

REPORT

DOUBLE DUTCH

THE CASE AGAINST DEREGULATION
AND DEMAND-LED FUNDING
IN CHILDCARE



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POSITIVE IDEAS
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CONTENTS

Executive summary	2
Are Liz Truss' claims about childcare in this country supported by the evidence?	2
What have been the impacts of the 2005 Dutch childcare reforms?.....	4
Would deregulation and demand-led funding improve the quality and affordability of childcare?	5
An alternative source of inspiration: lessons from the Danish childcare system	6
1. Introduction	9
2. What is the case for going Dutch?	11
2.1 Critique: our childcare system delivers poor value for money	11
2.2 Lessons: the Dutch childcare system and its 2005 reforms	12
2.3 Proposals: deregulation for childminders and demand-side funding.....	13
3. Does the evidence support the claims about our childcare system?	14
3.1 Does Britain get poor value for money from public expenditure on childcare?	14
3.2 Has the growth of children's centres been responsible for the decline in childminders?.....	22
3.3 Is childcare over-regulated in England compared to the rest of the OECD?	23
3.4 Are child-to-adult ratios in England much lower than in the rest of the OECD?	25
3.5 Have early years services for young children made any difference?.....	27
3.6 Summary.....	29
4. Would taking the Dutch route make childcare better?	30
4.1 The impact of the 2005 Dutch childcare reforms.....	30
4.2 Reducing the regulation of childminders	32
4.3 Shifting to a system of demand-led funding	34
5. An alternative source of inspiration: the Danish childcare model	38
5.1 Core aspects of the Danish childcare system.....	38
5.2 Core aspects of the Danish parental leave system	40
5.3 The relationship between childcare and the Danish welfare state	41
5.4 Lessons for British policymakers from the Danish system.....	42
References	44

EXECUTIVE SUMMARY

Despite major advances over the last 15 years, childcare in the UK is more expensive and or more variable in quality than in many other European countries. This is especially problematic given the potential of good childcare to overcome early childhood disadvantage and enable parental employment. In recent months, both the Coalition government and the Labour party have established childcare commissions to explore new policy options in this political battleground.

To contribute to the debate, Conservative MP Liz Truss published a paper earlier this year called *Affordable Quality: new approaches to childcare*, in which she argued that the UK should learn from the Dutch childcare system, particularly from a set of reforms in 2005 that reduced the regulation of childminders and instigated a shift to a demand-led system of public funding.¹ At the time of writing her report, Truss was a backbencher. However she has recently been appointed as minister responsible for childcare and early years. This paper critically engages with the arguments and ideas put forward in Truss' paper and the deeper ideological approach that underpins them.

Are Liz Truss' claims about childcare in this country supported by the evidence?

The argument in Truss' paper is rooted in the claim that our childcare system delivers poor value for money, for both parents and taxpayers. This is thought to be because:

- public **funding** is complex, does not follow parental demand and has (implicitly) favoured centre-based services over childminders
- child-to-adult **ratios** are among the most restrictive in Europe, particularly for childminders, unnecessarily limiting the number of children they can care for
- **regulation** for childminders is overly burdensome, pushing up their costs and providing disincentives for new entrants into the market.

However, drawing on data from this country and across the OECD, this report finds that the evidence does not support these central claims.

Public expenditure on childcare in this country is not as high as headline OECD comparisons suggest and is spread unevenly across age and income profiles. However, a high share of spending on families is channelled through benefits rather than services.

Data from the OECD finds that the UK spent the third-highest share of GDP on early childhood education and care of any developed country in 2007, behind only Denmark and Sweden. This is the most recently available data, though the OECD has since revised expenditure down from 1.1 per cent to 1.0 per cent. This still points to an unenviable combination of high costs to parents despite high government spending (not to mention variable quality and patchy coverage). This is the centrepiece of Truss' claims of poor value for money. However, a deeper analysis shows the picture is more complex.

OECD comparative data overinflates UK public spending on childcare: To make expenditure figures comparable, the OECD adjusts spending in each country as if all children begin school at six. This means that the figure given for the UK is factored up as if children spent an extra year in early education, with equivalent levels of funding. In reality, five-year-olds in the UK are in reception classes (funded through the education budget). Based on our calculations, actual expenditure on childcare and early education in the UK is 0.34 per cent of GDP, rather than the official 0.65 per cent figure. This is

¹ <http://www.centreforum.org/index.php/mainpublications/352-affordable-quality>.

² IPPR | Double Dutch: The case against deregulation and demand-led funding in childcare

a significant adjustment which, when taken into account, leaves overall spending on childcare and early education at less than 0.7 per cent of GDP in 2007 (rather than 1.1 per cent, as suggested in the official OECD figures). This suggests that the UK is a middle-ranking spender at best, well behind the Nordic nations (whose expenditure levels in the comparative data are actually *deflated* due to their later school starting age).

Public spending on childcare is not spread evenly across income or age profiles:

This is true in all countries, but is particularly marked in the UK. For example, there is a steep drop-off in expenditure during the period when a child is aged between one and three, after maternity pay expires and before the ‘free entitlement’ for three and four-year-olds kicks in. Childcare costs faced by parents also vary significantly by household income. While the free entitlement is available to all families, the childcare element of the working tax credit is heavily means tested (offset in part by tax relief on employer-supported childcare).

This means that a couple family, where both adults earn the average wage and have children aged two and three, spends (on average) 27 per cent of its net income on childcare costs (equal to 41 per cent of the UK’s average wage). However, a working lone parent, who earns half the average wage and has children aged two and three, faces similar childcare fees but their net costs are (on average) just 4 per cent of family income (or 3 per cent of the average wage). In the UK, net childcare costs as a share of family income rise with affluence. This is similar to many other countries, though not all. However, even the most affluent of families in Sweden, Portugal, Netherlands, Iceland, France, Finland, Denmark and Belgium face lower net childcare costs as a share of their income than all but the poorest UK families.

Public spending on families is dominated by cash benefits rather than childcare

services: Expenditure on family-related services (childcare and early years plus children’s social services) increased significantly between 1995 and 2007, from £3.6 billion to £10 billion. However, over the same period, public spending on cash benefits for families grew considerably more, from £13.7 billion to £31.5 billion. Almost three-quarters of the overall rise in expenditure went on greater spending on cash benefits. This meant that by 2007 the government was spending more than three times as much on cash benefits (76 per cent of total expenditure on families) as it was on childcare and children’s services (24 per cent). This imbalance – which does not include spending on health, education or housing – stands in stark contrast to Denmark, for example, which devotes over half its spending on families to childcare services (55 per cent) as opposed to cash benefits (45 per cent).

It is certainly not the case that the UK is among the lowest spenders on childcare in the OECD. So it is still important to ask whether there is scope to deliver better value for money, for parents and the government. We find little evidence to suggest that regulatory burdens are unusually high for UK providers. Expenditure rose from a very low base from the late 1990s, with much of the money used to expand supply rather than to cap parental costs. However, the large increase in childcare places has not stabilised prices. It is likely that an inefficient funding system, expensive overheads, a highly fragmented provider market and the absence of any price control mechanism all contribute to high costs.

Child-to-adult ratios in England are slightly more restrictive than in some OECD states. However, there is a significant degree of flexibility for childminders, and other countries with looser ratios have a significantly better qualified workforce.

The rules on child-to-adult ratios in this country are slightly more restrictive than the OECD average for children under the age of five. For childminders, ratios are 3:1 for those caring for under-fives, compared to an OECD average of 5:1 (in practice, the ratio in the Netherlands is 4:1, not 5:1 as suggested by Liz Truss). The regulations in England are actually more flexible than Truss implies: childminders can look after up to six children under the age of eight at one time, so long as no more than three are under the age of five and no more than one is under the age of one.

Also, crucially, countries with looser ratios tend to have much better qualified childcare workforces. In Denmark, 60 per cent of the childcare workforce holds a degree-level qualification (in pedagogical child development) compared to 8 per cent in England. Only a little over half of childminders hold level 3 qualifications (equivalent to A-levels). A more sensible reform would be to smooth out the bumps in centre-based provision, where there is currently a big jump from the required ratio for two-year-olds (4:1) to that which applies for those aged over three (8:1).

Childcare regulation is more centralised but not more burdensome than in other OECD countries. Big falls in childminder places over recent years have been among school-age services, so competition from nurseries cannot be to blame.

The regulation of childcare has increased over the last 15 years, as part of a strategy to raise quality and increase parental confidence. This has increased the burden on providers, but there is no evidence that this has deterred new entrants (indeed, supply has increased substantially). It is hard to compare levels of regulation across countries, but it is the case that England has a relatively centralised system, with standards set out in national legislation and monitored by a national inspection agency. In some other OECD countries there is a greater role for local authorities in determining and administering regulation, which can promote more relational, rather than bureaucratic, forms of accountability.

The number of childminder places decreased by 30,500 (or 11 per cent) between 2005 and 2010, while day nursery places increased by 205,600 (or 40 per cent) over the same period. However, the rise in nursery places was overwhelmingly among those catering for under-threes (up by 229,000); childminder places for this age group dropped by just 8,500. The major decline in childminder places – by 24,000 – was among those catering for school-aged children (aged five and over). If this was caused by competition then it could only have been as a result of the expansion of after-school provision, which grew by 86,500 places between 2005 and 2010 – nurseries and children’s centres cannot be to blame.

The expectations of childminders have also grown over the last decade and a half, as steps to raise the quality of the sector have intensified. However, a survey of former childminders in 2001 did not find increased regulations (nor, for that matter, tougher competition) to have been a significant issue in their decision to leave the profession. The main reason cited was the desire to take up alternative (often better paid) jobs, which were widely available in a period of strong employment growth. Many said that the chance to undertake professional training was something that might encourage them to return to childminding.

What have been the impacts of the 2005 Dutch childcare reforms?

Building on her argument about the weaknesses of the childcare system in this country, Truss goes on to suggest that policymakers should take inspiration from the 2005 reforms to childcare in the Netherlands, which deregulated childminding and instigated a shift to a

demand-led funding system. However, a number of studies into the impact of the Dutch reforms suggest the impacts were not universally positive:

- **Large growth in childcare places, especially among childminders:** the number of registered childminders grew by 200 per cent between 2004 and 2008.
- **Massive deadweight costs:** a large share of ‘new places’ were created by grandparents taking advantage of their new right to public subsidies, significantly increasing government costs without a net increase in supply.
- **Low parental costs, because employers pay one-third of fees:** without this contribution, childcare costs in the Netherlands would rank among the most expensive in the OECD (and at least as high as in the UK).
- **Bureaucratic funding system:** parents pay the entire childcare fee upfront and then claim back a share based on their income.
- **Variable impact on quality:** a longitudinal study found that the share of providers judged to be ‘unsatisfactory’ rose from 6 per cent in 2001 to 49 per cent by 2008.
- **Decline in the not-for-profit sector:** the number of centre-based providers located outside of cities more than halved between 2000 and 2006, alongside a reduction in services in disadvantaged neighbourhoods.
- **Rise in part-time, low-paid work (especially among women):** this has accounted for a large share of the growth in Dutch maternal employment over the last decade.

Would deregulation and demand-led funding improve the quality and affordability of childcare?

Extending from this review of the Dutch reforms, we argue that the two strategic policy directions proposed by Truss do not stand up to an interrogation of the evidence and would take childcare in this country down the wrong path.

Reducing regulation of childminders would undermine quality and parental trust

If there are unnecessary regulations, especially related to administrative burdens, which do not affect safety or quality, then the government should remove them. But deregulating childminding in the ways Truss suggests would undermine the quality of care for children and peace of mind for parents.

- **Relaxing child-to-adult ratios:** The OECD is clear that lower child-to-adult ratios enable staff to give proper time and attention to young children. Truss’ proposal would enable childminders to care for five children under the age of five (with a 2:1 ratio for babies). Ratios are only a little more restrictive in this country than elsewhere in the OECD, where workforce qualifications are often higher. Relaxing child-to-adult ratios would signal that the UK was embarked on a ‘low road’ route to advancing its childcare system and send the wrong message to parents, who want care services that they can trust, and to prospective childminders, who want to enter a high-skill, high-status, high-quality sector.
- **Ending individual childminder registration and inspection:** Individual registration and inspection helps to ensure parental confidence in childminders and demonstrates the sector’s commitment to safety and standards. Truss’ proposals are strongly opposed by the National Childminding Association (NCMA), which rightly sees them as a threat to the status and integrity of their profession. The NCMA also opposes any move to relax the requirement for childminders to deliver the Early Years Foundation Stage, which is the benchmark for quality in the care of young children.

A demand-led funding system would not reduce costs or increase quality

Childcare is currently funded through a patchwork of service entitlements, local authority funding, tax relief and cash benefits. This is confusing for parents and providers alike, and there is certainly scope to generate efficiencies from a simpler, more rational funding system. This could be done through either a demand-led or supply-side approach. However, the evidence indicates that the former would neither reduce costs nor enhance quality.

- **Increased costs to government and parents:** In the Netherlands, the move to channelling public money for childcare through parents led to many existing informal carers reclassifying themselves as formal providers in order to claim public funds, which left parents facing among the highest childcare fees in the OECD (only reduced by employer and public subsidies). In Australia, a move to demand-led funding did generate a large increase in the supply of places. However, public expenditure ballooned (from A\$0.5 billion in 1996 to A\$3.3 billion in 2008) and, despite this, childcare costs rose by over 100 per cent between 1996 and 2007 (compared to a rise in the general rate of inflation of 27 per cent over this period).
- **Lower quality and parental choice:** In order for demand-led funding to extend choice, there must be a provider response: a parent can only exercise choice if the services are available. This can happen in areas of high demand but is unlikely in rural and low income areas or at atypical hours (as the impact of the Dutch reforms has borne out). In theory, demand-led funding might raise quality, with parents wielding their purchasing power to choose better quality providers. However, parents often do not have good information or a full sense of the quality of a given provider. This reduces the incentive for providers to invest in quality, such as through the workforce, given that parents will also be motivated by price. There are also high 'switching costs' in childcare, with parents reluctant to move their child regularly.

The volatility in supply and use inherent in an 'effective' demand-led funding is antithetical to long-term investment and militates against the development of a mature, reliable childcare system. Higher quality costs money, and the returns on that investment accrue beyond individual providers to the sector as a whole, not to mention wider society. It is no surprise that countries which have developed high-quality childcare systems, such as the Nordic nations, have relied heavily on supply-side funding. In these countries, parents have real choice, with funding following the enrolment of children.

An alternative source of inspiration: lessons from the Danish childcare system

Rather than 'go Dutch', politicians interested in shaping a quality, affordable childcare system would do better to look to Denmark for their inspiration. The Danish childcare system has evolved over nearly half a century and reflects that nation's particular political, cultural and institutional conditions – not least, the entrenched social partnership arrangements between employers and trade unions. The British context is very different and so such a system could not be straightforwardly imported here. However, there are a number of insights from the Danish system that policymakers in this country could usefully take on board.

Spending on services over benefits

Denmark spends only a slightly greater share of its national income on children and families than Britain, but it devotes a much greater proportion to parental leave and childcare (relative to cash benefits). Annual expenditure on childcare for under-twos is

around £12,000, and around £8,000 for those aged three to five (by comparison, the free entitlement in this country costs about £2,300 per place). However, while universal child benefit is of equivalent generosity in both countries, there is no additional cash payment in Denmark akin to child tax credit. Instead, Danish parents benefit from high-quality, affordable childcare. This settlement has contributed to low levels of child poverty, high maternal employment, and a resilient welfare state with deep popular roots.

In Britain, much more is spent on cash benefits, but statutory maternity and paternity leave is poorly paid and childcare is often low-quality and expensive. If child benefit was frozen in cash terms for a decade with the money diverted into childcare, an extra £2.5 billion a year would be available. If winter fuel allowance and free TV licences (currently paid to all pensioners) were restricted to those on pensions credit, this figure would rise to £4.2 billion a year. This would generate resources sufficient to make a major impact on the quality and affordability of childcare in this country.

A MumsNet/Daycare Trust survey earlier this year² found that over half of parents (61 per cent) said they would be happy to receive fewer benefits – such as via a freeze in child benefit for 10 years – if childcare was made free or more affordable. Only 5 per cent supported a reduction in the number of childcare staff, even if it meant lower parental fees.

National entitlement, supply-side funding and a cap on parental costs

The bedrock of the Danish system is a national entitlement to a childcare place for all parents, from when their child is one until they start school. Its childcare system has evolved through supply-side funding to providers: this stable, sustained resourcing model has enabled high-quality provision to be built up (as well as allowing for parental choice). There is a level playing field on funding and regulation, with a mix of centre-based care and childminders in operation, with the latter supported both by local municipalities and a dedicated trade union. Parental costs are capped at a low level – a maximum of 25 per cent of the unit price – with a sliding scale of subsidies for the remaining fee. Parents pay the equivalent of £200–£300 a month for childcare, accounting for 7–10 per cent of their disposable income. In this country, we should move towards a national entitlement to a childcare place, simplified funding to build up a system of high-quality providers, and capped parental costs with fee relief for low-income families.

A high-quality workforce

The high quality of the Danish childcare system is rooted in its workforce, which is well trained and decently paid. The majority of practitioners hold degrees in child development and earn the equivalent of £25,000–£40,000 a year (just 10 – 15 per cent less than teachers). There is a union which upholds professional standards and a commitment from local municipalities to ongoing training and development. This makes it possible to sustain a lower level of statutory regulation – such as on the curriculum, ratios and inspection – in combination with strong local democratic oversight. The quality of care is fundamental to the impact of childcare provision on social mobility. Efforts to raise quality in English childcare should focus on improving the knowledge and capabilities of leaders and practitioners. This will require a combination of gradual increases in the qualifications and standards required, greater maturity in the systems of training and development, and a stronger sense of professional identity and status (feeding through into higher pay).

² <http://www.mumsnet.com/family-friendly/childcare-costs-survey-2012>

Decentralised governance and statecraft

The national entitlement to a place and cap on parental costs is combined with local responsibility for how childcare provision is organised and delivered. This supports a diversity of providers, minimal statutory regulation, strong local municipalities, and established networks of parental associations and boards. However, the lack of independent accountability is a risk, and the lack of clarity or transparency about unit costs makes it hard to compare value for money. In this country, a clear national regulatory framework is necessary to ensure a baseline of availability and standards. Beyond this, however, greater attention should be focused on giving childcare providers and local institutions the space to innovate, share responsibility and respond to local need. A high-quality childcare system cannot be legislated into existence from the centre.

Generous leave and flexible workplaces

Generous leave, flexible working and good childcare make the trade-offs for Danish parents about working and caring much less sharp than for those in Britain. Even low-earning parents are able to take a full year of leave after having a baby, the options for childcare are attractive and affordable, and the workplace culture is family-friendly. Most parents receive full pay for at least six months, co-funded by employers and the state (with employer associations pooling the financial risk among firms). Much less progress has been made, however, on addressing gender segregation and inequality at home and at work. The priorities for policy in this country should be to make it possible for greater chunks of maternity leave to be shared between both parents and increasing replacement rates, so that parents whose employers do not offer more than statutory pay can afford to take time off with their young children (especially fathers). Such steps could be funded by frontloading cash benefits for families with children, which currently stretch across childhood and adolescence.

Broad political consensus and alliance building

There is a very strong political consensus and coalition of support underpinning the Danish childcare and parental leave system. This reaches across classes and has deep roots in the feminist and trade union movements. There is also powerful backing from industry and business, out of social responsibility and recognition of its economic benefits. No such consensus or coalition exists in this country, where childcare remains a marginal – and at times divisive – issue. If childcare and early education are to be major policy priorities in this country over the next decade, especially in the context of fiscal constraint, it will require a broad coalition of support to be built behind it. This could include business and trade unions, as well as mothers and fathers right across the income spectrum.

1. INTRODUCTION

The high and rising cost of childcare³ was a problem for many parents even before the period of economic stagnation that we are living through. Combined with flat wages and public spending reductions, its impact is now intensifying. The cost of a place at a nursery for a young child has increased by nearly 6 per cent in the past year, while a dual-earner couple on the average wage with two young children spends over a quarter (27 per cent) of their net family income on childcare (Daycare Trust 2012, OECD 2011a). That is a higher share than in any other country in the OECD except Switzerland.

Where it was once thought of as an entirely private affair, the impact of the childcare system on family life is now felt by society and the economy as a whole. Given the fiscal context, the state will be able to play a much more limited role in directly improving living standards for the foreseeable future, with far fewer resources available for higher transfer payments or lower taxes. Therefore, a greater burden will fall on employment (and wages) to drive prosperity – and to provide the resources, through tax revenues, to fund public services. However, recent research has found that the absence of affordable childcare is one of the main factors preventing well over a million women from taking up paid work (Plunkett 2011). This is an issue where the arguments of feminism and fiscal responsibility meet. Elsewhere, as incomes continue to be squeezed, easing the cost burden of childcare would make a big difference to household budgets.

Unfortunately, affordability is not the only challenge facing the childcare system in this country. Despite the high costs faced by families, availability remains patchy (especially at the times parents want it) while quality is variable at best (Nutbrown 2012). When public resources are tight, high-quality services for young children, which are proven to support their healthy development alongside good parenting, have a strong claim to be a policy priority (Ben-Galim 2011).

In response to the powerful social and economic forces affecting families, politicians of all parties have recognised the need to act. In recent months, both the Coalition government and the Opposition have established childcare commissions to investigate the issues and explore potential policy options.

This demonstration of political appetite has provoked a debate in the research and policy community about what approach Britain should take on childcare. One such contribution was a paper by the Conservative MP Elizabeth Truss, published by CentreForum in May this year (Truss 2012).⁴ At the time, she was a backbench MP, active within the recently formed Free Enterprise Group within the Conservative parliamentary party. However, she has since been made a minister in the Department for Education, with responsibility for childcare and early years. The arguments and ideas set out in her paper are now being taken into the heart of government.

Until relatively recently, politicians of the mainstream right largely opposed the notion of a collective concern about the funding, organisation or provision of childcare, arguing that this was a sphere best left to families. However, this has changed in recent years, exemplified by Truss' paper, which firmly rejects this traditional view in a number of key areas. Truss agrees that childcare should be backed through public expenditure and that it is essential in supporting parents (particularly mothers) to work. This is hugely welcome, underscoring that childcare is now a policy debate that is being engaged with across the political spectrum.

3 In this report the term childcare refers to care and education services for preschool children (unless otherwise stated).

4 There have also been others, such as *Better Beginning: Easing the Cost of Childcare*, by the Social Market Foundation <http://www.smf.co.uk/research/welfare-reform/a-better-beginning-easing-the-cost-of-childcare/>.

In that spirit, the purpose of this paper is to critically engage with the Truss' propositions and with the deeper ideological approach that seems to underpin them. This is partly because they deserve such attention on their own merits, but also because they now represent the public positions of the minister responsible for these issues.⁵ Truss's central argument is that Britain could learn valuable lessons from the Dutch childcare system; in particular, from a set of reforms the Netherlands enacted in 2005 to reduce the regulation of childminders and redirect public funding from providers to parents.

The remainder of our paper is divided into four chapters. We begin by briefly outlining the case made by Truss for learning from the Dutch reforms, including the contentions that underpin it and the solutions put forward. We then go on to scrutinise, in turn, those claims and the resulting proposals; we look in particular at comparative data from the OECD, but also at a range of domestic and international studies. Finally, we suggest that while the childcare system in the Netherlands may have features worth drawing on, there are other international models that might provide better inspiration for the UK. We consider, in particular, lessons from the childcare system in Denmark.

Over the last 15 years, the provision of childcare for young children has become far more widespread; at the same time, the issue has risen up the political agenda in response to the demands and efforts of parents, employers, trade unions, community activists, child development experts and politicians. However, big challenges remain, especially given the economic and fiscal context. Now, there is arguably a broader-than-ever consensus about what these challenges are, but the different strategic and practical responses that have been put forward speak to important philosophical distinctions and political choices. This paper aims to air these distinctions and choices, while adding to the case for childcare as a major social and economic priority in the years ahead.

5 Indeed the terms of reference of the Department for Education's childcare commission picked up some of issues raised by Liz Truss in her paper, before she was appointed to the government. In particular on the issue of regulatory burdens: <http://www.education.gov.uk/inthenews/inthenews/a00211981/commission-calls-for-views-on-childcare>.

2. WHAT IS THE CASE FOR GOING DUTCH?

Liz Truss' CentreForum paper, *Affordable quality: new approaches to childcare*, considers ways of tackling the problem that childcare is unaffordable to many families and of variable quality. Her case comes in three parts:

- a critique of the value for money delivered by the childcare system in this country, for both parents and taxpayers
- an explanation of the Dutch system and the lessons of the Netherlands' 2005 reforms for the UK
- a series of proposals aimed at politicians and policymakers.

This chapter of our paper briefly sets out each of these elements in turn.

2.1 Critique: our childcare system delivers poor value for money

The case for reform starts from the view that the childcare system in this country does not deliver good value for money. The figures quoted in the report suggest that the UK spends a similar proportion of our national income on childcare as the Nordic countries, where costs to parents are lower and quality is higher. She argues that, especially given the constraints on public spending, this should prompt policymakers to consider reforms that would make a bigger impact – on both affordability and quality – within existing resources.

Her critique rests on the propositions that:

- public **funding** is complex, does not follow parental demand and has (implicitly) favoured centre-based services over childminders
- stipulated child-to-adult **ratios** in Britain are among the most restrictive in Europe, particularly for childminders, unnecessarily limiting the number of children they can care for
- **regulation** for childminders is overly burdensome,⁶ pushing up their costs and providing disincentives for new entrants into the market.

These claims are put forward as explanations for the decline in childminder places since the mid-1990s, a period during which there was a significant expansion of nursery places (and strong growth in childcare overall). For instance, it is argued that supply-side funding has been locked in centre-based care, especially children's centres, with very few parents using childminders for their 'free entitlement',⁷ despite there being no restriction on this. Similarly, the regulatory burden is thought to fall more heavily on childminders than on centre-based services, which have greater internal resources and capacity to cope. Truss finds that a childminder's annual overhead costs are approximately £3,900, yet they earn an average annual income of only £11,100.

As well as reducing parental choice, this shift in the balance of provision is – so the argument goes – a further dimension of poor value for money, given that childminders, with no rent to pay from the public purse, can provide places at a lower unit cost to the taxpayer. This 'favouring' of centre-based care has also, it is claimed, had potentially negative impacts on children; Truss points to studies that have: 'identified the close attachment with the carer and a homely environment as crucial for [children]' under three years old (Truss 2012: 7).⁸

6 The report cites requirements to register with Ofsted, undertake training, be regularly inspected, and follow the Early Years Foundation Stage.

7 15 hours a week of free early education for all three and four-year-olds, and (in time) 40 per cent of two-year-olds.

8 Other commentators on the right have taken this perspective further. Neil O'Brien, director of Policy Exchange, has argued that '[a] number of government "early intervention" schemes aiming to improve children's readiness for school seem to be a flop.' He suggests that public expenditure should not be dictated by government

2.2 Lessons: the Dutch childcare system and its 2005 reforms

In considering ways to respond to these issues, Truss' paper draws inspiration from the childcare system in the Netherlands – in particular, the major reforms that took place in 2005, which were aimed at reducing the regulatory burden facing childminders and rewiring public funding for childcare. Among other reasons for citing the value of the Dutch childcare system are the high rates of female employment it helps to support. Truss points out that three-quarters of mothers with children under the age of three in the Netherlands are in paid work, compared to just over half (54 per cent) in the UK. The relevant aspects of the Dutch system, and the 2005 reforms, are summarised below.

Shift to demand-side funding,⁹ including for childminders

Prior to the 2005 reforms, Dutch parents could access childcare through three routes:

- publically subsidised places at childcare centres – funded by the local authority
- places purchased by employers – with firms able to deduct 30 per cent of the cost from their payroll taxes
- places purchased privately – with parents able to deduct a portion of the fees from their taxable income.

In 2004, these routes accounted for 12 per cent, 64 per cent and 24 per cent of all places respectively (Noailly et al 2007), following a significant increase in employer-funded childcare in the 1990s. The 2005 legislation abolished supply-side funding (money channelled to providers, especially local authority provision) and replaced it with a single system of demand-led funding (where money goes direct to parents). This meant the end of subsidised places, with parents now paying full childcare fees upfront before claiming back a portion from the tax authorities dependent on their income (Brandsen et al 2011: 21).¹⁰

Decentralised regulation through childminder agencies

The Netherlands has never had a national registration and inspection agency, akin to Ofsted in the UK, with such functions being undertaken instead by local government. Childcare centres are regulated directly, but individual childminders are part of agencies, which are themselves subject to regulation. These agencies act as 'one-stop shops' for parents and childminders, administering fees for a small charge and providing support, training and business advice. Childminders themselves are subject only to occasional spot-checks, with agencies required to vouch for their quality and safety.

The 2005 act stated only that all providers were expected to supply 'sound' childcare services,¹¹ building on an existing system of self-regulation. This involves an annual, non-binding agreement among providers on issues like child-to-adult ratios, group size and pedagogical policy; this agreement is then used as a benchmark through which local governments can monitor quality. Formal parental participation, through parent committees, is also required (Plantenga 2011). The Truss report points out that child-

preferences but rather follow parents' choices, which might be for lower-regulated, lower-cost childminders (O'Brien 2012).

9 Demand-side funding refers to systems where parents pay the full cost of fees upfront before receiving cash and/or tax benefits to offset those costs (usually from the government but also sometimes from their employer). Supply-side funding, by contrast, refers to systems where public funding goes to providers, meaning that the upfront fee is lower than the market rate. It is common in such systems to set a maximum childcare fee, with parents paying a portion of that cost on a sliding scale according to their income level. In practice, most countries operate some form of hybrid funding model.

10 Contingent upon family income, the type of care used, hours worked and whether the child is the first in the family.

11 Understood to mean that 'the service will contribute to a good and healthy development of a child in a safe and healthy environment' (Plantenga 2011: 5).

to-adult ratios in the Netherlands are less restrictive than in the UK, with a 5:1 ratio for childminders caring for under-fives (compared to 3:1) and a 2:1 ratio for children under one (compared to 1:1), linked to their willingness to 'pay childcare workers more [and] have more training and supervision' (Truss 2012: 7).

2.3 Proposals: deregulation for childminders and demand-side funding

In light of these lessons, Truss' report concludes by making a number of proposals for improving the childcare system in this country without incurring significant extra public cost (if any at all).

Truss says:

- Childminders should be regulated by Ofsted through childminder agencies, rather than individually. Such agencies could be developed from existing networks and offer a simpler route into childminding for those currently put off by the regulatory burden.
- Child-to-adult ratios should be loosened to 5:1 for childminders caring for under-fives and to 2:1 for those caring for babies, creating '40 per cent extra capacity'. This would allow either parental fees to be reduced or quality to be increased (by attracting higher-paid staff, for example).
- A simple, single system of demand-led support, channeled directly to parents,¹² should replace the complex mix of public funding streams, with a 'pupil premium' element to target extra money on the most deprived youngsters.
- Nurseries and children's centres should have the opportunity to become 'academies', independent of council control, with public funding following the child rather than coming through a local authority formula grant.
- Parents should have the legal freedom to use their own money on informal childcare arrangements, such as with relatives or friends, who are not registered with Ofsted. Also, childminders looking after fewer than five children but not receiving public funds should go unregulated, other than having to undergo a Criminal Records Bureau check.

The stated goals of these proposals are to increase the number of childminders, make better use of existing provision, and ensure that public funding follows parental choices. Beyond the general view that the current childcare system operates a systematic bias against childminders, the core argument underpinning these proposals is that **deregulating provision** and moving to **demand-side funding** should be among the main strategies for the next phase of childcare policy.

There is some confusion about the precise funding model being advocated in the Truss report. At one point, the report calls for 'a single childcare support to be paid to parents' [sic] to replace the existing range of funding streams (Truss 2012: 8). Later on, however, linked to the argument for expanding the academies model to the early years, there is a suggestion that, rather than public money being channeled via local authorities, 'funding could follow the child – thereby directly funding both agencies and nurseries' (including with the 'pupil premium' boost) (Truss 2012: 8).

There is obviously a significant difference between these two approaches – one fully demand-led, the other largely supply-side (with a strong element of parental choice). However, the general thrust of the paper is for 'demand-led funding' (see the subhead on page 8) that involves money being channeled through parents for them to use on purchasing childcare.

¹² David Cameron recently claimed to be 'hugely attracted' (Watt 2012) to making childcare costs tax deductible, an alternative demand-led funding approach recently advocated (O'Brien 2012).

3. DOES THE EVIDENCE SUPPORT THE CLAIMS ABOUT OUR CHILDCARE SYSTEM?

In advocating a strategy organised around deregulation and demand-side funding – inspired by the Dutch system – Liz Truss has, in her report, staked out distinctive ideological territory. In a number of important ways it runs counter to the path pursued by almost all of the countries in the developed world that have established and sustained high-quality, affordable and broadly accessible childcare systems (OECD 2006: 114–117). For that reason, it is important to scrutinise the arguments underpinning Truss’ direction of travel, as well as the specific ideas proposed. This chapter aims to do just that, by interrogating five central claims on which Liz Truss rests much of her case.

3.1 Does Britain get poor value for money from public expenditure on childcare?

At the heart of Truss’ argument is the paradox that Britain seems to combine relatively high levels of public spending on childcare with relatively high costs to parents. To underline her case, she cites figures showing that the average British family spends a greater proportion of their income on childcare than anywhere in the OECD except Switzerland. She presents a graph showing that the UK spends a higher share of its GDP on childcare for under-threes than all but four OECD countries: Denmark, Finland, Norway and Sweden (Truss 2012: 3).¹³

On the face of it, this does appear to be a puzzling – and unenviable – combination of outcomes: high government spending *and* high costs to parents (not to mention variable quality and patchy coverage). To judge whether the ‘poor value for money’ charge is justified, however, we need to dig further into the figures.

Internationally comparative data on childcare expenditure is notoriously hard to pin down.¹⁴ Countries sometimes classify spending in different ways (for example, in the distinction between ‘childcare’ and ‘early education’) and there are often discrepancies between what items are included in particular comparisons. However, the OECD does provide composite measures of total expenditure on childcare and early education¹⁵ – the most recent data from this series, pertaining to 2007, is summarised in figure 3.1. This shows that the UK, at that time, spent the third-highest share of GDP on these items in the OECD (1.1 per cent), behind only Denmark and Sweden.¹⁶

The chart breaks down the UK’s expenditure into two components: ‘childcare’ (0.4 per cent of GDP) and ‘early education’ (0.7 per cent of GDP). The former (broadly) relates to spending on children up to the age of two and the latter to expenditure on children aged three to five. One exception to this is that the OECD classifies the childcare element of the working tax credit as ‘childcare expenditure’, despite the fact that it is available to parents with children aged three and over. These distinctions are also not clear cut because of the differences between countries which have integrated early years systems, like the Nordic countries, and those which separate childcare from early education, like the UK.

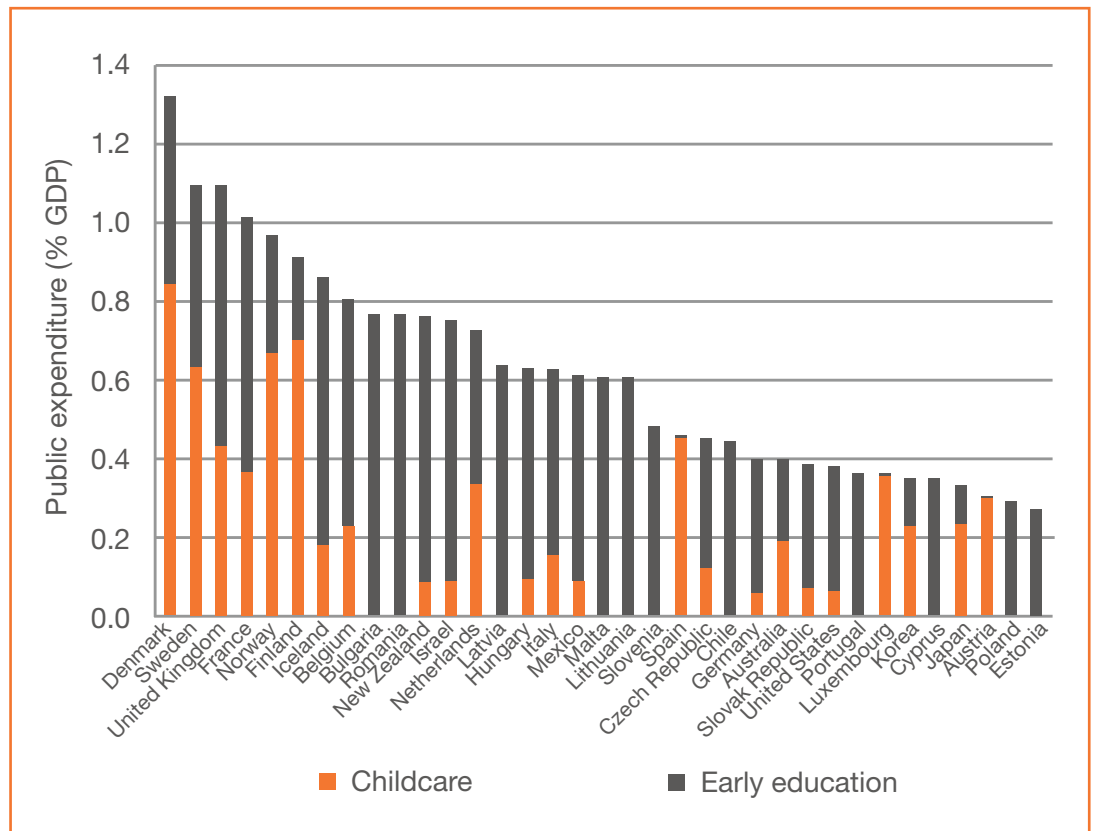
13 Truss estimates that the government spends £7 billion a year on a combination of the childcare element of the working tax credit (£2 billion), employer childcare vouchers (£600 million), the ‘free entitlement’ for all three and four-year-olds plus disadvantaged two-year-olds (£2.5 billion), and core funding to Sure Start children’s centres (£2.2 billion) (Truss 2012: 3). Digging into the answer to a the parliamentary question on which she bases her figures suggests that expenditure on the childcare element of working tax credit is somewhat lower, at £1.6 billion.

14 Data on expenditure refers to the UK, as this is the unit of analysis used by the OECD. In practice, the funding of childcare and early education services is a devolved matter.

15 Often referred to as ‘early childhood education and care’ (or ECEC) in the jargon.

16 This is the same data on which Liz Truss draws for chart 3 in her CentreForum report.

Figure 3.1
Total public expenditure
on childcare and early
education in OECD
countries, 2007



Source: OECD Family Database, 2011

Since these figures were published, the OECD has in fact revised UK expenditure on childcare and early education in 2007 downwards from 1.1 per cent to 1.0 per cent, with the ‘childcare’ spending lowered to 0.3 per cent of GDP.¹⁷ However, even with this caveat in mind, how can we account for the apparent combination of high parental costs *and* high public spend?

The first crucial factor relates to the data itself. The age at which children start compulsory education varies across countries. Therefore, to make the expenditure figures on childcare and early education comparable, the OECD adjusts spending in each country *as if* all children began school at six. This means that the figure given for early education spending (that is, on children aged three to five) in the UK is factored up to what it would be if children spent an extra year in early education with equivalent levels of funding. In reality, five-year-olds in the UK are in reception classes within schools (funded through the education budget).

This means that *actual* expenditure on childcare and early education in the UK is much lower than implied by comparable OECD data. In fact, early education spending comprises 0.34 per cent of GDP, rather than the 0.65 per cent shown in figure 3.1 (calculated by removing the equalised adjusted spending on five-year-olds). This is a significant factor which, when taken into account, leaves spending on childcare and early education in this country at less than 0.7 per cent of GDP in 2007. This makes the UK a

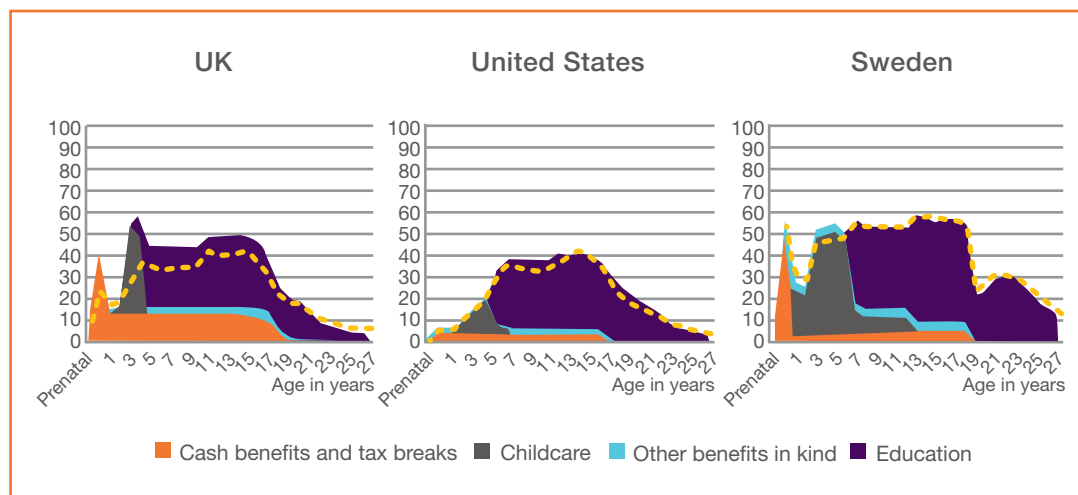
¹⁷ Author correspondence with OECD social policy analyst, 6 September 2012.

middle-ranking spender at best, well behind the Nordic nations. This is not an entirely fair comparison, given that other countries with a school starting age other than six will have had their figures adjusted too; in the case of countries with later compulsory education entry ages, figure 3.1 *underplays* the actual level of spending.

Beyond this methodological point, two other substantive factors need to be considered, related to how spending is distributed across children of different ages and across families with different incomes. We take each of these in turn.

Firstly, public expenditure on families is not spread evenly across the childhood age profile. This is true in all countries, but the distinctive feature of spending in the UK is that there is a steep drop-off during the period when a child is aged between one and three, roughly after maternity pay expires and before the 'free entitlement' kicks in. This is demonstrated in the UK chart within figure 3.2, which shows different types of government expenditure, as a share of median working-age household income, across the rising age of a child. For the sake of comparison, similar charts for Sweden and the US are also shown.

Figure 3.2
Expenditure on families
as share of median
working-age household
income, 2007



Source: OECD 2011

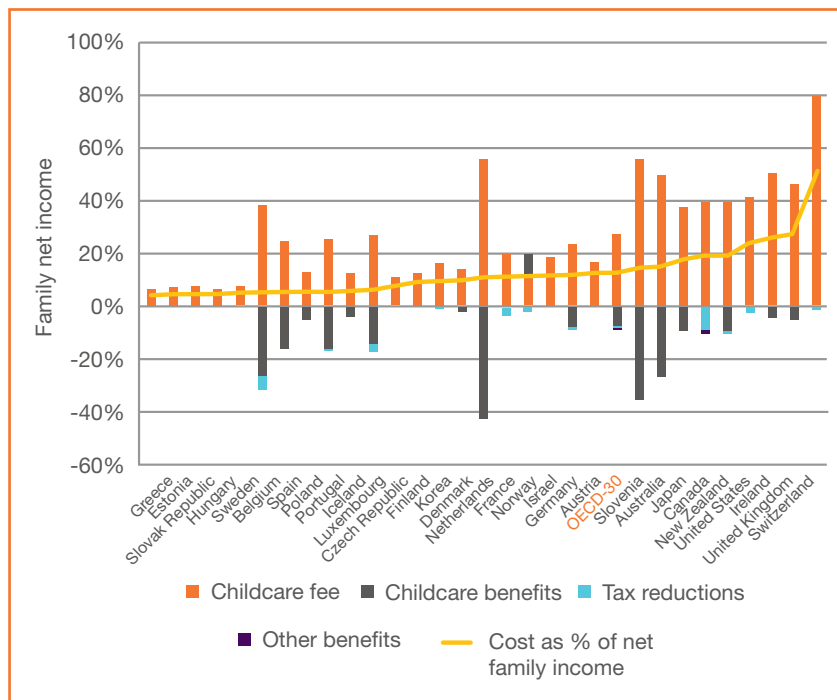
These charts show that the UK spends more on families in the preschool period, as a proportion of average wages, than the US, where expenditure is concentrated on primary and secondary education. Sweden spends substantially more than the UK (and the US) both in the prenatal period and throughout the early years of a child's life (before school entry), with less of a drop in the one-to-three age range than in the UK.

The second significant distributional issue relates to how public expenditure is shared out among families on different levels of income (and, by extension, the impact it has on household budgets). While the free entitlement for three and four-year-olds is available to all families equally, the childcare element of the working tax credit is heavily means tested. This skew towards low-income families is only partly offset by tax relief on employer-supported childcare, which generally benefits those on middle and higher incomes.

This means that net childcare costs, after help from the government is taken into account, vary considerably for families across the income spectrum (and by the number of children in childcare, at different ages). Take what is often described as a 'typical family': a couple, both of whom earn the average wage, with children aged two and three. Figure 3.3 shows

that this family type spends (on average) 27 per cent of its net income on childcare costs. Their childcare fees are high, and these are reduced only slightly by ‘childcare benefits’,¹⁸ leaving them with net childcare costs equal to 41 per cent of the UK’s average wage.

Figure 3.3
Childcare costs as share of net family income, for a dual-earner couple both on the average wage with two children, 2008



Source: OECD 2011a

Unfortunately, data limitations mean that this chart does not include tax relief on employer-supported childcare, which would almost certainly benefit a couple like this. The net costs are also so high partly because one of the children in this family type, aged two, would not yet benefit from the free entitlement.

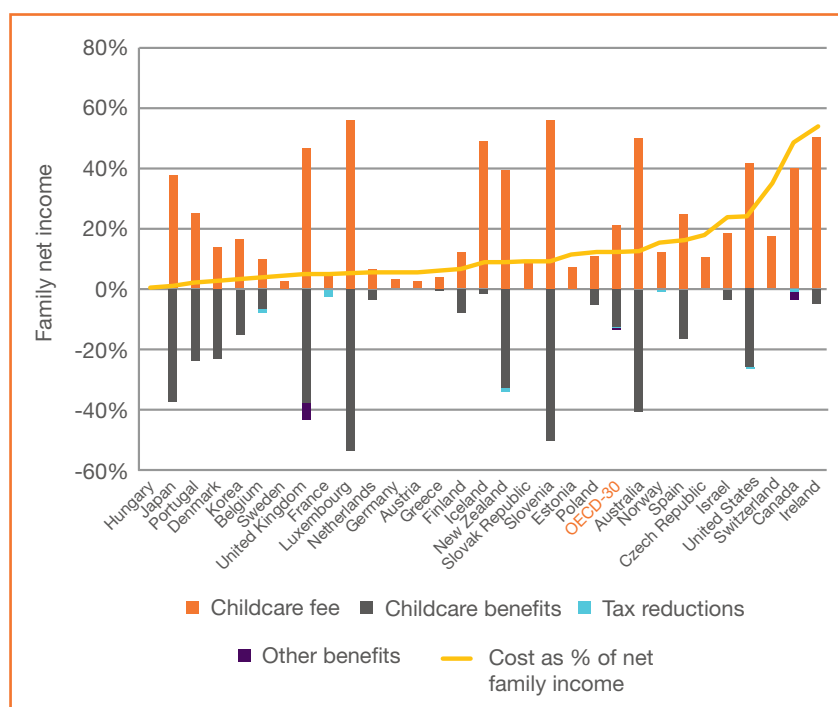
The comparative data in this chart points at two routes to lower net childcare costs for this type of family across the OECD. In countries such as Sweden, Denmark and Finland, childcare fees are much lower, equivalent to 10–15 per cent of the family’s wages, due to public funding of childcare services. There are limited childcare benefits in these countries; they are not needed. By contrast, in the Netherlands (and to a lesser extent Australia) childcare is expensive but the costs are substantially offset by childcare benefits. The main cash benefits in the UK – child benefit and child tax credit – are not linked to the task of reducing the net cost of childcare.

The concentration of childcare and early education expenditure in the UK on low-income families is illustrated by figure 3.4, which gives the same breakdown of costs and benefits for a working lone-parent family earning half the average wage but which, like the ‘typical family’, also has children aged two and three. In this scenario, childcare fees are similarly high but net costs are much lower, at just 3 per cent of the average wage and 4 per cent of net family income. This family receives a significant amount of ‘childcare benefits’ (the

18 In the case of the UK, this relates to the childcare element of the working tax credit, not child benefit or child tax credit, which are not linked to childcare costs.

childcare element of the working tax credit), which is heavily concentrated on those on low incomes. In this example, the UK system looks very similar to that which operates in the Netherlands, with high parental fees being substantially offset by generous childcare benefits.

Figure 3.4
Childcare costs as a share of net family income, for a single earner on half the average wage with two children, 2008



Source: OECD 2011a

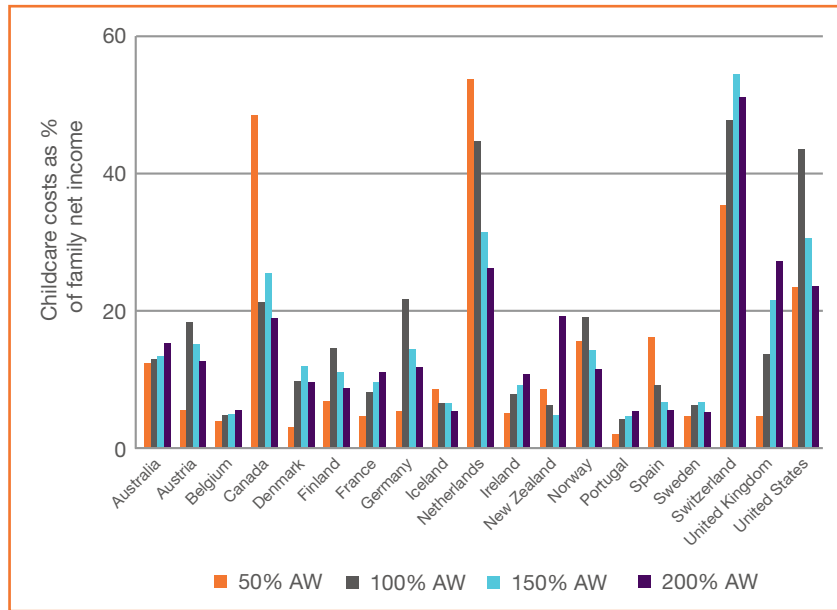
This skewing of public funding towards low-income families is not unique to the UK. Figure 3.5 sets out the net cost of childcare, after tax breaks and benefits, as a share of net family income, for four family types:

- i. dual-earner families where both adults earn the average wage ('200 per cent')
- ii. dual-earner families where one earns the average and the other half the average wage ('150 per cent')
- iii. single-earner families on the average wage ('100 per cent')
- iv. single-earner families on half the average wage ('50 per cent').

As with the charts above, these families all have two children, aged two and three.

This chart underlines that, in the UK, net childcare costs as a share of family income rise with affluence. This is similar to many other countries, though not all (contrasting with Canada, Ireland, Germany and Norway, for instance). It is striking though, that all but the lowest-income families in the UK face significantly higher net childcare costs than those right across the income distributions in a number of other countries. Even the most affluent of families in Sweden, Portugal, Netherlands, Iceland, France, Finland, Denmark and Belgium face lower net childcare costs as a share of their income than all but the poorest UK families.

Figure 3.5
Net childcare costs
for families at different
income levels, 2008

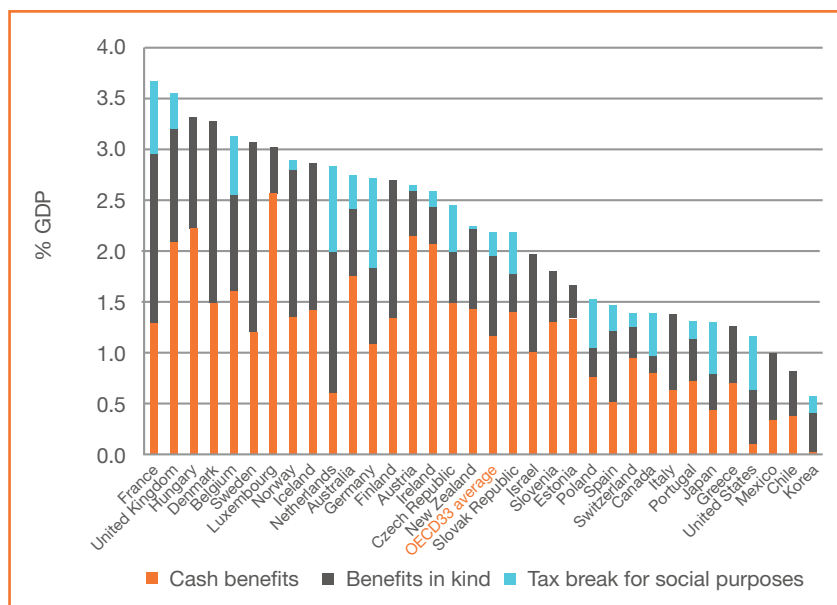


Source: OECD 2011a

Beyond this distributional analysis, it is vital to set the discussion of public spending and parental costs in a broader context. Looking at the wider category of expenditure on families with children (beyond just childcare) we find that the UK channels a far high proportion of spending through cash benefits than through childcare and early education services.¹⁹

This point is demonstrated by figure 3.6, which is based on the most recent OECD data.

Figure 3.6
Public spending on
families with children,
2007



Source: OECD 2011a

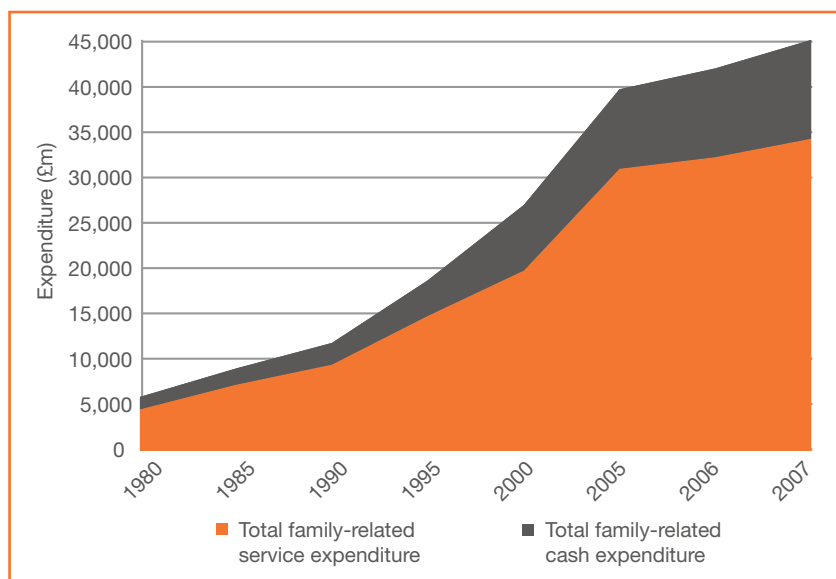
¹⁹ See a recently published OECD study investigating the balance between expenditure on cash versus services for a broader discussion of these issues (OECD 2012c).

Unlike figure 3.1, this covers all families with dependent children, not just those with children under five, and all family-related public spending, not only that contingent on the use of childcare. It breaks down expenditure into ‘cash benefits’ (principally child benefit and child tax credit), ‘benefits in kind’ (including Sure Start and the free entitlement, but not education and other core public services), and ‘tax breaks for social purposes’ (like that for employer-supported childcare).

This chart shows that the UK is relatively unusual in its balance of expenditure on families with children, in particular in its reliance on cash benefits and minimal spending on services (which the OECD refers to as ‘benefits in kind’). The profile of UK expenditure is quite different from Denmark, Sweden and Iceland, for instance, which channel far more public money into services – and spend nothing on ‘tax breaks for social purposes’ (which are generally regressive).

Taking an historical perspective, figure 3.7 is based on the same data as figure 3.6 but sets the balance of spending in the context of rapid increases in expenditure on children and families since the late 1990s (which is now being somewhat scaled back).²⁰

Figure 3.7
Public spending on families with children in the UK, 1980–2007



Source: Author calculation based on OECD Social Expenditure database

It also corrects the data slightly by properly classifying the childcare element of the working tax credit as a cash benefit and readjusts spending on early education to take account of the age that children actually start school in the UK. This shows that while spending on family-related services increased significantly after 1995, from £3.6 billion to £10 billion²¹ in 2007, public expenditure devoted to cash benefits for families grew

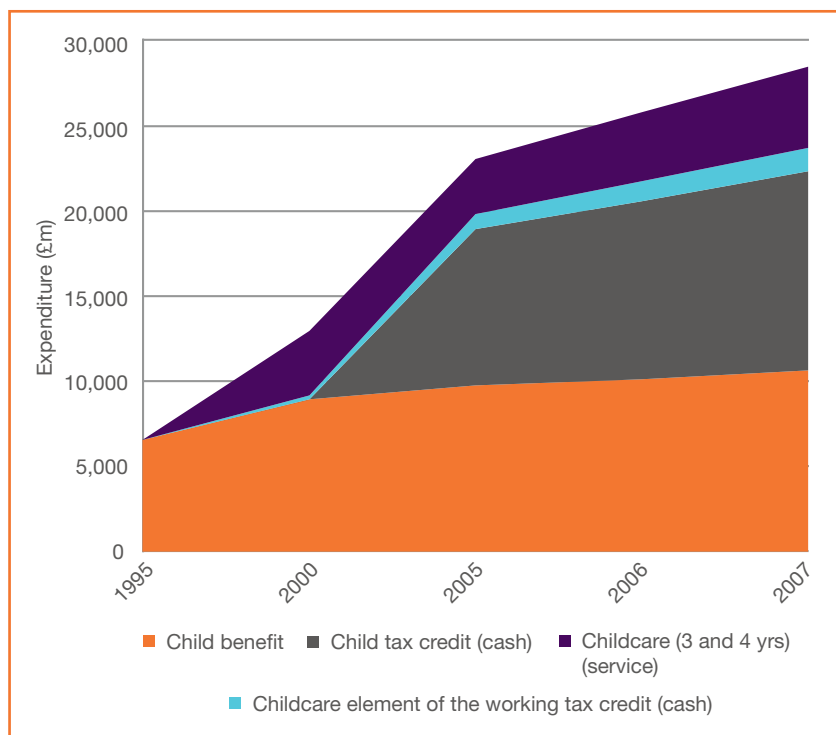
²⁰ Like figure 3.6, this chart includes all expenditure that the OECD’s Social Expenditure database classifies as ‘family benefits’. Cash expenditure includes: child benefit, statutory maternity pay, working tax credit (including, in figure 3.7, the childcare element) and child tax credit. Service expenditures include: the free entitlement for three and four-year-olds and Sure Start, as well as free school meals and children’s social services. In this chart, unlike figure 3.6, the adjustment of early education spending to take account of differential school starting ages is removed. This breakdown does not include tax relief on employer-supported childcare; expenditure on this relief was estimated at around £600 million.

²¹ As explained in the previous footnote, even this figure is inflated by the inclusion by the OECD of spending on children’s social services, which is not directly related to childcare.

considerably more, from £13.7 billion to £31.5 billion over the same period. By 2007, the government was spending more than three times as much on cash benefits (76 per cent of total expenditure on families) as it was on services for families (24 per cent).

This imbalance stands in stark contrast to other OECD countries, such as Denmark, which devotes over half of its spending on families with children to services (55 per cent) relative to cash benefits (45 per cent). Figure 3.8 breaks down the UK's main cash and service expenditure items, underlining the fact that spending on child benefit and child tax credit far outweigh the public money devoted to childcare services – the free entitlement and Sure Start – especially once the OECD adjustment for five-year-olds starting school is discounted. The chart also underlines how the increases in spending since the late 1990s were focused on cash benefits.²²

Figure 3.8
Breakdown of core spending on families with children in the UK (excluding free school meals and children's social services), 1995–2007



Source: Author calculation based on OECD Social Expenditure database

This analysis shows that while the UK does devote a relatively large share of its national income on families with young children, a much greater proportion of this money is channelled through cash benefits in Britain than in other high-spending countries (especially the Nordic nations). This means that British parents have relatively more cash in their pockets (including with which to purchase childcare) but enjoy childcare and early education services that are less well funded (often meaning fees are higher). As we go on to show, the evidence suggests that demand-side funding (such as cash transfers to parents) is a less efficient and effective way to develop a childcare system that is both high

22 This chart does not include spending on free school meals and children's social services. This breakdown does not include tax relief on employer-supported childcare; expenditure on this relief was estimated at around £600 million.

quality and parents can rely on and where costs to parents are kept down (Penn 2007, OECD 2006: 115–118). It does not generate value for money.

The analysis presented here shows that the link between overall levels of public expenditure on childcare and parental costs in the UK is not straightforward. However, it is worth also considering some factors which might account for high costs to parents in this country, especially given that quality is variable, wages in the sector are low, availability remains patchy, and provider profitability is weak. As we go on to show, there is little evidence to support the contention in the Truss report that regulatory burdens are unusually high for UK providers. So what else might be going on?

It could be the case that the impact of rapid increases in expenditure on childcare and early years since the late 1990s is still to fully be felt on the system as a whole. Expenditure rose from a very low base and much of the money was used to expand supply, rather than to cap parental costs (not to mention the substantial increase in cash benefits). However, while the large increase in childcare places over the last decade might have been expected to bring down prices, they have in fact consistently risen above the rate of inflation.

Other possible factors driving high unit costs could include the complex funding system, with a variety of streams for different purposes; expensive overheads, such as rents and utilities; the absence of any price control mechanism, meaning providers face no constraint in raising their fees in response to any extra demand-side funding; or the highly fragmented nature of the childcare market, which is characterised by a large number of small providers. Each of these issues would be worthy of further exploration, especially given the constraint on public expenditure over the medium term.

3.2 Has the growth of children's centres been responsible for the decline in childminders?

Beyond the broad issue of value for money, the Truss report also contends that the drop in childminder places over the last 15–20 years has been linked to the rise in day nursery places over a similar period. Truss points out that the decline began in 1996, when nursery vouchers were introduced, for which childminders were not eligible. This has since been compounded, it is claimed, by centre-based care being 'favoured by government funding structures' (Truss 2012: 2). This presumably refers to children's centre funding and the free entitlement for three and four-year-olds, which is overwhelmingly redeemed in centre-based provision.²³

Between 2005 and 2010, the number of childminder places did decrease by 30,500 (or -11 per cent), while day nursery places increased by 205,600 (40 per cent).²⁴ However, a closer analysis of the trends in places by types of provision and for different ages of children makes the link much harder to sustain.²⁵

23 Neil O'Brien points out that just 3 per cent of children redeem their free entitlement with a childminder (rather than a centre-based institution), a factor he attributes to regulatory burdens such as Ofsted inspections, accreditations, the childminding network membership requirements, and the stipulation that childminders must follow the Early Years Foundation Stage curriculum (O'Brien 2012).

24 There was a big growth in the recorded numbers of childminders in the mid-1990s, but a Department for Education and Employment survey just before the turn of the century reported: 'Much of the increase in numbers of places since [1993] has been due to the requirement to register places for five to seven year olds.' (DfEE 1999)

25 Figures in this section are taken from: DfE Childcare and Early Years Workforce Survey 2010, 2009; DCSF Childcare and Early Years Providers Survey 2008, 2007; DCSF Childcare and Early Years Providers Survey: Childminders 2006, 2005; DCSF Childcare and Early Years Providers Survey: Full daycare providers 2006, 2005; DCSF Childcare and Early Years Providers Survey: Sessional Providers 2006, 2005; DCSF Childcare and Early Years Providers Survey: Out of school providers 2006, 2005, Department for Education and Employment Children's Day Care Facilities at 31 March 1999, England. There were no surveys in 2002 or 2004.

For instance, during this period, the number of full daycare places for under-threes rose by 229,000, while the number of childminder places for this age-group dropped by just 8,500.²⁶ By contrast, the far larger decline in childminder places was among those catering for school-aged children (aged five and over), where numbers dropped by 24,000. Daycare centres do not serve this age-group, so can have had no effect. However, the number of places in after-school clubs – which were directly competing with childminders looking after over-fives – rose by 86,500.

Beyond this, it is far from clear that the relatively small drop in childminder places for preschool children has been *caused* by the growth of nurseries and children's centres. While the growth of alternative providers will have increased competitive pressures, childminders are able to fulfill the free entitlement – and access the funding which comes with it – in just the same way as centre-based providers. Ultimately, providers have to be able to attract parents to sustain themselves, with shifts in the balance of provision (at least in part) reflecting parental choice.

The expectations of childminders have undoubtedly grown over the last 15 years, as steps to raise the quality of the sector have intensified. However, a survey of former childminders conducted by the government in 2001 did not find increased regulations (nor, for that matter, tougher competition) to have been a significant issue at all. The main reason cited for leaving childminding was the desire to take up alternative (often better-paid) jobs, which were widely available in a period of strong employment growth (Mooney et al 2001). Interestingly, many said that the chance to undertake professional training was something that might encourage them back into childminding.

The process of improving the quality of childminding has been strongly supported by representatives of the sector, such as the National Childminding Association (NCMA). Such efforts will have made childminders more attractive to many parents, because they increasingly offer a high-quality and professional service as a result. Parents will have different preferences and values when it comes to the care of their children, which necessitates a diverse childcare system (including a vibrant childminder sector). This should be sustained through pressures for improved quality across all provider types; anything else risks undermining parental confidence and children's healthy development.

3.3 Is childcare over-regulated in England²⁷ compared to the rest of the OECD?

A further dimension of Truss' argument about the decline of childminding is that reforms over the last 15 years have resulted in the over-regulation of childcare – especially, but not only, of childminders. This is a claim that has caught the attention of policymakers seeking ways to reduce costs for providers, so deserves proper consideration.

It is certainly true that regulation in the sector has increased since the late 1990s, as the government has assumed a greater role in childcare legislation, policy and practice. All formal childcare providers now have to be registered and inspected by Ofsted. Rules govern how providers operate, including aspects such as staff qualifications, safety procedures, training, curriculum and child-to-staff ratios. Childminders also have to join

26 Data breaking down the number of places according to age of children and type of provision were not available until 2001. However, the 2005 Childcare and Early Years Providers Survey states that, due to sampling differences between 2003 and 2005, 'any comparisons of overall [childminder] numbers are invalid'.

27 Child-to-adult ratios differ between England, Scotland, Wales and Northern Ireland. Truss focuses specifically on child-to-adult ratios in England and here we do the same.

a local childminding network to be able to provide the free entitlement. Meeting these requirements is necessary to be eligible for government funding as a ‘registered provider’.

While Truss does not suggest that there have been no benefits to these changes, she does claim that by increasing requirements and burdens, they have driven up prices, squeezed profitability and deterred new entrants to the market. It is hard to prove or disprove this contention empirically: regulation generally does increase costs, but this must be balanced against its contribution to raising quality and ensuring safety. Also, where effective, it can increase parental confidence and thus raise the demand for places. It is hard to say whether there is ‘too much’ regulation; however, we can compare the regime in this country to elsewhere in the OECD.

Unlike a number of other developed countries, England has a fairly centralised system of childcare and early education regulation. Policy goals, funding mechanisms and core quality standards are set at the national level, and much of this framework is codified in legislation. A national regulator (Ofsted) registers all providers, including childminders, and conducts independent inspection. In most OECD countries, broad policy goals and funding systems are set by the central state, but in several decisions regarding the registration, accountability and minimum quality standards expected of childcare providers are taken at the provincial or municipal levels.

In Sweden, for example, the national government sets broad rules related to funding, objectives and minimum standards with regards to ‘structural’ quality,²⁸ such as child-to-adult ratios and staff qualifications. However, local authorities are in control of provider licensing, training and inspection. A more decentralised approach such as this has the benefit of ensuring that the *practice* of regulation is undertaken in a way that is more sensitive to local circumstances. It has more potential to facilitate supportive, human relationships – rather than simply the operation of remote, bureaucratic procedures. It can also help to generate a culture of local democratic control, with providers and parents in close and frequent contact with municipal authorities, giving them greater scope for directly voicing local concerns.

These potential gains do, however, need to be balanced against the risk that decentralised systems of accountability can be associated with variable patterns of childcare quality and availability. In the US and Australia, for example, where the federal governments set only minimal childcare requirements, the quality of care is found to be patchy. In Rhode Island, for instance, early years teachers must have a bachelor’s degree, whereas in Oklahoma there are no minimum qualification requirements for early years staff (Azer et al 2002). Such variability is less prevalent – or perhaps, more accurately, less concerning – in countries, like Sweden, where there is a well developed, generously funded childcare system, run very largely by highly trained pedagogical experts.

Of course, even highly regulated and centralised systems cannot guarantee common standards of quality and practice – nor prevent disasters occurring. What they can do is set down some clear benchmarks. The big difference is that the UK is some way from having the reasonably consistent culture of high quality that has been entrenched in the Nordic countries. Rather than debating the overall *level* of regulation in the childcare system, it would be more fruitful to focus on the role regulation should play in advancing towards a high quality system – in ways that do not stifle innovation and relationships

28 ‘Structural quality’ includes measures related to working conditions, such as maximum group size, staff-to-child ratios, staff wages and so on. ‘Process quality’ measures the standard of staff-child interaction, staff-parent communication and so on (OECD 2011d).

– and on the right balance, within such a system, between central rules and local governance, in both setting quality standards and ensuring they are met.

3.4 Are child-to-adult ratios in England much lower than in the rest of the OECD?

A specific dimension of childcare regulation that has attracted considerable interest in recent policy debates is child-to-adult ratios. In particular, Truss argues that ratios for childminders could be relaxed, because they are more restrictive here than in many other countries. She makes a comparison between a ratio of 3:1 for childminders in England looking after under-fives, compared to 5:1 in the Netherlands, 5:1 in Germany, 4:1 in Finland, and an OECD average of 5:1 (OECD 2011b). However, the OECD points out that ‘there is little data available on family daycare [childminders]’ and as such, their average ratio is not disaggregated according to the age of children (ibid).

The regulations in England governing who childminders can care for is actually more flexible than the Truss report implies. The Early Years Foundation Stage makes clear that childminders can look after up to six children under the age of eight at one time, so long as no more than three are under the age of five and no more than one is under the age of one (DfE 2012).²⁹ Also, the figure quoted for child-to-adult ratios in the Netherlands is somewhat misleading. While childminders are allowed to have five children registered to them they can only look after four children at the same time: the source cited in the Truss report is a Dutch government factsheet which actually states that: ‘Home daycare is run by a self-employed childminder who legally can take care of a maximum of *four* children, either in his/her own home or in the house of the parents’ (emphasis added).³⁰

This suggests that UK child-to-adult ratios for childminders are not as severely out of line with other international systems as Truss argues. More comprehensive comparative data on adult-to-child ratios for centre-based providers is summarised in table 3.1. In England, the ratios are 3:1 for children under the age of two, 4:1 for two-year-olds and 8:1 for children aged three and above. The ratio for children under three (3:1 and then 4:1) is certainly more restrictive than the OECD average of 7:1, although many countries also have different ratios within the under-three bracket and this average is pulled up by a number of outliers (such as the US and Slovakia). Most countries have significantly more relaxed ratios for children over the age of three – and especially once children are in school.

However, it is vital to note that countries which operate more relaxed child-to-adult ratios tend to combine this with a far better qualified workforce than in the UK. For instance, in countries with integrated early years systems,³¹ like the Nordic countries, Germany and France, staff caring for children age between two and six typically have at least a bachelor’s degree (OECD 2006: 159). Pedagogues, who undertake three and a half years’ training in special tertiary colleges, make up 60 per cent of staff in Danish centre-based childcare (ibid: 159).

29 However, a childminder may be registered to care for two children under the age of one at the same time if they can demonstrate an ability to provide for the needs of all children in their care.

30 See: <http://www.government.nl/documents-and-publications/leaflets/2011/10/13/fact-sheet-childcare-and-childcare-allowance.html>. In addition, an expert in the Dutch system has argued that: ‘Dutch childminders can be registered for up to six children aged 0 to 13, including their own children aged up to 10. Registration can only be for 5 children under 4, including the childminder’s own, but only 4 of those can be cared for at the same time, and of those only 2 can be aged under 1’ (see comment at http://www.ippr.org/?p=820&option=com_wordpress&Itemid=17).

31 Without a distinction between ‘early education’ and ‘childcare’.

	Main type of staff	Initial training requirements	Age range	Main field of work	Continuous training	Child-to-staff ratio
Australia	Child care worker	2- to 3-year or tertiary training (or 4-year tertiary programme).	0–5	Kindergartens; long daycare	Childcare – limited to some services	5.0 (0–2 years) 10.0 (2–3)
Austria	<i>Erzieherinnen Kindergarten-pädagoginnen</i>	5-year vocational secondary	0–5	<i>Krippen</i> and <i>Hort</i> Kindergarten	Funding by provinces; 3–5 days per year	8.7
Belgium	<i>Kinderverzorgster/ Puéricultrice</i>	3-year post-16 vocational secondary	0–3	<i>Kinderdagverblijf/ Crèches</i> (or assistant in <i>école maternelle</i>)		7.0
Canada	Early childhood educator	2-year ECE	0–12	Childcare, nursery school, preschool		5.5 (0–1 years) 8.5 (2–3 years)
Czech Republic	<i>Dětska sestra</i>	4-year secondary nursing school	0–3	Creche	Voluntary – offered by regional centres	
Denmark	<i>Paedagog</i>	3- to 5-year vocational, or tertiary education (depending on prior experience)	0–5	Educational, social care, special needs institutions (incl daycare)	Funding decentralised to municipalities	3.3 (0–2 years) 7.2 (3–5 years)
Finland	<i>Sosionomi</i> (social pedagogues) <i>Lähihoitaja</i> (practical nurses)	3-year secondary vocational	0–6	<i>Päiväkoti</i> (children's daycare centre) <i>Avoim päiväkot</i>	Municipalities have to provide 3–10 days annual training	4.0 (0–3 years) 7.0 (3+ years)
France	<i>Puéricultrices</i>	Nurse/midwife + 1-year specialisation	0–3	<i>Crèches/assistant in école maternelle</i>		5.0 (0–2 years)
	<i>Éducateurs de jeunes enfants</i>	27-month post-Bac in training centre	0–6			8.0 (2–3 years)
Germany	<i>Kinderpflegerinnen</i>	2-year secondary vocational training	0–6	<i>Kindergarten</i>		
Greece						
Hungary	<i>Gondozó</i> (childcare worker)	3-year post-secondary vocational training or specialist certificate	0–3	<i>Bölcsöde</i> (for children < 3)		6.0
Iceland						
Ireland	Childcarer /childminder	Wide variation	0–6	Childcare centres		3.0 (>1) 6.0 (2–3 years)
Italy	<i>Educatrice</i>	Secondary vocational diploma	0–3	<i>Asili nido</i>	Municipality or director/inspector decides	7.0
Japan	Nursery teacher	Graduation from a nursery training school		Daycare, crèche, nursery		3.0 (0<1) 6.0 (1–3 years)
Korea	Childcare worker	2-year tertiary or 1-year training after high school	0–6	Childcare centre, <i>Hakwon</i> (private learning academy)	Offered by regional centres to all childcare and kindergarten teachers	3 (1 year) 5 (2 years) 15 (3 years)
Luxembourg						
Mexico						
Netherlands	<i>Leidster kinder-centra</i>	2-year post-18 training	0–4	<i>Kinderopvang</i>	Funding decentralised to municipalities	4 (1 year) 5 (2 years) 6 (3 years)
New Zealand	Early childhood teacher	Diploma of Teaching (ECE) – a 3-year course – or an equivalent approved qualification.				4–5 (0–2) 6–8 (2–3)
Norway	<i>Assistents</i>	2-year post-16 apprenticeship	0–7	<i>Barnehager / SFO</i>		8 (>3 years)
Poland						
Portugal	<i>Educadora de infância</i>	4-year university or polytechnic	0–6	Crèches ATL	Offered by regional teacher centres and universities to all teachers	11
Slovak Republic						
Spain						
Sweden	<i>Barnskötare</i>	2-year post 16 secondary	0–7	<i>Öppen Förskola Fritidshem</i>	Funding decentralised to municipalities	5.5
Switzerland	Childcare worker	Varies per canton		Crèches, nurseries		4–5 (0–2) 7–8 (2–3)
Turkey						
United Kingdom	Trained nursery teacher Nursery nurse	2-year post 16 secondary	3–11 0–5	Nurseries (or assistant in above)	Limited for daycare workers	3 (>2 years) 4 (2–3 years) 8 (3–5 years)
United States	Childcare teacher	1 year course to 4-year university	0–5	Public schools Head Start Childcare centre	Most states require a certain number of hours per year	5

Table 3.1: Comparative child-to-adult ratios and qualifications of childcare workers, by type of provision

Source: OECD Family Database 2010

By contrast, in England, just 8 per cent of the childcare workforce holds a degree-level qualification (DfE 2011). And more than three-quarters (76 per cent) of centre-based staff hold only a level 3 qualification³² – in many cases, these take only one year to complete. A recent review for the UK government concluded that existing level 2 and 3 qualifications do not demand that learners experience a variety of settings before qualifying, are too broad (looking at the 0–19 age range rather than, say, 0–7) and lack sufficient detail on the pedagogical aspects of working with children (Nutbrown 2012: 7). In addition, few learning routes demand that prospective students have basic levels of numeracy and literacy (ibid: 8). Despite improvements in recent years, only a little over half (54 per cent) of childminders are qualified to level 3 (Early Years Providers Survey 2010), as required by the Early Years Foundation Stage.

In conclusion, it is sensible to consider whether child-to-adult ratios in this country are right, especially if changes in this respect could lead to greater supply, reduced parental costs or investment in improving quality. For instance, there is a big jump in the required ratio for two-year-olds (4:1) compared to that for those aged three and over (8:1), while the ratio for under-twos is quite tight (3:1). So there might be scope for rebalancing or smoothing out these bumps. Nevertheless, basing such judgments on comparative analysis of ratios must take into consideration the qualifications of those working with children in the countries concerned. While a number of OECD countries have more relaxed ratios than the UK, they invariably combine this with a significantly better qualified workforce.

3.5 Have early years services for young children made any difference?

Despite popular and political support for Sure Start – and the expansion of childcare – there is a dissenting perspective that has been gradually growing in force. Emanating mostly from Conservative commentators, the argument is that the significant investment in services for the under-fives has made little difference to their subsequent life chances and, at worst, has had negative impacts (O’Brien 2012). The Truss report does not go this far, but it does imply a scepticism, especially with respect to centre-based care for children under the age of three (Truss 2012: 7).

The question of ‘what is best’ for young children is a point of huge contention among researchers, policymakers, commentators and politicians – not to mention parents. Some argue against public involvement in the care of young children in principle, while others assert the importance of parents (usually mothers) being able to stay at home to look after their children. There are also critiques of the last Labour government’s approach to family policy emerging on the left: that is, criticism of New Labour’s predominant focus on measurable ‘outcomes’ and its lack of comparable concern for protecting time and space for family life beyond economic and material concerns.

This issue requires a detailed study of its own, but it is important to address here the claim that early years services have had little positive impact (and possibly a negative one) on young children. Such services – first introduced under the Sure Start banner and latterly morphing into children’s centres³³ – are still in their relative infancy. As a consequence, assessments of their long-term impacts are not yet possible. However, while the early

32 Equivalent to A-levels.

33 In contrast to Head Start in the US, Sure Start was area-based, not individually targeted, meaning all families living in the neighbourhood were eligible, providing a variety of functions, including childcare, early education, health and employment support. Until 2005, Sure Start operated with a great deal of local autonomy, but legislation then brought them under Local Authority control and turned them into Children’s Centre, with more specific guidelines about how centres operate.

results have not been exclusively positive, it would be hugely misleading to suggest they show that such policies have ‘failed’.

The initial evaluations of Sure Start reported a positive impact on behaviour, self-regulation and independence among children assessed at nine months and then later at three years. However, the third phase then found no difference in school readiness between five-year-olds who attended Sure Start relative to those who did not, controlling for variables such as family income and location. The researchers involved in the study suggested that the introduction of the free entitlement to part-time early education for *all* three and four-year-olds, which can be redeemed at any registered provider offering the hours, significantly reduced the comparative position of children who did access Sure Start. There was very high take up of the entitlement meaning that the vast majority of three and four year olds benefited from early education, not just those living in Sure Start areas. By the time this cohort reached the age of five, the differences in access to early years provision between children living in Sure Start areas and those who did not was much less marked than would have been the case had the free entitlement not been introduced. This is thought to be a crucial reason why the developmental differences observable in the early phase of study seemed to fade by the time the children were five (NESS 2010: 41, NESS 2012).³⁴

Beyond these specific results, there is a broad body of literature that points to strong benefits for children who participate in high-quality early years services – such as the Head Start, Abecedarian and Perry Preschool programmes in the US – relative to those who do not. Studies point to developmental advantages in areas including language, literacy and behaviour (see for example Puma et al 2010, Barnett and Belfield 2006, Conyers 2003). One of the contentious aspects of research relates to the extent to which the impact of participation is retained through a child’s school career and later life. Researchers admit that this is hard to prove, given the range of other factors that come into play over time (discussed further in Waldfogel 1999).

There is not conclusive evidence demonstrating that home-based care, including childminding, is better for young children than centre-based care. The general finding from a range of studies is that the impacts depend on many factors, with quality being the most significant (Hill et al 2002).³⁵ Low-quality centre-based care can expose children to the risk of developing behavioural problems (Waldfogel 2006) – though so would poor-quality, or neglectful, home-based care.

The age at which children attend early years services and the amount of time they spend there are also important variables in determining the impact of such services. There is evidence that long periods of time spent in low-quality group care from a very young age can be associated with higher levels of antisocial behaviour. Extremely high amounts of time spent in childminder care are also associated with increased antisocial behaviour (EPPE 2003).

34 Moreover, the National Evaluation of Sure Start (NESS) compared families who lived in a neighbourhood with a Sure Start Local Programme against those that did not, regardless of whether a particular children in the study actually accessed the services.

35 The ‘quality’ of education and care is hugely contested. Studies suggest that parents tend to place greater value on subjective characteristics, such as ambience and travel distance, while ‘experts’ focus upon objective factors such as pedagogical plans, staff qualifications and staff-child interactions (Plantenga 2011, 8). Researchers point to two dimensions of quality: structural quality, referring to adult-to-child ratios, teacher qualifications, free space etc, and process quality, referring to issues like staff-child interactions and staff-parent communication that contribute to children’s cognitive and behavioural development (Mocan 2007).

3.6 Summary

This chapter has analysed some of the core contentions on which Liz Truss bases her argument about the reform of childcare in the UK. It has found that:

- The association between levels of public expenditure and parental fees is not straightforward. The UK is not as high a spender as the headline data suggests, and funding is distributed unevenly across families. More importantly, Britain channels a much greater share of spending on families with children through cash benefits rather than services than many other OECD countries (such as the Nordic nations).
- The decline in childminder numbers over the last 15 years cannot be attributed to the growth of centre-based early years providers, given that by far the biggest drops occurred among those catering for school-age children. Instead, the evidence suggests that a strong economy led to many childminders deciding to leave the sector for better-paying work.
- A relatively large proportion of childcare regulation in England is set out in national legislation and monitored by a national inspection agency. Elsewhere in the OECD there is a greater role for local authorities in determining and administering regulation, though such countries often have a stronger culture of quality and better established local institutions.
- The rules on child-to-adult ratios in the UK (including for childminders) are slightly more restrictive than the OECD average for children aged under five. However, countries with looser ratios tend to have much more highly qualified childcare workforces.
- It is too early to determine the long-term impacts of early years services, such as Sure Start, which are still in their relative infancy. However, there is a strong body of evidence pointing to the benefits of high-quality care on the healthy development of young children. To say that Sure Start or children's centres have 'failed' is a hugely misleading.

4. WOULD TAKING THE DUTCH ROUTE MAKE CHILDCARE BETTER?

Having analysed the claims Liz Truss makes about the childcare system in this country, we turn now to the potential impact of the ideas she proposes for future reform. We start by assessing the consequences of the 2005 Dutch reforms, which form the cornerstone of her paper. We then go on to consider the arguments in favour of the two core strategic directions that Truss advocates: reducing the regulation of childminders and shifting to a demand-led funding system.

4.1 The impact of the 2005 Dutch childcare reforms

In her report, Truss argues that a range of positive benefits have been gained from the 2005 Dutch childcare reforms. However, there have been a number of studies into the impact of these changes, which suggest a more mixed picture.

- **There was a large growth in childcare places, especially among childminders.** Places at centre-based daycare increasing by 16 per cent in 2008 alone (Bransden et al 2011: 21), but the largest growth was among childminders, where the number of registered providers grew by 200 per cent between 2004 to 2008 (Lloyd 2012). Since the reforms, the proportion of children under the age of four enrolled in childcare has doubled to 61 per cent (Truss 2012: 5).
- **There were massive deadweight costs.** A large share of the ‘new places’ gained following the reforms were created by grandparents taking advantage of their new right to public subsidies – in other words, there was a shift from informal to formal status, rather than a net increase in supply. This took a significant toll on the government’s budget. Had changes not been made, costs to the government in 2011 would have almost doubled to €3.5 billion, up from €2 billion per year in 2007. Subsequent reforms have scaled back the amount parents can claim for using childminders; additionally, grandparents are now required to become accredited, and they also have to agree to care for more children, some of whom may not be relatives (Lloyd and Penn 2010).
- **The cost of childcare to parents is low because employers pay one-third of fees.** In the Netherlands, dual-earner families on the average wage with two young children spend 10 per cent of their net family income on childcare – compared to 27 per cent for a similar family in the UK. However, the large majority of this difference is accounted for by the fact that, since 2007, employers in the Netherlands have been responsible for meeting one-third of parents’ childcare fees (Plantenga 2011). We calculate that without this contribution, childcare costs in the Netherlands – measured as a share of the country’s average wage – would rank among the most expensive in the OECD. Dual-earner Dutch parents would pay nearly as much for childcare as those in the UK, while single-earner families would face much higher costs than their UK counterparts.³⁶ Truss does not mention this role of employer contributions.
- **The funding system is bureaucratic.** Under the new, fully demand-led system, parents pay the entire fee for their childcare to the provider and then have to claim back a share of the costs based on a formula which takes account of various factors, including their income. Employers pay their contribution directly to the tax authorities,

³⁶ Calculations are based on OECD data on the net cost of childcare in 2008. This indicates that without employer contributions, dual-earner Dutch families on the average wage would pay childcare costs equal to 31 per cent of that country’s average wage (compared with 41 per cent in the UK); dual-earner families on 150 per cent of the average wage would pay childcare costs equal to 27 per cent of the average wage (compared with 28 per cent in the UK); single-earner families on the average wage would pay costs equal to 23 per cent of the average wage (compared with 11 per cent in the UK); and single-earner families on half the average wage would pay childcare costs equal to 21 per cent of the average wage (compared with 3 per cent in the UK). All families have children aged two and three.

so that when parents receive their cash back, it includes both state and employer subsidies. This system channels money directly to parents – significantly reducing their net costs – but is highly complex.

- **There has been variable impact on quality.** The Truss report points to a study which found that parents rated all forms of Dutch childcare highly following the 2005 reforms, in particular childminders (Truss 2012: 6). However, that study was only based on reported parental satisfaction. Important though this is, a longitudinal study looking at a range of other measures – such as adult–child interaction, staff expertise in stimulating child development, and health and safety – found that overall quality in Dutch childcare had declined by 2008, relative to 2005 and 2001. Whereas only 6 per cent of providers were judged as ‘unsatisfactory’ in 2001, this had risen to 49 per cent by 2008 (reported in Plantenga, Bransden et al 2011 and Lloyd and Penn 2010).
- **There has been a decline in the not-for-profit sector and provision in disadvantaged areas.** Before the 2005 reforms, not-for-profit childcare centres were the dominant form of provision in disadvantaged, especially rural, locations. They needed consistent funding to survive in areas of weak demand. Since the reforms, however, many of these providers have been unable to sustain themselves through more volatile parental fees. In such areas, there has not been an influx of ‘for-profit’ providers to take their place, leaving parents without access to childcare. The number of centre-based childcare providers located outside of cities more than halved between 2000 and 2006³⁷ (Noailly and Visser 2009) alongside an overall reduction in daycare services in disadvantaged neighbourhoods (Bransden et al 2011: 25).
- **There has been a rise in part-time, low-paid work (especially among women).** The large growth in maternal employment in the Netherlands over the last decade has been attributed, in part, to the expansion of childcare services that followed the 2005 reforms. Labour market participation among mothers with children under 12 increased from 60 per cent to 71 per cent between 2005 and 2011 (Truss 2012: 7). However, the Truss report does not acknowledge that a big share of that increase in female employment has been in part-time, low-paid work, which has been an increasing feature of the Dutch labour market (OECD 2011c).

This review of the evidence suggests that the 2005 Dutch childcare reforms have not been a straightforward success. As we go on to argue, the lessons Truss draws for policy debates in the UK need to be treated with caution.

However, that is not to say there is nothing to be learnt from childcare in the Netherlands, nor that all the proposals in the Truss report should be dismissed. For example, there should certainly be diversity in the childcare system, with providers from different sectors offering different types of provision (including childminders). And parents should have good choices about what childcare they use. Academy status for children’s centres and nurseries is an interesting idea, though a clearer sense of its practical benefit is probably needed.³⁸ Adapting the concept of the ‘pupil premium’ could help to direct extra resources to disadvantaged children, though early evidence from its impact in education suggests that this gain is not automatic (Clifton and Muir 2010).

37 Noailly and Visser (2009) report that markets located outside of cities had roughly 3.5 childcare settings per 10,000 inhabitants during 1999–2001, dropping to 1.5 by 2006.

38 There is some confusion in the Truss report about how this would work. She argues that it would mean that children’s centres and nurseries would receive government funding directly, rather than via local authorities. But this runs counter to the report’s own emphasis on public funding that is channeled through parents, in a demand-led system. Similar issues would have to be ironed out if a ‘pupil premium’ style of approach was adopted in childcare funding.

4.2 Reducing the regulation of childminders

Regulation should only be used where it is necessary to ensure the safety of children and where it helps to create a framework that promotes high standards in the quality of care. Therefore, if there are unnecessary regulations, especially related to administrative burdens which do not affect safety or quality, the government should remove them. The proposal in the Truss report to create childminder agencies that would help prospective childminders to enter the market makes good sense. This is, of course, a function that many existing childminder networks already perform, but if their role can be deepened, all the better. There are certainly functions – such as insurance, training, emergency cover, professional development and peer support – where a collective network or association could lower individual costs and improve quality.

Relaxing child-to-adult ratios

However, the case for relaxing child-to-adult ratios is less strong, especially without prior improvement in the quality of the workforce. Any benefit this change might have in enabling childminders to reduce parental fees or increase places would come with the risk of detrimental impacts on children's healthy development. Ratios are only somewhat more restrictive in this country than elsewhere in the OECD. However, the differences in average workforce qualifications are often substantial. While qualification levels are not the only factor in determining the quality of childcare, they are clearly important.

Even accounting for differences in qualifications, a comprehensive OECD literature review suggests that tight child-to-adult ratios and lower group sizes do, in general, seem to result in higher quality:

'A higher staff–child ratio improves working conditions within settings, as staff can give sufficient attention to different developmental domains and create caring and more meaningful interactions with children. As the number of children per staff member increases, staff spend more time in restrictive and routine communication with children and are less positive in verbal interactions.'

OECD 2012a: 33

Research on educational outcomes suggests that teacher quality is much more important than class sizes in affecting pupil achievement in schools (Hanushek 1992, 1999). Similar research does not exist for the early years, though it is likely that high-quality staff offset, at least to some extent, any negative effects of lower child-to-adult ratios. However, the OECD reports that 'many early childhood educators believe that anything less than a 4:1 or 3:1 ratio for children up to two years old is insufficient to allow staff to interact effectively with each child' (ibid: 33). Truss' proposal would enable childminders to care for five children under the age of five (alongside 'a 2:1 ratio for babies'³⁹). There is already greater flexibility within the existing rules than she acknowledges, with childminders able to look after up to eight children at one time, so long as no more than three are under the age of three and no more than one child is under the age of one.

The issue of child-to-adult ratios should not be off the table, but to relax these rules in isolation would run counter to the goal of improving the quality of childminding. It would signal that the UK was embarking on a 'low road' route to advancing its childcare

39 However, Truss doesn't say whether these should be separately operated: that is, whether childminders should be able to care for five children under the age of five and two 'babies', or whether the ratio for 'babies' should be incorporated into this 5:1 ratio. She is also unclear whether the term 'babies' refers to under-ones or under-tuos.

system, sending the wrong message to parents who are seeking a service they can trust and to prospective childminders who want to enter a highly skilled, high-status, high-quality sector. The argument that relaxing the ratios would 'enable higher paid staff to be attracted to the profession improving quality' (Truss 2012: 7) is unconvincing. There is no mechanism for increased 'headroom' to be fed through to higher wages – and any such improvement in workforce quality should *precede* changes to ratios.

Ending individual childminder registration and inspection

Efforts to raise the quality and status of the childminding sector would also be dealt a blow by a move to a system of indirect childminder regulation, through agencies. While collective associations can provide invaluable infrastructure and support, individual registration and inspection helps to ensure parental confidence and demonstrates the sector's commitment to safety and standards. Significantly, Truss' proposals are strongly opposed by the National Childminding Association (NCMA),⁴⁰ which has launched a campaign – 'Individual Inspection Matters' – calling on childminders to lobby ministers and their MPs to prevent the idea from being adopted.⁴¹

It is rare for a trade body to campaign *against* the removal of regulation affecting their sector. They rightly see this move as a threat to the status and integrity of their profession. The NCMA also opposes any move to relax the requirement for childminders to deliver the Early Years Foundation Stage, which is the benchmark for quality in the care of young children. They argue that steps are already in train to remove unnecessary burdens for childminders in both the foundation stage and the Ofsted inspection regime.

Alternatively, or additionally, it is possible that the desire to end individual childminder regulation is motivated more by a desire to reduce costs to Ofsted. Last year, the unit cost of a childminder inspection was £67, compared to £12 for a nursery.⁴²

There is a legitimate debate about the balance between central and local responsibility for the regulation of childcare, especially in its monitoring and enforcement. The UK has a relatively centralised system, both in the amount of legislation governing provision and the role of Ofsted as a national regulator. This is thought to ensure common standards across the country, but it does come at a cost in terms of inflexibility and remoteness. If one of the main goals of inspection, for example, is to support the process of continual improvement, this requires some ongoing, face-to-face relationships between regulators and providers – which requires local trust and relationships.

In a number of other countries, the central state sets core minimum standards and policy goals, with power and control over how the childcare system is run and held to account devolved to local areas. At present, there are significant constraints to unlocking the advantages of a more decentralised system of this kind in the UK, including the relative immaturity of the childcare sector, the continued prevalence of low-quality provision, and the weaknesses of local and sectoral institutions that would take on the responsibility. Should some of these barriers be overcome, the case for reduced national prescription (beyond core standards) and increased local accountability (especially on aspects of childcare practice) would be strong.

40 See the NCMA's reaction to the Truss report: http://www.ncma.org.uk/news_and_events/news/may_2012_news/deregulation_isnt_the_answer.aspx

41 See http://www.ncma.org.uk/news_and_events/individual_inspection_matters.aspx

42 Figures derived from NCMA campaign briefing document.

4.3 Shifting to a system of demand-led funding

The case for switching to a fully demand-led funding system (accompanied by an easing of provider regulations) is based on the argument that it would (i) reduce complexity, (ii) lower costs and (iii) increase parental choice. The first of these is certainly strong: childcare is currently funded through a patchwork of service entitlements, local authority funding, tax relief and cash benefits. This is confusing for parents and providers alike, and works against the development of a coherent childcare system. There is almost certainly scope to generate efficiencies from the creation of a simpler, more rational funding system (whether demand-led or supply-side). However, the other two arguments are less straightforward, and are intimately linked.

Would demand-led funding reduce costs to government or parents?

The principle behind demand-led funding is that because public spending follows parental choice, money only gets spent on providers that parents *want* to use (switching resources away from those that they don't). Theoretically, better value for money is also driven by the opportunity for new providers to enter the market, because funding is able to follow parental demand rather than being locked up in existing provision. This, in turn, leads to greater competition between providers, either to improve quality or lower fees. Broadly speaking, this perspective represents standard market theory.

Obviously, the extent to which these advantages might flow from a demand-led funding system depends in large part on *how much* public money is injected into it. This is a hugely significant factor, affecting the sharpness and impact of the various incentives in play. However, previous experience of how childcare systems operate in practice highlights a number of likely problems with the theoretical advantages of this approach. The two countries that have moved most decisively in the direction of demand-led funding are Australia and the Netherlands.

Prior to the 1990s, Australia operated a supply-side system, dominated by federal funding of local providers, most of which were run on a not-for-profit basis. Subsidies on places were combined with a system of fee relief for low-income families. The system then underwent a two-step change to become purely demand-led. Initially, in 1991, the government extended the scope of fee relief to cover 'for-profit' providers. This had a large impact on the supply of for-profit places, which grew by 89,600 between 1991 and 1997 (and only by 4,300 in the not-for-profit sector). Federal expenditure on childcare assistance doubled over these years, far exceeding Treasury expectations (Brennan 1998).

Over a decade later, in 2004, this strategy was entrenched with the introduction of tax relief on childcare costs, which extended government support to middle and higher-income families, combined with the ending of all supply-side funding of not-for-profit providers. This brought about another rapid increase in government expenditure on childcare, which ballooned from A\$555,000 in 1996 to A\$1.8 billion in 2005 (Brennan 2007: 62) and to A\$3.3 billion in 2008-09 (OECEC 2010).

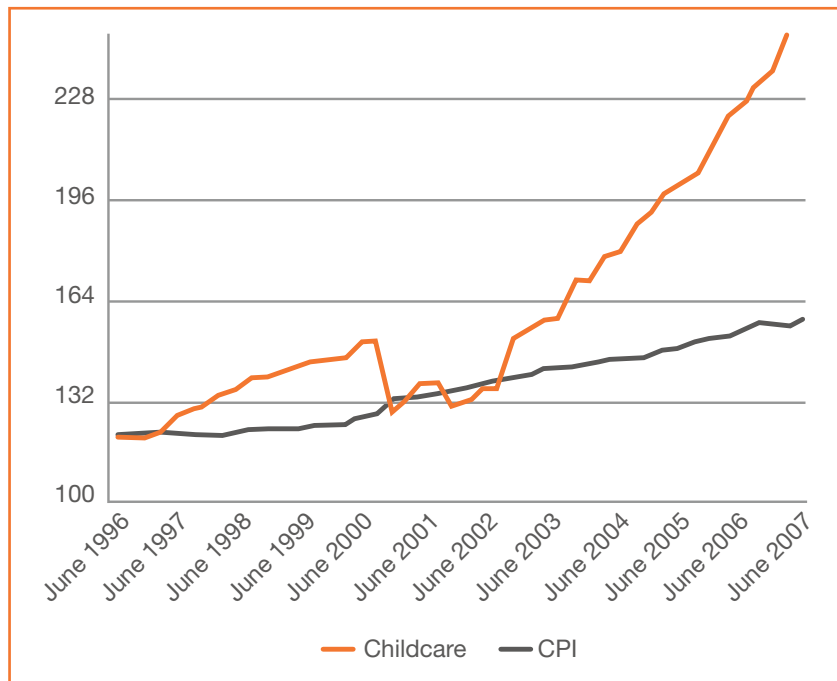
In return, there was a 56 per cent increase in the number of under-fours who used formal childcare, from 305,500 in 1996 to 439,900 in 2005 (Warner and Gradus 2011: 575). However, as Brennan and Oloman (2009) point out, the level of fees also rose very rapidly and, despite increasing government expenditure, parents' net childcare costs rose by over 100 per cent between 1996 and 2007.⁴³ Over the same period, general inflation as

43 There was a small drop between 2000 and 2002 which coincided with the introduction of the Child Care Benefit, a means-tested benefit paid directly to childcare providers rather than to parents.

measured by the consumer price index rose by only 27 per cent (see figure 4.1 below). Moreover, Brennan and Oloman point out that the decision to increase the childcare rebate to 50 per cent (from 30 per cent) in 2008 coincided with a sharp spike in fees.

In short, the increase in childcare places following the shift to demand-side funding came with a significant price tag for the government, at least part of which simply fed through into higher provider fees.

Figure 4.1
Trends in Australian childcare costs compared to consumer price inflation, 1996–2007 (index = 1996)



Source: Australian Bureau of Statistics, reproduced in Brennan and Oloman 2009: 121

In the Netherlands, the switch in 2005 towards a demand-led funding system did lead to lower net costs to parents. However, as was shown earlier in this chapter, much of this was due to higher subsidies being paid to parents from the government and employers. Although we cannot compare Dutch childcare fees in their current form with those that existed prior to the 2005 reforms (when almost two-thirds of places were purchased by employers), the amount charged to parents at the point of delivery, before any subsidy, are among the highest in the OECD (See figures 3.3, 3.4 and 3.5).

This finding presents a conundrum. If those actual fees charged do roughly reflect the unit cost of places to providers, then that suggests that the impact of reduced regulation has been minimal (or that fees were extremely high before 2005). However, on the other hand, if they do not, then that implies that there is considerable scope within a generously funded, demand-led structure for providers to increase fees (without losing business).

Would demand-led funding increase choice and quality?

The other important potential aspect of demand-led funding is its impact on parental choice – and service quality. In theory, channelling public cash towards parents boosts

their power as consumers. However, in practice, this is dependent on providers – of the type, at the price, and in the location that parents want – responding to this power. In many cases this will happen, especially in areas of high demand where parents seek ‘mainstream’ provision on a predictable basis in core hours. (Although, as noted, the market’s responsiveness to such demand will depend on the generosity of the funding.)

However, this model of funding requires a ‘critical mass’ for services to be viable,⁴⁴ making the provision of childcare in areas of less certain demand – such as in rural and low-income areas or at atypical hours – relatively unattractive. Evidence on the impact of the 2005 Dutch reforms bears this point out (see for example Cleveland and Krashinsky 2009, Noailly and Visser 2009 and Bransden et al 2011). A childcare ‘pupil premium’ could offset this problem, but it would have to be substantial to have any meaningful effect.

In theory, demand-side funding gives parents the chance to send their child to a Montessori nursery, for instance, but for that to represent a meaningful choice there has to actually be a Montessori nursery in the local area. It is also an unreliable source of funding for providers – if parents are able to withdraw at short notice – making it a poor basis on which to invest in long-term improvements in human or physical capital.

It is worth also mentioning here the policy of providing tax relief on childcare costs, which is a particular type of demand-led funding that the prime minister says he is ‘hugely attracted to’ (Watt 2012). This is a form of subsidy which benefits those on the highest incomes most and those on the lowest incomes, who pay no income tax, not at all.⁴⁵ Such a system applies in the US, where families are able to offset a portion of their childcare costs against their federal income tax liability. Families with an annual income below \$15,000 can claim up to 35 per cent of their total costs, while anyone whose federal taxable income exceeds \$43,000 can offset up to 20 per cent.

This means that a family on \$43,000 (which is less than the median household income) can claim no more help than one on \$300,000 (IRS 2011). In 2006, childcare tax relief cost the US federal government \$3.3 billion, almost one-quarter of which went to taxpayers with incomes between \$100,000 and \$200,000 (Rohaly 2007). In Sweden, by contrast, childcare is used evenly among families but those on the lowest incomes benefit almost twice as much from government support as the highest. Supply-side funding means that parental fees are capped, those on low incomes pay little or nothing, and there is no system of tax relief (Van Lancker and Ghysels 2012: 138).

Beyond its complex relationship with parental choice, the other major drawback of demand-led funding is its impact on service quality. As discussed earlier, the longitudinal evidence suggests that the 2005 Dutch reforms have not raised quality (Plantenga 2011). Similarly, growth in supply following the Australian funding reforms did not spark competition over quality of care. In fact, the largest private provider, ABC Learning, was accused of flouting quality standards and lobbying state governments to prevent them from being raised (Brennan and Oloman 2009).

On the face of it, this is puzzling. We assume that, all other things being equal, parents will choose good-quality over poor-quality childcare. Therefore, if parents have purchasing power, providers *should* compete on quality to attract them, thereby driving up standards across the board. So why does the evidence suggest that this is not what happens? Any potential upward effect on quality will be lessened if the amount of cash channeled to

44 It is easier for childminders to be responsive to shifting demand, but many parents want a wider choice.

45 Tax relief on employer-supported childcare costs in this country is now capped at the basic rate.

parents is minimal – but that is a matter of detail, not principle. Beyond this, three factors are likely to be important.

First, parents often do not have good information about or a full sense of the quality of a given childcare provider. They may not spend much time in the childcare setting, leaving them with a partial view of its quality. Assuming limited funding, price may also be an important factor in determining their choice. As a result, there may not always be a clear incentive for providers to invest in raising quality, given that it might not be ‘rewarded’ by parents as consumers (especially if such quality improvements lead to increased fees) (Mocan 2001). This links to the second factor, which is that ‘switching costs’ in childcare are high: parents will not want to move their child often, even if they do want to exercise their choice to move to a better-quality provider.

The third factor is arguably the most important. The volatility in supply and use, essential to the capacity of demand-led funding systems to realise their theoretical benefits, is antithetical to long-term investment in childcare and the development of a mature, reliable system. Improving quality costs money (in developing the workforce, for example) and the returns on that investment accrue beyond individual providers to the childcare sector as a whole, not to mention children, families and wider society. Such costs cannot all be captured in provider fees – and if they were, they would probably reduce parental demand and so prove ultimately counterproductive. Similarly, a high-quality ‘system’ will not emerge from continuous upheaval in supply, with providers opening and closing on a regular basis. Some degree of stability is required to encourage investment.

It is no surprise that countries which have developed high-quality childcare systems over a long period of time, such as the Nordic nations, have relied heavily on supply-side funding (OECD 2006: 114–117). Arguably, it is these systems which, in practice, provide parents with the greatest choice. In Denmark and Sweden there is a large range of providers across local areas, including centre-based care and childminders, from which parents can choose (underpinned by a legal right to a childcare place). Under such systems, choice is still a market driver, with pressure on and attention drawn to providers who consistently fail to attract parents. Funding also often follows the enrolment of children.

In summary, demand-led systems of childcare funding do, in theory, offer the prospect of lower costs and greater choice. But in reality it doesn’t seem to work out like that. In Australia, an increase in supply came with a large price tag for the government. In the Netherlands, costs to parents have been kept low through public and employer subsidies. There is no evidence that choice and competition have reduced unit costs in these countries. Indeed, with no cap on prices, increases in funding are likely to result in higher fees. To have any effect on supply, demand-led funding must be very generous.

In practice, parents have meaningful choice when there are a range of good providers available in their area. Once there is an established supply of good-quality childcare in place, parental choice – including an element of demand-led funding – can play an important role in ensuring that providers are held to account and continue to reflect what parents want. The crucial insight is that a demand-led system is highly unlikely to be effective at developing this kind of high-quality system in the first place.

5. AN ALTERNATIVE SOURCE OF INSPIRATION: THE DANISH CHILDCARE MODEL

In this paper, we have tried to show that the strategic direction for childcare advanced by Liz Truss would set the UK on the wrong path. There are valuable lessons to be learned from the Dutch experience, but the core elements of its 2005 reforms do not provide a good guide for the next wave of policy in this country. Rather than ‘go Dutch’, politicians would do better to look elsewhere for their inspiration. In this spirit, we conclude by suggesting that Denmark is worthy of close attention. It has a childcare system with attractive elements, developed over a number of decades, which offer important insights for the strategic options facing British policymakers.

Childcare began to develop as a core element of the Danish welfare state in the 1960s, in large part due to pressure from the feminist movement, as women argued that affordable childcare was essential to enabling mothers to work (thereby advancing gender equality). The business lobby has also been a longstanding supporter of childcare, given its contribution to expanding the labour force and enabling job flexibility. From the 1990s, there has also been a greater focus on how quality childcare can enhance early child development and – more recently – on encouraging a larger role for fathers in the home to help overcome gender segregation in the Danish workplace.

5.1 Core aspects of the Danish childcare system⁴⁶

The centrepiece of the Danish childcare system is a guaranteed daycare place for children from the age of six months until they start school at six years. It is available to all parents, and covers the period 8am to 6pm plus school holidays. Parents are not allowed to enroll their child before the age of 26 weeks, and few do so before children are one year old. Ninety-seven per cent of children between the ages of three and five, and 91 per cent of those aged between one and two, are enrolled in daycare, with the vast majority in full-time care. After-school provision is also widely available and used.

The cost of childcare to parents is capped at 25 per cent of the unit price of provision (though there are no national requirements about what the unit cost is or should be). Childcare is entirely free for parents on the lowest incomes. Although the price varies from place to place, in practice, parental fees are capped at around 3,000kr (£300) a month for under-twos and 2,000kr (£200) a month for children aged three to five. This means that the average family spends only around 7–10 per cent of their disposable income on childcare. Parents with more than one preschool child get a ‘sibling discount’ on second and subsequent children.

While the guarantee of childcare is set out in national legislation, it is local municipalities who are responsible for ensuring there are places for all local parents who want them. They can be effectively fined for not doing so, by requiring them to fund 78 per cent of unit costs in their area (rather than the 75 per cent left after parental fees). Municipalities are provided with a block grant for childcare from central government, covering about one-quarter of the costs, with the rest is raised through local taxation. There is an annual deal between the government and the association of municipalities on funding and service expectations.

Denmark has a diversity of childcare providers, with centres run by the public, private and voluntary sectors. Parents can take up their right to a place in any sector, although most centres are run by the local municipality. Public money is available on the same per-capita

46 The summary of the Danish system in this paper draws on a recent learning trip to Copenhagen by one of the authors, which involved site visits and meetings with leading politicians, civil servants, local municipality officials, senior practitioners, business representatives and parents.

basis for what is called ‘private daycare’ (equivalent to childminders) and for parents to look after their own children for one year beyond maternity leave. There is some regulation and control governing these arrangements, which are relatively rare. The quality and affordability of childcare makes it an attractive option, especially for parents with good jobs which allow them to work flexibly.

The Danish childcare system is highly decentralised, at least in comparison with the UK’s. The national government sets out broad objectives which childcare providers and municipalities should pursue (and which must be set out in a pedagogical curriculum). These objectives cover issues such as language development, school readiness, social skills and physical health. However, municipalities are responsible for the organisation, governance and accountability of local childcare provision, and individual centres have considerable autonomy over their own practices. There are relatively few regulations governing the provision of childcare set out in legislation. For instance, there are no national rules on staff qualifications or child-to-adult ratios, which are determined locally.

Data is collected and research is carried out nationally to judge the performance of the Danish childcare system as a whole – and to identify any emerging problems. However, there is no equivalent to Ofsted, as a statutory inspection authority, nor any national regulator. Municipalities cultivate relationships with their providers and are responsible for holding them to account. The ability for parents to choose between local providers is a ‘tool’ of accountability. And there is a strong tradition of parental involvement, through the requirement for all public childcare institutions to have parental boards and the presence of local parental associations. Childcare is also a major local political issue at election times.

This adds up to a very different system of governance, accountability and statecraft to the one which operates in the UK. In some ways, it involves greater uncertainty and contingency, with fewer national protections. Lines of accountability are certainly blurred. However, the approach does mean that the burden of responsibility is shared, with a web of local institutions and relationships engaged in the ongoing task of upholding the standards of the childcare sector. Also, and crucially, childcare centres in Denmark are led by pedagogical experts and the majority of staff hold degrees in child development. They are supported by childcare assistants, who have an upper-secondary level of education. Childcare professionals earn the equivalent of between £25,000 and £40,000 a year.

Case study: Childcare in Copenhagen

- There are 550 daycare centres in the Danish capital city, ranging in size from 15 to 400 places. Typically, they are open between 7am and 5pm (including during most of the school holidays). Most of the centres are publicly owned, but there are also private and voluntary providers, who operate on a level playing field in terms of funding. All centres have considerable autonomy, with the municipality playing a coordinating and supportive role.
- Eighty-six per cent of preschool children are enrolled in daycare, comprising nurseries for under-tuos and kindergarten for those aged three to five. The municipality’s budget for childcare is as big as it is for schools. Two-thirds of staff hold degree-level qualifications; half are men. The starting salary is the equivalent of around £25,000 a year, rising to over £35,000 with experience. This is only 10–15 per cent lower than teachers earn in the city.

- Parents apply to the municipality for a childcare place, expressing a preference among centres. These requests are typically granted, subject to space. The monthly cost for parents is around 2500kr (£250) for nursery and 2000kr (£200) for kindergarten. Rent for premises is taken out of the calculation of unit costs, to make them more comparable across the city. However, there is a consequent advantage for larger centres, which benefit from economies of scale.
- The municipality sets objectives for childcare centres in the city, for which they hold providers to account. This includes, for example, assessments of language development at ages three and five. There is also accountability through the ballot box, with childcare provision an important municipality election issue. There is also a parents' association for the city as a whole and parental boards attached to each centre. These give parents a voice in shaping and governing provision.

5.2 Core aspects of the Danish parental leave system

Denmark's childcare system is intimately connected to its approach to parental leave and workplace culture. There is a combination of national leave entitlements together with collective bargaining agreements among unions and employers which cover large sections of the workforce. Parents are legally entitled to 52 weeks of paid leave – 18 weeks reserved for the mother, two weeks for the father, and 32 weeks to be shared between the parents. The state funds 16,000kr (£1,600) a month, with the rest funded by employers. Most parents receive full pay for at least six months, with precise amounts and durations dependent on collective agreements.

A far more generous system than exists in the UK, this means that parents can afford to take a substantial period of leave looking after their young children, while also staying connected to the labour market. However, the design and operation of leave policies have not significantly altered traditional gender roles. The period of shared leave is still overwhelmingly taken by the mother, due to both cultural expectations and a persistent gender pay gap (plus considerable occupational segregation). On average, Danish mothers take 11 months' leave; the typical father takes just 26 days. In response, there are government proposals to extend to 12 weeks the period of leave for fathers on a 'use it or lose it' basis (reducing the amount of shared leave). This has been inspired by the Icelandic example.

In a move that would be almost unthinkable at present in the UK, Danish employers pool the risk of parental leave costs, through employer associations. Members of the Danish equivalent of the CBI contribute 0.26 per cent of their pensionable salary costs to a collective fund, which they can then draw on when an employee goes on parental leave. A similar fund exists for the self-employed and small firms. Parents also have the right to postpone up to 13 weeks of their first year's leave to any point up until their child is nine years old (and up to 32 weeks for many parents covered by collective bargaining agreements). Parents also have the right to take their leave in smaller, flexible chunks (even, say, a day a week over a number of years). This is in the context of a workplace culture less dependent on long hours, where the expectation is that most people finish work at 5pm.

As with childcare, Denmark's system of parental leave (and childcare) is strongly supported by both trade unions and employer organisations, who view it as crucial to the nation's economic and social model. There is also broad public and political consensus

about the importance of these policies for Danish society, not least their role in financing the welfare state through high rates of employment and in supporting a high fertility rate, given concerns regarding an ageing society and a hostility to immigration.

Case study: Childminders in Denmark

- There are 18,200 childminders looking after 63,500 children across all 98 Danish municipalities. They are effectively employed by the local municipalities, who refer parents to them. Municipalities also regulate childminders and hold them to account. As with other forms of childcare, parents pay a maximum of 25 per cent of the unit cost, with local municipalities covering the rest.
- No formal training or education is required prior to applying for a childminder's licence, although police run a background check on applicants and a trained 'supervisor' from the local municipality visits the home at least twice before an applicant is allowed to practise.
- Supervisors provide a level of inspection and assistance that far surpasses that of Ofsted's relationship with childminders in the UK. They decide whether they can practise in the municipality, as well as providing supervision and support through home visits at least once a month. They also facilitate new relationships between parents and childminders, and are able to offer help with paying for things like toys and trips (FoA 2009).
- The child-to-adult ratio is 5:1, and if there is more than one childminder on the premises, 10 children are allowed. This compares to centre-based childcare where the ratio is 3:1 for two and three-year-olds and 6:1 for children over the age of three (DICE 2010).
- In most areas, new childminders are offered a non-compulsory one-week introductory course on how the local childcare system works, which includes one or two days of shadowing an experienced childminder. In the first year of practice, childminders are also offered further training (with the municipality covering their pay while they attend). Attaining higher qualifications leads to higher pay (FoA 2009).
- Almost 100 per cent of childminders are registered with FoA, the Danish childminders' union. This entitles them to six weeks' holiday on full pay, an occupational pension, and 50 per cent overtime pay for each hour that surpasses the 48-per-week maximum.

5.3 The relationship between childcare and the Danish welfare state

High-quality childcare, generous parental leave and a culture of family-friendly working are central planks of Denmark's popular and majoritarian welfare state. In 2011, total public spending on daycare in Denmark was equivalent to £3.4 billion, with parents contributing an additional £0.9 billion. Annual expenditure per child for under-twos was around £12,000, and around £8,000 for those aged three to five. This is a high level of spending by international standards.

Child benefit in Denmark is universal and not means tested. It is worth 12,000kr a year (£1,200) per child, declining with age (with an additional element for single parents). This is similar in value to child benefit in the UK but – significantly – there is no Danish equivalent to the child tax credit. Despite this, Denmark consistently has one of the lowest rates of

child poverty in the developed world. Its childcare system enables high rates of maternal employment, which creates many dual-earner households (along with relatively low levels of low pay and income inequality).

The childcare and leave systems form part of Denmark's 'flexicurity' welfare model. This combines generous (though temporary) unemployment benefits with investment in active labour market policies, strict conditionality and (relatively) easy rules governing hiring and firing. This settlement is strongly supported by the social partners. While the financial crisis has put this model under pressure, and there have been reforms, its essential character remains intact.

For those who have contributed to the social insurance system, unemployment benefit is paid at a high replacement rate for two years (during which time people are required to be actively looking for work). Beyond this point, people can claim the less generous and means tested social assistance and access a housing allowance to help with rental costs. If they are in receipt of benefits, Danish parents are expected to look for work once their child is one year old. Also, if a child fails their language assessment at the age of three, and at least one of their parents does not work, then receiving child benefit becomes conditional on that child's participation in childcare.

5.4 Lessons for British policymakers from the Danish system

The Danish childcare system has evolved over nearly half a century and reflects its particular political, cultural and institutional conditions – not least, the entrenched social partnership arrangements between employers and trade unions. The British context is very different and so such a system could not be straightforwardly imported and installed here.⁴⁷ However, there are a number of insights from the Danish system that policymakers in this country could usefully reflect on.

- **Spending on services over benefits:** Denmark spends a slightly greater share of its national income on children and families than Britain, but devotes a much greater proportion of it to parental leave and childcare services than to cash benefits. This has contributed to sustainably low levels of child poverty, high rates of maternal employment and a resilient welfare state with deep popular roots. In Britain, much more is spent on cash benefits, but statutory parental leave is poorly paid and childcare is often low-quality and expensive. If child benefit was frozen in cash terms for a decade and the money saved diverted into childcare, an extra £2.5 billion a year would be available. If winter fuel allowance and free TV licences (currently paid to all pensioners) were restricted to those on pensions credit, this figure would rise to £4.2 billion a year. This would generate resources sufficient to make a major impact on the quality and affordability of childcare in this country.
- **A national entitlement, supply-side funding and a cap on parental costs:** The bedrock of the Danish system is a national entitlement to a childcare place for all parents, from when their child is one until they start school. Its childcare system has evolved through supply-side funding to providers (rather than a demand-led system via parents). This stable resourcing model has, over time, enabled a high quality system to be built up and its quality enhanced (as well as allowing for parental choice). There is a level playing field on funding and regulation, with a mix of centre-based care and childminders in operation. Parental costs are capped at a low level, with a sliding

⁴⁷ For example, in Denmark, there is a predominant expectation that mothers work after their child's first year, a revealed preference for centre-based care (rooted in the importance attached to mixing and socialisation), and widespread comfort with and trust in a highly decentralised form of governance. All are partly the product of its childcare system.

scale of subsidies for the remaining fee. There is a strong argument for simplifying childcare and early education funding in this country, moving towards a system of provider funding, capped costs and fee relief for low-income families.

- **A high-quality workforce:** The high quality of the Danish system is rooted in its workforce, which is highly trained and decently paid. There is a union which upholds professional standards and a commitment from local municipalities to ongoing training and development. This makes it possible to maintain less statutory regulation – such as on the curriculum, ratios and inspection – combined with strong local democratic oversight. It is also the quality of care which is fundamental to the impact of childcare and early years provision on social mobility. Efforts to raise the quality of childcare in England should start with improving the knowledge and capabilities of leaders and practitioners. This will require a combination of gradual increases in the qualifications and standards required, more mature systems of development and training, and a stronger sense of professional identity and status (feeding through into higher pay).
- **Decentralised governance and statecraft:** The Danish system combines a national entitlement to a childcare place and a cap on parental costs with local control over how provision is organised and delivered. This supports a diversity of providers, minimal statutory regulation, strong local municipalities and established networks of parents associations and boards. However, the lack of independent accountability systems may be a problem, and the lack of clarity or transparency about unit costs makes it hard to compare value for money. In this country, a clear national regulatory framework is necessary to ensure a baseline of availability and standards. However, beyond this, greater attention should be focused on giving childcare providers and local institutions the space to innovate, share responsibility and respond to local need. A high-quality childcare system cannot be legislated into existence from the centre.
- **Generous leave and flexible workplaces:** Generous leave, flexible working and good childcare make the trade-offs for Danish parents about working and caring much less sharp than for those in Britain. Even low-earning parents are able to take a full year of leave after having a baby, the options for childcare are attractive and affordable, and the workplace culture is family-friendly. Much less progress has been made, however, on addressing gender segregation and inequality at home and at work. The priorities for policy in this country should be to make it possible for greater chunks of maternity leave to be shared between both parents and increasing replacement rates, so that parents whose employers do not offer more than statutory pay can afford to take time off with their young children (especially fathers). Such steps could be funded by frontloading some cash benefits for families with children which currently stretch across childhood and adolescence.
- **Broad political consensus and alliance building:** There is a very strong political consensus and coalition of support underpinning the Danish childcare and parental leave system. This reaches across classes and has deep roots in the feminist and trade union movements. There is also powerful backing from industry and business, partly out of social responsibility but also for its economic benefits. No such consensus or coalition exists in this country, where childcare remains a marginal – and at times divisive – issue. If childcare and early education are to be major policy priorities in this country over the next decade, especially in the context of fiscal constraint, it will require a broad coalition of support to be built behind it. This could include business and trade unions, as well as mothers and fathers right across the income spectrum.

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