuals whose characteristics had a lower employment rate;
 - that it had a competitive and dynamic labour market that was squeezing those at the bottom out of jobs; and
 - that it had lower parental employment rates
- 6.56 It found that the lower employment rate for mothers in London could not be wholly explained by differences in population characteristics. It further found the gap in the employment rate for mothers was specifically associated with part-time work.
- 6.57 Further analysis showed that the entry level wage for mothers in London working part-time was considerably higher for those with childcare costs than for those without. The Treasury report concluded that: *“This analysis suggests that mothers with childcare costs in the rest of the UK can choose between working full- or part-time depending on what suits their circumstances better. However for similar mothers in London there is no advantage to working part-time. Whether they wish to work full or part-time, mothers must be able to compete at higher wages to meet their childcare costs, or not work at all”.*
- 6.58 Thus higher childcare costs in London may act as a disincentive to work for those that are not able to compete for higher paid jobs.

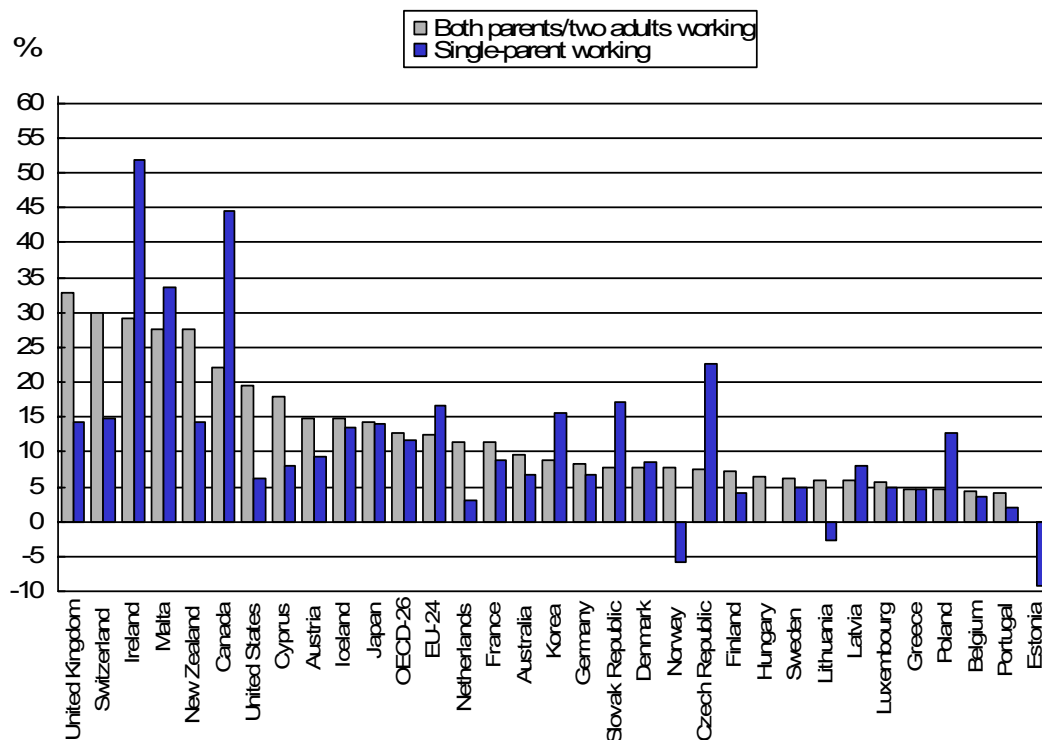
⁶³ Employment opportunity for all: tackling worklessness in London - HM Treasury (March 2007)

Compared to other countries, UK costs are relatively affordable for single parents, once the effect of the benefit system is taken into account. But UK childcare costs are relatively high for households with two adults working

6.59 Figure 6.9 also shows that formal childcare in the UK is much less costly for single parent households. On average for these households, an estimated 14% of household income is paid out to cover net childcare costs. The much lower proportion for single parents reflects generous state benefits/subsidies received by these households. Conversely, net childcare costs were much more costly for single parent households than for households with two parents/adults working in Ireland and Malta.

6.60 Regional differences in salaries across the working population confirm that average salaries in London keep up with London childcare prices. However, wide variations in household incomes after housing costs are paid across London confirms that childcare affordability may be difficult for many households in parts of London boroughs which fall into the bottom income tiers within England.

Figure 7.9 Percentage of net income spent on full-time childcare, 2004



6.61 International statistics presented in Figure 6.9 shows formal childcare in the UK to be the most costly globally for households with two parents/adults working. Driving this is high childcare fees but also a lack of state benefits/subsidies for these households.

6.62 Comparatives for 2004 estimate that on average for these households using full-time formal childcare, 33% of household income is paid out to cover net childcare costs (gross childcare fees less state benefits/subsidies). The next highest proportions paid out were in Switzerland (30%), Ireland (29%), Malta (28%) and New Zealand (28%). Formal childcare was least costly for these households in Estonia, Portugal, Belgium and Poland. For

Belgium, Portugal, Australia, Luxembourg, United States and Canada, childcare costs are significantly reduced by generous tax benefits and subsidies, with the most generous in Portugal and Belgium. In the UK, households with two working parents/adults receive minimal support from benefits.

This is not a simple equity failure of wealthier “haves” and poorer “have nots”.

- 6.63 Childcare tax credit policy has made significant strides in addressing childcare costs. But whether the relatively high price of London childcare provision represent an equity failure depends to a extent on the individuals being compared (for example, childcare costs paid by single parents compare well internationally, but those paid by dual income households do not), and individual family circumstances such as income levels, whether tax credit are claimed, and income after housing costs.
- 6.64 At the heart of this issue is the way that the benefits system operates. More work is needed on the precise interaction between the tax and benefit system and housing costs in London.

7 FLEXIBILITY BARRIERS TO CHILDCARE TAKE-UP

Introduction

- 7.1 In this section, we test the idea that a lack of flexibility in provision of childcare services in London represents a barrier to more childcare take-up. We look at the evidence for whether this problem is caused by a market failure, and the extent to which it causes an equity failure.

What is the evidence for the lack of flexibility representing a barrier to childcare take-up?

Working atypical hours is relatively common

- 7.2 National Centre for Social Research work shows that a substantial number of mothers (63%) work atypical hours, particularly evenings and Saturdays. Atypical hours were defined as working usually or sometimes early morning and/or evening during the week, and/or any time at the weekend. Researchers found that⁶⁴
- 27% of mothers started work before 8am (12% usually, 15% sometimes)
 - 45% worked after 6pm (17% usually, 29% sometimes)
 - 42% worked on Saturdays (14% usually, 27% sometimes)
 - 28% worked on Sundays (10% usually, 18% sometimes).

Sometimes, atypical hours can be a childcare solution

- 7.3 We have seen that a substantial number of mothers work atypical hours, particularly evenings and Saturdays. While previous research has shown that atypical working hours enable some parents to have a 'shift parenting' arrangement (with one parent working when the other is at home).
- 7.4 Work La Valle et al finds that shift parenting arrangements were more common in families from lower socioeconomic groups.⁶⁵

Flexible provision does not seem to have increased

- 7.5 The Childcare Providers Survey shows that care at atypical hours and during school holidays remains limited. Average opening times for full day care provision was put at nine hours. There has been little change since 2005.⁶⁶

⁶⁴ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136

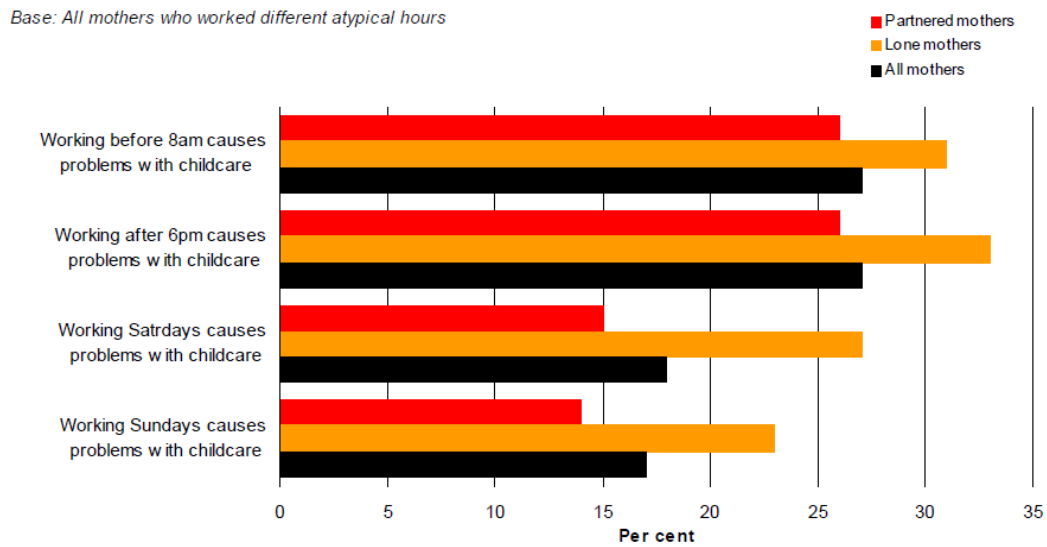
⁶⁵ La Valle, I., Arthur, S., Millward, C. and Scott, J. (2002) *Happy families? Atypical work and its influence on family life*. Bristol: The Policy Press (62)

⁶⁶ BMRB for National Centre for Social Research (2009) *Childcare and Early Years Providers Survey 2008* DCSF RR-164

A substantial minority of mothers report that atypical hours cause problems with childcare

7.6 Figure 7.1 shows that a substantial minority of mothers, and lone mothers in particular, reported difficulties in finding suitable childcare to cover atypical hours. Clearly, though, this means that the majority of parents, both partnered and lone, did not find particular difficulty.

Figure 8.1 Whether atypical working hours caused problems with childcare, by family type



Source: National Centre for Social Research⁶⁷

What causes a lack of provision of flexible childcare in London? Is a lack of flexibility caused by, or constitute, a market failure?

7.7 La Valle et al note that the childcare industry appears to have failed to adapt to change employment patterns, including the increase in work at atypical times.

7.8 Some observers have concluded that this apparent failure to respond qualifies as a “market failure”.

Lack of provision during atypical hours is a market outcome, not a market failure

7.9 Penn reports that the private for-profit sector tends to operate a core hour service, i.e. 9-4 p.m. because the profit margins are less for childcare outside these core hours.⁶⁸

⁶⁷ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136 (122)

⁶⁸ Laing & Buisson, 2007 indirectly confirmed by Clemens & Kinnaird 2007 quoted in Penn, H. (2007) ‘Childcare market management: how the United Kingdom Government has reshaped its role in developing early childhood education and care,’ *Contemporary issues in Early Childhood*, 8(3): 192-207

- 7.10 We understand that, because many childcare workers are themselves parents with their own childcare responsibilities, many workers are unable or unwilling to work outside core hours.
- 7.11 These findings tend to suggest that a lack of availability outside core hours is a market outcome, not a market failure.

Does a lack of flexible childcare represent an equity failure?

The incidence of atypical hours is not very different between family types

- 7.12 As can be seen from the table below, differences in the incidence of parents working atypical hours is relatively slight.

Table 7.1 Atypical working hours, by family type

	Family type		
	Partnered mothers	Lone mothers	All mothers
Atypical working hours	%	%	%
Before 8am usually or sometimes	28	23	27
After 6pm usually or sometimes	46	44	45
Saturdays usually or sometimes	41	43	42
Sundays usually or sometimes	28	26	28
<i>Weighted base</i>	3450	982	4432
<i>Unweighted base</i>	3299	790	4089

Source: National Centre for Social Research⁶⁹

As we have shown above, lone parents' childcare arrangements are disproportionately affected by atypical working. This represents a potential equity failure

- 7.13 The need to work atypical hours can reflect a weak labour market position. The National Centre for Social Research quotes a range of sources to support the idea that lone mothers have, on average, lower educational and occupational levels than their partnered counterparts, and that because of this weaker labour market position they can face greater difficulties in securing a job and gaining access to family friendly employment.⁷⁰
- 7.14 La Valle et al find that parents control over working arrangements depended largely on their labour market bargaining position. Parents in professional jobs were more likely to report that (typical or atypical) working arrangements which suited both their career aspirations and their family needs. The need to reduce or even eliminate childcare costs

⁶⁹ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136 (122)

⁷⁰ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136 (120) quoting Bell et al. 2005; Butt et al. 2007; La Valle et al. 2008; Cabinet Office 2008

also influenced the working hours of some parents who had some kind of shift parenting arrangement.⁷¹

7.15 This represents a potential equity failure.

⁷¹ La Valle, I., Arthur, S., Millward, C. and Scott, J. (2002) *Happy families? Atypical work and its influence on family life*. Bristol: The Policy Press (60)

8 QUALITY BARRIERS TO CHILDCARE TAKE-UP

Introduction

- 8.1 In this section we look at the extent to which a lack of quality provision represents a barrier to childcare take up, the extent to which this is caused by market failures, and the extent to which these barriers themselves cause or are manifestations of equity failures.
- 8.2 The quality of childcare is important in securing the best outcomes for children. However, we do not examine this aspect of quality here. Instead, our objective here is to understand the role of market failures and equity failures in the operation of this perceived “quality” barrier to childcare take-up.

What is the evidence for perceptions of poor quality representing a barrier to childcare take-up?

Parents’ perceptions of quality do not necessarily align with those of professionals

- 8.3 Penn reports that “the evidence about mothers’ views on quality of childcare is ambiguous.”⁷² Whether a lack of quality represents a barrier to London parents taking up childcare depends on a number of factors, including the interaction between the “objective” quality of childcare as observed by organisations such as Ofsted and parents’ perceptions (which are subject to a wide range of social and cultural influences, and may or may not align with “objective” judgements of quality). Factors informing official quality ratings such as those by Ofsted inspectors may not correspond with parents’ perceptions of the factors reflecting good childcare quality.

Nationally, the quality of childcare is improving. But data is not broken out to show London-specific figures

- 8.4 Childcare experts define the quality of childcare as those aspects that contribute to the social, emotional and cognitive development of the child.⁷³ Nationally, Waldfogel et al review Ofsted reports to note that the quality of childcare is improving, but note that in England in 2006/7, 4% of settings were graded as “inadequate” and about one third were rated only “satisfactory”.⁷⁴ 24,000 complaints were recorded.⁷⁵
- 8.5 It is not possible to obtain London-specific data on childcare quality from Ofsted.

⁷² Penn, H (2007) “Childcare Market Management: how the United Kingdom Govt has reshaped its role in developing early childhood education and care” Contemporary Issues in Early Childhood Vol 8, No,3

⁷³ Plantenga and Remery (2009) for EC The Provision of Childcare Services - A Comparative Review of 30 European Countries

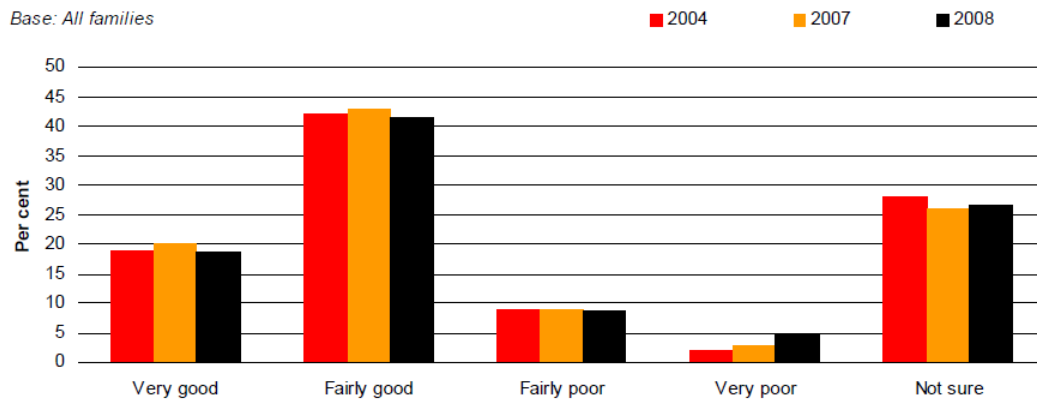
⁷⁴ Waldfogel and Garnham (2008) *Childcare and Child Poverty* (10)

⁷⁵ Ofsted (2008) *Early years: Leading to Excellence*. London. Office for Standards in Education quoted by Penn, H, for European Commission (June 2009) *Early Childhood Education And Care - Key Lessons From Research For Policy Makers*

40% of parents think quality is poor, or are “not sure”

8.6 As the chart below indicates, around 40% of parents either have a poor view of quality, or are “not sure” about quality (which may reflect doubt)⁷⁶. London-specific information is not available. This indicates the presence of a significant barrier.

Table 8.1 Perceptions of quality of local childcare places, 2004-2008



Source: National Centre for Social Research

What causes perceptions that London childcare quality is low? Is a lack of real or perceived quality caused by, or constitute, a market failure?

There is some evidence of information market failures in the generation of perceptions of poor quality

8.7 Our review of research findings suggests that there is evidence of information market failures on how negative perceptions are created. Note that we do not deal here with ‘objective’ judgements of quality.

- Better information about formal childcare that seeks to bring “doubting” parents into the system might overcome negative impressions. Research found that parents who used formal childcare were more likely to be positive about it.⁷⁷ We note, though, that this does not necessarily suggest that the use of childcare *causes* positive opinions; it may be that those who have a negative opinion avoid childcare as a result.
- If information to parents was improved, then perceptions of quality might improve. Research found that parents who had used Families Information Services in the past year were more knowledgeable and more positive about the quality of childcare provision in their local area than those who were not aware of the existence of this service.⁷⁸

⁷⁶ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136 (82)

⁷⁷ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136 (82)

⁷⁸ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136 (82)

- Improving information to particular social groups might have a disproportionately positive impact on perceptions of quality. Research found that parents who were not working, those on low incomes and those who only had school-age children were both less likely to have an opinion about quality of childcare and less likely to be positive about it.⁷⁹

It could be argued that childcare funding is too low to secure high quality care from trained staff. But this does not constitute a market failure

- 8.8 A model of “high quality” early childhood education and care has been developed, consisting of a higher proportion of graduate staff, stating that “it is clear that a significant increase in staff qualifications and pay is required if high quality ECEC provision is to be achieved in the UK.”⁸⁰ It contrasts this “high quality” model with current provision.
- 8.9 Under the high quality model, the costs of ECEC in full daycare and sessional settings would be around 200 per cent higher than current costs.⁸¹ The research stated that, “The vast majority of parents could not afford to pay these costs, and therefore Government subsidy is required to deliver high quality provision.”⁸²
- 8.10 But, as we explained in section 3.5 above, the inability of the market to generate income from parents to support aspirations for this very expensive, high quality model of provision does not constitute a market failure as properly understood. Instead, it represents a reasonable outcome of market supply, market demand and production costs.
- 8.11 Whether it is something that should be provided from a public policy perspective is a different question and relates more to the role of Early Years Education, which is beyond the remit of this study.

Does a lack of quality childcare represent an equity failure?

- 8.12 There would be evidence of an equity failure with regard to the quality of childcare if
- inequalities between the quality of childcare provision for rich and poor were considered unacceptable, or if
 - the quality of childcare offered to different people in similar circumstances were considered unacceptable.

⁷⁹ National Centre for Social Research (2009) Childcare and Early Years Survey of Parents DCSF-RR136 (82)

⁸⁰ Daycare Trust and IFS (2009) *Quality costs: paying for Early Childhood Education and Care Executive Summary (2)*

⁸¹ *ibid.* This increase reflects the fact that, in full daycare and sessional provision, “current costs are very low due to low staff wages, so there needs to be an approximate trebling of costs to reach the spending required for high quality provision.”

⁸² *ibid*

There is evidence that the quality of childcare is perceived as worse in more deprived areas. This is evidence of an equity failure

- 8.13 Research by the National Centre for Social Research found that families living in deprived areas were less positive about the quality of childcare provision than those in affluent areas. Researchers noted that this may be related to variation in the use of formal childcare in different areas (as shown earlier, perceptions of quality are related to use of formal care, which are in turn lower in deprived areas). However, a recent report by Ofsted found that quality of childcare was generally poorer where there was more poverty and social deprivation, raising the possibility that parental perceptions may reflect real geographical variations in quality as well as differential use of formal care.⁸³
- 8.14 Penn shows that an Ofsted survey of 90,000 inspection visits to 84,000 providers (daycare, out-of-school clubs and childminders) over a three year period suggested that only two thirds of those inspected were good quality, falling to about half in deprived areas.⁸⁴
- 8.15 The difference in the quality of provision between deprived and average areas represents prima facie evidence of an equity failure.

There is evidence that ethnic minorities do not use childcare services to the same degree as host populations. This could be evidence of an equity failure

- 8.16 Research states that it is a common finding across EU countries that ethnic minority children are less likely than other children to use existing childcare services.⁸⁵ A number of explanations are possible for this, but it may be that some ethnic minority parents do not believe that the quality of care provided is appropriate for their children.
- 8.17 A Daycare Trust report found that, at the time, black and Asian parents are less likely to access daycare services than white parents. 88 per cent of white parents of children aged 0 to 14 had used some type of childcare in the past year, compared with 76 per cent of black parents and 56 per cent of Asian parents. This may partly be a reflection of the high costs and differentials in women's employment rates, but may also be due to the failure of some nurseries to reflect cultural backgrounds amongst their staff.⁸⁶
- 8.18 We would add that these differences may reflect cultural differences in ethnic minority parents. If this was the case, these differences would reflect a positive choice on the part of such parents.

⁸³ Ofsted (2008) quoted National Centre for Social Research (2009) Childcare and Early Years Survey of Parents DCSF-RR136 (82)

⁸⁴ Ofsted (2008) Early years: Leading to Excellence. London. Office for Standards in Education quoted Penn, H, for European Commission (June 2009) Early Childhood Education And Care - Key Lessons From Research For Policy Makers

⁸⁵ OECD 2006 quoted Penn, H, for European Commission (June 2009) Early Childhood Education And Care - Key Lessons From Research For Policy Makers

⁸⁶ Article on Childcare and Multi-cultural needs in Childcare quarterly Autumn 2001 Daycare Trust: Ensuring equality: making childcare meet the needs of black and minority ethnic children and families, December 2000 quoted Mayor of London (2003) *London Childcare Strategy* (22)

9 INFORMATION BARRIERS TO CHILDCARE TAKE-UP

Introduction

- 9.1 As explained in section 3.20, markets work best when consumers are well informed so they can make the most rational decisions about demand and supply. But if consumers do not have enough information, they may not buy the optimal quantity of goods and services.
- 9.2 At its most simple, information may be a barrier to take-up because parents are unable to find out about provision in their area. It is also the case that parents might not understand the full benefits of placing their children in childcare or early years education. We examine both below.

What is the evidence for the lack of information representing a barrier to childcare take-up?

Information on childcare has been improved

- 9.3 There are a number of sources of information on childcare, including Local authority Childcare Information Service; Families Information Service; voluntary sector bodies; other parents; information available from providers; local libraries; and Sure Start Children's Centres.
- 9.4 All formal childcare providers are registered with OFSTED, who also improve the workings of the childcare market by inspecting services.
- 9.5 During the mid 1990s, childcare information services were improved. Services were established in each local authority and on the internet, and providers, especially childminders, rely on them to publicise their services.
- 9.6 A substantial minority of parents continue to report a shortage of childcare places. Four in 10 parents think there are not enough places in their area⁸⁷. However, this appears to be a misperception: most services report vacancies.⁸⁸ This may reduce parents' willingness to look for childcare if they were to believe that the search would be fruitless.

Although information issues are often quoted as being a significant barrier to childcare take-up, our work suggests that generally, this barrier is being overcome

- 9.7 Work by the National Centre for Social Research found that overall, around two-thirds (68%) of parents were able to list one or more sources of information they had used in the last year.⁸⁹ Predictably, those with pre-school age children were much more likely to have

⁸⁷ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136 (81)

⁸⁸ Kinnaird et al 2007 quoted in Waldfogel and Garnham (2008) *Childcare and Child Poverty* (8)

⁸⁹ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136 (81)

used the most common information sources than those with school-age children only. Families with pre-school children were more likely to be using formal childcare and so to have needed to seek information. Most parents had found the common sources of information used very or quite helpful.

- 9.8 Whilst penetration of information seems relatively widespread, just under half of parents (43%) felt they had enough information about childcare services in their local area. Thirty-seven per cent of respondents felt they had too little information, with a further 19% unsure whether they had enough information. Only 2% felt they had too much information. However, as we show below in our section on equity failures, these barriers affect some groups disproportionately.

A lack of information may cause parents to under-estimate the long term benefits of childcare and early years education to their children. This might represent a “barrier to take-up”

- 9.9 The literature has seen significant debate of the extent to which early years provision can be said to result in cognitive benefits to children, causing ongoing social and economic benefits both to the individual and society as a whole. It is not the proper role of this paper to cover these very complex debates in detail, or to determine where the “right” answer lies.
- 9.10 Human capital arguments runs that early years interventions boost levels of human capital, and that these interventions can have an ongoing positive impact on the productive capacity of an individual and society as a whole.⁹⁰ If these benefits existed, and parents were more aware of them, then it may be that more childcare might be demanded as a result, resulting in lower “barriers to take-up”.
- 9.11 Research in the British context provides a more nuanced picture. This suggests that the impact of early education is primarily its positive impact on deprived children. Middle class children appear to prosper irrespective of early years interventions. Less able middle class children overtake their brighter but more deprived peers in mid-childhood (between ages 5 and 10).⁹¹ The suggestion is that early years intervention can insulate poorer children from the effects of their less advantaged home and social environment compared to middle class children.
- 9.12 A recent overview of European evidence on this subject tends to follow this more cautious approach, stating that the size of the effects of interventions “may vary considerably” and that while early years interventions can contribute to long-term economic well-being, the

⁹⁰ The term “human capital” encompasses the productive capacities embodied in people and may include knowledge, health, experience, skills, and other characteristics. . Kilburn, Karoly (2008) *The Economics of Early Childhood - What the dismal science has to say about investing in Children* RAND Corporation (6). Using these concepts, economic modelling has suggested that the results of spending on early childhood programs has the potential to “not only repay the initial costs of the program but also to possibly generate savings to government or society as a whole multiple times greater than the costs”. As the research suggests, this approach shifted the policy from being a seen as a social service that “might benefit only participating children and families to also be considered an economic-development strategy for society as a whole.”

⁹¹ Feinstein, L. (2003) 'Inequality in the Early Cognitive Development of British Children in the 1970 Cohort,' *Economica*, 70(277): 73-97

arguments for long-term economic well-being as a result of ECEC interventions “may be overstated and should not be regarded as an alternative to addressing inequality and poverty”.⁹²

- 9.13 It is also important to point out that these benefits which accrue to children themselves cannot be realistically said to assist the LDA in delivering its targets of raising employment rates and reducing child poverty. Any effects on child poverty would not be experienced until the child educated in this generation had its own children in future. There may be some broader labour market benefits, but these would be long term.

What causes a lack of information on childcare in London? Is a lack of information caused by, or constitute, a market failure?

- 9.14 Information can come in a number of different forms. Inevitably, different individuals will have different access to information. For a significant information market failure to be present, it would be necessary to identify a systemic shortage of information that would impede the proper functioning of the market. As we have shown above, a majority of parents would like to be better informed about childcare choices. But we question the extent to which this is an important statistic: whilst it is always possible to be better informed about any subject, in practice, it is only necessary that consumers are *sufficiently informed* to make a rational choice.
- 9.15 There appears to be no real evidence of this systemic shortage of information across the market. However, there is evidence that access to information is uneven, and that certain individuals and groups need additional help. These would represent equity failures. We discuss these below.
- 9.16 It is also the case that deprived parents may be underestimating the positive impact that early years provision will have on their children. We discussed the debate on this in paragraph 9.9 onwards.

Does a lack of information on childcare represent an equity failure?

- 9.17 It is a relatively commonplace finding of research studies that more advantaged groups find it relatively straightforward to access services, because they possess the social and intellectual capital to get the information they need. However, these abilities are not distributed evenly through society, so that equitable arrangements require that this imbalance is readdressed. This appears to be the case for information on childcare services.

Information does exist but some people find it difficult to access

- 9.18 Work by the National Centre for Social Research has found that the following groups more likely to report having too little information:

⁹² European Commission (June 2009) Early Childhood Education And Care - Key Lessons From Research For Policy Makers

- lone parents
- those with average or lower family incomes
- those living in the most deprived areas.⁹³

Different groups obtain information by different routes

- 9.19 Research has suggested that, compared to middle class mothers, working class mothers had fewer social networks. “This lack of ‘weak ties’ meant they could lose access to ‘hot knowledge’ regarding childcare and schools.”⁹⁴

Outreach studies have also found that some groups are not fully aware of their childcare options

- 9.20 Daycare Trust has undertaken studies exploring whether parents know what childcare and early learning options are available to them, as well as providing information on this topic to parents.
- 9.21 One outreach pilot evaluation, undertaken specifically with disadvantaged groups, found that some information-type barriers could be solved through well-targeted outreach work.⁹⁵ It found a number of reasons for not applying for childcare entitlement where extra reassurance or explanation might have helped, as follows.
- Concerns about the application process: the application form for example was felt to have put some parents off because of the information requested, such as details of their benefit or employment status
 - Concerns about the actual childcare being provided: these included fears over their child’s safety, for example if the parent felt the child could leave the setting unnoticed, particularly if the child had recently become very mobile, or not being convinced that the child’s cultural needs would be met
 - A misunderstanding of the conditions of the provision: some parents assumed they would have to pay for it, or did not believe they could be eligible despite being told otherwise.

⁹³ National Centre for Social Research (2009) Childcare and Early Years Survey of Parents DCSF-RR136 (79). The researchers did caution, though that there may be some linkages with the likelihood of these groups to use formal care. Those less likely to use formal care, such as the groups above, were more likely to report a lack of information.

⁹⁴ Vincent et al (2008) *Childcare choice and social class* Critical Social Policy 28.5.

⁹⁵ Kazimirski, Dickens and White (2008) Pilot Scheme for Two Year Old Children - Evaluation of Outreach Approaches London: Research for DCSF

10 CONCLUSIONS AND NEXT STEPS

Introduction

- 10.1 In this section we aim to pull together the report, look at the implications of the findings, and provide a view regarding next steps.

Are the identified barriers the main reasons why parents do not take up childcare? How important are market and equity failures?

- 10.2 As we set out in the introduction, the LDA wishes to understand the extent to which there are market failures operating in London's childcare market which cause problems in the provision of childcare services, and that if these failures were corrected (perhaps by public sector intervention), then childcare in London might be more readily available and more affordable. If this were the case, goes the logic, then parents would be able to return to the labour market, and so lift their children out of poverty.
- 10.3 In this report, we defined the concept of "market failure" carefully. We showed that the term "market failures" does not describe instances when the markets create outcomes that are considered negative, unpleasant, or contrary to policy objectives. The definition of market failure instead rests on a set of conditions being met which mean that markets cannot generate economically efficient outcomes. We also looked at the concept of intervention on equity grounds, which provide justification for democratically elected politicians can chose to intervene in markets that are not failing.
- 10.4 Although quality childcare is an important end in itself in a good society, the LDA's interest in the issue designed to deliver the LDA's goals on raising employment rates and reducing child poverty. Childcare is one of the tools it has chosen to help deliver this goal.
- 10.5 Our brief required us to focus on the specific barriers to accessing childcare. We have looked at these issues above. It would be easy to draw the seemingly logical conclusion that, if childcare was more available, cheaper, higher quality, better understood or more flexible, then demand for childcare would inevitably rise, with consequential benefits on parents' ability to return to work.
- 10.6 This is no doubt often the case. But it appears to us to be likely that the work of the last ten years has done well in addressing many of these problems. As a result, the above barriers to childcare are not experienced to the same, often acute, level that was the case a decade ago. This success means that many of the policy solutions developed (or variants of them) need to remain in place.⁹⁶
- 10.7 We have summarised our findings below.

⁹⁶ "In the past decade there has been a considerable decline in the proportion of mothers saying they cannot go out to work due to difficulties in accessing suitable childcare... the proportion of mothers who were not working because they did not want to lose their benefits has declined considerably since 1999, probably due to the introduction of tax credits which have made work financially more attractive to families with low earning potential." Speight, S, Smith, R., La Valle, I., Schneider, V. And Perry, J. Withwith Coshall, C. And Tipping, S. (2009) *Childcare and Early Years Survey of Parents 2009*. Research Report No DCSF-RR136. London: DCSF (8,9)

Table 10.1 Market and equity failures - summary table

Childcare demand barrier	Is there evidence for this factor representing a barrier to parents' demand for childcare?	Are market failures present?	Are equity failures present?
Availability	Partially. There is less childcare place density in London, but this is offset by higher occupation rates. There is a relative lack of childcare availability in some more deprived areas of London, but we question whether this is an outcome of lower levels of parental employment. At a London level, vacancy levels suggest that there is sufficient provision.	No. There is less childcare place density in London, but the differences in availability that exist appear to be at least partly an outcome of market processes, not a market outcome.	Potentially. There is some evidence of lower levels of provision in some areas. This could be indicative of equity failure (although not proof).
Price	Partially. The majority of parents do not see this a major barrier to access. However, single parents and lone parents are more concerned by this factor.	No. Price differentials are reasonable market outcomes responding to differences in staff and premises costs.	Yes. Price affects some families more than others. But tax credits attempt to manage these failures.
Flexibility	Partially. Lone parents are disproportionately affected.	No. Lack of provision in atypical hours is a market response to difficulties in attracting and paying for staff.	Yes. Lone parents are disproportionately affected.
Quality	No London information is available. Nationally, 40% of parents think quality is poor, or are not sure. This indicates the presence of a significant barrier.	Yes. Small information failures may be present in the process of generating <i>perceptions</i> (not impartial judgements) of childcare quality. These are unlikely to be significant.	Yes. There is evidence that childcare in deprived areas is worse than elsewhere. There is also evidence that ethnic minorities do not take up childcare at the same rate. This could be indicative of equity failure (although not proof).
Information	For some parents, yes. Some people and groups find it difficult to access information.	No. There appears to be sufficient information for parents to make a rational choice in the market, although parents say they would like more information. Deprived parents may also be underestimating the positive impact that early years provision will have on their children.	Yes. Some people and groups find it difficult to access information.

Source: RTP

10.8 No-one can give a blanket answer that fits all families in all circumstances, but it appears to us that

- It appears that the idea that there are numerous “barriers to childcare” which obstruct the obvious and inevitable desire of parents (usually meaning single mothers) to return to the workforce is over-simplified.
- The “barriers to childcare” covered here under the headings of availability, price, flexibility, quality and information do not exist to quite the extent sometimes imagined. Where they exist, these barriers often appear not to be particularly material factors in childcare choices made. Consequently, even if all these barriers were to be entirely overcome, there would still be considerable obstacles to reintegrating parents into the labour force, and so reducing child poverty.
- Where “barriers to childcare” exist, they are frequently not caused by market failures, and instead represent market outcomes. There are small market failures affecting quality and information barriers to childcare but these are unlikely to be particularly significant. Indeed, current policy is already targeting these issues.
- Equity failures continue to affect the childcare market. We have found evidence of equity failures affecting each of the childcare demand barriers - meaning that some families will have greater barriers to childcare take-up than others in society. However, many of these equity problems already have policy interventions addressing them.
- The causality of the processes involved in creating and maintaining childcare barriers to take-up are open to different interpretations. For example, a lack of availability of childcare is the reason often given for parental unemployment. However, a lack of available childcare supply might not *cause* unemployment. Instead, the direction of causality might be plausibly reversed. In this view, *unemployment* might cause a lack of childcare demand, because parents are able to look after children. In a market system such as the UK’s, this means that fewer childcare places are supplied. Neither direction of causality can be proven within the terms of this study, but the latter seems to us just as likely as the first. Perhaps most likely is that both causal mechanisms are operating in different directions in different families.
- When market outcomes are unwanted, they should not be confused with market failures. If the desired policy outcomes are not achieved by using market-based policies, then this is a different matter. As the OECD points out, “a public supply-side investment model managed by public authorities brings more uniform quality and superior coverage of childhood populations than parent subsidy models”. This suggests that the very concept of a childcare market is highly problematic.⁹⁷

What are the other barriers to childcare take-up?

10.9 Above, we answered the brief by exploring the main “barriers to childcare take-up” identified in the literature. Inherent in the phrase is the assumption that, if these barriers could be removed, then parents would use more childcare as a consequence. But as we have argued, if we were to focus exclusively on “barriers to take-up,” we risk giving a one-sided picture.

⁹⁷ Organisation for Economic Cooperation and Development (2006) *Starting Strong II*, Paris: OECD (114)

- 10.10 Simply put, we need to consider the possibility that the great majority of parents are getting all the childcare that they want. It is clear that some parents do not want childcare, irrespective of price, quality, and accessibility or information considerations. A number of factors are involved in this decision, including the age of children and views on the proper role of parents.
- 10.11 Below we look at some of the main reasons involved in staying out of childcare provision.

Some parents believe that their children are too young for formal childcare

- 10.12 Research for the NAO stated that “very few parents of children who did not use early years provision said this was because it was too expensive. Instead, the most common reasons were that the child was too young or that they preferred to look after them at home.”⁹⁸
- 10.13 The NAO’s work can be criticised in that it does not distinguish between the incomes of the individuals it surveyed. Some research does provide this more nuanced picture, and we have shown detailed findings above in Figure 6.8.

Parents of very young (0-2) children often prefer to look after children themselves

- 10.14 Work by the National Centre for Social Research picks up this issue, and usefully differentiates parents by the age of the “target child”. The research asked families with a selected child aged 0-2 years but not currently in nursery education why they were not using nursery education outside of the home⁹⁹. Over half of these families responded that the child was too young (59%), while more than a third (36%) expressed a preference for keeping the child at home (either because the parent preferred it or the child had been unhappy in nursery education). Overall, affordability was mentioned as a factor by 18% of these families. Working lone parents with children outside nursery were more likely mention affordability as a problem (25%) but other than this there were few differences in terms of problems with affordability between families of different types and work statuses.¹⁰⁰

⁹⁸ National Audit Office (2004) Early Years - Progress in developing high quality childcare and early education accessible to all

⁹⁹ NCSR definition of “nursery education” included nursery schools, nursery class, reception class, special day nursery, day nursery, playgroup or other nursery education provider.

¹⁰⁰ Work by the National Centre for Social Research is again worth quoting extensively. It showed that, of those families where the selected child was aged 3 or 4 and eligible for the free nursery education entitlement, but who were not using nursery education (and not in a reception class), 68% said they were aware of the free entitlement. Those who were aware free hours (77 respondents in total) were asked why they were not using their free entitlement. About a quarter said they were not using free hours because of problems with availability, and a further quarter said that it was down to personal preference (child unhappy at nursery or wanting to teach the child themselves). NCSR state that almost half of respondents gave an ‘other’ reason for not using nursery education. Review of the verbatim responses given as explanation for the ‘other’ answers indicates that many of these families were not opposed to the early years education in principle but were simply prevented from using it by particular, temporary circumstances such as being about to start in next few weeks, ill etc. The remaining ‘other’ reasons could be captured under “personal preference”, for example the mother wanting to keep the child at home with her.

Parents of three and four year olds are happier to see their children enter childcare

- 10.15 Parents of 3 and 4 year olds who were eligible for free nursery provision but who intentionally did not take up their place seemed less opposed to early years education in principle. Only a quarter of this group quoted a personal preference for not sending their child to nursery.¹⁰¹

There may be significant cultural barriers to childcare take-up

- 10.16 Focus group work with low income parents (which is not statistically significant, but is able to test and question participants in greater detail) is very relevant here. The report found that barriers to childcare take-up were essentially cultural for many of the low paid from all ethnicities, and concluded that “DCSF will need to shift low-income parents from one value system to another to increase the take-up of formal childcare, which means there may need to be long term investment in normalising childcare for this audience.”¹⁰²

Attitudes of lower socio-economic groups

- 10.17 Research suggests that lower socio-economic groups often believe that they should be looking after their children themselves.¹⁰³

“the main barrier to using formal childcare was not so much lack of information, but a lack of connection with the concept... childcare was perceived to have little personal relevance to their lives because they saw it as something used by working mums or mums with a career, or people who put work before their family...”

Attitudes of different ethnic groups

- 10.18 The same focus group work made the point that different ethnic groups have different views on the proper role of parents.

“Culturally, Muslim mothers reported that they are expected to be their child’s primary carer. Thus, the notion of ‘childcare’ was an alien concept, particularly for Bangladeshi mothers, most of whom were not working....They also spoke of the

¹⁰¹ Work by the National Centre for Social Research is again worth quoting extensively. It showed that, of those families where the selected child was aged 3 or 4 and eligible for the free nursery education entitlement, but who were not using nursery education (and not in a reception class), 68% said they were aware of the free entitlement. Those who were aware free hours (77 respondents in total) were asked why they were not using their free entitlement. About a quarter said they were not using free hours because of problems with availability, and a further quarter said that it was down to personal preference (child unhappy at nursery or wanting to teach the child themselves). NCSR state that almost half of respondents gave an ‘other’ reason for not using nursery education. Review of the verbatim responses given as explanation for the ‘other’ answers indicates that many of these families were not opposed to the early years education in principle but were simply prevented from using it by particular, temporary circumstances such as being about to start in next few weeks, ill etc. The remaining ‘other’ reasons could be captured under “personal preference”, for example the mother wanting to keep the child at home with her.

¹⁰² Roberts (2008) Understanding attitudes to Childcare and Childcare Language in Low Income Parents Research Report DCSF-RW059 (14)

¹⁰³ Roberts (2008) Understanding attitudes to Childcare and Childcare Language in Low Income Parents Research Report DCSF-RW059 (14)

stigma attached to using formal childcare within the Muslim community and the risk of offending family members by seeking professional care.”¹⁰⁴

Lack of demand for childcare must not be confused with lack of demand for Early Years Education

- 10.19 This report has considered the childcare market in particular in relation to labour market participation. It is important that our conclusions with regard to demand for childcare are distinguished from demand for early education. Parental uptake of and views on free early education are different to those on childcare. Parents appear to be significantly more positive about the concept of “early education” as opposed to “childcare”. 2008 figures for England overall show that the uptake of free early education was 73% for 3 year olds and 91% of 4 year olds.¹⁰⁵
- 10.20 Early years education needs to be considered on its own merits. That is a more fundamental policy issue beyond the remit of this study.

What are the other barriers to parents’ return to the labour market?

- 10.21 Above, we discussed the other, often overlooked obstacles to the take-up of childcare. In this section we go one stage further to look at the obstacles for parents’ working. This is not the place for a detailed survey of these issues, but the literature covers two possible sets of reasons why parents are not working. The first group are childcare-specific; the other group are not childcare-specific, and take in a range of reasons.

Childcare-specific reasons for parents being outside the labour market: children remain dependent on their parents

- 10.22 Work by the National Centre for Social Research is shown in the table below.¹⁰⁶ Many are related to the relative balance between the costs and benefits of working, but by no means all can be ascribed to childcare barriers. Looking at lone mothers’ responses, for example, around 80% provide variants of the answer that their children remain dependent on them in some way. The equivalent number for partnered mothers is higher.¹⁰⁷

¹⁰⁴ Roberts (2008) *Understanding attitudes to Childcare and Childcare Language in Low Income Parents* Research Report DCSF-RW059 (21)

¹⁰⁵ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136

¹⁰⁶ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136 (132)

¹⁰⁷ “I want to stay with my children” 33%; “children too young” 27%; “children would suffer” 11% “childrens’ illness/special needs” 10%

Table 10.2 Childcare-related reasons for not working

Childcare-related reasons for not working	Family type		All mothers
	Partnered mothers	Lone mothers	
	%	%	%
I want to stay with my child(ren)	55	33	46
Child(ren) too young	29	27	28
Lack of free / cheap childcare which would make working worthwhile	16	19	17
Child(ren) would suffer if I went out to work	20	11	16
Lack of affordable good quality childcare	10	12	11
Child(ren) has / have a long term illness / disability / special needs and need a lot of attention	8	10	9
Lack of childcare at suitable times	4	8	6
Lack of good quality childcare	4	8	5
Lack of reliable childcare	3	5	4
Lack of childcare in the local area	2	2	2
Other reasons	4	5	4
None of these reasons	18	25	21
<i>Weighted base</i>	<i>1178</i>	<i>745</i>	<i>1923</i>
<i>Unweighted base</i>	<i>1497</i>	<i>802</i>	<i>2299</i>

Source: National Centre for Social Research

Non-childcare specific reasons for being outside the labour market

- 10.23 It is important to point out that childcare problems are not the only barriers to parents' labour market entry. National Centre for Social Research work also puts these childcare-related reasons for not working in a broader context, and shows that there are a series of reasons why parents might (voluntarily or involuntarily) be outside the labour market. Table 10.3 shows data from the National Centre for Social Research.¹⁰⁸
- 10.24 Again, it is helpful to look closely at the data to look for common themes in the wide range of possible responses. Aside from circumstantial reasons for being outside the labour market such as illness, caring responsibilities and training, the major reasons for not mothers not working can be typified as being a) it is not worth working (66%), b) lack of suitable jobs (45%) and c) a job is not wanted (21%).¹⁰⁹

¹⁰⁸ National Centre for Social Research (2009) *Childcare and Early Years Survey of Parents* DCSF-RR136 (133)

¹⁰⁹ Using the table presented, and focusing on lone mother responses, we have allotted the following responses to the umbrella term "not worth working": a) would not earn enough (30%) b) enough money (1%); would lose benefits (17%); not very well qualified [which presumably translates to concerns about low pay] (18%);

To the umbrella response "don't want a job" we have allocated the responses a) "job too demanding to combine with bringing up children (12%); b) having a job not important to me (3%); c) been out of work too long (6%).

To the umbrella response "lack of suitable jobs" we have allocated the responses a) "lack of jobs with suitable hours" (30%) cannot work unsocial hours (4%) and "lack of job opportunities" (11%).

Table 10.3 Reasons for not working, by family type

Reasons for not working	Family type		
	Partnered mothers %	Lone mothers %	All mothers %
<i>All mothers</i>			
Would not earn enough to make working worthwhile	25	30	27
Enough money	17	1	11
Would lose benefits	8	17	11
Lack of jobs with suitable hours	23	30	26
Job too demanding to combine with bringing up child(ren)	13	12	13
Cannot work unsocial hours / at weekends	5	4	4
Not very well-qualified	9	18	13
Lack of job opportunities	7	11	8
Having a job is not very important to me	7	3	5
Been out of work for too long	4	6	5
Illness or disability	10	15	12
Caring for disabled person	10	8	9
Studying / training	4	11	7
On maternity leave	6	1	4
Retired	4	1	3
I am ill (temporary illness)	1	1	1
Starting work soon	1	0	1
<i>Partnered mothers</i>			
Spouse / partner's job too demanding	14	n/a	n/a
Other reasons	10	11	10
None of these	10	9	10
<i>Weighted base</i>	<i>1401</i>	<i>884</i>	<i>2285</i>
<i>Unweighted base</i>	<i>1704</i>	<i>982</i>	<i>2632</i>

Source: National Centre for Social Research

What is the relationship between childcare and reducing child poverty?

- 10.25 Waldfogel says it is very hard to get a handle on the way that childcare and child poverty inter-operate. She points out that for most families in poverty, problems with childcare are not the sole or even most important barrier to moving out of poverty.
- 10.26 Waldfogel states that “childcare reforms could play a useful role in moving a substantial number of children out of poverty. Our upper-bound estimate suggests that childcare reforms could move as many as half of the children in poverty today out of poverty, while our lower-bound estimate suggests that childcare reforms could move one-sixth of children in poverty today out of poverty”. However, it is particularly not clear from the information we have what type of reforms are being suggested, and exactly how this estimate is arrived at.¹¹⁰

¹¹⁰ Waldfogel and Garnham (2008) *Childcare and Child Poverty* JRF (3)

Next steps

10.27 The next steps that could be taken are as follows.

- National Centre for Social Research work is very valuable. It would be useful for the LDA to get the statistical background showing the London-only breaks. Presumably this could be provided for relatively little cost. Care would need to be taken about the statistical significance of a smaller London-only sample. The National Centre work which looks specifically at childcare in families with multiple disadvantage would be particularly relevant to the LDA.¹¹¹
- Much of the work around childcare motives and barriers revolves around very fine grained decisions. Large scale surveys are very valuable, and allow robust conclusions to be drawn, but can at times miss the micro-level at which these decisions are made. We are impressed by some of the focus group studies on this subject.¹¹² A closer look at decision-making processes (perhaps using focus groups, behavioural psychology or ethnographic techniques) might provide valuable insights. We suggest that decisions in this marketplace are often emotional, not “rational”. Published Dutch work of which we are aware suggests that the typical rational choices theory (which assumes that consumers make judgements around price, availability, and quality) are not particularly appropriate in this marketplace. We can for example see clear motivation for many parents in not taking up childcare. If parents have effectively withdrawn from labour market due to a poor bargaining position, or are nervous about re-entering the labour market, then it is easy to see how providing parental childcare would become an important source of self-worth. Understanding these drivers might allow the better tailoring of policy responses. Significant advances will need attitude change in key groups. There could be interesting applications of “Nudge”-type concepts here.¹¹³
- A significant issue in London is the relationship between housing costs, income, tax and subsidy. Childcare costs may also act as a disincentive to lower paid part-time employment. There appears to be evidence of barriers to take-up of the childcare element of WTC in general and London in particular (although they may not be specific to London). However, the relationship between the childcare tax credit and benefit levels as a whole is complex, which prevents us from making clear conclusions on these barriers. At this time it is probably not worthwhile looking at these issues in greater detail due to the changes that the Government has proposed as part of the 21st Century Welfare Consultation. These proposals set out the principles behind a wholesale reform of the tax and benefit system including the shift

¹¹¹ Speight, Smith, Lloyd, Coshall / National Centre for Social Research (2010) Families Experiencing Multiple Disadvantage - Their Use of and Views on Childcare Provision

¹¹² Eg Roberts (2008) Understanding attitudes to Childcare and Childcare Language in Low Income Parents Research Report DCSF-RW059 (14)

¹¹³. “A series of experiments of small nudges, harnessed to the power of networks genuinely to change behaviour, offers a potentially much more effective way of tackling seemingly intractable problems”. Paul Ormerod “A network is as good as a nudge for a Big Society” *Financial Times* Sept 15 2010. This discusses ideas advanced in Thaler and Sunstein (2008) *Nudge: Improving Decisions about Health, Wealth and Happiness*

to a Universal Credit approach that is intended to integrate and improve the functionality of the existing system.

- Any policy to reduce 'equity failures' in London would need to be highly targeted. 'Equity failures' may mirror diverse household distributions within boroughs, and difficulties with some childcare policies may have been made because of a lack of targeting.
- There is evidence that parents regard the idea of "early years education" more positively than the idea of "childcare". Increased provision of early years education may make a significant difference to take-up.

APPENDIX 1

A TYPOLOGY OF CHILDCARE PROVISION

The following typology of provision is drawn from the National Audit Office (2004) report *Early Years - Progress in developing high quality childcare and early education accessible to all*.

Table 1: A typology of provision

Service	Overview of services	Age range catered for	Type of provider
Day nursery	<ul style="list-style-type: none"> ■ Provide full or part-time day care, education and play for children below compulsory school age (5 years). ■ Nurseries can be profit-making or non-profit-making. ■ Generally open 8am to 7pm. 	0 to 5 years	Public, private, or voluntary
Nursery school	<ul style="list-style-type: none"> ■ Educate pre-school aged children. ■ Staffed with a high ratio of qualified teachers. ■ Work in partnership with other trained professionals. ■ Many staff have special qualifications for the age group. 	3 to 4 years	Public or private
Nursery class	<ul style="list-style-type: none"> ■ Can be attended either full time or part time one year before a child starts compulsory education. Full time refers to school term time, not holiday. 	3 to 4 years	Public
Pre-school playgroup	<ul style="list-style-type: none"> ■ Playgroups are usually part-time or 'sessional', and operate for two to three hours per session. 	2½ to 5 years	Private or voluntary
Childminder	<ul style="list-style-type: none"> ■ A self-employed person who provides day care for more than two hours per day. ■ Usually in the childminder's own home. ■ Hours tend to be flexible. 	Usually up to 8 years	Private
Reception class in a primary or infant school	<ul style="list-style-type: none"> ■ Children in a reception class are usually completing the final year of the Foundation Stage. They then move on to Year One of the primary or infant school on reaching statutory school age. 	4 to 5 years	Public or private
After school, out of school care, breakfast clubs and holiday schemes	<ul style="list-style-type: none"> ■ Cater for children of school age and to help meet the needs of working parents. ■ A range of activities are offered including sports, drama, arts and crafts, and music. 	Compulsory school age	Public, private or voluntary
Creches	<ul style="list-style-type: none"> ■ Offer short term childcare for young children, while parents are unable to look after them, for example, if they go on a residential course, training or leisure activities. ■ Creches may operate all week on a sessional basis, but will usually cater for different children at each session. 	0 to 5 years	Private or voluntary

APPENDIX 2

SUPPLY AT LONDON BOROUGH LEVEL

The largest borough providers of childcare in London are the boroughs of Croydon and Bromley accounting for 5.6% and 5.3% of London provision respectively. The next largest London childcare region is the borough of Southwark with 4.6% of all childcare places. With the exception of the City of London which has a negligible supply of childcare, the lowest London supply can be found in Kensington and Chelsea, Westminster and Barking & Dagenham, each with 1.9% of London supply.

Bromley has the highest supply of childminders in London with 6.2% of all supply, followed by Croydon (5.2%) and Bexley (5%). Childminder supply is particularly low in Kensington and Chelsea, Westminster (1%) and Tower Hamlets (1.1%).

Looking at Non-Domestic childcare, alone, supply is highest in Croydon, Bromley, Southwark and Wandsworth, and lowest in Barking and Dagenham, Kingston-upon-Thames, Sutton and Bexley.

Table 1 Childcare Places by London Region (Borough) and Regional (Borough) Share, mid 2010

Region (Borough)	Child-minder Places	Share of London %	Non-Domestic Places	Share of London %	All Childcare	Share of London %
Croydon	2,184	5.2	8,640	5.7	10,824	5.6
Bromley	2,610	6.2	7,726	5.1	10,337	5.3
Southwark	1,609	3.8	7,262	4.8	8,871	4.6
Barnet	1,830	4.3	6,832	4.5	8,662	4.5
Wandsworth	1,039	2.5	7,308	4.8	8,347	4.3
Ealing	1,636	3.9	6,255	4.1	7,891	4.1
Lewisham	1,981	4.7	5,638	3.7	7,619	3.9
Lambeth	1,164	2.8	6,214	4.1	7,378	3.8
Enfield	1,679	4.0	5,422	3.6	7,101	3.7
Richmond upon Thames	1,257	3.0	5,572	3.7	6,829	3.5
Greenwich	1,849	4.4	4,786	3.1	6,635	3.4
Hillingdon	1,873	4.4	4,519	3.0	6,392	3.3
Redbridge	1,621	3.8	4,727	3.1	6,349	3.3
Waltham Forest	1,321	3.1	5,028	3.3	6,349	3.3

Hackney	774	1.8	5,496	3.6	6,270	3.2
Brent	1,161	2.8	4,600	3.0	5,761	3.0
Bexley	2,094	5.0	3,256	2.1	5,350	2.8
Camden	695	1.6	4,505	3.0	5,200	2.7
Havering	1,331	3.2	3,682	2.4	5,014	2.6
Hounslow	1,169	2.8	3,792	2.5	4,961	2.6
Haringey	1,207	2.9	3,614	2.4	4,821	2.5
Merton	1,344	3.2	3,445	2.3	4,789	2.5
Harrow	1,115	2.6	3,671	2.4	4,786	2.5
Newham	1,212	2.9	3,542	2.3	4,754	2.4
Islington	889	2.1	3,690	2.4	4,579	2.4
Sutton	1,327	3.1	3,120	2.0	4,447	2.3
Kingston upon Thames	1,373	3.3	2,989	2.0	4,362	2.2
Hammersmith & Fulham	640	1.5	3,589	2.4	4,229	2.2
Tower Hamlets	449	1.1	3,762	2.5	4,211	2.2
Barking & Dagenham	1,099	2.6	2,681	1.8	3,781	1.9
Westminster	405	1.0	3,308	2.2	3,713	1.9
Kensington & Chelsea	258	0.6	3,397	2.2	3,655	1.9
City of London	13	0.0	213	0.1	226	0.1
London	42,200	100	152,300	100	194,500	100

Source: Ofsted

APPENDIX 3

MARKET FAILURES AFFECTING CHILDCARE BUSINESSES

Information market failures affect childcare businesses

As we have shown above, there are a relatively large number of small companies providing childcare services. There is anecdotal evidence that many of these companies are relatively marginal and unstable.

To some extent, these problems may be caused by market failures. Small companies are subject to some market failures due to asymmetric information, and these have been identified by the DTI¹¹⁴. The effects particularly applicable to the childcare market are those which in turn lead to

- Difficulties in small childcare provider firms accessing capital for start-ups or innovation. Potential lenders often lack all the information needed to fully assess the risks and returns associated with a business proposal. As a result finance providers adopt strategies to mitigate risk, for example requiring security for loans or undertaking costly due diligence. These create barriers to accessing finance that can be particularly acute for small businesses.
- Under-investment in training because childcare provider firms do not calculate the full benefit of training. The particular problem with respect to training is not in frontline staff - as training levels are set out by OFSTED regulations. Instead, stakeholders suggest that the problem here is one of the quality of management education and training. There is evidence that training interventions with managers of existing firms (for example, to improve business survival rates) may improve business survival. Research indicates that skilled managers and entrepreneurs will tend to operate businesses which survive for longer, so generating longer term economic benefits.¹¹⁵

Solving these market failures are not likely to be a top priority for the LDA Labour Markets team. Even if these market failures were to be solved, they would do little to reduce barriers to childcare provision, given that there is no evidence of a shortage of childcare places caused by a lack of capital in the marketplace. Whilst management training might improve the longer-term profitability of childcare businesses, this again is not a problem that the LDA Labour Markets team is setting out to solve. Successful intervention management skills may have impacts on the quality of childcare provision, but these would be likely to be very tangential.

Instead, the rationale for any intervention here is different - and is related to encouraging innovation and raising productivity in the wider economy. Measures to address aspects of this market failure are likely to be already in place through the Business Links in London programme, which is managed by the LDA.

¹¹⁴ DTI (2003) A government action plan for small business: Making the UK the best place in the world to start and grow a new business - the evidence base

¹¹⁵ Evidence from the National Federation of Enterprise Agencies working in co-operation with Barclays Bank shows that firms seeking advice before, or at the time of start-up have a better chance of survival and growth than firms which do not use it. Intervention providing subsidised consultancy for improving firm's management skills worked most effectively for firms employing between 10-80 workers. As a result of this policy, intervention survival rates in this group were raised by approximately 4% over the long run and growth rates in surviving firms were increased by as much as 10% per annum. Smallbone, David and Wyre, Peter, 2004, *Entrepreneurship research*

APPENDIX 4

NURSERY FEES AND FEMALE PAY RATES

Nursery fees move fairly closely with female hourly pay rates

The table below illustrates hourly fees charged by children's nurseries in London by London borough. They range from an estimated £6.32 in the City of London to an estimated £3.15 in Hackney. Also illustrated is the percentage difference in hourly pay rates for females between the London average and the Borough average. These differences indicate that nursery fees move fairly closely with female hourly pay rates.

Hourly Fee Rates for Children's Nurseries by London Borough, mid 2010

	Nursery Fee £ Per Hour	% From London Average Nursery Fee Rate	% From London Average Female Hourly Pay Rate		Nursery Fee Rate £ Per Hour	% From London Average Nursery Fee Rate	% From London Average Female Hourly Pay Rate
City of London	6.32	54	36	Islington	4.09	0	4.09
Kensington and Chelsea	6.26	53	25	Ealing	4.04	-2	4.04
Richmond upon Thames	5.76	40	20	Waltham Forest	3.98	-3	3.98
Camden	5.62	37	20	Southwark	3.94	-4	3.94
Kingston	5.31	29	-4	Greenwich	3.93	-4	3.93
Westminster	5.11	25	16	Merton	3.85	-6	3.85
Hammersmith and Fulham	4.55	11	12	Brent	3.80	-7	3.80
Barnet	4.43	8	4	Lewisham	3.65	-11	3.65
Wandsworth	4.40	7	21	Barking and Dagenham	3.65	-11	3.65
Bromley	4.35	6	3	Bexley	3.57	-13	3.57
Enfield	4.32	5	-10	Havering	3.56	-13	3.56
Harrow	4.32	5	-4	Hounslow	3.52	-14	3.52
Hillingdon	4.30	5	-9	Lambeth	3.51	-14	3.51
Haringey	4.20	2	4	Croydon	3.40	-17	3.40
Tower Hamlets	4.20	2	9	Newham	3.20	-22	3.20
Sutton	4.20	2	-7	Hackney	3.15	-23	3.15
Redbridge	4.10	0	0	London	4.10	0	4.10

Source: Laing and Buisson