

# CAN GOVERNMENT INTERVENTION IN CHILDCARE BE JUSTIFIED?

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## Abstract

*Childcare is not like other goods and services. Its inherent nature creates unusual challenges for efficient delivery by the market, while its usage can have social as well as private consequences. Government involvement in childcare may therefore be justified to improve the efficiency of delivery or achieve social objectives, but its effectiveness will depend on whether policy measures can better address the challenges of childcare provision than the market. This article reviews the justification for the recent rapid development of childcare policy in the UK and considers the potential benefits and drawbacks of this growing government intervention.*

**JEL codes:** I38, J13, J16.

**Keywords:** childcare; early education; female employment.

## 1. Introduction

Childcare policy in the United Kingdom has developed rapidly since the 1990s. Prior to 1990, government intervention in the provision of childcare was extremely limited. Responsibility for children's care was essentially seen as a private matter for parents to fund and to make choices for their children. The introduction of several small-scale measures in the early 1990s marked the beginning of a shift towards government involvement, which was accelerated by the launch of the National Childcare Strategy in 1998. Childcare policy now incorporates a broad range of measures, including tax credits for working parents; publicly funded free entitlement to nursery places; and regulation and inspection by the Office for Standards in Education, Children's Services and Skills (Ofsted). Government spending on childcare and early education is currently estimated to be almost £5 billion a year in England.<sup>1</sup>

This article considers whether such government intervention in childcare can be justified. The inherent nature of childcare creates unusual challenges for efficient delivery by the market, while the use of childcare can have social as well as private consequences. Government involvement in childcare may therefore be justified to improve the efficiency of delivery or achieve social objectives, but its effectiveness will depend on whether policy measures can better address the challenges of childcare provision than the market. Greater clarity on the rationale for government intervention can help to identify the objectives of current UK policy and shed light on the limitations and potential pitfalls of such involvement.

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An important feature of childcare is that it can have a dual purpose. On the one hand, it allows parents, usually mothers, to undertake formal paid employment. On the other, it can provide developmental or educational benefits to the child which may not be available from parental care.<sup>2</sup> This has led to a dichotomy in policy development, with ‘childcare’ measures focused on the facilitation of parental employment and ‘early education’ policy concerned to a greater degree with improving child development.

The next section describes childcare usage and the development of policy in the UK, while section 3 considers whether the current calls for ‘greater availability of affordable, high quality childcare’ reflect fundamental problems in the childcare market. The unusual features of childcare are explored in sections 4 and 5, highlighting how these characteristics present challenges for both market delivery and government involvement in childcare provision.<sup>3</sup> These sections also examine the evidence on the impact of these challenges in the UK and policy effectiveness in addressing them. Section 6 focuses on equity objectives for childcare policy, while the final section concludes.

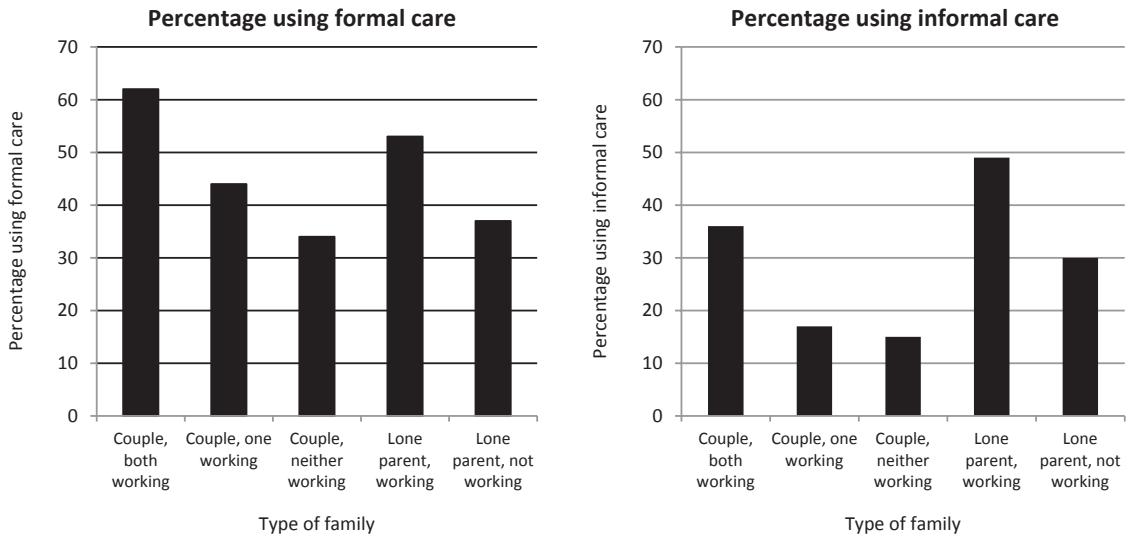
## 2. Childcare in the UK

### 2.1. *The provision and use of childcare*

Childcare in the UK is delivered in a centrally regulated market using a mixed economy of providers. Out of the 107,900 providers of childcare in England in 2011, 65 per cent were private, 14 per cent voluntary, 2 per cent run by local authorities and 19 per cent were school or college based (Brind et al. 2012).<sup>4</sup> For centre-based care (which excludes the 45 per cent of providers who are childminders), just over a third of the providers were private, another third school or college based, one quarter voluntary and around 4 per cent run by local authorities.

Almost six million children in England are looked after in some form of non-parental childcare in a typical term-time week (Huskinson et al. 2013). Around two-thirds of children under the age of 15 spend time in childcare, with roughly half of all children cared for by formal providers such as nurseries, playgroups, childminders or wrap-around care for schoolchildren (that is, before- and after-school clubs) and just under a third receiving care from informal sources such as ex-partners, grandparents, older siblings, other relatives and friends or neighbours. As the proportions indicate, many children receive a combination of formal and informal types of care. Working parents are more likely than non-working parents to use childcare (Figure 1), reflecting the importance of childcare in facilitating maternal employment. Yet substantial proportions of non-working parents use childcare, showing that child-related reasons are the driving factor for using childcare in many families.<sup>5</sup>

The use of formal childcare has increased substantially since the 1990s (Figure 2), although provision had already begun to grow significantly from the mid-1980s in line with a rising number of working mothers with young children.<sup>6</sup> While the greatest increase in the proportion using formal care since 1999 has been the steady rise for children aged 5–11, there was a dramatic rise for children aged 3–4 between 2001 and 2004 and for children aged 12–14 after 2007. The proportion of children using informal care has changed little over the period, implying that the rise in formal care use is accounted for by those who previously



**Figure 1:** Childcare usage in England by family type and work.

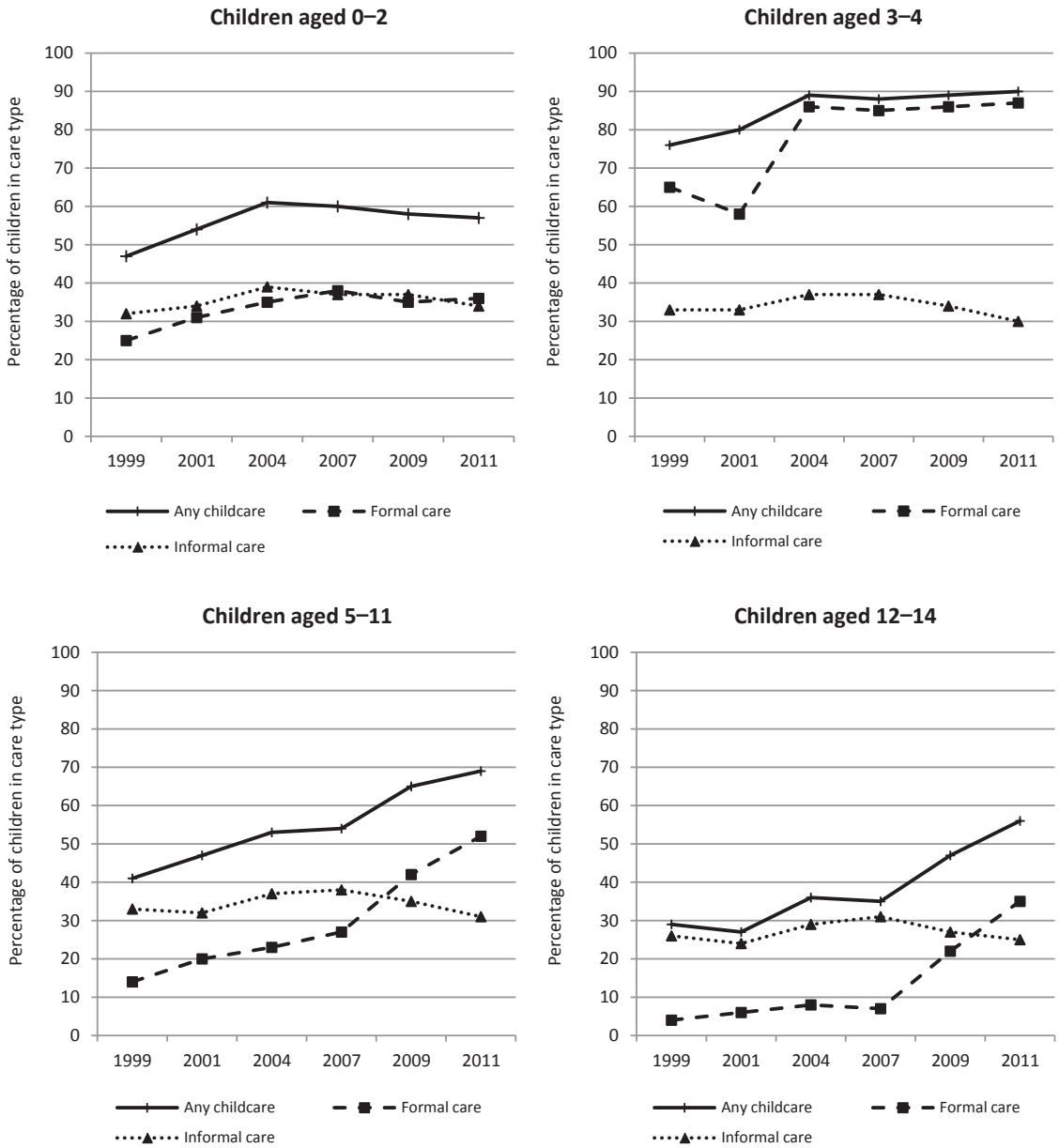
Source: Data from the Early Years Survey of Parents 2011 as reported in Huskinson et al. (2013, Table 2.1).

would not have used any childcare or by those who now combine it with informal care. Around one third of children of all ages now receive informal care, while almost all children aged three and four receive some formal care, and around one half of children aged 5–11 and roughly 35 per cent of those in the youngest and oldest age groups spend time in formal care.

Around two-thirds of parents who use formal care for their children make a payment for it, while only around 6 per cent pay for informal care (Huskinson et al. 2013). In 2011, families who paid for childcare spent an average of £47 each week, although the median amount (that paid by the family exactly in the middle of the distribution) was £20, indicating a ‘long tail’ of a few families paying much larger amounts. The proportions paying for formal and informal childcare have remained almost constant since 1999, while the median amounts paid by parents have risen modestly in real terms for families with only preschool children and changed little for those with schoolchildren<sup>7</sup>. According to the latest estimates, parents in England spend around £5 billion each year on childcare.<sup>8</sup>

## 2.2. The development of childcare policy

The publicly stated justification for childcare policy in the UK has been impressively consistent since the early 1990s and through several changes of government. The three central aims of the National Childcare Strategy introduced in 1998 were to raise the quality of care, to make childcare more affordable and to make childcare more accessible (Green Paper 1998). The most recent policy documents continue to emphasise the same three objectives:



**Figure 2:** Childcare usage in England, 1999–2011.

*Note:* The sum of the proportions using formal care and using informal care can exceed the total proportion using any childcare because both types are used for some children.

*Sources:* Data from the Parents' Demand for Childcare Survey and Childcare and Early Years Survey of Parents as reported in La Valle et al. (2000, Table 2.4), Woodland, Miller and Tipping (2002, Table 3.24), Bryson, Kazimirski and Southwood (2006, Table 2.27), Kazimirski et al. (2008, Table 2.7), Smith et al. (2010, Table 2.3), Huskinson et al. (2013, Table 2.4).<sup>18</sup>

‘Over the next 10 years, the government wants to see a significant increase in the supply of high quality, affordable childcare that is available at the times when parents need to use it’ (HM Government 2013, p. 8).

Beneath this general justification, there has been some evolution in the underlying rationale. Prior to 1997, the primary driver was the growing number of mothers wishing to undertake formal paid employment and facing a poorly developed childcare market. Childcare policy therefore centred on the labour market. Moreover, at this time the impact of non-maternal childcare on child development remained contentious and was not seen as necessarily beneficial for children. The welfare-to-work agenda of the new Labour government in 1997 brought a new emphasis for policy: to facilitate and encourage maternal work among lower-income families as a means to reduce child poverty and the burden of benefits payments. At the same time, the new government’s childcare strategy shifted the rationale to one of child development by introducing a presumption that ‘good quality day care in the earliest years has long-term benefits for children’s social and intellectual development’ (Department for Education and Employment 1998, as cited in Harker 1998, p. 461). While the Department for Education’s 1998 Green Paper included measures to ‘enable and facilitate’ the use of childcare by working parents, it gave predominance to measures to improve the quality of childcare (Harker 1998). By the time of the 2004 Ten Year Strategy for Childcare, there was growing evidence of the importance of early education in helping address social inequities in child development, which provided support for child development to be mentioned first in the rationale for policy: ‘The Government’s vision is to ensure that every child gets the best start in life and to give parents more choice about how to balance work and family life’ (HM Treasury et al. 2004, p. 1).

In 2013, the Coalition government’s two policy documents *More Great Childcare* (Department for Education 2013a) and *More Affordable Childcare* (HM Government 2013) divided childcare strategy into raising quality and enabling parents to find affordable, suitable childcare to enable them to work. Both documents highlighted the social importance of childcare for economic productivity, with the former focused on improving child development to enhance workforce skills and the latter emphasising the need to use the full potential of the parental workforce. Perhaps not surprisingly, these Coalition documents placed less emphasis on social equity reasons for childcare policy. The latter document also highlighted shortcomings in the childcare market as a reason for policy action.

An overview of the consequent childcare policies implemented since 1990 is presented in Table 1. The columns categorise six broad streams of approaches while movement down the columns illustrates key changes over time. The final row contains measures which are due to come into effect in 2014 or have been proposed by the current government (Department for Education 2013a; HM Government 2013).

Table 1 highlights how childcare policies are a mixture of several approaches. Measures were initially developed and have developed most substantially in the form of tax credits and the provision of free nursery places, with other areas following later and now the focus of greater development. Policy development over the period has been highly consistent, with measures tending to extend or build on previous policies, including across the change of governing parties in 1997 and 2010, although there was a slight retrenchment on tax credits and tax relief in 2011. The objectives and effectiveness of these policies are considered below in the context of discussing the justifications for childcare policy.

**Table 1:** Summary of childcare policy development in the UK since 1990

Tax credits	Employer support	Free nursery entitlement	Regulation	Market facilitation	Workforce training
1994 £40 weekly childcare disregard in Family Credit for working parents Raised to £60 (1996) and to £100 (1998)	1990 Tax relief for employer-provided workplace childcare	1997 Nursery Education Voucher scheme of £1,100 per year for 4-year-olds	1992 Local authority (LA) inspection of daycare	1993 Out-of-School Initiative start-up funding	
1999 70% childcare tax credit for maximum of £100/£150 costs per week in Working Families Tax Credit (WFTC) for parents working 16+ hours		1998 Free nursery places of 12.5 hours over 5 days for 33 weeks a year for 4-year-olds		1998 Start-up funding mainly for out-of-school facilities	
2003 Tax credit transferred to childcare element of Working Tax Credit		2001 Neighbourhood Nurseries Initiative (NNI)	2001 Ofsted registration and inspection of daycare and childminding		
2005 Tax credit raised to maximum costs of £175/£300 per week	2005 Childcare vouchers for tax relief on maximum of £50 costs per week	2004 Free places extended to 3-year-olds NNI incorporated in Children's Centres			
2006 Tax credit raised to 80% of costs	2006 Maximum costs raised to £55 per week	2006 Free places extended to 38 weeks a year		2006 Legal duties for LAs to ensure sufficient childcare for working parents	2007 Early Years Professional Status (EYPS) qualification
		2010 Free places extended to 15 hours over 3–5 days	2008 Early Years Foundation Stage (EYFS) child development standards		
2011 Tax credit reduced to 70% of costs	2011 Eligible costs reduced for higher rate taxpayers		2011 Reduced regulation in maintained schools		
		2012 Longer days for free places over 2–5 days	2012 Revised EYFS framework		
2013 Tax credit extended to parents working less than 16 hours in Universal Credit		2013 Free places extended to 20% most disadvantaged 2-year-olds	2013 Role of Ofsted enhanced	2013 Childcare agencies assistance for new childcare businesses	2013 Early Years Teacher Training
Proposed (2016) Tax credit raised to 85% of costs	Proposed (2015) Tax-free childcare worth up to 20% of costs or £1,200 per year to replace childcare vouchers	2014 Free places extended to 40% most disadvantaged 2-year-olds Proposed (2016) 2-year-old free places only for good quality	Proposed Childcare registration and regulation in schools eased LA quality assessments removed	Proposed More information for parents LA support focused on most disadvantaged	2014 Early Years Educators qualification

Note: 1990–7, Conservative government; 1998–2008, Labour government; 2010–, Conservative/Liberal Democrat Coalition government. The details shown for the free nursery entitlement are for England; other parts of the UK have small variations in the detail of the policy.

### 3. Is there a problem with childcare delivery?

It is not difficult to find evidence that parents in the UK would like more and better childcare options at lower cost, supporting the consistently stated government rationale for intervention in childcare. Around a third of parents reported in 2011 that there were not enough local childcare places, although 44 per cent thought the number of places about right (Huskinson et al. 2013). Lack of available care is often cited as a constraining factor on mothers' ability to work.<sup>9</sup> Wrap-around care and holiday care for school-age children, flexible care and care at certain times of day are particularly difficult to obtain. Just over a quarter of families report that they find it difficult to meet childcare costs, and 21 per cent of families not using any childcare say that it is because they cannot afford it (Huskinson et al. 2013). Smaller proportions of parents report that childcare costs limit their ability to work or to work more.<sup>10</sup> Parents' views on the quality of childcare are slightly more positive: just under two-thirds rate the quality of local childcare as good, while only 11 per cent consider it 'poor'. Comparisons with other OECD countries are also often cited to show that the UK has unusually high childcare costs, although these comparisons are problematic as they are based on prices which are often subsidised in other countries (Penn and Lloyd 2013). Staff-child ratios and staff qualification levels indicate that these particular aspects of care quality are generally lower in the UK than in other OECD countries.

However, this evidence alone does not justify government intervention in childcare. A desire for cheaper, better-quality goods or services may apply in many markets, reflecting the trade-off between quality, price and feasible supply for a fixed amount of available resources. Variation in childcare outcomes across countries may reflect differences in preferences, social norms or the costs of resources used in delivery.

Yet there are reasons to suggest that the childcare market may operate significantly less efficiently than most markets, although government intervention is only justified if it can better address the challenges of childcare delivery and if any benefits outweigh the costs of achieving them. There are also possible social consequences from childcare use which might justify public expenditure on childcare beyond the means and willingness of the direct users. Indeed, childcare policy in some countries (such as the Nordic examples) involves considerable redistribution of resources to families with children which is underpinned by a sense of social responsibility for children (Gupta, Smith and Verner 2006; OECD 2013). Although policy documents in the UK have acknowledged potential social benefits of public support for childcare, the social case for intervention has been driven by equity objectives and there is no explicit support for simple redistribution to families with children.

The possible justifications for government intervention and the effectiveness of childcare policies in the UK context are explored in the following three sections. These examine issues on the demand side of the market, supply constraints and equity considerations.

## 4. Demand-side challenges: making the best choices

### 4.1. *Do parents make good childcare choices?*

In a well-functioning market, the available bundle of childcare options should respond to parents' preferences and deliver the best possible mixture given the costs of production and the

resources that parents (and any publicly funded support) are willing and able to spend on childcare. However, parental decision-making may be weak with respect to childcare for a number of reasons and may not always result in the best choices. This could justify government intervention to influence parental decisions about childcare towards 'better' choices.

Childcare choices are complicated, involving decisions on parental employment, hours of childcare, and the type and quality of childcare to use. These interact in a particularly complex manner due to the dual purpose of childcare. For example, longer hours of informal childcare may be best for the facilitation of maternal employment and raising income, while shorter hours of centre-based formal care may be best for child development. Importantly, the best choices will depend upon a myriad of individual family circumstances and parents may not make the best decisions because of insufficient time or effort to collect and process all the relevant information for their particular situation. Indeed, the frequency of changes in childcare arrangements as the child ages may mean it is not worthwhile to undertake costly decision-making processes with every new situation. The preferred source of information about different childcare providers for parents is personal recommendation or word of mouth (Bell et al. 2005; Huskinson et al. 2013), suggesting that this is considerably easier than collating and analysing more direct sources. However, around two-thirds of parents report that they do not have enough information about local childcare, with provision of information viewed as 'bitty' and 'disjointed' by some and lacking sufficient detail on individual providers. It has also been suggested that the perception that care is unaffordable may be due to a lack of information about actual cost (Dickens, Wollny and Ireland 2012).

Complexity is increased by the possibility that the effects of choices may be long term and uncertain. The evidence shows that some types of formal childcare of medium or high quality have long-term social and behavioural developmental benefits for children that can last up to at least age 14 and possibly into later life (Sylva et al. 2004, 2008, 2012). School-age children have also been shown to derive educational benefits from wrap-around childcare and school holiday clubs (Carpenter et al. 2010). The use of childcare to facilitate maternal employment can have longer-term benefits of greater employment experience and higher subsequent wage levels for mothers.<sup>11</sup> Yet parents may be reluctant to finance investments in maternal work or childcare due to short-sightedness, a dislike of taking risks or an inability to borrow. However, there is little direct evidence on whether and how parents incorporate longer-term effects into their childcare choices: lone parents' decision processes about work have been categorised as sometimes short term (Bell et al. 2005), but pre-school options are sometimes chosen by parents because they will help their children later on at school (Siraj-Blatchford et al. 2011).

A further complicating feature is that 'quality' of care has several dimensions and can mean different things for different families and children. The multidimensional nature arises to some extent from the dual purpose of childcare: some features of care arrangements will be beneficial to facilitating employment, while others are of greater value for child development. Quality can also mean aspects of care which simply make childcare a more enjoyable or safe experience for the child. Even within the purpose of child development, what constitutes a desirable 'high quality' feature for one child may be seen as undesirable for another. The complicated nature of quality gives rise to a social concern that parents may not fully take into account the interests of their children when making childcare decisions. Research-based judgements tend to define quality as measurable childcare characteristics which, on average, have beneficial impacts on measurable aspects of child development and focus on staff



qualification levels, staff–child ratios, setting size, group size and stability in arrangements within a setting. In particular, the use of more highly qualified staff is associated with improved child development, particularly for children aged three to five (Sylva et al. 2004; Mathers et al. 2011). However, parents have limited awareness of qualifications within their own child’s setting, and their perceptions of changes in quality do not always coordinate with experts’ judgement (Mathers et al. 2011). Moreover, parents place more weight on less tangible child-related aspects and on features which help facilitate parental employment, basing their choice of provider on a broader range of factors which includes staff experience (as well as qualifications), trustworthiness, reputation, reliability, accessibility, proximity to home and work, convenience, availability and cost (Mathers et al. 2011; Butt et al. 2007; Bell et al. 2005; Huskinson et al. 2013). Indeed, many parents prefer informal carers over formal sources of childcare because they are seen as trustworthy, more likely to have shared values with the parents and more flexible (Bashir et al. 2011; Bell et al. 2005; Borg and Stocks 2013; Brown and Dench 2004; Rutter and Evans 2011).

Some aspects of care quality can be difficult to observe. It is in providers’ interests to advertise quality levels such as staff qualification levels in order to justify higher prices. But some elements of quality are hard to convey or even for parents to perceive from usage. Parents will not pay for aspects of quality that they cannot observe and providers have no incentive or even financial ability to provide such characteristics. Consequently, parents may not be able to demand, and the market not able to offer, options with particular unobservable quality aspects. It should also be noted, however, that not-for-profit providers or those delivering direct provision also have incentives to minimise unobservable quality aspects if it generates savings in effort (such as shorter working hours) or financial savings that can be channelled back to the providers (such as higher salaries).

Finally, there may be social benefits (or costs) to parental work and childcare choices which are not taken into consideration in parental decisions. For example, mothers’ employment may enhance the productivity of other factors in the economy, but the returns accrue either to employers or to other workers. Mothers’ employment may also reduce dependency on state-funded welfare benefits, the savings from which are dissipated across all taxpayers. However, there is currently no direct evidence on the social value of greater maternal employment or use of childcare.<sup>12</sup>

#### *4.2. Can government make better childcare choices?*

Before considering specific policies to influence parental work and childcare choices, it is useful to consider whether there are reasons to believe that government may be better able than parents to address the challenges of making decisions about childcare. The larger scale of government decisions could make it more worthwhile to collect information and invest time and effort into making well-informed decisions. Social decision-makers may also be less short-sighted or credit-constrained in taking into consideration longer-term interests, although they may also be subject to short-term pressures of immediate targets or electoral considerations or be credit-constrained by short-term funding considerations. It should also be noted that government decisions, broadly applied either nationally or within areas, are unlikely to be finely tuned to individual family needs and may be poorer choices for some or many families.

In general, UK childcare policy has sought to influence parental choices towards greater employment and use of formal childcare (particularly for children aged three and four), implicitly suggesting that parents choose insufficient levels of both. These demand-side policies may also seek to address supply-side problems leading to high childcare costs (discussed in the following section). Measures have also been used to raise the use of childcare with quality aspects identified by research as beneficial to child development in formal settings, suggesting that parents do not place sufficient weight on these or they are difficult to observe. As discussed above, the evidence is sparse as to whether parental choices are deficient in these respects.

### 4.3. *Childcare subsidies*

The first two streams of policy shown in Table 1 – tax credits and employer support – are essentially forms of government subsidies for childcare. Childcare subsidies can be used to encourage greater use of childcare or greater use of a particular type of care. They also enhance incentives for maternal employment, particularly when tied to work requirements. However, a key concern with childcare subsidies is their effectiveness relative to their cost. In particular, if the market is not fully competitive, subsidies may push up prices and disappear into providers' profits with little impact on childcare or employment. In a more competitive market, subsidies may pay for childcare which parents would otherwise have purchased or be used to extend childcare hours or purchase more expensive care without any impact on parental employment.<sup>13</sup>

The childcare element of the Working Tax Credit (WTC) partially reimburses to working parents the costs of formal, registered or approved childcare for children up to the age of 15 years. It is targeted towards poorer working families through the means-testing of the tax credit. In 2012, roughly five million families with children received the tax credit, but only around 400,000 benefited from the childcare element, mainly because many of the families were ineligible because they were single-earner couples or only used ineligible, informal care (HM Revenue and Customs 2011, 2013). The cost of the childcare element in all tax credits and benefit disregards was around £2 billion in 2012/13 (Department for Education 2013a).

The 'employer supported' childcare vouchers also operate as a government-funded childcare subsidy. The scheme allows tax and National Insurance relief for employer vouchers for childcare (or childcare contracted by or provided by employers) which can be given in lieu of salary, and employers are not obliged to make any contribution. The subsidy is again only for registered and approved forms of formal childcare, and the available amount (just over £900 per annum) is considerably less than the maximum possible reimbursement with the childcare element of WTC (£5,460). The tax relief has not been widely used: according to latest estimates, it is offered by only 5 per cent of employers and used by only 450,000 families (HM Treasury 2013). The cost of the scheme was around £800 million in 2012/13 (Department for Education 2013a).

The primary purpose of these measures is to encourage parents, particularly mothers, to work. They also create incentives for parents to use formal childcare or spend more on formal childcare for all children up to the age of 15.<sup>14</sup> Since 1999, when the childcare tax credit was introduced, the proportion of mothers in work has risen from 56 per cent to 60 per cent (Huskinson et al. 2013). This moderate increase may reflect some effect of the childcare subsidies, but it is more likely to be part of the longer trend of growing maternal employment.

The substantial shift towards the use of formal care since 1999 shown in Figure 2 indicates that the subsidies may have encouraged parents to use formal types of childcare for children of all ages. The lack of substantial growth in spending (net of government subsidies) over a period when reported childcare prices have risen is consistent with the subsidies also pushing up prices. However, there is little direct evidence on the impact of the childcare subsidies. Studies using estimates of the responsiveness of childcare use and maternal employment to changes in childcare prices suggest that the childcare element of WTC would increase use of formal childcare and lead to a moderate rise in employment among mothers (Viitanen 2005). Other simulations suggest that the childcare subsidy in the tax credit would also raise the quality of care chosen by some parents (Paull, Taylor and Duncan 2002).

#### *4.4. Employer-supported childcare*

Employers are not currently required to contribute to the costs of their employees' childcare in the UK. But obligatory contributions might be justified if employers benefited from enhanced productivity from maternal employment. As with government-funded subsidies, there is a risk that employer-funded subsidies or provision of childcare could be used without substantial impact on employment. In addition, parents may not benefit if the subsidy or provision is part of a package with a compensating lower wage or if employers choose (or are forced by market competition) to hire workers without children to avoid the additional costs. Hence, employer-supported childcare could discourage rather than encourage parental employment.

Policies which encourage employers to simply be involved in the provision of childcare (rather than paying for it) may have some advantages. Larger employers may have the financial resources and an immediate customer base which enables facilities to be set up. If the employer is effectively both the producer and consumer, it can directly monitor and control quality, cost and prices, with a vested interest to meet parents' preferences in order to attract and retain employees. In addition, a common workplace may facilitate the coordination and effective representation of parental interests. However, there are also significant drawbacks. First, if few alternatives are available to employees, firms may have weak incentives to monitor quality and cost or to meet parents' preferences. Second, childcare would only be located near the place of work (rather than near home) and would only offer centre-type care. Third, it may reduce the employment mobility of parents if they are reluctant to change their childcare provider. Finally, the employer-based care would generally only be available at larger establishments and firms.

#### *4.5. Direct provision or commissioning of childcare*

The third stream of childcare policy in the UK has been the offer of free nursery places through direct provision and commissioning by local authorities using central government funding (third column, Table 1). Direct government provision or commissioning allows social decision-makers to decide the quantity, type and quality of care offered, the methods of delivery, and who will be offered which care options at what prices. Influence on the usage of care is constrained only by the willingness of parents to use the available options and the amount of available public funding.

The entitlement to free nursery places was originally a universal offer for children aged four (with the later addition of three-year-olds), limited to just 2.5 hours a day for 33 weeks of the

year. The limited hours in a particular type of care for a limited age range of children aimed to promote child development rather than encourage maternal employment. The later extensions in the number of weeks and weekly hours offered, together with flexibility to use the hours over two days, provide some support for mothers who wish to work part-time, but the primary purpose remains to promote child development. The recent and future planned extensions to poorer two-year-old children indicates a social equity objective (explored in section 6), although the restriction to poorer children may have been driven by budget limits on funding. One concern for the free entitlement has been the adequacy of the funded amounts to cover the costs of provision (Department for Education 2013b). There is evidence that some providers are relying on parents using additional paid hours of care at a higher price to cross-subsidise the funded hours (Daycare Trust and Family & Parenting Institute 2013; Department for Education 2013b). In these cases, the 'free' places are effectively a substantial subsidy. The cost of the free entitlement was around £2 billion in 2012/13 (Department for Education 2013a).

The free nursery entitlement has been widely used: take-up among three- and four-year-olds in England in 2011 was 88 per cent, and 92 per cent of parents using it reported that they were fairly or very satisfied with the number of free hours they received (Huskinson et al. 2013). The dramatic rise in the use of formal childcare for children aged 3–4 between 2001 and 2004 shown in Figure 2 clearly indicates the substantial impact that the roll-out of free entitlement to three-year-olds had on childcare choices. The impact of the use of free entitlement places on child development is currently the subject of ongoing evaluation.<sup>15</sup>

#### *4.6. Regulation of quality*

Regulation of childcare quality can influence quality choices and also facilitate the use of childcare by guaranteeing a minimum quality level when parents cannot directly observe or judge quality. It should be noted again that child-related quality is not only about child development, but can include aspects of care which simply make childcare a more enjoyable or safe experience for the child. This can be important even if the purpose of childcare is only to facilitate employment. However, a critical drawback of regulation is that it can raise the cost of childcare and may inhibit provision. To be efficient, regulatory requirements should be clearly matched to quality improvements, and the costs of evidencing compliance should be as low as possible.

Regulation of childcare in the UK was considerably enhanced with the introduction of Ofsted inspections of daycare and childminding in 2001 (fourth column, Table 1). These inspections have clearly been influential: the qualification levels of day care staff and childminders and the proportion of childcare settings rated as good or outstanding by Ofsted have both risen (Brind et al. 2012; Department for Education 2013a).

However, concerns have been raised that registration and other regulation have raised the costs of childcare and affected affordability (Department for Education 2013b). Indeed, there has been a recent shift towards reducing regulatory requirements, including an enhanced focus on learning and development in the revised Early Years Foundation Stage (EYFS) framework and a proposal to remove learning requirements for school-age childcare. Proposals to enhance the role of Ofsted and remove the need for local authority assessments also indicate a move to improve efficiency in the monitoring and enforcement of quality standards.

#### *4.7. Provision of information*

Government provision of information on the potential benefits and costs of maternal employment and different types of childcare usage could help to address deficiencies in parental decision-making due to a lack of information. Information on the availability, cost and quality of local providers could help parents to select specific settings in a more informed manner. Such information may also enhance competitive pressures in the childcare market (discussed in the following section) by providing parents with more information about alternative or new providers.

The provision of information about childcare has focused on specific settings as part of a broader approach to facilitate the functioning of the childcare market (fifth column, Table 1). Among other measures, the Childcare Act of 2006 required local authorities to provide information to parents about childcare entitlements and options through local Family Information Services. These have been reported to be a valuable resource, although information is not always up-to-date (Department for Education 2013b). The government is currently considering how information services for childcare might be improved further. Ofsted reports are also a source of information for parents on specific settings, although it is questionable how well periodic inspections can identify ongoing conditions and the extent to which parents utilise the report contents rather than broad rating.

#### *4.8. Consistency of different policies*

The dual purpose of childcare and multidimensional aspects of childcare quality raise unusual challenges in ensuring consistent effects between different policy approaches. A key issue is the reconciliation between promoting low-cost care to facilitate maternal work and promoting higher-quality, but more costly, childcare to foster child development. In some respects, the tax credit and free entitlement policies appear complementary, with the former primarily supporting parental employment and the latter promoting child development. But the two policies may run counter to each other. Use of the tax credit to facilitate work may encourage parents to choose lower-cost childcare with fewer child development benefits in order to pay for longer childcare hours to cover work hours. Use of the free entitlement may discourage work because of the complications of needing extra hours of care or the reduced need for income to pay for childcare. In addition, regulation to raise the quality of care can raise costs and reduce the effectiveness of both the tax credit subsidy and the free entitlement. But the extent to which the policies have had inconsistent influences has not been identified.

### **5. Supply-side challenges: barriers to competition, low cost and higher quality**

#### *5.1. Weak competitive pressures*

Competitive pressures in the childcare market should ensure that the best possible bundles of childcare options are offered to parents at the lowest possible prices, while also providing incentives for producers to innovate or adopt new methods. However, there are some distinctive features of childcare which may inhibit competition.

Competition requires that consumers are willing and able to switch suppliers in response to new or better offers. However, parents may be reluctant to switch providers because of

difficulties in observing quality and an aversion to take the risk of trying new, untested alternatives even for a trial period. This may be strongly reinforced by the fact that children benefit from continuity in particular care arrangements, and stability in childcare arrangements is desired by parents (Bell et al. 2005). Reluctance by parents to try new providers is mainly evidenced in the weight they place on reputation when choosing a provider and by the fact that the time it takes to fill places is reported to be a barrier to new providers entering the market (Callender 2000). Parents may also be reluctant to express specific dissatisfactions with childcare arrangements because of the need for a good relationship with the provider, both for the benefit of the child and due to the need for communication about the child. In addition, providers may be in a strong position to deliver childcare on their terms because parents have a shorter time horizon to benefit from bargaining over quality or prices and less experience of the process. However, there is no immediate evidence on the attitudes of parents in these respects.

There are also other more common potential barriers to new providers entering the childcare market. Some types of childcare can derive significant benefits from larger-scale operations such as lower per-child costs, a greater range of facilities or greater scope for interaction with other children. This means that new providers for some types of care must take large risks to open on a competitively large scale, which can deter new competitors. The need for proximity in childcare provision (the provider must be located physically close to the families it serves) means that childcare markets may also be prone to 'local monopolies' where demand for childcare within an area is only sufficient to keep one provider in business. In spite of concerns about these issues, there is little direct evidence on them. Economies of scale have been a concern for wrap-around and holiday care for school-age children, with reports that numbers in some areas are not always sufficient to make these services financially viable, leading to suggestions that government financial support is required in these cases (Department for Education 2013b).

Finally, concerns have been voiced that registration and other regulation make it costly for providers to enter the childcare market (Department for Education 2013b), but there is little evidence of this. But a number of specific regulatory hurdles to the setting up of childcare in schools were recently removed in order to encourage expansion of wrap-around school care.

## *5.2. Policies to enhance competition*

Standard policies to enhance competition could be applied to the childcare market. Measures to constrain the market power of any individual provider include merger and acquisition regulation, planning controls and legislation against anti-competitive behaviour such as price undercutting, although these can be difficult to enforce effectively. Start-up financing and assistance with meeting regulatory requirements can be used to help new entrants, although this requires some method to identify ventures that will become self-sustaining. Price regulation may be particularly justified in the presence of childcare subsidies to ensure they do not simply push up prices, but this ideally requires sufficient information to identify the cost levels at which to set prices which can be problematic to obtain.

Measures to improve the efficient operation of the childcare market have included start-up funding and general obligations on local authorities to ensure sufficient childcare provision for

working families and to support local providers (fifth column, Table 1). The rise in the use of formal childcare by school-age children from 2007 (Figure 2) could be related to enhanced local authority involvement in the market, while the earlier rise in usage for younger school-age children may be related to start-up funding for out-of-school facilities.

Childminder agencies have recently been introduced in some areas, promoted by a relaxation in individual childminder Ofsted inspections, with the goal of reducing the burden of running a childminder business and encouraging more childminders to enter the market. These agencies aim to coordinate the matching of childminders with parents and to offer administrative support and training to childminders and complaint arbitration, occasional replacement care and quality assurance to parents. One potential downside is that the agencies may introduce new bureaucracy, but concerns have also been expressed that they may lead to poorer monitoring of care standards.

### *5.3. Commissioning or direct provision of childcare to reduce costs*

Although not widely applied in the UK, government commissioning or direct provision of childcare could potentially help to contain childcare costs.

The larger scale of commissioning creates greater incentives to collect information on existing and new providers and to monitor ongoing performance, reducing the uncertainty in changing providers and potentially making commissioners less reluctant than parents to switch. The large and longer-term customer base that commissioners represent can also promote new producers by offering immediate business of a sufficiently viable scale. The larger customer base and longer-term experience may also give commissioners greater bargaining power than parents with providers over prices and conditions. On the other hand, commissioners may be inhibited from trying new providers because the risks are for a much larger number of children or because they may face public reprimand for bad decisions with little direct reward for good ones.

Direct government provision of childcare should ensure that the amount paid for childcare does not include any profit. In a similar vein, encouragement of childcare provision by not-for-profit and parental cooperatives should also remove the risk that parents pay for profit in their purchase of childcare. However, the lack of a profit motive does not guarantee that childcare will be delivered in the lowest-cost manner. Costs can be unnecessarily high in a non-profit context due to other returns to providers (such as unusually high wages or shorter shift hours) or simple inefficiencies (such as not obtaining the lowest cost for material inputs). Careful monitoring and performance management of direct provision or not-for-profit providers may be required to ensure that delivery is achieved at the lowest possible cost, but it may be challenging to benchmark costs if there are few comparable providers.

### *5.4. Workforce constraints in a growing market*

A second type of supply challenge can arise when providers are unable to obtain the resources they need. In the childcare market, a lack of more highly qualified staff can place constraints on the availability of some types of higher-quality care. Higher salaries provide an incentive for childcare workers to undertake costly training, generating an expansion of the qualified workforce as long as parents (and/or the government) are willing to pay more for highly

qualified staff. Yet this requires a robust system of training recognition such as qualifications from training colleges, which can take time to develop, particularly if existing wages and skill levels in the workforce are predominantly low as they are in the UK. Hence, temporary but prolonged supply constraints can inhibit the delivery of higher-quality childcare. This could be addressed through government support for training development or public subsidisation of training (which could also provide a permanent subsidy to higher-quality care).

There are substantial problems in the system of childcare qualifications in the UK. The number of qualifications for staff working in childcare and early years has risen substantially since the early 1970s, resulting in a complex and confusing array. The Nutbrown review (Nutbrown 2012) concluded that qualifications lacked rigour and depth without consistent quality, so that employers (and presumably also parents) did not always know which to trust, and the review recommended reform of the qualifications system.

New government-supported qualifications and training (sixth column, Table 1) have been introduced to improve clarity and rigour and to encourage childcare staff to undertake training. The Early Years Professional Status (EYPS) qualification has had some impact on the workforce: in 2011, almost one third of non-local authority full daycare providers in England had one or more EYP workers (Brind et al. 2012). Moreover, settings which had gained a graduate leader with EYPS were found to have made significant improvements in care quality for children aged 30 months to five years, although there was little evidence of improvement for those aged under 30 months (Mathers et al. 2011).

## 6. Equity objectives

Achieving equity objectives is sometimes argued to be the primary reason for government intervention in the childcare market. Encouraging maternal employment or use of some types of higher-quality childcare among poorer families can potentially raise income for these families or improve lifetime opportunities for children from disadvantaged backgrounds.

The equity implications of the childcare subsidies in the WTC and employer support for childcare are mixed. The means-testing in the WTC means that the childcare subsidy is targeted towards poorer working families, but both measures affect only those able to work and excludes the poorest parents who are unable or unwilling to work. The work requirement and partial coverage of costs mean that these childcare subsidies are most likely to benefit poorer families by encouraging parental work and raising income.

Although the free nursery entitlement to three- and four-year-old children is a universal offer to all children, it is likely to be of greater benefit to children from disadvantaged backgrounds as they tend to gain more from good-quality preschool than other children, particularly if they attend settings with children from mixed social backgrounds (Sylva et al. 2004). In addition, the extensions to two-year-old children are directly targeted to children from poorer families.<sup>16</sup> The short hours and most places being offered in formal, centre-based-type care mean that the free entitlement will primarily benefit poorer families through improved child development. However, there is some evidence that children from lower-income families are less likely to receive the free entitlement due a lack of awareness about the scheme and a shortage of local providers (Speight et al. 2010). In addition, there are concerns that free provision may be of low quality in areas of predominantly poorer families because providers are unable to cross-subsidise the funding with fees for additional hours.



A major concern for both of these policies as a means of achieving equity objectives is the substantial cost relative to the size of impact. Although the predominantly universal approach has the advantage of encouraging take-up and use among poorer families, it requires a high level of spending (a combined amount of around £4.5 billion in 2012/13). This raises the question of whether alternative approaches could be more cost-effective. For example, a tax credit alone without the childcare element would enhance work incentives without paying for formal childcare when parents may have used less expensive informal childcare. Broader and more targeted early intervention (such as services offered by Children's Centres and Family Support Workers) may more effectively address inequities in early childhood development, particularly in light of the evidence on the importance of the home learning environment and other parental factors.<sup>17</sup>

Less expensive policies to regulate quality or facilitate the functioning of the childcare market may be of greater benefit to poorer families and could be justified by equity objectives. Families living in disadvantaged areas are more likely than those in other areas to have insufficient information on childcare options, to find it difficult to obtain a childcare place, and to have concerns over the quality of care (Dickens, Wollny and Ireland 2012). Moreover, settings in more deprived areas are rated as actually having lower quality (Mathers et al. 2011).

## **7. Is government intervention justified?**

The characteristics of childcare mean that market delivery may be deficient in ways that do not affect other markets and is therefore worthy of policy attention. But it is not established whether these features create problems for childcare delivery in the UK. Parental decisions about childcare do not give the same weight as expert research to some aspects of quality which promote child development, but this alone does not indicate a deficiency in their choices. Direct evidence is also lacking on whether poor parental bargaining power or barriers to market entry stifle competition to a degree where choices are restricted and costs are higher than they could be. There is evidence, however, that market delivery of a system of childcare workforce qualifications has been inadequate. Yet it is not clear that government intervention can better address the challenges of childcare as it is potentially subject to similar weaknesses in decision-making and lack of control of costs.

Government intervention in the UK has predominantly been rationalised as seeking to address the childcare 'problem' of insufficient availability of affordable, good-quality care without clearly specified evidence of the reasons for this deficiency. Equity objectives and social benefits have provided additional justification for involvement, although they have played a secondary role in policy design. Childcare policy has aimed to encourage maternal employment and the use of formal childcare through childcare subsidies and free nursery places, while also seeking to raise quality through regulation and support for workforce training. Although the development of these policies has coincided with steady increases in maternal employment and use of formal childcare and some improvement in quality measures for formal childcare, these may be part of longer-term trends driven by other factors, and there is very little direct evidence on the effectiveness of childcare policies. Indeed, the large amounts spent on subsidies and free places may have primarily funded childcare that would have been used anyway, with little impact on parental choices. In addition, concerns over the restrictiveness of regulation

have led to some refinements in regulatory approach. There is also sparse evidence on the equity implications of policy in the UK and equity issues may be addressed more efficiently by more targeted approaches.

Overall, there are good reasons to believe that government intervention in childcare may be justified. But there is a lack of conclusive evidence on whether involvement is justified in the UK context and whether current childcare policies help to achieve better outcomes or are worth the cost. The rationale for government intervention in childcare should therefore be a subject for further investigation.

## Notes

1. Department for Education (2013a) and Moss and Lloyd (2013). Precise numbers on spending are not available. The breakdown reported in the Department for Education document does not sum to the stated 'almost £5 billion', possibly because, as suggested by Moss and Lloyd, this total amount may include some anticipated rise in spending or also incorporates an estimate of spending in Children's Centres. Spending is estimated by Moss and Lloyd to be around 0.4% of GDP, although OECD data (OECD 2013) suggests a proportion of 1.1% of GDP in 2009. The OECD figure is problematic, not least because it may include spending on education for five-year-olds (Moss and Lloyd 2013).
2. Childcare may also be used to allow child-free time for parents to undertake domestic chores or for leisure, although this is a more minor purpose.
3. Sections 4–6 draw on Paull (2013), which discusses international examples.
4. Brind et al. (2012), derived from Tables 3.1 and 3.5a and 3.5b categorising childminders as private and early years as school or college based. The numbers include early years' care in maintained schools.
5. When asked why they used particular childcare providers, responses from parents were evenly divided between economic reasons (it allowed them to work, look for work or study) and child-related reasons (such as educational or social development or because the child liked going there) (Huskinson et al. 2013).
6. Employment trends in Brannen and Moss (1998) and Bower (2001). Day nursery and school-club provision grew particularly strongly prior to 2000, although playgroup provision stagnated and childminder provision declined (Paull, Taylor and Duncan 2002, Table 5.1).
7. Between 1999 and 2012, the rise was £27 to £50 for families who had only preschool children, £20 to £25 for families with both preschool and school children, and £12 to £14 for families with just school children (La Valle et al. 2000; Huskinson et al. 2013).
8. This is estimated using figures from Huskinson et al. (2013) as 4.2 million families using childcare (Table 2.2) multiplied by 0.57 (the proportion who pay for childcare in Table 5.1) multiplied by £47 (the mean weekly payment for those who pay for childcare in Table 5.3) which equals spending of £113 million each week. Assuming that parents' expenditure on childcare may range between 38 weeks (covering term-time only) and 52 weeks each year generates a range of estimated total annual expenditure of between £4.3 billion and £5.9 billion.
9. For example, see Bashir et al. (2011), Booth et al. (2013), Borg and Stocks (2013), Department for Education (2013b), Huskinson et al. (2013), and Daycare Trust and Family & Parenting Institute (2013). Huskinson et al. (2013) report that 53% of non-working mothers would prefer to work if they could arrange reliable, convenient, affordable and good-quality childcare.
10. Just 5% of parents reported that childcare cost limited their ability to work (Booth et al. 2013), while 16% did not work or did not work more because they could not afford formal care (Borg and Stocks 2013).
11. For example, Olsen and Walby (2004) show that lower employment experience and more interruptions to employment for childcare or family reasons explain around one third of the gender pay gap in the UK. Paull (2006) shows that absence from work and movements from full-time to part-time work associated with childbirth explain the timing of the opening of the gender pay gap.
12. There has been some investigation of social returns to government intervention in the related field of early intervention in the US (which includes early education for children from disadvantaged backgrounds). For example, see Heckman and Masterov (2007) or Cohen, Piquero and Jennings (2010).
13. The linking of the subsidy amount to hours of care or hours of work can enhance incentives for families to alter their childcare and work choices in the desired way (Paull 2003).
14. Part of the motivation for restricting support to formal care could be budgetary: the costs of providing similar support to informal types of care would be extremely high (Paull 2003).
15. The Study of Early Education and Development (SEED) commissioned by the Department for Education.
16. Childcare places are also sometimes offered free of charge by Children's Centres which are targeted in more deprived areas.

17. Although evidence on the effectiveness of Children's Centres has not suggested strong impacts (as reviewed in Waldegrave 2013), they may still be a more effective means to help achieve greater equity in early child development.
18. The survey series has a warning that the introduction of additional prompts from the 2010 survey on whether childcare had been used means that data may not be directly comparable with earlier years. This could possibly account for some of the rise in the use of formal care for children aged 5 to 14 between 2009 and 2011, but there were similar trends between 2007 and 2009, suggesting the additional prompts are unlikely to have explained the rise.

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