

Gordon Brown
The Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
LONDON
SW1A 2HQ

25 January 2007

Dear Gordon

The Comprehensive Spending Review 2007

The Government's ten-year strategy for childcare and Childcare Act have been a watershed moment for parents and children in Britain, with a steady increase in childcare places and use of formal childcare. The investment in childcare over the last seven years has been unprecedented and has seen real improvements in provision and quality. However, it would be short-sighted not to build on this very good start, or to decide that childcare has had its 'time in the sun'.

Decisions made in the Comprehensive Spending Review 2007 (CSR) for the period 2008-11 will be crucial to whether the Government can deliver on the ten-year Childcare Strategy. It will also be crucial in laying down the groundwork to ensure the Government can achieve its 2010 ambitions on child poverty and helping more families into paid work. As members of the End Child Poverty coalition we are anxious to see the child poverty target reached. To achieve all these ambitions, the Government must commit to effective and long-term funding of childcare. The single most striking characteristic of countries that have a low poverty rate and a high proportion of parents in paid work (such as Sweden) is the widespread availability of publicly funded childcare.

1. Progress made on the ten-year Childcare Strategy

Daycare Trust's 'Childcare Today' paper presented a progress report on the Government's ten-year Childcare Strategy – a copy is attached. Our proposals here reflect the discussion and analysis in that document. Here we present our key findings followed by a series of recommendations for the Spending Review.

Progress on places and childcare use

The number of childcare places has been increasing overall, with a substantial increase in out-of-school clubs and in early years settings offering full-time care. There is now one place for every three children under eight – up from

one place for every nine children under eight in 1997 - a significant achievement. The New Opportunities start-up funding for after school clubs appears to have been particularly effective. However, we are still some distance from formal childcare to cover all needs, with high use of informal care. Given the unmet demand for childcare there are questions also about access to and location of existing services.

The Childcare Act represents a crucial breakthrough for parents and children. We welcome the new duties placed on local authorities to improve the well-being of children up to age five, to improve outcomes for all children and to narrow the gap between those with poorer outcomes and the rest. However, the Government has accepted the principle that local authorities should not be asked to take on new statutory responsibilities without the resources necessary to fulfil them; so the discussions now under way in this Spending Review must take these extra costs into account if the new services are to be sustainable.

The childcare sector is still dominated by the private and voluntary sectors. A question arises about what is the final 'mix' of the childcare economy we are aiming for by the end of the 10-years. There is some churn in places and providers, but not as much as recent publicity would indicate. However it does raise questions about the sustainability of some new or existing services. Subsidy must be set at the right level to ensure sufficient free places are created and sustained.

The role of public subsidy

The Government has made very welcome progress in financial support for childcare. However, there are currently concerns regarding the future of funding for childcare. Childcare will not be sustainable in poor areas at costs parents can afford if subsidy is time limited as currently planned. Yet it is in the poorest areas that childcare provision is most needed in order to enable parents to get training, work experience and/or enter and stay in paid work. Costs will have to increase in the sector in order to produce the improvements in quality, in particular to pay for more highly qualified staff. Many parents will not be able to shoulder these costs, and some of the strides made in extending places may be lost as a consequence. Also, without adequate funding, the strategy could fail to deliver on places or on quality. Parents' decisions about childcare are driven primarily by considerations about quality of care. Poor quality provision will inevitably mean fewer parents able to take the decision to move into paid work.

Various research studies show the importance of universal early education. For example, W. Steven Barnett (National Institute for Early Education Research, New Jersey), estimates that only 50 percent of people from low socio-economic backgrounds access the Headstart programme in the US, with some middle-income families benefiting as well. This gives a \$40.5 billion net benefit¹. A universal programme, while having a much higher initial

¹ Barnett estimates that the return for children from low socio-economic backgrounds is 6:1 while the return for middle class children is 3:1

outlay (\$50bn compared to \$11bn for the targeted programme), is able to reach all families and therefore has a net benefit of \$52.1bn.

The childcare market is good at providing choice and flexibility, but less good at ensuring high quality at a reasonable price. Childcare costs have been rising ahead of inflation at between six and ten per cent per annum. Our latest childcare costs survey shows that the cost of full time childcare in 2007 is on average £152 a week in England. This compares to average gross weekly earnings of £447. Part of this increase is the result of very legitimate (but so far inadequate) improvements in the rewards of the childcare workforce. But if these extra costs fall on parents this poses challenges for reaching the child poverty target. It needs to be confirmed that there is sufficient public funding in the system for providers to supply the free places guaranteed by the Government.

The impact on child poverty and child outcomes

Research evidence shows that high quality pre-school experience leads to positive outcomes for children in terms of learning, behaviour and socialisation. It is an effective intervention for reducing the risk of Special Educational Needs, particularly for young children in the most disadvantaged and vulnerable groups. Quality of the provision is important in ensuring better outcomes for children. Nursery schools and other integrated centres that fully combine education with care and have a high proportion of trained teachers tend to promote better intellectual outcomes for children.

As childcare services have developed, use of formal childcare has increased, but not as much among poorer families or poorer neighbourhoods. More work needs to be done to uncover the barriers for poorer families, but cost is clearly one.² Improvements need to be made to the hours for which childcare services are available and to services for disabled children and others with special needs. Daycare Trust, in common with the Every Disabled Child Matters campaign, has a number of concerns about the availability and affordability of childcare for disabled children. There are a number of recommendations around childcare for disabled children that need to be taken forward as soon as possible.

Key Recommendations:

Public subsidy:

- Subsidy must be sustained and improved to ensure settings can afford high quality staff and reduce the costs passed on to parents.
- The Government should undertake and publish for consultation an analysis on the costs of providing early years service to ensure that there is sufficient money in the system to fund the

² Multi-variate analysis undertaken as part of the DfES Parents Demand for Childcare Survey found that working status and income were significant when looking at whether families used childcare or not. This has also been shown by the National Audit Office.

free places adequately. The need for such a cost analysis is underlined by the NDNA report in to the future of Nursery Education funding and is supported by the Childcare Forum.³

- Explore the possibility of developing local funds to subsidise free places – this could include the addition of a local taxation dimension to the funding mix, including from business.

Extend free early years places:

- For 3 and 4 year olds to ensure parents can work up to at least 16 hours a week⁴ for 48 weeks of the year (should they want to) given that; this would mean offering places of 20 hours a week to give parents some time to travel to and from work.⁵ The hours would need to be flexibly taken over 3, 4 or 5 days depending on parents' job(s).
- For the children of students - in further and higher education. The present arrangements are complex and limited. Particularly with regard to further education, we have received a substantial number of enquiries as Learner Support Funds are limited and have to support a wide range of students.
- For children under 3 years old where recommended by a key professional - this could be for example by the ECM lead professional - or the JobCentre Plus Childcare Partnership Managers.
- Implementation of free places for two year olds in line with the recommendations for the current pilots.
- The LDA is currently leading the Childcare Affordability Programme (CAP), which enables full-day care places to be subsidised up to £30 a week for eligible families in receipt of the working tax credit, at a higher rate than the childcare element element, so that full-day care places can be capped at £175 per week. There is also funding to offer improved flexibility of places. We recommend the Government continues to fund CAP and consider extending the principle to other cities and regions in order to: fund more free places, subsidise costs as in the LDA and in other high cost areas, rural areas and for disabled children (see also *childcare for disabled children* below).

Children's Centres:

³ This includes the key childcare organisations: 4 Children, Daycare Trust, National Childminding Association, National Day Nurseries Association and the Pre-School Learning Alliance

⁴ 16 hours employment is required for entitlement to working tax credit and the childcare element

⁵ The 10-year strategy includes a goal for free places for all 3 and 4 years olds for 20 hours for 38 weeks of the year (school year) and a first step of 15 hours by 2010; we would urge the full goal to be implemented by 2010 plus the extension into the school holidays.

- In light of the recent National Audit Office report into Children's Centres, it is clear that this funding must be sustained. Children's Centres are likely to play a key role in making sure families understand the value of childcare and will be an important access point for low-income families.
- Disadvantaged families are still missing out on access to early years and childcare services. There has been some work on outreach, which has been successful, but outreach needs to be extended through the provision of dedicated staff, which will require additional funding. Given the introduction of new duties on local authorities to secure sufficient childcare, there must be appropriate staff and funding to ensure that childcare can be delivered to those families that need it.

Subsidise out-of-school clubs:

- Continue start-up grants
- Free places for poorer families, possibly passported in the same way as Free School Meals.
- Incentives to local authorities to subsidise out-of-school activities as much as feasible.

Pilot schemes on providing affordable out of hours services:

- Out of hours services continue to be scarce. This is becoming a greater issue given the increase in flexible hours and shift-working patterns. One possible pilot could be to introduce a Sitter Service similar to that in parts of Scotland. This could be used both for respite care and more regular childcare. A report analysing the costs and benefits of the Sitter Service mentions a number of benefits, for example to families of disabled children.⁶

Childcare for disabled children:

- Changes to the childcare element of the working tax credit to help with the additional costs of childcare – see childcare costs below.
- Pathways to Work scheme for parents of disabled children.
- A disability childcare adviser covering the 0-19 range in every local authority to broker childcare arrangements that support parents and providers.
- Subsidy of places for disabled children: the best way of doing this will need to be considered, drawing on evidence of local and regional practice, in particular the Childcare Affordability Programme. We would suggest that a similar scheme could be

⁶Wilson, Hall, Rankin, Davidson and Schad (October 2003) *The Sitter Service in Scotland, A study of the costs and benefits – final report* page 40 (<http://www.scotland.gov.uk/Resource/Doc/933/0007604.pdf>)

used on a local basis to make sources of funding available to pay for support staff, training and pay for any adaptations or extra equipment needed for disabled children.

Child poverty

- There are already shared targets for DWP and DfES on childcare, with the aim of increasing parental work and reducing child poverty, however these have not been afforded a high profile, particularly in DWP. The Harker report drew attention to this lack of focus and emphasised the need for a stronger role for DWP.
- DWP should be funded to collect management information that will be useful to local authorities.
- Childcare Partnership managers should be funded to play a systematic and proactive role in feeding into the local childcare strategy.
- DWP front-line staff should be trained on the importance of childcare. Daycare Trust already provides training (with One Parent Families) for lone parent advisers, which has been very successful. We would be happy to work in partnership with the Department on childcare awareness and affordability training. Funding would be required to make this a success. Furthermore, we also believe that DWP should be offered training in how to broker places and play a role in the local childcare market.

2. Childcare costs

The introduction of free places for 3 and 4 year olds has made an extremely welcome contribution to making childcare affordable. Parents still pay through the nose for all other childcare in Britain, with average weekly costs for a nursery place in England being in the region of £152. Although tax credits have played an important role in tackling child poverty, they have not been as successful in ensuring childcare is affordable. The take-up of the free places compared with childcare tax credit shows that direct subsidy has been more successful than demand-led and means-tested provision in getting to people who need the service. Funding to providers to reduce charges to parents (supply-side funding) is better at targeting disadvantaged groups – e.g. low-income families, disabled children, BME families - and other more costly provision - e.g. rural services. In the long-term more direct funding of provision could be made through local authorities and some exploration made of the possibilities of generating additional funds locally – for example through business rates. However, there will continue to be a need for means-tested help for parents for as long as parents are charged for services and therefore the Childcare Tax Credit needs to be improved.

Key recommendations:

Help for disabled children

- Increase the upper limit of eligible childcare costs under Working Tax Credits for families with a disabled child to £300 per week.
- Close the tax credit gap so that parents of disabled young people aged 16-18 can claim the childcare element of working tax credit.
- Change the WTC rules to ensure the childcare element is not lost immediately if a parent of a disabled child loses paid employment.
- Consideration should be given to introducing an additional childcare element for disabled children.

Reform of childcare tax credit:

- The proportion of help with childcare costs should be increased still further, ideally from the current 80 per cent to 100 per cent.
- Maximum levels for the childcare tax credit should be varied by region to accommodate clearly documented different levels of childcare costs.
- Given the importance of ensuring access to childcare for children of parents who are not working, consideration should be given to coupling the childcare element to Child Tax Credit (rather than Working Tax Credit) or removing childcare tax credit to a separate scheme altogether, possibly administered locally, as in New Zealand. This would allow payments to respond to quality issues and hours of care and, at the same time, it will simplify the tax credits system.
- A costs run-on is needed for those losing a job, so they do not also lose the childcare place and therefore any prospect of re-employment.

3. Flexibility and choice for parents

We commend the Government for highlighting these issues of in the 10-year strategy and some key advances have been made on parental leave, but not all parents have real choices. Overall, some important areas have been overlooked in preference to support for those in work. In particular, there needs to be more support for parents to look after their children themselves after the first year of a child's life; this is particularly important for the period before the age of two. Furthermore, support is needed to enable parents out of work to use childcare. It is crucial to give parents the choice of having some

time without their children in order to do things which either in the short-term (such as applying for jobs) or the medium-term (eg. parenting courses) allow them to improve their and their children's lives. Also, the current system and level of support for childcare for parents participating in education and training is inadequate – particularly in Further Education.

With regard to childcare support for employees, we are concerned that only 2.5 per cent of organisations in the UK offer employer-supported childcare, which equates to around 36 per cent of employees (with mainly large companies using employer-supported childcare)⁷. From our advice line we know that parents find vouchers complicated. Childcare providers also report problems with complexity.

Key recommendations:

Extension of parental leave:

- As well as fulfilling its existing commitment to 12 months paid maternity leave and its transferability between partners, the Government should consider further extension to 24 months to allow parents more options about the balance between paid work and homecare. Daycare Trust would like to see infrastructure developed to allow parents to look after their children in their very earliest years should they choose to do so. This could be in the form of a homecare allowance, payable after the 12 months of maternity pay has been taken, to allow parents to stay at home in a child's second year. If parents choose to work, the allowance could contribute to childcare.
- Maternity pay should be increased to minimum wage levels.
- Improvements for working parents should include the introduction of a right to work flexible hours (not just the right to request) and an extension of flexible working to those with older children (up to 16) to recognise the important role parents play with teenagers when there is no formal childcare. Jobcentre Plus should promote and broker flexible working arrangements as recommended in the Harker Report.
- Paid parental leave should be introduced for all parents, not just for parents of children up to age six. Parents of older children have an equal need to take time off for parenting responsibilities, for example at the transition to secondary school. Parental leave must be paid
- Further work is needed to explore why take-up of employer supported childcare is so low and to advise on whether the scheme needs revising or more money is needed. Government should fund a take-up campaign, focused on employers to encourage more to join the scheme. Daycare Trust is keen to talk to HM Treasury

⁷ Kazimirski, Smith, Mogensen and Lemetti (December 2006) *Monitoring of the Reform of the Income Tax and National Insurance Rules for Employer-supported Childcare: a study of provision and experiences of employers*, HM Revenue and Customs

about how we could be funded to help take forward such a campaign.

- Commission independent research on workplace nurseries and what makes them effective. Local authorities should ensure that questions on the provision of workplace nurseries are included in their childcare sufficiency assessments.

4. Monitoring and Information

Good information and effective data collection is essential under the Childcare Act and more widely in monitoring the ten-year strategy. Monitoring of the National Childcare Strategy is mainly achieved through the Ofsted registration and inspection process. However, changes to Ofsted inspection regimes mean that inspection will be too infrequent to monitor the quality of settings and school-based provision will not be monitored effectively. This will hinder statistical monitoring of the National Childcare Strategy as much information will be out of date or not available.

Parents need good quality and accessible information on childcare and funding. Despite the introduction of Children's Information Services, many parents do not access appropriate information and research evidence shows that CIS services are under-used. In particular, our work with black and minority ethnic parents consistently shows that they have difficulty in accessing information. We commend the brokerage service introduced by the Childcare Act, but are concerned that this will not work properly for parents if it is not appropriately funded.

A recent pilot study by Opportunity Links showed that an information outreach worker based in a children's centre substantially increased access to the Children's Information Service, particularly amongst BME families. Parents ideally need a one-stop shop, linked to appropriate outreach services, where they can find information about childcare availability and cost, brokerage services, and help with tax credit, job and training applications. Another successful pilot project in Leicester enabled parents to try out childcare taster sessions for two weeks. Local authorities need appropriate funding to provide these services.

Key recommendations:

- To effectively monitor the success of the strategy (by the Government itself and by independent commentators such as the Daycare Trust) information on the sector needs to be improved. We urge the Government to take the opportunity posed by the changes in Ofsted registration to ensure that robust data is collected.
- As part of an examination of its role in relation to the National Childcare Strategy, DWP should examine its information role, and

consider how best to work with local authorities to look at supply and need.

- To ensure parents have all the information they require to make decisions on childcare and that local authorities are funded to provide the detailed advice, information, support and brokerage required by parents.
- Prioritise and fund outreach through Children's Centres as this has been shown to be particularly effective. (*see children's centres recommendations above for more information*)
- Extend the pilot of childcare taster sessions, and ensure that parents are entitled to two weeks of sessions (rather than only one week).

5. Quality childcare and the workforce

Much attention has rightly been given to improving the quality of childcare provision and progress has been made. This could be further strengthened by requiring all childcare providers (including nannies) to be registered. This also aids affordability as Ofsted registration allows parents to obtain financial support through tax credits and childcare vouchers. The proposed changes to the system of Ofsted registration should be monitored to ensure this does not weaken the regime. There are a number of elements which give concern - the low level of inspections, the separate scheme for school managed provision, the change in staff: child ratios for 3-5 year olds, the lack of requirements on the availability of outdoor space and natural light. Integration with local authority quality assurance schemes could bring both improvements to services and efficiencies for providers and inspectors.

The Government must be given credit for investing more in the childcare workforce, but there are early indications that the lack of certainty about the future of the Transformation Fund may be undermining its objectives. The Government is in danger of setting its sights too low by requiring only half of staff to be qualified at Level 2 when the target appears already to have been achieved. The requirements for staff to be implemented in the future should be set out now; these higher requirements will act as a leverage for providers to invest further in improving skills and qualifications now with the help of the Transformation Fund. Staff pay must also be addressed as a matter of urgency, and this cannot be left to be paid for only by parents, or it will undermine the affordability of services, especially for those parents on low income. We also believe there should be increased focus on recruiting and training people from representative communities in order to achieve a diverse workforce.

The role of the Transformation Fund needs to be continued and enhanced. Given that a more highly qualified workforce is key to achieving high quality childcare, further and on-going investment is going to be needed if we are to achieve a high quality and respected workforce, like that seen in some other

European countries. For the fund to be successful, local authorities and providers need to be assured that this is a long-term investment and they are not going to be in difficulties at a later date when funding is withdrawn.

Daycare Trust was commissioned by DfES to run a series of policy roundtables on the future development of the Transformation Fund. We recommended in our report to DfES that funding be committed until 2014, to match the timescales for the 10-year childcare strategy. However we believe that a far more radical approach to workforce reform may be needed.

Key Recommendations

- Funding should be committed until 2014, to match the timescales for the 10-year childcare strategy.
- There needs to be additional funding to step-up the OFSTED inspection regime and to streamline the arrangements required in different settings.
- Childcare ratios for 3-5 year olds should be reduced and funding made available if necessary. Also, financial help is needed to ensure providers can offer access to outdoor space and light.
- Challenging standards should be set for qualification levels in the childcare sector to provide the incentive needed for providers to take action.
- An interim milestone for Early Years Professionals, to have 75 per cent in post by 2011, to coincide with the spending review period and to ensure that the 2015 target is achievable.
- The Transformation Fund needs to be made simpler and more straightforward. Consideration should be given to giving local authorities greater discretion in the use of TF money to respond more flexibly to the local situation moving ahead of national guidelines where appropriate. For example, some local authorities such as Derbyshire and Gloucestershire have used cash to set up training officers and networks that have produced results faster than simply using the TF provisions.
- There should be enough money in the system to bring all areas up to an appropriate standard as quickly as possible and to be able to insist on professionally led settings of the kind shown by research to most improve child outcomes, particularly the most disadvantaged.
- Our detailed recommendations for the Transformation Fund in its existing form are contained in the attached report that we produced for DfES.

Thank you for this opportunity to set out our detailed and comprehensive suggestions for this crucial stage of the National Childcare Strategy. We hope you will agree that now is the time to underline the Government's public commitment to childcare and to make sure the strategy is able to deliver the highest quality and affordable childcare so vital to achieving our shared objectives for the economy and for combating child poverty and disadvantage.

We hope you find our recommendations helpful and will be able to invest appropriately in early years and childcare. If you have any questions about any of the suggestions above, please do not hesitate to get in touch.

Yours sincerely,

Emma Knights and Alison Garnham
Joint Chief Executives

Encs.