

Extending the early years entitlement: Costings, concerns and alternatives ^[1]

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Summary

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

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

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

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

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

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

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

better outcomes for families.

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