

Childcare market is failing to provide parents with choice and quality ^[1]

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EXCERPTS

On the face of it, free childcare sounds like a difficult policy to disagree with. Since 2013, parents of three and four-year-olds in England and those of disadvantaged two-year-olds have been entitled to 15 hours a week of free early education - now mostly referred to as childcare. From September 2017, this will be extended to up to 30 hours a week for children of "working parents".

But a new report from MPs on the Public Accounts Committee - responding to a March 2015 National Audit office publication - highlights how the childcare market is failing to deliver choice and quality for most children and families in England. The market is instead thwarting the government's twin intentions to boost educational outcomes for children growing up with disadvantage, as well as employment chances for parents.

Skewed incentives

The committee's report homes in on the weaknesses in the way universal early education is delivered within England's marketised system. Choice is limited for parents who only want the free hours for their three or four-year-olds. Nurseries are under no obligation to offer free early education and may not do so in areas where most parents are well-off.

In disadvantaged areas, three quarters of three-year-olds attend state nursery classes and schools, which mostly offer inflexible short sessions. But most English three-year-olds receive their free early education in private childcare provision: 64% in 2015 according to official statistics.

Yet parents looking only for free early education - rather than childcare - for their children are not especially welcome in private day nurseries, as the nurseries' business model relies on the childcare fees parents pay for hours over and above the 15 free hours. So if parents take up the 15 free hours for its educational value, rather than as part of their overall childcare plan each week, nurseries might be left out of pocket.

A 2014 study by Citizens Advice using mystery shoppers illustrated how this acts as a perverse incentive for childcare businesses to find ways of discouraging parents from using the 15 free hours of early education. For instance, they may offer this only in restricted sessions or over restricted days. Local government funding rates for the "free" hours range from £2.28 to £7.15 per hour for three and four-year-olds and are generally lower than childcare fees paid by parents direct. This means nurseries would rather ensure parents need their children to attend for more than 15 hours a week, in order to cover their costs.

In her evidence to the committee, one childcare entrepreneur honestly articulated the dilemma facing her:

If you are a popular nursery, which are you going to take: the child with just the free entitlement, with a gap in the hours that you have no income for, or the child with a parent who is able to pay for the full session? Private providers are only going to take what is best for them. The committee recognised that early education subsidies to childcare businesses may not cover the costs of delivering early education, although this has been consistently denied by the Department for Education. Yet even a 2015 study for the department of those costs concluded that the amount the state paid per hour for childcare of two-year-olds was insufficient. The study also noted the degree to which childcare businesses with multiple locations cross-subsidised their loss-making operations.

Quality questioned

The committee pointed out that the Department for Education is unable to measure the impact of its investment in universal early education. A recent economic analysis goes even further. It reckoned that the use of private sector provision, whose quality compares unfavourably to that of the state sector, was responsible for the lack of measurable impact of early education on the educational outcomes of English children at the end of primary school.

The outlook for two-year-olds in disadvantaged families could be even bleaker in terms of outcomes, as 96% receive their 15 hours within

the private childcare sector. The fact that only 58% of eligible two-year-olds took up a place under the scheme in 2015 reflects how badly the market is working for them and their parents.

As if things weren't already bad enough, the delicate equilibrium within this system is about to be destabilised even further when the government introduces the additional 15 hours of free early education for children of "working parents" in September 2017. This will be available where both parents (or a single parent) are working and each parent earns, on average, an amount equivalent to 16 hours at the national living wage (£107 at the current rate), and less than £100,000 a year.

Childcare formed a central part of the 2015 Conservative manifesto. Peter Macdiarmid/PA Archive

This move also compromises the government's position on providing a universal pre-compulsory education service for all three and four-year-olds: calling it childcare is no defence. The extended offer compounds the lack of equity within the childcare market: it is a regressive policy which ignores the needs of the growing number of parents not in regular employment. It also virtually removes from childcare businesses the ability to cross-subsidise the "free" hours with the help of fees paid for additional childcare hours, as most parents use less than 30 hours for their three and four-year-olds.

Unintended consequences

According to the committee report, childcare businesses are considering refusing to offer the additional hours. Schools by and large won't, and parents are confused.

The government was warned of the policy's possible unintended consequences. It ignored a warning sounded in 2014 in the Institute for Fiscal Studies' green budget that the case for further extending universal provision of early education was less strong than generally assumed, given the surprising lack of evidence on its impact on increasing parental employment levels.

A 2016 Frontier Economics study considered the feasibility - and risks - of the plan to extend free childcare. It said that childcare prices could rise, places could dwindle for two-year-olds and for children whose parents were ineligible for the offer.

Paradoxically, given the government's aim of using early years education and childcare to improve the life chances of disadvantaged children, it will be they who stand to lose out. Extending the entitlement to early education to 30 hours a week may well result in one of the most complex, illogical and unfair early education and childcare systems in Europe.

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