

REPORT

THE FUTURE OF CHILD CARE IN LONDON

DEVOLVING FUNDING FOR
GREATER AFFORDABILITY,
ACCESS AND EQUALITY

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and Giselle Cory

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BOLD IDEAS
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SUMMARY

Across the UK, local authorities (LAs) face the challenge of ensuring there is enough high quality, flexible childcare to meet the needs of families. London's unique characteristics further complicate the picture, with high inequality, cultural diversity, high operating costs for childcare providers and a complex labour market creating a particular set of unmet challenges:

- **Affordability:** Childcare costs in London are a third higher than the UK average, locking low earners out of work and suppressing household incomes.
- **Inequity:** Children from disadvantaged families are being left behind, often in poorer quality childcare or receiving no early education at all, and those with specialist needs are underserved with only half of London boroughs having sufficient childcare for them.
- **Undersupply:** At 32 places per 100 children under five, London has the second lowest number of places per child of any English region after the North East and 70 per cent of London's boroughs do not have enough childcare for working parents.

As a result of these factors, **London's maternal employment is the lowest of any region in the UK.** Forty per cent of mothers who are unemployed say that childcare is a key barrier to getting a job. This impacts negatively on London's families. Low maternal employment is a key driver of child poverty with its associated impact on the development, health and wellbeing of children. When mothers are locked out of work, this also suppresses regional and national economic growth.

If the maternal employment rate in London rose to meet the current UK average (moving from 61 to 69 per cent of mothers in work), 80,000 more mothers would be in work. Modelling by IPPR shows that this would result in a net gain of £90 million to the Exchequer, due to net savings from increased tax receipts and reduced benefit spending. Furthermore, 2,200 households in the capital would be lifted out of poverty.

As well as reducing poverty and benefitting the public finances, increasing the maternal employment rate in London would contribute significantly to economic growth. If London improved rates of female employment and also increased the number of hours worked by women already in work as quickly as the best performing regions in the UK, the capital would see potential increases in annual GVA of £21.5 billion by 2025 (4.6 per cent).

Low maternal employment is partly the result of a poorly functioning childcare system. The way £1.43 billion of annual public funding for childcare in London is spent in messy, complex ways and delivers poor value for money. The three main forms of funding (in-kind support such

as free childcare places, income top-ups such as tax credits, and direct local authority funding such as funding for Sure Start children's centres and free or subsidised nursery schools) are a mix of supply-side and demand-side funding, which is handled by four different government departments before reaching parents and LAs.

The system is difficult for parents to navigate, bureaucratic and can lock some parents out – for example, if they are unable to afford the upfront fees and deposits often required by providers. It is also regressive and poorly targeted.

London would be able to decide how best to shape its childcare market and distribute funding in recognition of its unique characteristics if some or all central funding for childcare was devolved. The introduction of 100 per cent business rate retention over this parliament offers an important opportunity for this. The government has announced that it will allow local government in England to keep all of the money it collectively raises through taxing businesses ('business rates'), ultimately replacing the central revenue support grant (RSG) that currently funds LAs.

There will be a disparity between how much London collects in business revenue and their present public service responsibilities currently funded through the business rates retention system and RSG. This could be up to £4 billion in London by 2019/20.¹ As a result of this disparity, local areas could take on more powers from central government to balance out the difference in funding – a process known as fiscal substitution. However, this does not affect all LAs equally, and will depend upon the composition and monetary value of local service provision.

We recommend that London's government lobby for a new deal for childcare in London, offering to deliver £680 million worth of central funding in the first year of the introduction of 100 per cent business rates retention. This would be the equivalent to the funding of the free entitlement to childcare in London, and London's allocation of tax-free childcare. This should be channelled into a single supply-side funded grant for childcare providers in London to replace the current complex array of income top-ups, grants and in-kind support.

These reforms would allow London's government to have direct control over the childcare market – with the levers over service provision necessary to ensure that childcare in London is a more affordable proportion of parent's incomes and can reduce disparities in school readiness. This would also have the effect of lifting thousands of children out of poverty, as well as improving the capital's economic competitiveness. Investing in childcare as a means to support parents to work is also likely to have a more immediate impact on the employment rate in London given parents' proximity to the labour market, in contrast to groups with more complex barriers to work.

Poor access to childcare has an impact on school readiness, and continues to impact upon educational and social outcomes later in life. This in turn contributes to inequality in the UK.

¹ London Councils and Greater London Authority (2017) "Self-sufficient local government: 100% Business Rates Retention": A joint consultation response by London Councils and the Greater London Authority'. <http://www.londoncouncils.gov.uk/node/30451>

London could act as a trailblazer for regions and combined authorities across the country, which should all have the opportunity to take on more centralised powers if they have the capacity to do so. This would be a fitting legacy for London's mayor, Sadiq Khan, who has promised to leave behind a better city for the next generation. It should be a priority for devolution negotiations at the 2017 budget and beyond.

Below we set out a package of reforms that would increase the effectiveness of London's childcare, harnessing the benefits of greater integration across policy areas, collaboration between boroughs, and devolution of powers to the region.

OUR RECOMMENDATIONS FOR CHILDCARE IN LONDON

In the short term

Better use of space

1. In order to address the under supply of childcare in London, LAs together with the Greater London Authority (GLA) should make greater use of unused public spaces. These could include redundant GLA group premises and buildings being sold off by the NHS. LAs and the GLA should draw on existing Department for Education (DfE) capital funding for the early years to support this objective. As well as increasing supply, this could also lead to reductions in the cost of childcare if these conditions ensured that savings were passed on to parents.

Better planning and market making

2. The mayor should amend the London Plan to include stricter requirements to ensure that enough childcare places are provided in new developments.
3. LAs should include stricter requirements for childcare provision under Section 106 planning obligations and the Community Investment Levy.
4. The DfE should provide advanced funds (loans) to LAs in order to ensure this provision can be built in a timely manner.

Better use of existing subsidies

5. To tackle lower than average take-up of national childcare subsidies in London, the mayor should lead a campaign to improve take-up of the two-year-old offer and increase awareness of the extension of the free offer for three- and four-year-olds. Led by the GLA, this 'know your rights' campaign would improve understanding of available support.

In the medium term

Improving quality in London

6. The GLA should work with London boroughs to introduce a package of measures to improve the quality of childcare in London. This package should include:
 - introducing a 'leaders in childcare' scheme to help London move towards a graduate-led workforce in childcare
 - supporting the growth of childminding in London through a pan-London subsidised training scheme and start-up offer to new childminders
 - offering tailored business support to childcare providers in London.

We estimate the total cost cost of these measures as £13–£15 million.

Family friendly working in London

7. The mayor should lobby DfE, HMRC and HM Treasury to cover 85 per cent of childcare costs under tax credits at the next financial statement – bringing it up to the level of support available in the incoming welfare system, universal credit, which is now forecast for rollout by 2022.
8. To prevent mothers in lower income households in London being locked out of work, the mayor should lobby the Department for Work and Pensions (DWP) and HM Treasury to add a second earner disregard before universal credit is fully rolled out.
9. The mayor’s business compact should be used to promote family-friendly practices among employers in London, including by publishing metrics ranking large employers on family-friendly practices and awarding recognition to the best employers.

In the long term

Regional and sub-regional funding and commissioning structures

10. London Councils and the GLA should work together with LAs to pool funding at a sub-regional level to better support children with specialist needs (SEND).
11. London’s sub-regional partnerships should work with DWP and the boroughs to co-commission support for out-of-work parents who would face overwhelming childcare costs to move into work.

New deal on childcare for London

12. London’s government should lobby for a new deal for childcare in the capital, offering to deliver £680 million’s worth of central funding after the introduction of 100 per cent business rates retention. This would be the equivalent to the funding of the free entitlement to childcare in London and London’s allocation of tax-free childcare. This should be channelled into a single supply-side funded grant for childcare providers in London to replace the current complex array of income top-ups, grants and in-kind support.

1. INTRODUCTION

Despite increasing government support for childcare, parents across the UK still struggle to balance work and care. There is a lack of formal childcare in many areas, while the provision that does exist tends to be inflexible and expensive. The cost of childcare is high and increasing significantly faster than wages in much of the UK, but affordability is a particular concern in London where childcare costs are 28 per cent above the national average (Rutter and Lugton 2014). One of the impacts of high childcare costs is low maternal employment; mothers in London have the lowest employment rates of any UK region (ONS 2014).

London's unique set of characteristics further complicates the picture for working parents and childcare providers. With the greatest degree of inequality in England and the highest levels of internal and international migration, London's diverse families have very different needs. Furthermore, the capital faces the challenge of improving access and affordability to childcare in an environment of high property costs and higher than average staff costs.

London's dynamic yet precarious labour market can also make work-life balance hard for parents, with a large number of people on zero-hours contracts or in other forms of casualised work and many on low pay. London has half a million people earning below the living wage (Clarke and D'Arcy 2016).

These challenges are unfolding in a context of economic and financial strain. Though in many ways London has bounced back from the 2008 financial crisis, the city has the largest gap between current wages and pre-crisis levels of any UK region (Gardiner 2016), and London is also the region most impacted by the recent wave of welfare reforms (Beatty and Fothergill 2016).

1.1 THE FUTURE OF CHILDCARE IN LONDON

The childcare sector is also showing signs of strain. Long-term underfunding has been combined with policy changes that may undermine the sustainability of the market and the quality of provision (see chapter 2). Despite London's current childcare challenges, it also has much to be proud of. In the early years, the attainment gap at five years old between the most disadvantaged pupils and others in London is half that of the pupils in the North East (Perera et al 2016). This success is continued at school, where the most disadvantaged pupils do better than others in the rest of England (Aldridge et al 2015). London now has the opportunity to build on that success and become a trailblazer in becoming a family-friendly capital.

Childcare is a crucial area of focus for London. By supporting child development and maternal employment, high quality childcare support improves the life chances of the most disadvantaged children (Cattan, Crawford and Dearden 2014). High quality childcare and early years education positively impacts on cognitive and social development. This leads to improvements in educational and social outcomes that can persist into adulthood. For example, a child who received early education is 8.4 per cent more likely to obtain five or more GCSEs at grades A*–C than a child who did not, and lifetime earnings increase by an average 7.9 per cent, or £27,000, over their working lives (Catton et al 2014). This in turn results in fiscal returns down the line. For example, Heckman (2006) estimates the annual expected rate of return on investment to be achieved by investing in interventions in the early years is between 6 and 10 per cent.

The mayor has already committed to improving childcare support in his manifesto:

'Make childcare more affordable and accessible with a strategy that delivers for business and workers – including keyworker status for childcare workers and campaigning for business rate relief for childcare providers.'

Labour 2016

This commitment has since been highlighted in a mayor's question time, with the mayor stating his intentions to support cost reduction, staff retention and sharing best practice in innovation:

'I want to support London's childcare providers to provide a high quality and affordable offer through, for example, cost reductions and workforce retention. I will also work with London boroughs and others to provide and showcase innovative models of delivery. We will also look at targeted support for the families who need it most and work with government to ensure that childcare policy works for London.'

GLA 2016b

The mayor's commitment to childcare has been strengthened with the appointment of a deputy mayor with an education and childcare title – a first for London – with the objective of improving London's social infrastructure.

As this report will show, there are many challenges to address. Current trends in funding are unlikely to be reversed in the immediate future. The government is committed to increases in childcare support over the parliament, but conflicting cuts to the benefit system and local authority (LA) budgets will leave some families worse off, particularly those on lower incomes. The government's flagship childcare policy – extending free hours for working parents – threatens to widen gaps in access and outcomes.

At a time when financial retrenchment is likely to negatively impact the amount of affordable childcare available in London, there is an urgent need to target available funding in the most effective way in order to address the highest levels of need. But there is also a lot of excellent work going on in the childcare system, and future interventions should

foster the best practice and innovation by boroughs and providers alike that improves quality while keeping costs down.

This report sets out how London can lead the way in early years outcomes. Chapter 2 outlines the childcare support available to families and its uptake and outlines recent policy changes. Chapter 3 sets out how London's unique set of characteristics impact on families, and chapter 4 assesses the reasons for and impacts of low maternal employment in London. Finally, chapters 5 and 6 assess the nature of our childcare delivery and funding systems, and chapter 7 makes recommendations for how the system can be improved to better support London's families.

Note that this report focusses on London. Where national references are made, they refer to England unless otherwise stated. We focus on pre-school childcare – under-fives – rather than childcare for school-aged children.

2. LONDON'S CHILDCARE OFFER

2.1 WHAT SUPPORT IS AVAILABLE?

Childcare support for parents is a mix of in-kind support and cash transfers. Income top-ups are available to low and middle income families to cover part or all of the cost of childcare (from registered providers). This is provided through tax credits and the incoming system of universal credit. The 'free entitlement' to early education is available for three- and four-year-olds and the most disadvantaged two-year-olds. Eligible families can access 15 hours per week for 38 weeks per year. In 2017, this entitlement will rise to 30 hours for working families with three- and four-year-olds.

Cash transfers that act as a discount on the cost of childcare are available in the form of the outgoing employer-supported childcare vouchers and new 'tax-free childcare', whereby parents receive 20p of support for every 80p they spend on childcare (independent of the tax system). Another form of support is directly provided services. LAs are able to use their grants to fund Sure Start children's centres and free or subsidised nursery schools.

The number of children and families receiving childcare support in England and in London are as follows (HMRC 2016 and DfE 2016b).

- 2.8 million children are in families that receive working tax credit and child tax credit (that is, working families with children) in England, of which half a million are in London.
- 114,000 couple parent families benefit from childcare element in England, of which 9,000 are in London.
- 217,000 lone parent families benefit from childcare element in England, of which 39,000 are in London.
- The average weekly value of the childcare element is £57.49 in England on average and £79.07 in London.
- 1.5 million children are in government-funded early education in London, of which 245,000 are in London:
 - 1.3 million three- and four-year-olds, of which 220,000 in London
 - 170,000 two-year-olds, of which 25,000 in London.

Altogether, London has just over 200,000 places for under-fives offered by nearly 12,000 providers. Childcare in London is provided by (FCT 2016b):

- 2,800 full day care nurseries and 1,000 crèches and pre-schools (sessional care)
- 1,500 primary schools with nursery classes and 80 nursery schools
- 8,000 childminders and 30,000 nannies
- 1,600 after-school clubs, 1,500 breakfast clubs and 900 holiday clubs.

2.2 THE STATE OF PROVISION

In comparison with other regions, London's childcare provision is tipped towards school-based nursery classes and Sure Start children's centres (rather than private nurseries). London has comparatively more places in children's centres (full day care), and primary schools with nursery and reception classes (per capita of under-fives). Conversely, it has a relatively smaller number of places in before- and after-school care (in comparison to the proportion of five to 11-year-olds in London) and holiday care (Brind et al 2014). The free entitlement is delivered by both state provision and private providers.

London's childcare offer is far from perfect. London has struggled to deliver the existing free offer of 15 hours childcare in term time for three- and four-year-olds and the most disadvantaged two-year-olds, and the extension of this policy is likely to exhaust the system. Of London's 33 LAs, **one third do not have enough childcare for three- and four-year-olds and two thirds do not have enough places for two-year-olds** who qualify for free early education. Provision for parents with atypical working hours is particularly poor, with most LAs (29 out of 33) having insufficient childcare or no knowledge of the provision for this group (Rutter and Lugton 2014).

Quality is also mixed: over 37,500 of London's three- and four-year-olds are in settings in which no staff have a teaching or professional early years qualification, despite well-qualified staff being a key correlate to high quality childcare (Rutter and Lugton 2014). London also has significant child development gaps between the most disadvantaged children and their peers and these gaps open up at a young age.

Though smaller than some other parts of the UK, these development gaps are still large, with an 11 percentage point gap in the achievement of children eligible for free school meals and other children (Ofsted 2016d). Around 40,000 five-year-olds are behind before they even start primary school (GLA 2016d).

2.3 WHO USES IT? TAKE-UP OF CHILDCARE IN LONDON

In general, eligible families in London are less likely to take up childcare support than families elsewhere, both in terms of cash transfers and free hours (Huskinson et al 2016).

Children in London are less likely to receive the free entitlement than their peers elsewhere. Though London has the greatest proportion of two-year-olds eligible for the free entitlement, the region also has the lowest uptake among children of this age, with just over half in early education (57 per cent) – an uptake rate 11 percentage points lower than the national average. Of the 10 LAs with the lowest uptake, all are in London (DfE 2016b). Though take-up in London has increased year on year, it remains far below the national average. It is also lower among three- and four-year-olds: 86 per cent of eligible children receive these hours in London, compared to 95 per cent nationally (DfE 2016b). Take-up is lowest among lower income households and many ethnic minorities (Huskinson et al 2016). This factor partly

drives London's comparatively low take-up, as the capital has a high proportion of families with one or both of these characteristics.

Over 2 million parents in the UK are potentially eligible for childcare support through working tax credits but do not claim it (Johnes and Hutchinson 2016). London is likely to have particularly low take-up of tax credit support. The proportion of working-age households who are in receipt of tax credits in London and the South East is less than elsewhere in the UK: around 14 per cent of all working-age households receive this support compared to an average of 19 per cent across other regions (Poverty Site 2011).

Families from ethnic minority communities are less likely to take up this form of support (Ipsos MORI 2011). Improving take-up of support through both cash transfers and the free entitlement would benefit lower income families as well as families from BME groups (as these families are less likely to take up eligible support at present) and contribute to reducing child poverty in the capital (Finn and Goodship 2014). Reasons behind low uptake are complex and vary for different families. In the next section we assess the role of information; other factors are explored in chapter 3.

2.4 THE ROLE OF INFORMATION

Information plays a key role in access to and uptake of childcare, and at present many parents lack the right information about what is available (Huskinson et al 2016). Just under half of parents are either confused or have 'no idea' what is on offer (Gulc and Silversides 2016). More than two in three (70 per cent) are not aware of their local family information service (FIS), the principal source of information on offer from government (ibid), and one in three parents think more information is needed (Huskinson et al 2016). Confusion and lack of clear information were key issues that came up in focus groups with London parents conducted by the GLA. Participants were unsure about what was on offer and felt that more information was needed.²

Parents in lower income households are more confused about childcare support than those in higher income households. This is in part related to the smaller social networks of those families, as word of mouth is a main source of information on childcare support (Department for Education 2015d). As Gulc and Silversides (2016) conclude, it is these lower income parents – who are most likely to want to work or work more hours – that are the most discouraged by the high cost of childcare, and the most confused about the support available. This confusion – and the poor uptake associated with it – is likely to be exacerbated by both the upcoming changes from tax credits and employer-supported vouchers to universal credit and tax-free childcare, and the changes to the free entitlement.

Information about and guidance on childcare support is the remit of LAs, who run FIS and awareness campaigns in their boroughs. Many Sure Start children's centres also run outreach campaigns to ensure they are known to the families that would most benefit from them. However, as there is no ringfenced funding for information or outreach, LA budget cuts are limiting the role that LAs and children's centres

² Focus groups were commissioned by the GLA and facilitated by 2cv Research in 2016.

can play. Just under three-quarters (72 per cent) of London family information services had experienced staffing cuts as of 2012 (London Assembly 2012), and children's centres continue to decline in number, size and reach (4Children 2014). Many LAs have moved their family information services online-only, and many children's centres have had to reduce or cut entirely their outreach programmes.

These trends are both likely to negatively impact awareness, particularly among socially isolated families. In late 2015 funding was awarded to childcare.co.uk to provide information to parents on childcare in their area (DfE 2015e). Though this is a step forward, highly visible public campaigns and well-targeted outreach are needed to ensure parents are aware of the support they can receive from government, as well as what provision is available in their local area.

In addition to resource constraints, another barrier preventing children's centres from improving uptake is access to vital data on birth registrations. Targeting services at any particular group, such as families with newborns or pre-schoolers within socially isolated households, is much more effective with the right data. Yet only around half of LAs share this data with their children's centres. Without new powers to access this data, many of the most in-need families will be left without information or support (Royston and Rodrigues 2013). Increasing access to this data would better enable children's centres to undertake more effective outreach programmes, and thereby support the outcomes of children from disadvantaged families. In particular, it would enable centres to reach out to parents who may not seek out childcare in order to work but whose children would benefit greatly from the early education and care on offer.

2.5 RECENT POLICY CHANGES

The extension of the free entitlement – from 15 hours to 30 hours per week for working parents of three- and four-year-olds, for 38 weeks a year – is a welcome increase in support. However, there are significant concerns about the low rate at which the policy is being funded (Cory 2015; HoC PAC 2016), and these concerns are particularly acute in London (Brown 2016). The extension is being piloted as of September 2016, with full roll-out in September 2017. This quick turnaround has raised concerns that there will not be enough time to learn from and implement lessons learned from the pilots (HoC PAC 2016).

As an influential voice, the GLA should act on the advice of the London boroughs to campaign for a more appropriate, sustainable funding agreement for the free entitlement that guarantees quality and grows the market. Childcare must be adequately funded if it is to benefit children and families – and system reform that does not address chronic under-funding will fail to deliver positive outcomes.

There are also concerns about the impact of restricting the policy to working families. Providers and schools may choose to admit working families exclusively or predominately, as they are able to access funding for 30 hours rather than 15 hours, with the result of reducing access for those families who don't meet the new criteria. Moreover, the regressive nature of this policy – with increased support going to better-

off households – is likely to result in a widening of the achievement gap (Johnes and Hutchinson 2016). The negative impacts of targeting support away from families that are not in work is a key concern in London, where more than one in 10 (12 per cent) of London’s children are living in a workless household (ONS 2016h).

Other policy and funding changes will also shake the market as local funding formula are overhauled. The planned reforms to the early years funding formula (EYFF) across England include the use of a single base rate by 2019/20, with most funds (90 per cent) distributed using this base rate rather than more responsive supplements such as the quality supplement. This is likely to cause severe turbulence across LAs, as Noden and West conclude:

‘[They] will inevitably need to shift their focus from achieving local objectives and towards ameliorating the highly unpredictable effects of the proposed reforms. In addition, they will often need to ameliorate those effects but with less flexibility.’

Noden and West 2016

These reforms are likely to affect inner and outer London differently, with the former seeing losses and the latter seeing gains (Butler 2016). In particular, those with increasing populations of children under five will struggle to increase capacity for these children as a result of a shift from funding based on past participation instead of eligibility. Funding will now be based on the number of participants at the time of the last early years census (taken each January) rather than the number of eligible children in the borough.

LAs have also seen large reductions in funding for early intervention (GLA 2015b). The early intervention allocation – which includes intervention services for older children and those in care – fell from £3.2 billion in 2010/11 to £1.4 billion in 2015/16, a 55 per cent decrease. This budget includes Sure Start children’s centres, funding for which fell by over a third (37 per cent) from £1.5 billion in 2010/11 to £0.9 billion in 2014/15 (National Children’s Bureau and The Children’s Society 2015). The impact on these centres (and other maintained provision and LA-provided services) has been, and will continue to be, severe across England.

However, London has lost more than the rest of the country, with cuts of 46 per cent across the capital compared to 37 per cent across the rest of the country and a total loss of £131 million (authors’ analysis based on National Children’s Bureau and Children’s Society 2015). As a result, three-quarters of London LAs reduced their spending on children’s centres over 2010/11 to 2014/15. These reductions ranged from 80 per cent in Lambeth to a negligible fall of two per cent in Redbridge. Moreover, in general, the more deprived the LA, the greater the financial retrenchment, leaving those with the highest levels of need with the most limited resources (Innes and Tetlow 2015).

These pressures come in the midst of broader changes to the welfare system. In-work support for families will shift from the current system of working tax credits to universal credit (see chapter 4), and employer-supported childcare vouchers will be phased out in favour of ‘tax-free childcare’.

Given the significant policy changes underway at present, the 2015–2020 parliament has the potential to be a pivotal time for children and parents in the capital. However, families with under-threes and low-income families with three- and four-year-olds will not benefit from the extension despite facing the highest childcare costs and the biggest barriers to work. Decision-makers in London need to respond to their needs – and to the challenges to successful implementation of the extension of the free entitlement – if families are to access high quality, affordable childcare, and maternal employment is to rise in London.

3.

UNIQUE CHILDCARE CHALLENGES FACING FAMILIES IN LONDON

This chapter sets out the challenges in the provision of high quality, flexible childcare in London. We first highlight the key challenges in London: affordability, equity and supply. We then explore the underlying characteristics that make London a challenging place for childcare policy: high inequality, cultural diversity, high operating costs and a complex labour market.

3.1 UNAFFORDABLE CHILDCARE

Providing high quality, affordable childcare to all those who want it, in a city that has the highest rents and mortgage payments in the UK, is a challenge that London has struggled to meet. Though parents are faced with prohibitively high childcare costs across the UK, childcare costs are the highest in London (FCT 2016a). According to the Family and Childcare Trust: ‘In 2016 a part time nursery place cost 36 per cent more in London than elsewhere in Britain, meaning a London family pays nearly £2,200 more every year than the ‘average’ British family.’

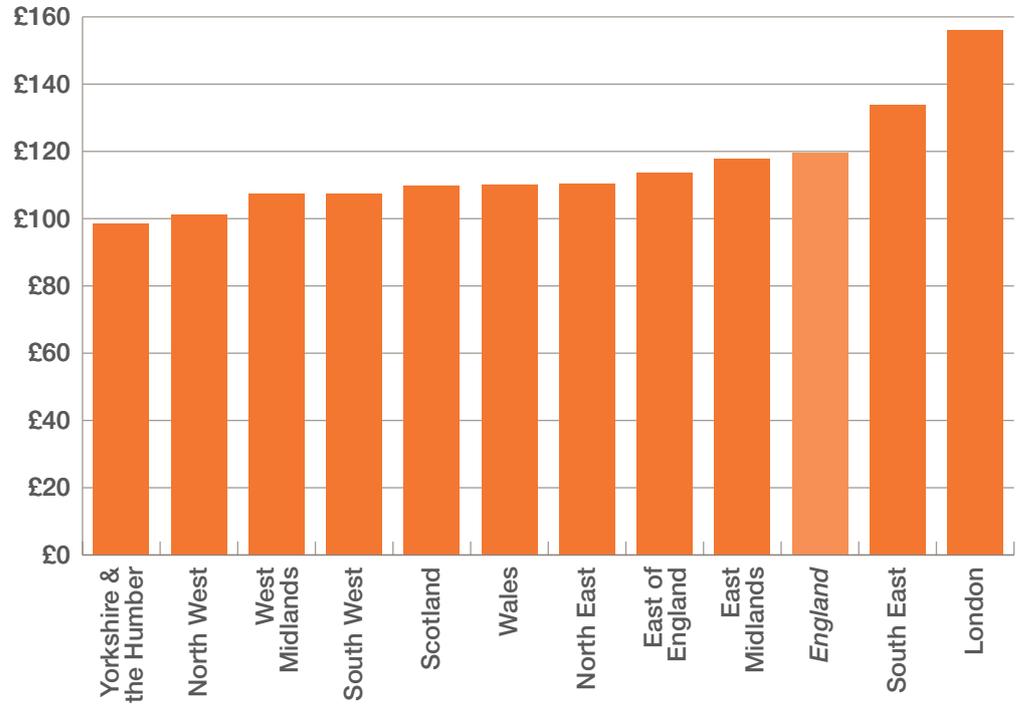
Figure 3.1 shows the average cost of 25 hours of nursery for under-twos across Britain. In London that cost is £155, compared to £120 across Britain on average, a differential of nearly a third.

Though these are hourly costs, the price pressure is further exacerbated as working parents in London tend to use formal childcare for longer hours than parents outside the capital. This is partly a result of Londoners having the longest working hours in England (both overall and for full-time roles) and the longest commutes, adding to the time required for childcare (see figure 3.2).

As well as ongoing costs, upfront costs can be overwhelming for parents returning to work (Gingerbread 2016). The vast majority of providers (90 per cent) charge in advance, and 40 per cent first require a deposit of up to £150. Upfront costs can also add to the inequity in childcare. Poorer quality settings are more likely to accept weekly payment, while higher quality providers more likely to require monthly payments which lower income families are less likely to be able to accommodate. Higher quality settings are also less likely to offer the flexibility needed by the many parents who are employed in insecure work or shift work (Hignell 2014).

FIGURE 3.1

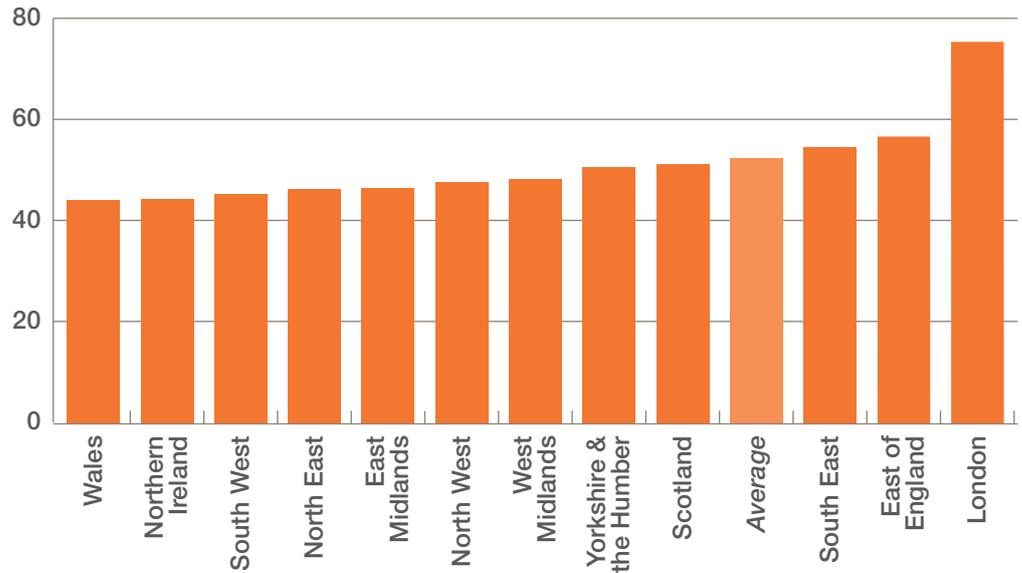
Average cost for 25 hours of nursery (under twos) by region/nation, 2016



Source: Rutter 2016

FIGURE 3.2

Average duration of commute to work (minutes) by region, 2013



Source: TUC (2014)

Despite these pressures, parents in London were slightly more positive about the affordability of childcare than parents in other regions. This may be because of the significant proportion of higher income households concentrated in London (who tend to rate childcare as more affordable than those on lower incomes) as well as lower expectations of affordability. Yet still a third (34 per cent) felt affordability should be improved (Huskinson et al 2016).

Reasons for high childcare costs

Total running costs for providers in London and the South East are almost double those of settings in other regions and correspondingly have more than double the income of settings in any other English region (Brind et al 2012). This suggests that higher costs are being passed on to parents. Some of these costs will also be passed back onto central government in the form of tax credit awards and tax-free childcare support.

Staff costs, rent and business rates are the main drivers of childcare costs. Wage bills alone make up over three-quarters (77 per cent) of operating costs on average (Brind et al 2012). Wage bills are higher in London, reflecting higher living costs (Brind et al 2014) and will make up a considerable proportion of the difference in the childcare costs. Cost pressures are likely to be exacerbated by rises in the government's 'national living wage' (NLW). Though welcome in a sector where many workers are poorly paid, this will increase cost pressures on providers – many of whom are only breaking even at present – and on parents, to whom the price-rises will be passed on.

It is likely that premises' costs – 9 per cent of total operating costs in private settings, and 5 per cent in not-for-profit settings (Brind et al 2012) – are also a driver of London's high childcare costs, given London's high rent and mortgage costs. Keeping rents down is particularly challenging in London, where rises in property values are large and out of step with household income. However, rents can be brought down by increasing the number of available spaces for nurseries. At present, developers are not strictly required to provide or accommodate nursery sites, and so few prioritise this aspect of their emergent community.

Without government intervention, the cost of childcare is likely to continue to rise. Increases in the minimum wage, though welcome, will contribute to rising staff costs. Continued increases in property values will have a twofold impact on childcare affordability. The most direct impact will be in childcare price rises as providers pass on London's high premise costs to parents. A more indirect impact is the increase in childcare hours needed, as families may be priced out of London to less expensive housing outside the city, with a resultant increase in commuting time – which then also needs to be covered by childcare (for working families).

Many childcare providers are not profit-making (Brind et al 2012, 2014). This suggests that high and rising prices are largely not the result of high and rising profit margins among providers. However, one element that may contribute to high childcare costs is inefficient business practice among providers. Sustainability and affordability are partly

reliant on the support that providers are able to access, particularly for new providers who do not have business experience or are not part of larger chains or support networks. Though some LAs do provide business support, many have reduced or completely cut their early years business support teams as a result of discretionary budget cuts and withdrawal of central government initiatives. Providers express an appetite for this support, which would likely lead to a more sustainable and efficient market, thereby bringing prices down and going some way to filling gaps in supply.

It is worth noting here that childcare is an inherently expensive service. It relies on a high number of staff, given the intensity of the job coupled with strict regulations on the number of children that can be in the care of any one member of trained staff. Wages are already low and many staff report working unpaid overtime (Voice 2015). Further downward pressure on wages must be avoided. In fact, staff costs should rise with increases in the minimum wage and to accommodate an increase in the proportion of qualified staff. A highly qualified workforce is the most effective way to achieve good outcomes for children (Mathers et al 2014; Sylva et al 2004) – and qualified staff cost.

However, this does not preclude more efficient and innovative ways of providing care or shaping childcare businesses. Examples from other European nations have demonstrated that affordable, high quality childcare is possible, without sacrificing the pay or wellbeing of the workforce on which it depends (OECD 2006). Options for London will be explored in chapter 6.

3.2 EQUITY FAILURE

The second key challenge for London is guaranteeing fairness across the childcare system. Children from disadvantaged families are being left behind, often in poorer quality childcare or receiving no early education at all.

Across London, areas with higher levels of deprivation have poorer quality provision, leaving the children who most benefit from high quality childcare without it (Mathers and Smees 2014). This variability is likely to be a key driver of socioeconomic differences in satisfaction with childcare, with those in higher income households rating their local childcare more highly than those from lower income households (Huskinson et al 2016).

Partly as a result of this variation in quality, there is a considerable gap in pre-school attainment between those living in areas of high deprivation and others. Though this gap is smaller in London than across England as a whole, it remains considerable at 11 percentage points (Ofsted 2016d) and shows no sign of substantially narrowing (Ofsted 2015). This gap between the most disadvantaged pupils and the rest is the equivalent of being 2.7 months behind on starting school (Perera et al 2016).

Though this development gap is smaller than other regions, it puts children from poorer households at a worrying disadvantage before primary school has even begun. For many, these differences in attainment and employment outcomes persist: around half of the gap

at the end of primary school is inherited from attainment gaps in the early years (ibid).

Support for children with special needs

There is also an equity failure in support for children with special educational needs and disability (SEND). Pre-school aged children with SEND – of which there are 16,000 in London – are underserved by the childcare market. Of the 33 London boroughs, only half reported having sufficient childcare for children with disabilities (Rutter and Lugton 2014).

Some parents are turned away from provision. As a participant of a GLA London parents' focus group reported:

'They wanted to know my children didn't have any behavioural problems before they accepted him.'

London mum, aged 34, two children, aged one and three³

Correspondingly, parents find it difficult to get the support they need. Four in 10 parents of three- and four-year-olds with specialist needs were unable to access the free entitlement. Those who can access childcare tend to pay more than parents of children without specialist needs. High costs can be exacerbated by low incomes, as families of disabled children are disproportionately more likely to live in poverty than families overall (Contact a Family 2014). As well as poor access from the point of view of parents and children, providers are also concerned about meeting special needs, particularly of two-year-olds with special needs who are eligible to receive the free entitlement (DfE 2015c).

In 2014, less than one in five (19 per cent) pupils with special educational needs (SEN) achieved a good level of development, and there was an attainment gap of 47 percentage points between children with and without SEN. This increased from 42 per cent the previous year (DfE 2014b). Meeting the needs of children and families with specialist needs through high quality, appropriate provision would improve outcomes for these children. It would also enable their parents to access the labour market, which many want but are unable to do because of lack of access to affordable childcare.

3.3 CAUSES OF INEQUITY

The shape of government policy

Inequity is partly a result of the shape of government support. Childcare policy in England is, overall, regressive. After current reforms have been implemented, families on higher incomes will receive a higher level of subsidy than those on lower incomes (Johnes and Hutchinson 2016).

Lower uptake of services among lower income households further skews funding further up the income ladder. This combination of regression policy and low uptake among lower income households is particularly concerning, given that children from the most disadvantaged households are the most likely to benefit significantly from good quality pre-school education and care (Silva et al 2004).

³ Focus groups were commissioned by the GLA and facilitated by 2cv Research in 2016.

Children from disadvantaged backgrounds tend to have higher needs than others. The funding system attempts to recognise these needs by providing a top-up fund, the early years pupil premium (EYPP), recognising that children from poorer families tend to have higher needs which in turn come with higher costs. In London, 16,400 three- and four-year-olds are eligible to receive the EYPP (DfE 2016b).

Though well-intentioned, the EYPP – at an average funding rate of only 53p an hour for three- and four-year-olds – does not enable providers to meet children’s needs (NAO 2016), and the retrospective nature of EYPP funding does not allow for stability or predictability for the providers who receive it. Moreover, the EYPP compares poorly to the premium for older children. The EYPP is worth £302 per child per year, compared to £1,320 per child at primary school and £935 per child at secondary school (Social Mobility Commission 2016). The EYPP should be increased to better meet the needs of pre-schoolers, as recommended by the Social Mobility Commission. **The GLA should lobby DfE to increase the level of EYPP funding.**

Another group of children that get left behind are those with specialist needs. The funding available to early years providers to ensure that children with special education needs or disability receive high quality care has not kept up with similar funding once they reach primary school. As part of the EYFF consultation (DfE 2016b), the government has proposed a national disability access fund of £12.5 million per year, from which providers receive additional funding for children in their care receiving disability living allowance (DLA) (DfE 2016i). This is a welcome addition. Funding for children with other special needs (not recognised under DLA) is less promising. Though the government has recognised special needs by encouraging LAs to create SEN inclusion funds to improve outcomes for this group of children, this request has not been coupled with the additional funding that providers need to ensure these outcomes are met.

Inequity is also driven by the high degree of variability in funding between boroughs. There is a £3,000 difference between the average annual funding for three- and four-year-olds across LAs in England, with authorities funding between £1,000 and £4,000 per year across all types of setting offering the free entitlement (NAO 2016). This in turn affects the finances of providers, including their ability to hire the best staff.

Qualifications and quality

Childcare delivered by skilled workers – ideally graduates – is the most effective method to improve children’s developmental outcomes, particularly those of children from disadvantaged backgrounds (Mathers et al 2014). Settings with graduates tend to be of higher quality, across all measures of quality (Mathers and Smees 2014). Yet many childcare workers remained poorly skilled and poorly paid. Of private, voluntary and independent (PVI) settings delivering the free entitlement in London, less than half employ graduates (those with QTS/EYTS/EYPS qualifications) (DfE 2016b). In London **over 37,000 three- and four-year-olds are receiving their free early education in a setting where no members of staff working directly with children has qualified teacher status**

or early years professional status. Despite this, London has a higher proportion of graduate-led settings than other English regions – a stark illustration of the state of early years provision across England (ibid).

The undersupply of qualified teachers in early years settings is heavily related to the low pay and poor progression routes in the sector, with providers facing ongoing recruitment challenges. Government support for workforce development has been shown to be beneficial, yet funding has been cut both through falls in discretionary funding given to LAs and cuts to central government programmes such as the Graduate Leader Fund, which supported an increase in the proportion of graduates in the childcare workforce.

Though graduate-led settings do better, having graduate-level staff is not the only way to raise outcomes. Providers that are committed to professional development of their staff – irrespective of their level – also do better (Ofsted 2011). Terms and conditions matter too. International comparative analysis finds that lower staff turnover – related to pay, among other things – is associated with better child outcomes. This is concerning for England. Though childcare staff turnover is better than or similar to many other OECD countries, staff turnover for childcare workers in the UK is double that of pre-primary teachers (11 per cent compared to 5.5 per cent; DfE 2013).

There are examples of excellent workforce development taking place in LAs in England. One such example is Bristol city council, which has invested in its role to ensure quality improvement throughout Bristol's providers by offering comprehensive support to the childcare workforce (Butler and Hardy 2016). However, this is the exception rather than the norm. Only one in five (22 per cent) of LAs report using funding to encourage graduate leadership in childcare settings (ibid) and much of this is likely to involve only limited incentives and support.

The shape of the market and its impact on inequity

The childcare market looks very different between richer and poorer areas of London. Disadvantaged children are more likely to be in maintained settings than in PVI settings. Of three-year-olds in childcare in the most deprived communities, 63 per cent are in maintained provision and 35 per cent are in PVI. In the least deprived communities, 17 per cent of children using childcare are in maintained provision, with 79 per cent in PVI (NAO 2016).

This deprivation differential is related to two factors. Firstly, maintained provision is more established and numerous in more deprived areas, as a result of targeted policy to this end. Secondly – and related to this point – PVI providers are less likely to set up in deprived areas, and when they do, they are less likely to succeed as the market is unable to function effectively in areas of high deprivation (or very low population density) (Brind et al 2012). In fact, there are fewer providers overall in more deprived areas, but these providers tend to have more places (NAO 2016).

This suggests there is a need to maintain or increase targeted direct subsidies in areas where the market cannot function, such as areas with high maternal unemployment/economic inactivity. This high unemployment or inactivity is likely to be partly a result of lack of access to childcare –

lack of access to affordable childcare is one of the main barriers to work for parents – but the market does not currently respond to this cyclical impact. State-funded Sure Start children’s centres and maintained nursery schools have previously filled the gap left by the market, but this is becoming increasingly difficult in the context of severe LA funding cuts.

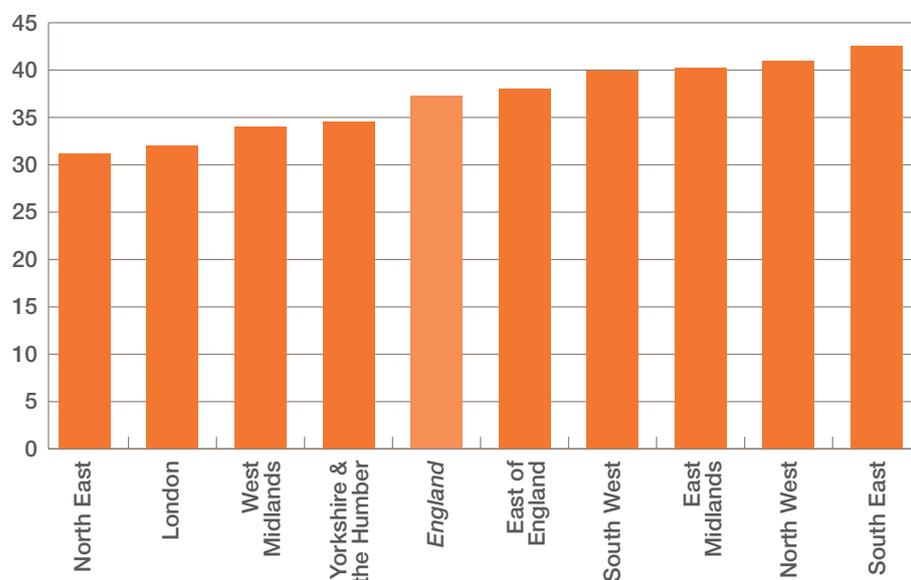
As well as providing childcare for families that need it, children’s centres are sector leaders at school readiness (Ofsted 2014) and facilitate the mixing of children from socially diverse backgrounds that leads to better outcomes for disadvantaged children and those with SEND (West 2016). Therefore their closures and down-scaling have a double impact of reducing provision in underserved areas and reducing access to high quality provision for those children that need it most. This analysis also suggests that the current changes in funding – falls in LA budgets for maintained provision and increases in cash transfers to parents – will further deepen the asymmetry of the market. In turn, this will put more funding into the PVI market (which functions better in less deprived areas) and less funding into the maintained sector (which supports deprived communities).

3.4 UNDERSUPPLY OF CHILDCARE

The third challenge for London is the undersupply of childcare. There is a chronic lack of childcare for working families, which in turn impacts on access, affordability and inequity.

FIGURE 3.3

Total childcare places per 100 children by region, England, 2016



Source: Author’s analysis using ONS (2016c) and DfE (2016a)

Across England, the childcare market shows signs of unmet demand for places – particularly in school-based settings – and little spare capacity (Brind et al 2014). London’s undersupply is particularly acute. At 32 places per 100 children under five, London has the second lowest number of places per child of any English region after the North East

Across England as a whole, 55 per cent of LAs do not have enough childcare (Rutter 2016a). In London this figure is 70 per cent: **23 of London’s boroughs do not have enough childcare for parents who work full time**. Half (52 per cent) do not have enough free early education places and over a third (36 per cent) do not have sufficient after school care (Rutter and Lugton 2014). Availability is particularly poor for younger children: only one in five (20 per cent) LAs report sufficient places for under-twos (see figures 3.4 and 3.5).

Undersupply contributes to the lowest level of formal childcare use in the country. Just over half (57 per cent) of parents of under-15s in London use childcare compared to 70 per cent across England (see table 3.1). This shortage does not go unnoticed. Parents in London are more likely than parents in any other region to say that more childcare places are needed (Huskinson et al 2016).

TABLE 3.1
Percentage of children receiving childcare, by type, 2014/15

Type of childcare	London	England
Any childcare (formal or informal)	57	70
<i>Formal</i>	51	55
<i>Informal</i>	12	32
Any holiday care (formal or informal)	22	39
<i>Formal</i>	15	21
<i>Informal</i>	10	24

Source: Huskinson et al 2016

3.5 CHILDMINDERS

Childminders are a key source of flexible childcare for working parents. Though they are relatively few in number – five per cent of families in England use childminders (Huskinson et al 2016) – they can be a crucial form of support, particularly for families in low-income households (Ang et al 2016). This is partly because of their flexibility in comparison to centre-based provision. They can also be more financially manageable. Childminders tend to be slightly cheaper than centre-based provision, on average (Rutter 2016a), and they are the only provider which parents are more likely to pay in arrears than in advance (Huskinson et al 2016).

Childminder agencies

Childminders can now register with childminder agencies rather than registering with Ofsted directly. Introduced in 2014, these agencies were designed to increase the number of childminders and the quality of provision.

In theory, the agencies recruit childminders and (must by law) help them with registration, training, development and business advice. They also help parents find and work with a suitable childminder. Crucially, the agency takes on the role of inspection and regulation from Ofsted, by monitoring the standard of care provided by the

childminders they register. Ofsted then inspects the agencies rather than the childminders directly.

However, in practice it appears that the reform has not been immediately successful. As of August 2016, Ofsted had only eight active childminder agencies on its books (DfE 2016c).

Yet many LAs in London have worryingly low numbers of childminders per 1,000 children and this number is declining (FCT 2016b). The introduction in 2014 of childminder agencies (see box), intended to increase the number and quality of childminders, seems to have had little impact (Huskinson et al 2016). Childminders will become even more critical when the extension of the free entitlement rolls out, as a flexible resource able to blend with centre based provision. The government should anticipate this additional demand by supporting the childminder workforce to grow.

Looking to the future

The undersupply of childcare is likely to be exacerbated by recent policy changes. Parents are likely to work more as a result of reforms, particularly when the combined effect of the extension to the free entitlement and universal credit comes into force. The free entitlement extension alone will generate additional demand for places for up to 390,000 children (NAO 2016). A dangerous combination of underfunding of the hourly rate, no funding to build capacity for expected additional children (reflecting population change, for example) and a lack of access to capital funds leaves the sector unsure whether it can provide these additional places (NAO 2016, NDNA 2016).

Another policy change that is likely to increase undersupply is the recent change in staffing qualification requirements. Childcare workers must now have English and Maths GCSEs (grade C or above) to count in staff-child ratios (this does not include those who already have qualifications or are already working towards them). Though this will be a positive change in the long run by increasing skill levels among the workforce, it will exacerbate recruitment challenges in the short term.

3.6 LONDON'S UNIQUE SET OF CHARACTERISTICS

We now assess the characteristics of London which precipitate its childcare challenges: high inequality, cultural diversity, high operating costs and a complex labour market.

High inequality

London faces the unmet challenge of providing appropriate support to suit the varied needs of families living in the most unequal city in the country. It has the largest pay gap between the richest and poorest of any region (Equality Trust 2014). London has both more highly paid people than in any other region, in absolute and relative terms (ibid), and the highest child poverty rate in the UK, with four in 10 children living in poverty (Aldridge et al 2015). The city struggles against this inequality in particular when dealing with a public service that has been largely marketised, as is the case for childcare.

Cultural diversity

London has the greatest proportion of foreign born residents in the UK (see table 3.2). The city has the highest level of international migration (ONS 2016b) in the country; London was the destination of 38 per cent of international migrants arriving in England and Wales in 2015. The capital also has the highest levels of internal migration (ONS 2016a). This diversity is what makes London an attractive place to live for many, but it also creates a unique set of challenges.

One challenge this diversity brings is the differential use of formal childcare. Children from ethnic minorities are less likely to be in formal childcare than others (LDA 2011; Rutter and Lugton 2014). Another challenge is the lack of extended family support that comes as a result of diffuse, international family networks. Many families who would normally rely on informal childcare (such as grandparents) are unable to do so. These diffuse family networks are a contributor to the low use of informal childcare in the capital: just 12 per cent of families with children use informal care, compared with 32 per cent across England (Huskinson et al 2016). Survey results suggest that this low use is not driven by choice. Londoners are more likely to report that they have poor access to informal childcare than those in other regions, suggesting they *can't* rather than *don't want* to use this type of care (ibid).

A lack of informal childcare impacts on parents' access to work. More than half of parents who do have access to and make use of informal childcare, in combination with centre-based care, largely do so for economic reasons (78 per cent of children), as do those using informal care only (57 per cent) (Huskinson et al 2016). In comparison, parents using only formal childcare without any informal childcare were the least likely to say they were doing so for economic reasons. Moreover, informal childcare is often used in emergencies or by parents with 'atypical' work patterns such as shift work, week work or irregular employment (Rutter and Evans 2012).

Recent migrants may also need support in ensuring they have a good understanding of English and integrating within their new community. Social cohesion is particularly important in a city in which 300 languages spoken in schools, 40 per cent of residents are non-white and many boroughs have majority ethnic populations.

TABLE 3.2

Characteristics of London's population compared to the national average

Characteristic	Average:	
	London	England & Wales
% of white ethnic group	60%	86%
% of foreign born residents	37%	10% [‡]
% of under-fives	7%	6%
Maternal employment rate	60%	69%*
Gross disposable household income per head	£23,607	£17,965*
Child poverty rate	37%	26% [†]

Sources: Aldridge et al (2015); New Policy Institute (2015); ONS (2012); ONS (2014); ONS (2016c); ONS (2016d)
Note: figures shown with an * are for the UK, † for England, ‡ for England excluding London.

High operating costs

London has a combination of the highest rents/land values and the highest business rates in the UK. Both of these provide a challenge for London's providers. Childcare is a space-intensive sector, as children need space to move and play. This can be a challenge when rates are based on square footage rather than profit. Wages also tend to be higher in London. This results in total running costs for providers in London and the South East that are almost double those of settings in other regions (Brind et al 2012). At the same time, many providers are also low or no-profit businesses, particularly those operating in deprived areas (Brind et al 2012; Brind et al 2014), suggesting that the costs of care for parents reflect the costs to providers.

A complex labour market

With just under 5 million London residents either in employment or seeking employment, and another 5 million in the surrounding South East, the capital is the economic centre of England. But the state of London's labour market is mixed. Low pay is less prevalent in London than any other region of Britain (Clarke and D'Arcy 2016), yet one in five employee jobs (19 per cent) pay less than the London living wage (Rutter and Lugton 2014). At 6.1 per cent, the unemployment rate is the second highest in the UK (behind the North East, at 6.8 per cent), and well above the UK average of 4.9 per cent (ONS 2016e). And like many other parts of the UK, London's labour market is hollowing out, with proportionately fewer middle-skill roles, blocking progression routes for low and mid skill workers (London Assembly 2016).

Flexibility in London's labour market is also a complex picture. London has a relatively high level of self-employment (ONS 2016f) and those workers tend to be on relatively low pay (Wales and Amankwah 2016). It also has a relatively high number of people on zero hours contracts (70,000) (Mpepu 2015) coupled with the lowest proportion of employees who do shift work across the UK (ONS 2015).

Londoners are less likely to work in part-time jobs than employees in the rest of the UK, and there is a lower level of part time opportunities available in higher level jobs (Bell 2013; Mpepu 2015). Those who are in part-time work and on lower earnings face a substantially lower London premium (the relative boost in their earnings in comparison to similar roles outside of London) in their wages than those higher up the earnings spectrum (Gaffney and Aldridge 2015). This presents a complex picture for family-friendly working in the capital. A lack of high quality, flexible and well-paid work is a key barrier for parents of young children who want to work in London. The lack of affordable, accessible and high quality childcare is another barrier to work. A direct result of these barriers is the low level of maternal employment in the capital. This is explored in the next chapter.

4.

LOW MATERNAL EMPLOYMENT IN LONDON

CAUSES AND IMPACTS

4.1 LONDON'S LOW MATERNAL EMPLOYMENT

Partly as a result of the factors explored above, maternal employment in London is the lowest of any region in the UK: 60.7 per cent compared to 68.6 per cent nationally (see figure 4.1). These regional comparisons sit within the context of relatively low maternal employment in the UK compared to the OECD average (DfE 2015d). London's maternal employment gap largely derives from mothers in couple households, for whom the gap is nearly 10 percentage points, compared to a gap of under three percentage points for single parents (Rutter and Lugton 2014). This gap – comparing London to England and Wales as a whole – grows as children get older, suggesting that parents are relatively slow to return to work in London in comparison to other regions (GLA Intelligence 2015).

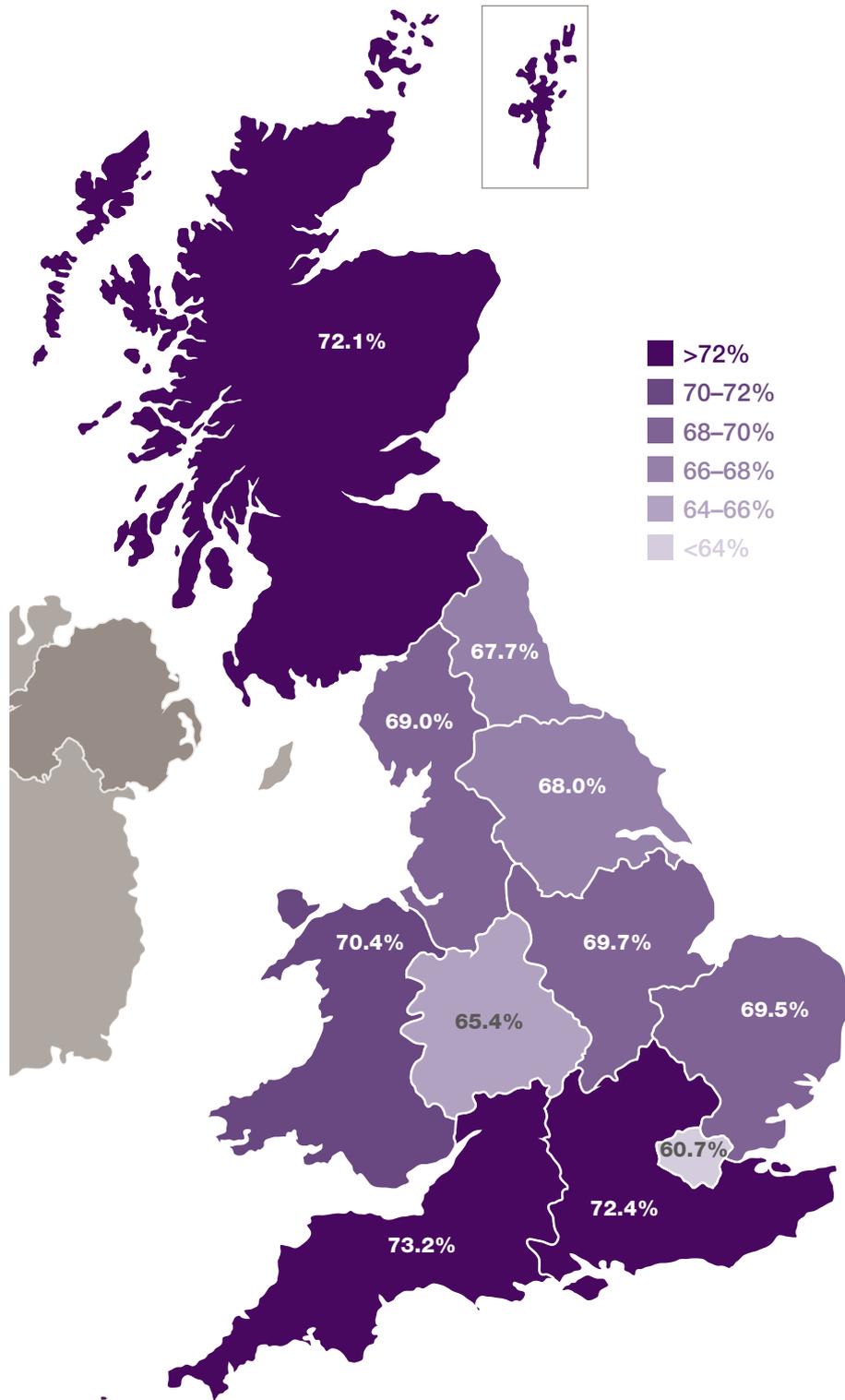
Low maternal employment partly reflects differences in employment patterns between different ethnic groups in London. The difference in economic activity rates between men and women for those born in the Middle East and Africa is over 20 percentage points. This compares to just over 10 percentage points for those born in the UK. Similarly, looking at employment rates in London by ethnicity (rather than country of birth), there is a gap of around 40 percentage points between Pakistani/Bangladeshi men and women in London, compared to a 10 percentage point difference for those of White, Black/Black and Indian origin (Edgson and Theseira 2010). These ethnicity gaps are complex, resulting from cultural preferences, differences in skill and qualifications level and other barriers in access to work.

Employment patterns by ethnicity are one of the drivers behind the variation in maternal employment rates within London. Inner and outer London fare quite differently, with inner London boroughs seeing the largest difference in economic activity between women with and without children (GLA Intelligence 2015).

FIGURE 4.1

Employment among mothers is highest in the South West and South East – 12 percentage points above London

Percentage of women with dependent children in employment by region, 2013



Source: ONS (2014)

4.2 FACTORS CONTRIBUTING TO LOW MATERNAL EMPLOYMENT

In addition to the cultural factors mentioned above, low maternal employment is largely a result of high childcare costs, inflexibility of provision and a lack of flexible working opportunities. These are explored in turn below.

High childcare costs and low pay: poor work incentives

When coupled with insufficient childcare support, high childcare costs lock low earning parents out of the labour market. Across England, more than half of non-working mothers would prefer to work if they could arrange the right childcare (Huskinson et al 2016). Government policies to increase the supply and affordability of childcare have helped. For example, Brewer et al (2014) found that ‘mothers who used early education [the free entitlement] only because it was free were 25 percentage points more likely to work thanks to the free entitlement.’

Comparison across Western countries indicates that childcare costs of approximately 10 per cent of net family income is optimal for supporting high levels of maternal employment. In the UK the cost to income ratio is around 30 per cent for full time dual earner couples and 20 per cent for 1.5 earner couples on median incomes (Thompson and Ben-Galim 2014).

IPPR modelling finds that **work does not pay for low-income families in London**. We have looked at the financial work incentives for single and couple parent households facing childcare costs in London. For example, we looked at the situation for a receptionist working and living in London, who lives with her partner and two children (see figure 4.2).⁴ Under the current system of tax credits:

- If she works fewer than 16 hours a week at the government’s NLW (£7.20), she has to pay to work. Her childcare costs overwhelm her earnings, with the net effect of a loss of family income if she works.
- If she works 16 hours a week, the net annual household income would be around £700 more than if she did not work at all.
- If she is working more than 16 hours, there is negligible marginal benefit of her working the additional hours.
- The net gain from moving into full time work (37.5 hours a week) would be only £580 a year on gross earnings of £14,000.

Under universal credit, the incoming welfare system that will replace tax credits by 2022, this receptionist has better work incentives than under tax credits. Rather than losing income if they worked less than 16 hours and seeing little net benefit for additional hours worked beyond 16 hours, they would gain net household income up to around 20 hours worked. The marginal gain from work is negligible after this point.

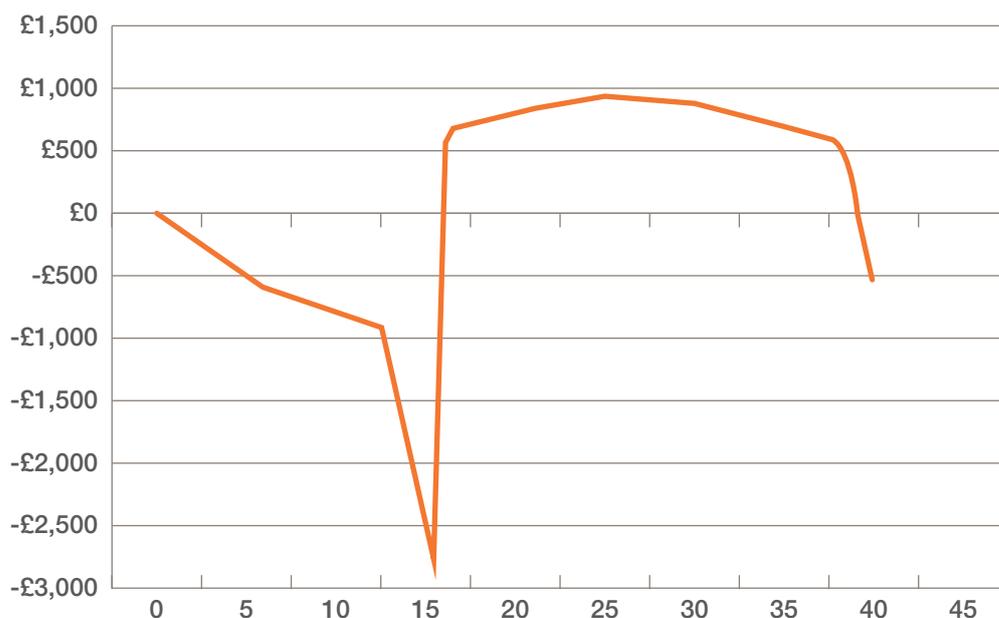
Overall, work incentives are better and take home pay is higher under universal credit. As well as better work incentives under universal credit, the absolute income gain from work is greater. Under universal credit the receptionist would double her additional net household income at 16 hours worked. The net gain from moving into full time work (37.5 hours a week) would be £2,080 a year on gross earnings of £14,000 – still a small

⁴ For details of our methodology please refer to the technical appendix.

proportion of earnings, but larger than the £580 they would keep under tax credits.

FIGURE 4.2

Work incentives under tax credits for a second earner, NLW, two children (two and four years old), outer London
Additional household income (net, after childcare costs) by number of second-earner hours



Source: IPPR modelling

However, even after this improvement has been taken into account, the second earner still faces poor work incentives in comparison to the primary earner, as universal credit has been designed to maximise work incentives for primary earners at the expense of incentivising second earners to move into work or to work more. As second earners in couple households with childcare costs are disproportionately female, this will largely affect mothers of young children. For this reason, the government should add a second earner disregard into universal credit to improve work incentives. **The GLA should lobby DWP and HMT to add a second earner disregard before universal credit is fully rolled out.**

Part of the reason for better work incentives under universal credit in comparison to tax credits is relatively more generous childcare support. At present, childcare support under tax credits covers up to 70 per cent of childcare costs. Under universal credit this will rise to 85 per cent. Given the weak work incentives under tax credits and the severe delay in its full rollout, there is a strong case to equalise childcare support under tax credits and universal credit. The government would strengthen work incentives for the poorest working families if they were to match childcare support under tax credits to that of universal credit by covering 85 per cent of childcare costs under tax credits. **The GLA should lobby DfE, HMRC and HMT to cover 85 per cent of childcare costs under tax credits at the next financial statement.**

The tax credit system has been cut significantly over recent years, with some cuts coming into force in 2016/17. In particular, the family element of child tax credits will be withdrawn from 2017 and the value of other elements remain frozen. The tax credit system would perform much better in the example described above were it not for these cuts (that is, if the system remained as it stood in 2010). Cuts to universal credit have also eroded work incentives and suppressed (projected) incomes for the worst off (Centre for Social Justice 2016).

Inflexible childcare

Another contributor to low levels of maternal employment is London's inflexible childcare provision. London's current childcare offer does not fit well with working patterns. Londoners are the least likely to be able to find term-time childcare that fits in with their or their partner's working hours: 36 per cent compared to 51 across England. This is a particular concern for lower income families who are less likely than those on higher incomes to find childcare that fits around their work (Huskinson et al 2016). This can be particularly difficult for parents with changeable work patterns, when nearly two thirds of providers requiring a month or more notice to make any changes (Hignell 2014).

Holiday care is also a big gap in provision. Usage is low, with children in London being least likely to use holiday childcare: 22 per cent compared to 39 per cent across England (see table 1). The majority (66 per cent) of London parents want better provision in summer holidays (compared to, for example, 35 for term time weekdays).

Inflexible labour market

Balancing work and care requires a flexible labour market as well as flexible childcare to match it. But London has a shortage of part time jobs. London has the lowest proportion of part-time work in the UK and the lowest proportion of high quality roles with only three per cent of vacancies for part time roles at this pro rata salary or above (Timewise Foundation 2015).⁵

4.3 THE IMPACT OF LOW MATERNAL EMPLOYMENT

Systemic low maternal employment contributes to high levels of child poverty in London and suppresses economic growth.

High child poverty rate

London's relatively low rate of maternal employment is a significant contributing factor to the capital's high level of child poverty. Child poverty in London is the highest in the UK, with nearly four in 10 children living in poverty (37 per cent), compared to 26 per cent across England. **This is equivalent to around 700,000 children living in poverty in London** (CPAG 2016). The main difference between London and the UK as a whole is the relatively high proportion of children living in mixed households, containing both working and workless adults. Four in 10 children live in such households in London, compared to three in 10 across the UK as a whole (ONS 2016g). It is in these households – where one parent works and one does not – that the risk of in-work poverty is highest (Lawton

⁵ Roles defined as those with salaries of at least £20,000 full time equivalent salary.

and Thompson 2013). This adds urgency to policy interventions to enable second earners in couple households to move into work.

In addition to its impact on life chances, health and wellbeing, child poverty also has considerable costs to the government. The annual cost was estimated to be at least £29 billion in 2013 (Hirsch 2013) and an earlier estimate specific to London found that worklessness cost more than £5 billion a year in the capital (Inclusion 2010).

Suppressed economic growth

At present, of the 1 million mothers living in London, 600,000 are in work. There would be considerable gains if London's maternal employment caught up with the rest of the country.

- If the maternal employment rate in London rose to meet the current UK average (from 60.7 per cent to 68.6 per cent), 80,000 more mothers would be in work.
- If the maternal employment rate in London rose to meet the highest performing region (the South West, 73.2 per cent), 125,000 more mothers would be in work (Author's analysis using data from ONS 2014).

Increasing maternal employment results in increased income tax receipts to the Treasury and, by increasing household incomes, reduces benefit spending (Ben-Galim 2011). It also results in a boost to London's GVA as growth is dependent on businesses having access to the right types of skills. Hunt et al (2016) model the potential impact on GVA of reducing gender inequality using three drivers: labour force participation rate, hours worked and sector mix of employment. The 'full potential' scenario, whereby women in the UK participate in paid work identically to men, could add £600 billion of additional GDP in 2025, or 26 per cent over and above the forecast baseline.

A more modest scenario, in which every UK region matches the pace of the fastest improving region, would see potential boosts of £150 billion to annual GDP in 2025, or 6.8 per cent over and above the projected baseline. In this scenario, every UK region would gain at least five per cent GVA, but London has the largest potential gains of 8 per cent, or £37.1 billion by 2025.

Yet the lack of affordable, flexible childcare keeps many skilled (and unskilled) parents out of the labour market, cutting off a vital stock of skills to London's businesses. Boosting maternal employment will also raise our GDP. If female labour market participation rates caught up with male rates in the UK, up to 10 per cent could be added to UK GDP (over a 20 year period) (Thévenon et al 2012).

There would be significant impact of an increase in maternal employment in London both through the fiscal impact of increased tax receipts and the household impact of a reduction in poverty. The magnitude of these impacts is dependent on the nature of the changes in employment status, for example whether mothers enter full time or part time work. Modelling by IPPR finds the following.

- If the maternal employment rate in London rose by five percentage points (from 61 to 66 per cent) this would result in a net gain of

£60 million to the Treasury and 1,400 households would be lifted out of poverty.

- If the maternal employment rate in London matched that of the UK average (from 61 per cent to 69 per cent), there would be a net gain of £90 million, and 2,200 households would be lifted out of poverty.
- If London's maternal employment rate matched that of Denmark – which has one of the highest maternal employment rates in the OECD at 82 per cent – there would be a net gain of £200 million to the Treasury and 6,000 households would be lifted out of poverty.

This modelling uses the IPPR Tax Benefit model with the Family Resources Survey 2014/15, updated to reflect 2016/17. We randomly assign non-working mothers into either full or part time employment. It assumes that half of those entering work do so full time (37 hours per week) and half do so part time (20 hours per week). Wages are set at the average level of the earnings for mothers in London who are already in work, full time and part time respectively. Fiscal impacts are likely to be conservative as the positive financial knock-on impact of higher employment on the broader economy are not taken into account. The poverty threshold is measured as household income (after housing costs) of less than 60 per cent of the median.

5. HOW EFFECTIVE IS LONDON'S CHILDCARE SYSTEM?

In this chapter, we explore the effectiveness of the current childcare funding and delivery systems in England and London. We map the policy, funding, governance, regulation and delivery structures for childcare in England and London and show that the current system is complex and lacking in coherence. We find that local responsiveness is not coupled with responsive funding or powers and there is poor accountability and oversight of the system, while central government has limited ability to impact outcomes.

5.1 HOW IS CHILDCARE FUNDED AND DELIVERED?

Childcare funding

Childcare support is funded by multiple organisations across England. **Central government** provides support predominantly through the DfE's Dedicated Schools Grant (DSG), the Early Intervention Grant and HMRC Tax Credit support (planned to be phased out and replaced by universal credit shaped and administered by DWP).⁶ Overall government investment in early education and childcare will reach nearly £7.5 billion by 2017 (Rutter 2016a). This has increased steadily over the last few decades, first as a result of increased cash transfers to working families, and then the introduction, and imminent extension to free childcare hours for pre-schoolers.

Over half of childcare expenditure is spent on the free offer for three- and four-year-olds and the most disadvantaged two-year-olds. The remainder is spent on demand-side subsidies to parents through working tax credits and employer supported childcare, both to be phased out and replaced by universal credit and tax free childcare. Funding for England and London is shown in figure 6.1, and funding flows are shown in figure 7.1.

Childcare delivery

Childcare and related support is delivered by a combination of central government, local government and the private market. **LAs** are responsible for ensuring sufficient childcare provision for working parents in their area and administer the free entitlement funding to providers. This funding, delivered through the DSG, is distributed through a centrally determined funding formula. Some LAs also use other funds to cross subsidise childcare, either through discretionary childcare funding, other funding pots such as discretionary housing payments (DHP) and the New Homes Bonus (NHB), or from fees paid by higher income families to use LA run children's services.

⁶ Note that childcare policy is devolved, with DfE providing block grants to the devolved nations; this report refers to England only, except where otherwise stated.

Most LAs also provide or commission children's services, including Sure Start children's centres and maintained nursery schools. Despite LAs taking a central role in delivering childcare, they have little flexibility in what they can deliver. **Non state providers**, including PVI organisations, deliver a significant proportion of pre-school childcare. Some **primary schools** also run nursery classes, as well as wraparound care and holiday care for school aged children. Providers are regulated through Ofsted.

Central government deliver tax credits (and the upcoming universal credit) and new tax-free childcare scheme directly to parents. They also deliver the outgoing employer supported childcare voucher scheme through employers.

Note that childcare policy is devolved in the UK. This means that, though UK government policy relating to cash transfers (such as tax credits) applies across the UK, policies relating to the provision of services are under the control of the devolved nations. At the moment, all three nations have a LA delivered system with both private and state run provision. Where England has Sure Start children's centres, Wales has a similar Flying Start programme (Ball 2013; Paull and Xu 2015) and Scotland has maintained nurseries and Family Resource Centres (Childcare commission 2015). All three nations have some form of free entitlement delivered through the market, though the number of hours and the eligibility criteria vary. In this report, we refer to England unless otherwise stated.

Funding flows for England and London

Figures pertain to 2016/17 unless otherwise stated.

Department for Education

Free entitlement

The entitlement is funded from the Dedicated Schools Grant (DSG), totalling £40.7 billion, of which £7.5 billion goes to London.

- Of the DSG, £2.7 billion is the early years block funding for England. This covers the free entitlement for three- and four-year-olds (£2.3 billion) and the most disadvantaged two-year-olds (£0.5 billion) and the early years pupil premium (£32 million).
- Funding for the 33 London boroughs totals **£550 million**, of which £470 million is spent on the free entitlement for three- and four-year-olds, £80 million on two-year-olds and £5 million on the early years pupil premium.

LA early years services

- Children's centres and related LA services account for £0.8 billion. London boroughs received around a fifth of this funding (**£170 million**, 2014/15).
- Though the exact number of centres at present is a matter of dispute, in mid 2015 there were 2,677 main Sure Start children's centres and a further 705 additional sites providing children's centre services across England. Around 370 of these are within 15 miles of central London, half of which offer full day care to the under-fives.

HMRC and HMT

Tax-free childcare

- Following rollout in early 2017, this scheme will cost approximately £700 million per year. The proportion of this funding that is likely to be claimed by families living in London is unknown, though we estimate this at **£130 million** based on the number of under-fives in the region.

Employer supported vouchers

- Around £850 million is spent annually on employer supported childcare vouchers and workplace nurseries.
- Funding for vouchers will fall from £0.8 billion to £0.4 billion in 2017 as the scheme closes to new entrants, and tax-free childcare replaces vouchers. In the long run, this scheme will be closed. The funding that goes to families in London is unknown; however families in the south of England are more likely to use this scheme than those in the North, suggesting that there may be slightly higher use in London relative to the number of families

Childcare support through working tax credits

- Working families receive £1.5 billion in childcare support within working tax credits annually. Total spending on tax credits – both working and child tax credits – is around £30 billion annually in Britain, the majority of which is child tax credits (which support families rather than paying for explicit childcare support). This element of tax credits is due to be scrapped from 2017 (Adcock and Kennedy 2015).
- London families make up approximately one in six of the 1.5 million families in England that receive both working tax credits and child tax credits (257,000 families in London).
- Of 331,000 families that benefit specifically from the childcare element within working tax credits (rather than the tax credits more broadly), 15 per cent – or 48,000 families – are in London. Though the exact spending on childcare support for these families is not published, we can estimate total spending using the average weekly spend of the childcare element in London (£79.07). This estimate suggests that around **£180 million** is spent on the childcare element of working tax credits in London.

Department for Work and Pensions

Childcare support through universal credit

- Annual spending on childcare support through cash transfers is projected to rise to £2.1 billion on full rollout of universal credit (currently forecast for 2022).
- Though funding predictions for London are not available, we can derive a rough estimate by applying the ratio of London in families and elsewhere, suggesting that around **£0.4 billion** will be awarded to families in London.

Other funding sources: Regional and international bodies

- Local Enterprise Panels (LEPs) and other regional bodies such as the Greater London Authority (GLA) have a fairly modest and

inconsistent role as funders. International bodies such as the European Social Fund have provided some funding in the past, including programmes to support maternal employment, some of which has been administered through the LEPs and the GLA.

Private spending

- Despite increasing government funding, parents remain the main funders of childcare. Private spending by parents is estimated to be £5–7 billion per year in England. However this figure is based on mean amounts of self-reported spending and may not reflect cash transfers paid to families by government of up to £1.5 billion.
- The Family and Childcare Trust estimates parents in London spend £1.4 billion on childcare, including support received through the childcare element of working tax credit or childcare vouchers, (£0.3 billion), giving net out of pocket spending by parents in London at **£1.1 billion** (Slater et al 2016).

This means that £1 billion of government funds are spent on childcare support in London annually and London parents pay a further £1.1 billion.

Notes: some sub-totals do not sum due to rounding
Sources: EFA (2016); DfE (2016f); National Children's Bureau and the Children's Society (2015); HM Treasury (2013); Konings (2010); Rutter (2016); House of Lords Select Committee on Affordable Childcare (2015); Directgov (2016); HMRC (2016)

5.2 HOW WELL DOES THE CHILDCARE SYSTEM PERFORM?

The role of central government

DfE oversees childcare policy and has responsibility for the teaching of and learning for children in the early years. It also has responsibility for supporting disadvantaged children, ensuring they are on an equal footing with their more advantaged peers. The DWP will also be increasingly involved in childcare support, through its role in delivering universal credit. The Department seeks to improve the life chances of children and the financial stability of families through the welfare system; aims that overlap with the twin childcare objectives of child development and maternal employment.

In addition to national support, DfE has also run more targeted schemes in the past, including the following.

- Neighbourhood Nurseries Initiative, a central government initiative targeting families in the most disadvantaged neighbourhoods (Smith et al 2007).
- Voluntary, Community and Social Enterprise (VCSE) grant programme to fund the national pilots for Community Childcare Hubs (2013), targeting support to specific organisations.
- Transformation Fund and its predecessor the Graduate Leader Fund, to increase the quality of the childcare workforce.
- London Childcare Fund to support the roll-out of the two-year-old offer in London.
- London Challenge, a DfE backed initiative to increase attainment in London's schools that depended heavily on the support of LAs.

Yet outside of specific initiatives (now mostly decommissioned), central government has limited ability to influence or improve children's outcomes. As supply-side funding is provided with few conditions (such as Ofsted approval of providers), the DfE does not use the childcare delivery system to best achieve its nationally set objectives. For example, policy does not require that providers in receipt of government funds increase the qualification level of their workforce, or have a socially mixed intake – two policies that would improve outcomes for children.

5.3 THE ROLE OF LOCAL AUTHORITIES

LAs are key actors in local childcare markets, through the block grants they receive from central government, their role in ensuring that sufficient flexible childcare is available both to meet the free entitlement and for other children aged 0–14, and their duty to provide information for parents.

Ensuring sufficient childcare

LAs have a statutory duty to ensure sufficient childcare for working parents and those undertaking job-related training, and to provide enough free early education places for all eligible children (Childcare Act 2006). As we have seen, many LAs are failing their sufficiency duty.

As part of the sufficiency duty, LAs should manage their local childcare market, proactively filling gaps in childcare where necessary, in particular by commissioning or running services. The degree to which they do varies considerably between LAs. Many LAs play a strong and positive role in ensuring their residents' childcare needs are met. Yet there is much that lies outside of their remit, or is not achievable within current funding envelopes. Drastic and ongoing funding cuts since 2010 have put new limits on their ability to intervene and to do so successfully.

Filling gaps across London includes offering support to providers. The sustainability and efficiency of childcare businesses directly affects access to and affordability of childcare, yet at present many LAs lack the resources to provide meaningful business support. It is also important that best practice, on the part of LAs and providers, be shared with others. Yet there are no longer any formal mechanisms for the sharing of best practice and LA early years teams, themselves faced with falling resources and increasing workloads, may be unable to perform this role.

Providing information for parents

LAs also have a statutory duty to provide information on childcare support, and do so largely through local family information services (FIS). Though some FIS are excellent one-stop shops for information on support for children and families, the quality of the information provided varies significantly and awareness is very low. Less than one in three (28 per cent) parents are aware of this service (Huskinson et al 2016). This is unlikely to be helped by a move to online only services in many areas.

Future challenges

The upcoming restrictions in top slicing of DSG funding will have a considerable impact on the activity of some LAs. At present, LAs are able to allocate themselves a proportion of their DSG funding before

passing the rest onto providers to deliver the free entitlement. This top slice covers the functions of the LA to manage the market and provide additional services to families – but in many LAs it is also informally used to cross-subsidise services.

The government have put forward proposals to limit this top-slice to 7 per cent in 2017/18 and 5 per cent from 2018/19 onwards. As this funding is used to provide services that are crucial, statutory, but not ringfenced (like market management), a reduction in funding from this source is likely to lead to a reduction in the scope, quantity and quality of LA early years services, including market management and information provision. Given the variability in the proportions taken at present – from 0 to 34 per cent (HoC PAC 2016) – the impact of this reform will be equally variable across LAs.

5.4 THE ROLE OF REGIONAL BODIES

The main regional bodies of interest relating to childcare in London are the GLA, London Councils and the London Enterprise Panel (LEP) – though none of these organisations have a statutory role in childcare delivery or policy (see box).

Greater London Authority

With an annual budget of £11.5 billion (2016/17; GLA 2016e), the GLA is the largest and most active statutory regional body in England. The GLA objectives are threefold: to increase the democratic representation of Londoners via Assembly members and the mayor; to improve the lives of Londoners; and to make London a desirable destination for business, people and tourists.

The main areas of focus for GLA policy are transport, housing, policing, economic development and regeneration. These areas coincide with the main areas of spending by the GLA (Sandford 2016). The mayor must also create statutory strategies for some areas, including planning. The GLA also has two associated functional bodies, Transport for London and the London Fire and Emergency Planning Authority (Sandford 2016).⁷

Though the programme of work for the 2016–2020 mayoral term is yet to be confirmed, under previous administrations childcare has been addressed within the planning strategy, the London plan, by policy 3.18 (Education Facilities). This states that the mayor ‘will support provision of childcare, primary and secondary school, and further and higher education facilities adequate to meet the demands of a growing and changing population and to enable greater educational choice, including in parts of London with poor educational performance’ (GLA 2016h).

Under previous administrations, the GLA has not invested the necessary resources or supported other bodies to better fulfil their roles. Furthermore, the degree of under-supply of childcare in London and the socio-economic gradients in access to, participation in and developmental outcomes from childcare and early education gives conclusive evidence of inadequate provision under the previous administration.

⁷ In January 2016, the government announced that the latter will be absorbed into the GLA.

Schools have seen their budgets severely cut for extended provision, and the GLA currently has no larger quality improvement role. The situation regarding 8am–6pm extended schools provision is particularly acute. Historically, schools have received a dedicated funding stream from DfE for providing extended provision. However, in 2011, this grant was no longer ringfenced and was instead absorbed into the Dedicated Schools Grant. While this could offer school leaders and their partners greater autonomy in deciding what services and activities should be offered, in reality it was a significant funding cut for these activities at a time when schools have no obligation to maintain their spending on wraparound care.

The new administration has an opportunity to improve this situation. The GLA is introducing a new programme to address the cost, quality and affordability of childcare in London. Proposed initiatives include promoting early years careers, supporting new leaders of early years settings, developing early years hubs, and improving take up of free childcare and early years support. The mayor has announced plans to improve flexible working through an employers' compact, and recently announced the GLA family childcare deposit scheme – an interest-free loan scheme will give all parents in the GLA group the funds they need to cover the up-front costs of childcare provision.⁸ The GLA has also proposed the Healthy Early Years Programme, which will extend the Healthy Schools London programme to pre-schoolers, in their role in supporting quality improvement with respect to child health in early years provision.

The GLA also has a role in administering external grants. It has been designated as the administrator of the European Social Fund (ESF) grant for London (2014–2020). This fund includes an objective to 'support young lone parents to overcome the barriers they face in participating in the labour market (including childcare)' (DWP 2015).

Finally, the mayor also has an important role in representing and lobbying for Londoners to other branches of government. GLA has spoken out against insufficient funding for free entitlement (with respect to both the original 15 hours and the upcoming extension to 30 hours), and should continue to do so. The mayor also has a role as a business leader, and has recently established a Business Advisory Board (GLA 2016f). The mayor can use this outlet to ensure City Hall does all it can to encourage family friendly practices among London's employers.

Erosion of regional governance

In the recent past, large regional government and other statutory agencies existed in the form of the Government Office Regions, Local Government Associations and Regional Development Agencies (RDAs), as well as Primary Care Trusts in the NHS. These have now been abolished. RDAs have been replaced by weaker Local Enterprise Partnerships, of which there are currently 39. Only one statutory local government association remains in England, London Councils. There are also a handful of Local Authority

8 <http://www.standard.co.uk/news/mayor/help-parents-pay-upfront-fees-for-childcare-sadiq-khan-tells-london-employers-a3449236.html>

Leaders' Boards through the UK, however for most both their funding and statutory duties have been removed.

The devolved nations have retained more regional governance. For example, Scotland has Regional Transport Partnerships, NHS Scotland and Wales divides the nations into regional Health Boards. Wales is currently exploring how best to reform local government after a draft bill creating eight or nine LAs (instead of the current 22) was discarded.

Learning from previous childcare initiatives at the GLA

The GLA does not hold any direct or explicit statutory responsibility for education or childcare (LGA 2011). However childcare is a key element in fulfilling its objectives. Perhaps in response to this, City Hall has pioneered childcare support in the past. The most notable childcare initiative spearheaded by the GLA was the Childcare Affordability Programme (CAP). Part of the GLA's 2003 London Childcare Strategy (GLA 2003), the programme aimed to improve access to work by improving affordability of childcare for low-income families. The programme had two phases, running from 2005 to 2011 and was administered by the London Development Agency (LDA).

The first phase of the programme (CAP 05), aimed to subsidise full day childcare places for low-income families by increasing the childcare subsidies available under tax credits (in this case, through providers), as well as subsidising the cost of flexible childcare and childcare for children with special needs and disabilities (Evans and Gardiner 2011). The programme cost £33 million, composed of £22 million through the LDA and a further £11 million through DfE.

The second phase (CAP 09) – part of the Child Poverty pilots, a suite of policies led by DWP from 2008 onwards – sought to understand the impact of providing more generous childcare support to parents not already in work (the 100% Costs Pilot and Disabled Children Pilot) and of providing the same level of support through an alternative payment system (the Actual Costs Pilot). Funding estimates for CAP 09 were around £9 million before the programme was withdrawn.

Evaluation of CAP demonstrated the importance of providing parents with appropriate, clear and timely information on the support that was available, including an explanation of why and how it would benefit them. The programme also demonstrated the importance of targeted support to ensure that work pays for low-income parents, and that in many cases a small amount of extra funding (on top of the current system) improved access to work. It also showed the GLA (and other regional bodies) can play a successful role in support families (Abery 2011).

Alongside CAP, the LDA also ran three other childcare programmes between 2005 and 2008 (London Assembly 2006). The business and skills programme (£3.6 million) aimed to increase the sustainability of existing childcare provision by supporting providers directly. The marketing and London intelligence programme (£2.1 million) aimed to increase awareness of childcare support (including the online London

Childcare Portal, which no longer exists) and best practice in childcare. The capital investment programme (£2.5 million) provided capital support to LAs and providers to create 1,050 additional places.

The GLA does not currently offer any significant childcare support at present beyond the Healthy Early Years programme (piloting through 2017 and due for full programme launch in 2018). The Mayor's Fund for London, of which the mayor is patron, runs independently from the GLA as a social mobility charity. It funds both school and employment programmes, including initiatives to boost the number of breakfast clubs and amount of summer holiday provision for pre-schoolers (Mayor's Fund for London 2016).

The London Enterprise Panel

The London Enterprise Panel (LEP) is the Local Enterprise Partnership for London and acts in an advisory capacity to the GLA. Chaired by the mayor, the LEP brings together London's boroughs, business representatives and other major actors such as Transport for London. The LEP advocates for programmes to increase and sustain employment in London, particularly among marginalised groups such as low-income parents, and provides an information portal (the Growth Hub) for London's businesses. The LEP also administers funds, from the UK government and European sources, largely capital investment to support jobs and skills in London. It has no specific duties relating to childcare, other than in its role as advocate for policies that support job growth in London.

London Councils

London Councils is the statutory membership organisation of the 33 London boroughs. The organisation lobbies for resources and investment across London, is both a co-ordinating power for London and a service provider (through legislation that enables LAs to pool responsibility and funding).⁹ Though London Councils do not offer or commission services like childcare, they play a co-ordination and improvement role in certain other pan-London processes or services such as the Pan-London Admissions Board for school places and regional adoption agencies, through the London Adoption Board. Their involvement in childcare extends to lobbying central government for more investment and supporting quality improvement through the sharing of best practice and coordinating of professional networks.

Regulation: the role of Ofsted

Childcare providers in England are regulated by Ofsted, the Office for Standards in Education, Children's Services and Skills. Ofsted inspect providers approximately once every three years, unless the provider is under-performing and requires additional inspections. The inspection regime for nurseries within schools is slightly different, as that provision can be inspected as part of the school inspection. Childminders can be exempt from direct inspection if they join a childminding agency. The agencies themselves are inspected by Ofsted, rather than each individual childminder. Ofsted also share best practice and make recommendations to government.

⁹ London Councils administer London's Freedom Pass – which gives free travel to 1.2 million older, disabled or blind people – and various other mid-size services, such as London Care services (online support for councils placing children in care).

Ofsted's budget has shrunk by nearly a quarter since 2010, from £200 million in 2010/11 to £155 million in 2015/16. These cuts will continue into the future, with projected budgets falling to £124 million by 2019/20 (Ofsted 2016a). Budget cuts are likely to have a negative impact on regulation given that inspections are already taking place at a low frequency, and Ofsted offer only minimal support to providers before or afterward the inspection.

LAs can also fulfil a quality assurance role, if not statutory regulation, but they are limited in their powers to respond to concerns. For example, if Ofsted rates a provider as good (rather than requires improvement or inadequate) the LA has few levers to improve or shape the provision despite any concerns they may have. LAs, who may be better acquainted with providers and receive more feedback from parents, are unable to intervene in PVI provision (though they are able to intervene in early years provision within schools) and must fund a provider that is found on the day of inspection to be providing a satisfactory service for children. The removal of LA funding and responsibility for ensuring quality is concerning, and at odds with other countries.

This is particularly problematic given that Ofsted may not always be an accurate judge or effective driver of quality, with Ofsted scores poorly correlating to other measures of quality (Mathers et al 2012). Moreover as Stewart and Gambaro (2014) argue, a three-yearly inspection visit is no substitute for continuing professional support and development. Ofsted is also arguably not comprehensive enough in its inspection criteria. For example there is no formal requirement for outdoor space despite its importance for pre-schoolers (Scottish Government 2013).

What is the role of employers?

Good employment practices are vital in enabling primary carers to move into work or increase their hours. Employers are crucial in ensuring flexible working options, supporting parents with childcare costs and providing attractive parental leave enhancements. It is the flexible work options – including part time work, compressed hours and remote working – made available to London's parents that make it possible to balance work and care. It is therefore a cause for concern that London has the lowest proportion of flexible and part time opportunities of any region in the UK (ONS 2016e).

At present most employers do not have a role in providing childcare or directly supporting it. The minority of employers that do offer some kind of support primarily do so through two routes. The first is employer supported childcare vouchers, a tax break that is administered through companies. This gives employers a direct role in providing childcare support to their employees. However this scheme is currently being phased out and its replacement keeps employers firmly out of the picture. Tax-free childcare will be on offer to working parents without their employer's involvement. Though tax-free childcare will reach a higher number of parents than its predecessor – partly because employers are not required to sign up – this reduces the role of employers in creating family friendly workplaces at a time when the reverse is called for.

The second method through which employers support their workforces is by directly providing childcare. This could be through on site nurseries, such as that offered by Bright Horizons, or by offering childcare ‘insurance’ (free or affordable last-minute childcare when parent’s normal childcare falls through), such as My Family Care. This support tends to be very popular among employees, and certainly increases access to and affordability of childcare, though these types of support are yet to become a mainstream part of employers’ offers to their staff.

In addition, with the introduction of shared parental leave in April 2016, employers now have a role in supporting their staff to take up this offer, both by providing clear signals that it is acceptable and in ensuring that staff know their rights.

Though there are considerable business benefits to family friendly employment practices (BIS 2014), many parents do not feel they can balance their work and family in the way they would like (DWP 2009). To increase explicitly family friendly practices, employers should be given a central role in ensuring balance. But the phasing out of employer-supported childcare vouchers brings into question what the role of employers is in London’s childcare system. Employers need the social infrastructure of high-quality, affordable and flexible childcare – and calls for more investment in childcare have been made by employer bodies such as the Confederation of British Industry (CBI). The employer relationship to childcare should and can be mutually beneficial.

5.5 CONCLUSIONS

We conclude that local statutory duties for childcare are not coupled with responsive funding or powers. There is a lack of local accountability for childcare outcomes, with local communities and decision-makers having little voice.

Local duties are not coupled with responsive funding or powers

LAs are well placed to respond to local needs and have a statutory duty to do so through the sufficiency duty. However, they are constrained in their ability to meet this duty by the level of funding they receive through the DSG and early intervention grants from central government. As a result – and as in social care – non-statutory requirements are largely unaddressed or significantly underfunded, and even statutory duties are unmet in many LAs. LAs are unable to respond to alternative or additional local needs, such as providing flexible childcare for working parents.

LAs also have limited powers to respond to quality concerns in their local childcare market. Ofsted oversees quality, with statutory funding linked to their inspection ratings rather than the judgements of those working within the LA. Therefore, if LAs wish to provide extra support or restrictions on particular providers in response to parent’s feedback, they are limited in their ability to do so. This also leaves childcare quality wholly reliant on an infrequent – approximately once every three years – and brief inspection process. The relationship between LAs and

Ofsted has been weakened by the removal in 2012 of formal and regular regional conversations between a nominated Ofsted officer and the LA early years team.

There is a lack of accountability at the local level

Despite LAs limited ability to respond to challenges in their local childcare markets, they are legally held to account through statutory duties. However, this does not appear to translate into accountability for local families. In many boroughs, there is no clear or effective route between families – in particular the complaints or needs of parents – and the LA so that parents are limited in their ability to precipitate change. However, it is parents in London are more likely than parents in any other region to say that the quality of childcare needs improving (Huskinson et al 2016). The LA has an important role to play, not only because of the statutory duties placed upon it, but because parents can find it difficult to raise concerns about their child's education or care to the provider as they do not want to compromise their relationship with the carers. In addition, Ofsted is not parent-facing and most parents are unlikely to go to it with a complaint.

It is likely that the significant variation in sufficiency and support at a local level is at least partly a result of this lack of local accountability. However, there is also a deeper question about what LAs would be able to do if there were better lines of accountability. With limited budgets and limited powers (when Ofsted has the final word) it may be difficult for LAs to respond effectively.

There is a lack of oversight

London has the lowest proportion of providers (87 per cent) and of childminders (81 per cent) that are judged good or outstanding for overall effectiveness (DfE 2016a). Yet there is no regional oversight to address this challenge or increase quality across London's childcare market. There is also no holistic approach to fill gaps in the market, or to respond to the collective impact of local or regional changes (such as demographic change).

Broader objectives for childcare policy are also absent at a regional level. Each LA may seek to meet their own objectives – such as increasing maternal employment or promoting child development and school readiness – with no alignment of these objectives across the capital.

Local communities and decision-makers have little voice

Childcare policy and delivery remains highly centralised. Central government largely determines and funds childcare policy, with regional authorities such as the GLA largely uninformed. Although LAs are responsible for delivering provision (alongside the private and voluntary sectors), they must do so in a highly constrained context of limited funding determined and directed by central government and limited regulatory levers.

The GLA is an established, accountable mechanism for the planning, funding and oversight of services, and plays an important role in economic and employment policy, yet it does not have any formal role in London's childcare services. London boroughs also have limited scope

to influence policy. LAs and communities are often locked out of key decision-making and funding processes and lack the powers to deliver significant change, or to effectively integrate childcare policy with wider policy agendas (Lambeth and Southwark Childcare Commission 2015).

Yet childcare is innately local. It is dependent on – and must respond to – the local and regional labour market and the values and preferences of local communities. In turn, the provision of childcare also has local and regional impacts on employment decisions, sometimes being the critical factor in determining whether a parent goes to work or not. Local and regional employment strategies, and broader economic strategies, need to work in symbiosis with childcare provision, rather than at many degrees of separation from it.

This is a missed opportunity to meet London’s specific childcare needs, integrate childcare policy with other city or borough level policy agendas, and move childcare policy and delivery closer to the people of London and their elected representatives.

6. MORE REGIONAL FUNDING AND DELIVERY

THE CASE FOR CHANGE

This chapter makes the case for a more regional and sub-regional funding and delivery system for childcare. We explore the benefits of working together on a regional and sub-regional basis, including the importance of integration across policy areas, the benefits of more direct control, less fragmentation and greater efficiency.

6.1 THE BENEFITS OF REGIONAL AND SUB-REGIONAL COLLABORATION

The benefits of collaboration

Collaboration can promote both innovation and efficiency, through the pooling of resources, and the sharing of best practice, skills and expertise across multiple agencies. For example the West London Alliance, a sub-regional partnership between seven West London LAs, focuses on innovative and efficient collaborations in health, housing, and employment and skills policy. Through the Alliance, member boroughs invest in and sponsor collaborative programmes stretching across the member boroughs and across policy areas, with the twin aims of improving efficiency and delivering better outcomes for local people and businesses.

The Alliance has been successful so far, with collaboration between the boroughs resulting in high returns on their individual investments, greater efficiencies and better outcomes for local people. For example, the boroughs predict a 50 per cent reduction in the number of young people who move into the category of not being in employment, education or training (NEET) through their Opportunities for Young People programme (West London Alliance 2015).

The London boroughs of Kingston and Richmond have pioneered a different model. They have jointly set up Achieving for Children, a social enterprise company that provides children's services for the boroughs, with the aim of encouraging better service delivery and supporting efficiency. The Knee High project, a joint collaboration between Lambeth and Southwark boroughs, Guys' and St Thomas' Charity and the Design Council, sought to encourage innovation with the aim of improving the health and wellbeing of under-fives in Southwark and Lambeth (Lambeth and Southwark Childcare Commission 2015).

We can look to Scotland for best practice in collaboration and shared learning in the early years specifically. The Scottish Early Years Collaborative (soon to broaden its remit to become the Children and Young People Improvement Collaborative) is the 'world's first multi-

agency, bottom up quality improvement programme to support the transformation of the early years'. The collaborative supports quality improvement and collaboration among early years services by sharing resources on best practice and bringing early years staff together to share evidence based approaches to quality improvement. The Collaborative has had a high level of participation from early years staff and succeeded in building a centre of expertise for the early years.

An example of collaboration across different branches of the education and care system is the approach spearheaded by the Randolph Beresford early years centre in White City, in the borough of Hammersmith and Fulham. This whole estate approach integrated the children's centre, local primary school and a PVI provider. The early years centre itself includes a nursery school (three-to-five-year-olds), under-threes provision, the children's centre and an adventure playground. The approach was an innovative response to increased demands of government policy:

'To provide the changed offer of 30 hours of child care on the White City Estate is was imperative that we came together with our local primary school and private child care setting to utilise space and provide a blended model of education and childcare for local families.'

Each setting in the partnership has the potential for childcare provision. The primary school hosts out of hours childcare, while the early years centre provides wraparound care for children at the school (ages three to 12), thus using shared resources to meet the needs of local families (GLA 2016m). This chimes with evidence from Ofsted showing that best practice in school readiness is a result of schools and providers working together to ensure progress is not negated over the summer holidays (Ofsted 2014).

Other arrangements specifically focus on increasing operational efficiency, such as the North London Children's Efficiency Programme (NLCEP), where five boroughs are working in partnership to improve care placement. Though still in its early stages, once completed this programme could be a roadmap for how sub-regional partnerships can bring together multiple boroughs and agencies to design and create a centre of excellence that addresses local needs while improving efficiency (Knibbs et al 2016).

The government has recently taken a significant step forward on collaborative commissioning. The Work and Health programme, to be launched in 2018, will be co-commissioned by the four sub-regions and the GLA (London Councils 2016a):

'The Mayor of London and the boroughs will jointly commission employment support (outside the Jobcentre Plus regime), to assist the very long term unemployed and those with health conditions and disabilities to (re) enter work. The government, the Mayor of London and the boroughs will commence detailed discussions on how they can jointly shape every element of the commissioning process: from strategy to service design, managing provider relationships and reviewing service provision.'

Co-commissioning at a regional and sub-regional level will enable London and the boroughs to help ensure the programme meets the unique needs of its residents.

Though beneficial, collaboration is not a silver bullet. Collaboration does not solve capacity issues in itself. For example, looking at integration of health and social care, 85 per cent of LA chief executives and leaders agreed it would have a positive impact on health outcomes but only 32 per cent agreed that further integration would generate savings for their council (PwC 2014). In childcare as in social care, many providers state that they cannot provide high quality provision for the hourly or unit rates the government pays. In these cases, collaboration may reduce financial pressures to a degree but it is not a sustainable solution unless accompanied by sustainable funding agreements.

Moreover, the nature of collaboration is crucial. Borough partnerships such as the shared services partnership in the London Tri-Borough (the Kensington and Chelsea, Westminster, and Hammersmith and Fulham boroughs) are pooling functions with the aim of achieving better value for money and offering more consistent, high quality services. While back office functions were merged, the boroughs still offered different support to families and different funding levels to providers. So although there were likely to have been efficiency savings, the potential of collaboration to improve the nature of the service offer was not utilised.¹⁰

However collaboration – if done right – does have the power to increase efficiency (and value for money) in government services and build centres of expertise.

Regional providers: Learning from London's providers

We can learn from London's PVI childcare providers. London Early Years Foundation (LEYF) is a social enterprise operating 38 community nurseries across London. LEYF cross-subsidise between their nurseries, and reinvest all their profit into the foundation. Half of parents (48 per cent) using their nurseries have a free place, funded through LEYF, enabling lower-income families to use this high-quality provision alongside private fee-payers.

Like maintained nurseries and children's centres, LEYF runs nurseries in disadvantaged areas where there wouldn't otherwise be a nursery available, and they are the largest provider of the free two-year-old offer in London. Their success highlights the value and effectiveness of the regional approach, allowing the Foundation to target resources where they are most needed through cross-subsidisation from richer areas to poorer ones, while benefiting from the efficiencies and shared learning that comes of being back of a network with shared back-office functions.

¹⁰ Interview with key stakeholder

6.2 THE CASE FOR INTEGRATION ACROSS POLICY AREAS

Providing a joined up service in the early years is crucial in tackling disadvantage (Ofsted 2016b). There is significant potential to integrate childcare policy with other city or regional policy agendas. Childcare is a key element in fulfilling wider objectives such as economic growth, employment and skills outcomes and social mobility. The links between childcare and these wider policy areas are examined below.

The most prominent example of childcare relating to other policy aims is that of maternal employment. International comparative analysis shows countries with better access to childcare have higher maternal employment rates (Thompson and Ben-Galim 2014), and this in turn leads to stronger local economic growth. This is a key concern when worklessness costs London at least £5.1 billion per year (Inclusion 2010). Yet childcare policy is poorly integrated with employment and skills policies, if at all, and many parents – in particular, mothers – are locked out of the labour market because of inadequate childcare provision (Borg and Stocks 2013).

An example of best practice in integration and collaboration between local policy teams is the Pathways to Employment pilot in south London. Lambeth, Lewisham and Southwark boroughs have pooled employment and skills funding on a welfare to work programme. The scheme is ‘around five times more successful at getting people with complex needs into work than existing national programmes’. Its approach is now being recommended for national adoption by a parliamentary select committee. The pilot was funded through a central government grant, Jobcentre Plus and funding from the boroughs (Lewisham Council 2015).

Another example of integrated childcare and employment support is the PaCE programme in Wales. This £11 million project, running from 2016 to 2018 and funded by the EU, funds community based advisors to help parents into work, alongside childcare support for deposits and ongoing childcare costs while in training or voluntary work.

A smaller-scale example of integration between teams (housing and early years) is the Brent childcare subsidy. Brent’s childcare and housing teams created a childcare subsidy to support parents in low-income households into work using Discretionary Housing Payments. Parents could apply for funding for up to 10 hours of childcare per week for up to six months (£5 per hour for up to two-year-olds, £4 per hour for three-to-five-year-olds), in addition to other childcare support they may be eligible for, in order to ensure they could move into – and stay in – a new job. Of those families that took part, the majority reported that the support helped them stay in work for the six months of the programme (GLA 2016m).

Childcare policy can also directly target health outcomes. This is key in London, where newborns are more likely to be of low birthweight than in England as a whole – a factor which can have a negative impact on early cognitive development. Childcare can mitigate for this and other health inequalities, as high quality provision positively influences early cognitive development and can improve school readiness (Sylva et al 2004). Good childcare also encourages children to physically move

around – another factor that contributes to healthy development in early life and sets up healthy habits for decades to come. Conversely, achieving a good level of development in the early years requires children to be healthy and able to interact and learn. The importance of these two way relationships have been recognised by the GLA in their upcoming Healthy Early Years Programme.

Best practice in integrating early years and health outcomes can be found in children’s centres. Maintained provision, particularly multi-use services such as children’s centres, co-locate various services to ensure that parents have easy access to the services they need. Children’s centres are best able to respond to children’s needs holistically, with some explicitly targeting health outcomes as part of an integrated approach, and so the recent and ongoing cuts and resultant closures to these centres are a significant loss to the families. Another example that demonstrates that the case for integration is also the case for co-location is Islington council’s First 21 months programme. This integrates health and early years services, under joint funding, leadership and commitment to the programme objectives (Messenger and Molloy 2014):

‘The First 21 months programme, focuses on improving pathways for women from conception through to the child’s first birthday, with continuing involvement from children’s centres after this time. A joint project with health, it aims to improve coordination of care between midwifery, GPs and children’s centres resulting in better targeting of at risk families and children. Clinics with midwives and health visitors take place in children’s centres in order to develop a one stop shop approach to antenatal and postnatal care to make it easier for women and their babies to move between services.’

Messenger and Molloy 2014

Similarly, in Brighton and Hove (ibid):

‘In Brighton and Hove the entire health visiting service for the city has been seconded into the council through a Section 75 agreement, and they work as an integral part of the children’s centres service. This model is believed to have delivered value for money, effective use of resources, and safe, evidenced based health care delivery.’

Ibid

Scotland also has a considerable focus on the integrated delivery of childcare and related aims. The Early Years Change Fund (established in 2011) has successfully worked across national and local government and NHS Scotland to improve health in the early years and embed early intervention (Mulholland et al 2016).

Childcare can also benefit children’s health indirectly, through its impact on maternal health. Employment has been demonstrated to be a factor in improving – or reducing the onset of – poor mental health. Maternal health, including mental health, is strongly correlated with the health outcomes of the child. Therefore in its role in supporting employment,

childcare can offer a route to improving health outcomes among pre-schoolers as well as their parents (GLA 2016j).

Another area where childcare policy could be better aligned to London's policy objectives is social cohesion. Despite its very diverse population and relatively high levels of residential mixing, London is not socially well integrated (Social Integration Commission 2014). Social cohesion is a key concern of the mayor – having appointed a deputy mayor dedicated to this area – and can be at least partially addressed through childcare policy. Examples from at home and abroad show that there are far reaching benefits of requiring mixing in publicly funded childcare settings (West 2016; Mathers and Smees 2014, Sylva et al 2004).

'In England, disadvantaged children achieve better outcomes in settings with a mixture of children from different social backgrounds rather than in settings catering mostly for children from disadvantaged families.'

West 2016

Yet despite this strong evidence base and the high level of inequity in London, the Family and Childcare Trust finds that 'the majority of London local authorities are not currently taking action to understand or improve social mix in early years settings in their borough' (Harding and Hardy 2016). Childcare can be a powerful tool in facilitating integration and therefore more cohesive communities, but it is not currently being harnessed for this use. In funding childcare predominantly through demand-side funding to a private market without applying conditions of intake, the government is facilitating rather than acting to prevent social segregation among pre-schoolers, as providers have no incentive to take in a mixed cohort.

Conversely, childcare policy itself has multiple objectives, many of which cut across several organisations' objectives or functions. For example, high quality childcare helps children to develop socially and cognitively, and ensures they are ready to start school. This benefits the child now and into their adult life, as they are more able to learn and progress from day one at school. It is also beneficial to the school, as they are better able to educate the pupil. Yet the nature of the funding system results in the LA early years provision and the local primary schools being in direct competition for funding rather than working together towards shared goals.

Similarly, there is little incentive for private providers to address or prioritise health outcomes. As Ofsted reports, health visitors hold the key to promoting uptake of early education at age two. With the transfer of public health to LAs in September 2015, many important levers to deliver change in the early years from this point forward will sit with local leaders (Ofsted 2015) but providers are not incentivised to work together in the best interests of the child. In general, closer integration is largely disincentivised or blocked by the structure of the funding system. Funding and delivery remains heavily siloed by policy area, rather than structured around area based approaches.

In conclusion, achieving government objectives both within early years policy and more broadly requires multiple interventions that cut across traditional

policy silos. But childcare policy is not well integrated across government, at either a local or national level; and funding and delivery bodies are not incentivised to work together to achieve these collective aims.

6.3 THE CASE FOR DEVOLUTION: REGIONAL CONTROL AND COLLABORATION

We have seen above that there is a strong case for collaboration and integration. Now we look at how regional control and collaboration can create systems that are more responsive, efficient and effective.

Devolution better enables local and regional government to respond to local challenges. Each region in the UK is different and has local challenges to face, and London is no exception. London's diverse and mobile population and its complex labour market bring their own challenges.

Regional governance can improve outcomes where it strengthens links between the funder and the recipient body (that is, government and providers). International comparative analysis from Gambaro et al finds that 'when the state funds providers directly, it is easier to build in incentives or requirements for a more equal and higher quality service' (Gambaro et al 2014). Countries like New Zealand that fund providers on the basis of the qualifications held by their workforce are better able to influence the skills profile of the workforce. English LAs – who fund on an hourly basis – are unable to do so.

Though LAs can use discretionary elements of their funding to incentivise a qualified workforce, a mixture of fiscal pressures and this not being reflected in the total sum they get from central government means this practice is likely to fade out, and reform makes it less likely too. Therefore a more direct line from the funding body to providers would be useful for improving quality.

In most western European nations with evolved public childcare systems, local government plays a key role. This focus on local autonomy to run or supervise childcare is also common to the Nordic countries (Alestalo et al 2009). For example, in Norway municipalities receive block grants from central government, following a shift from state grants in 2011, to give municipalities greater autonomy, and better align funding streams with delivery responsibilities (Engel et al 2015).

A similar shift occurred in Sweden during the 1990s, when heavily prescribed funding from central government was replaced with block grants and governance by outcomes rather than funding stipulations. The result of greater municipal autonomy was more partnerships between school and childcare providers, more efficient use of resources, and greater sharing of facilities. However more recent reforms lean away from autonomy and back towards centralisation (Naumann 2011).

The examples of other city mayors, such as Mayor de Blasio in New York City (NYC), show that city wide childcare administration is both possible and has some advantages over more local delivery. Though neither the US nor NYC are exemplars of progressive, accessible and affordable childcare systems, meeting only a minority of needs (for example, Campaign for Children 2015; James 2015), the city's governance structure gives food for thought. NYC's childcare is predominantly funded through federal funding

(with accompanying rules) and the New York State Child Care Block Grant and delivered through the city's Administration for Children's Services (ACS). Sitting under the mayor's jurisdiction, ACS administers the largest municipal childcare system in the US.

This structure gives the mayor of New York the power to both respond to local concerns and needs and shape policy that meets multiple objectives, such as raising the wages of childcare workers; it also makes the system more open and understandable for parents, through measures such as the requirement that all providers that receive government funds must put a Child Care Performance Summary Card in their window (Office of the Mayor 2015; 2016). This card gives parents easy access to key information about the centre, including its capacity, and any previous enforced suspensions of service and health violations. London has no analogous agency, and therefore lacks both the funding and the accountability that would result in a more comprehensive system of support for the city. A regional body that would both administer funding for childcare support, and oversee what interventions are needed, could benefit children and families in London. As in NYC, the GLA has objectives that stretch across different policy areas.

Whereas in London, little joined up policymaking is done regionally, NYC is able to target interventions to meet multiple objectives. For example, the NYC mayor is responsible for the wellbeing of workers in the city as well as the childcare support available to its families. Therefore it is incentivised to create initiatives that benefit both the childcare workforce and the children receiving that care, as it did when it raised wages of childcare workers. London would benefit from both such joined up policymaking and the associated funding structures that make it possible.

Devolution can also increase the simplicity of the funding and delivery system. Childcare policy, funding, governance and delivery frameworks in England – and in London – are complex and uncoordinated. Stretching across five central government departments, London's 33 boroughs, primary schools and private providers, the system is fragmented at every level (see figure 6.1). This fragmentation leads to poor value for money for government and for parents (Butler and Rutter 2016). This is partly a result of the inefficiency of a system in which many LAs perform very similar tasks in isolation, and partly because the childcare support that parents and providers receive can be 'too diffused to make a cumulative financial contribution' (ibid).

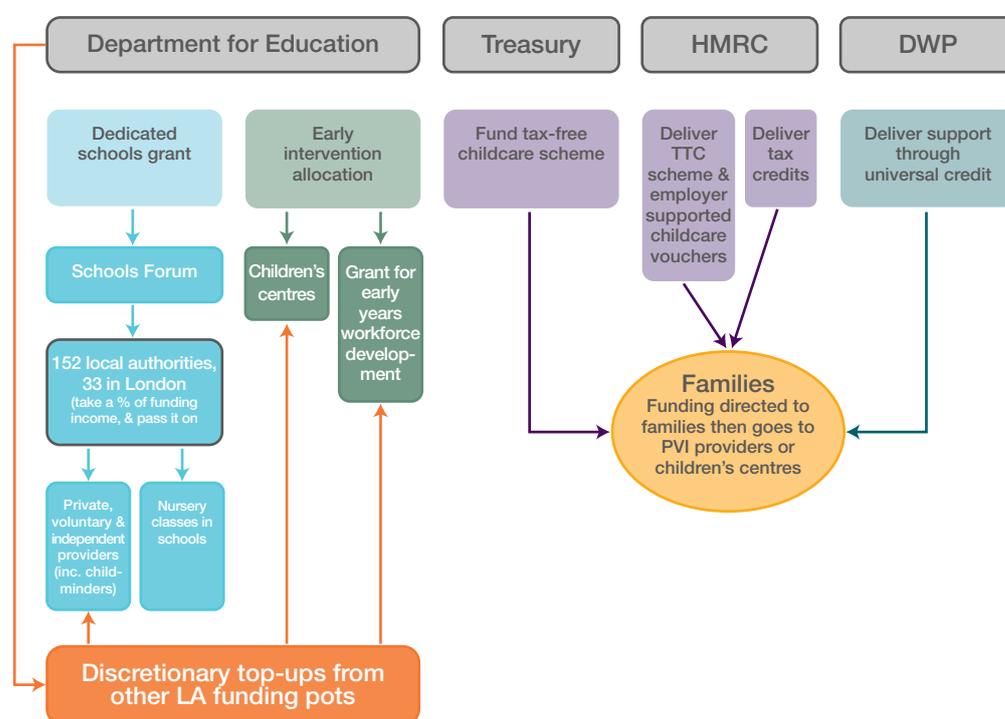
In the previous section, we have seen the benefits of greater integration across policy areas and greater collaboration. A well designed regional approach would enable more integration, through (legally) pooled budgets and responsibilities. Devolution to regional tiers can also lead to greater efficiency and democracy (Cox, Henderson and Raikes 2014).

An example of a regional approach to childcare can be taken from Denmark. Like England, childcare policy in Denmark is determined by several central government departments and delivery is largely through LAs (municipalities). Funding is through central government grants to LAs (which are not ring fenced) determined by the size of the local tax base, and through private payments from parents (Danish Ministry of

Social Affairs 2000). However, a key difference between the English and Danish systems is the latter's use of the regional level of 14 counties. While municipalities run or commission childcare centres, counties must provide places in specialised care facilities for children with specialist needs. This links both funding, delivery and accountability to the same regional body, ultimately leading to better provision for those with specialist needs. England – and specifically London – could learn from this model. Children with specialist needs are underserved by childcare, and would benefit from a more accountable, aligned funding and delivery system to meet their needs.

FIGURE 6.1

The funding and delivery system for childcare support in England



Devolution in Greater Manchester

The most significant recent example of the move towards greater devolution in England is in Greater Manchester. The city region has been at the forefront of area-based approaches to public services, where the design of services is around places rather than top-down service boundaries, with the aim of reducing duplication and maximising collective effort. As of April 2016, Greater Manchester Health and Social Care Partnership – a group formed of the Greater Manchester Combined Authority (GMCA), councils, clinical commissioning groups, NHS England, providers of hospitals and the ambulance service – control the £6 billion health and social care budget from central government. The city region will also retain

100 per cent of its business rates as of April 2017, in a pilot of a national roll-out of the same policy.

Although the focus here is on health and social care, regional objectives are wide-ranging, including improving school readiness, the educational outcomes of school-leavers, and employment rates of 50–64-year-olds. GMCA see this as a starting point, with other policy areas to follow, including an integrated approach to preventative services for children and young people, and a community infrastructure levy to support development and regeneration. To make way for the former, there will be a fundamental review of children's services across the city region in 2017, with a focus on scaling up new delivery models to make the best use of existing resources. The city region has been developing new delivery models for the early years with the aim of increasing the number of children who are ready for school. LAs have been piloting programmes of early years support that are integrated across sectors, including health, local government and PVI providers, with a focus on early intervention. These pilots are still in progress.

There has been – and will continue to be – a focus on further devolution at a national and local level across a range of policy areas. There have been moves towards decentralisation over the last parliament with the introduction of 39 local enterprise partnerships, 24 enterprise zones, five combined authorities and Devo Manc, a programme of extensive devolution in Greater Manchester (see the boxed text above). This trend is likely to continue under the current government, who have promised ‘far reaching powers over economic development, transport and social care to large cities which choose to have elected mayors’ (Conservative party manifesto 2015).

The GLA is currently seeking more devolved powers. In response to an HMT call for devolution proposals for the 2015 spending review, the GLA proposed the London Health and Care Collaboration Agreement. The Treasury and Department for Health have also published a supplementary London health devolution agreement. Though it focusses on health and social care, this agreement includes school readiness by age five as a key objective of pan-London working (GLA 2015c), indicating the need for joined-up cross-agency working. The government has also committed to London's Work and Health programme, and is devolving adult education budgets to London from 2018/19. In the longer term, the government announced in 2015 that London will be able to retain 100 per cent of business rates revenues by 2020. Central, local and regional government are now in discussions on retention of local rates – a tax currently worth £6.6 billion a year in London (London Councils 2016b).

We have seen above how devolved systems can be more responsive and efficient, and that both childcare policy and London would benefit from more sub-regional collaboration and integration across policy areas. Devolution can be a powerful tool to enable local and regional economic strategies to align with other policy areas on which it depends, such as skills policy, education and early years policy. For example, devolution of powers enable regions to facilitate and then capitalise on the relationship between childcare

and business, integrating policy areas as we have shown above. More powers in London would also be of particular benefit to social integration in the city, directly by requiring mixed settings and indirectly by closing the gap in attainment between children from the more disadvantaged families and their more advantaged peers. Moreover, it is what Londoners want: there is significant public support for London, through the mayor and London councils, to have more control over public services (TNS 2016).

7. WHAT ARE THE OPTIONS FOR IMPROVING LONDON'S CHILDCARE OFFER?

A ROADMAP FOR THE FUTURE OF CHILDCARE IN LONDON

As we have seen, current policy and funding frameworks are failing childcare in London. Maternal employment levels in London are the lowest of any region in the UK, and London has the least affordable childcare in England, with costs high and rising. The high cost of childcare in London is placing an unsustainable burden on families in London and is holding back London's competitiveness. If the maternal employment rate in London rose to meet the current UK average, 80,000 more mothers would be in work. The fiscal impact of such a rise in London's maternal employment rate would be significant: a net gain of £90 million to the Treasury.

Of those in childcare, children in London are more likely to achieve a good level of development than in other English regions. In 2016, 71.2 per cent of children achieved a good level of development, compared to the national average of 69.3 per cent (Ofsted 2016d). Yet four in 10 children in London still do not achieve a good level of development by the time they reach school. London has a pre-school attainment gap between those living in deprivation and others, of 12 per cent. Though lower than the national average, this is a considerable and avoidable development gap.

This chapter applies the learning from our analysis to present a roadmap for better childcare support in London. First, we consider the appropriate level and scale at which powers in relation to childcare should be set and, second, we set out the levers available to the different tiers of government in London. Finally, we set out our short, medium and longer term recommendations for childcare in London.

7.1 THE APPROPRIATE LEVEL AND SCALE FOR POWERS OVER CHILDCARE IN LONDON

Some elements of the childcare system in London are being carried out well at present and no structural changes are needed. For example, LAs should continue to commission services and fund children's centres in their boroughs. LA management of these services enables local responsiveness and facilitates partnerships and connections between centres and other elements of LA-provided support that benefit from co-location in centres.

Ofsted should continue to regulate providers, though cuts to its budget are concerning given that one inspection every three years is already insufficient to guarantee ongoing quality.

However, some existing elements of the system would benefit from a regional strategic approach. For example, information for parents is currently provided through the LA family information services. This provision is highly variable between boroughs. Information provision may benefit from a regional approach, particularly where campaigns are targeting particular groups, such as those who currently do not take up available support. This would also relieve some pressure for LAs.

Similarly, some LAs provide business support to providers. This service has generally been on the decline following the withdrawal of central government funding and is now underfunded and inconsistent. Business support is vital for helping childcare providers establish and grow, and while it is a specialist service, it is support that can equally be provided at the sub-regional or regional level, as at LA level. Operating business support at this level may be more financially viable.

Though some London LAs are active on workforce development, many are not. Workforce development could be undertaken well at a regional tier, as it does not need to be hyperlocal, it is a specialist function and would benefit from economies of scale. If London had a comprehensive strategy for the childcare workforce, placing workforce development in the context of childcare policy and funding, it would help provide greater consistency for providers and childcare workers. It would also allow the GLA and LAs to work together to identify and fill gaps as they appear. The workforce are the main route to improving quality in early years provision – so regional oversight could play an important role in raising standards.

At present, no government body is responsible for pan-London planning with respect to childcare, including managing the interface between planning and placemaking policy and the supply of childcare in the city. For example, with respect to planning this role should be done both regionally and locally, filtering through the London Plan to individual borough plans. Ultimately boroughs retain responsibility for planning decisions, but should be supported by the GLA.

7.2 LEVERS AVAILABLE TO DIFFERENT TIERS OF GOVERNMENT ON CHILDCARE POLICY AND DELIVERY

London faces the key challenges of affordability, inequity and undersupply. Here we look at what levers central, local and regional government can use to address these problems. We identify three areas that government can effect under the current system: better use of existing public spaces, better planning and market making and better use of existing subsidies. We also suggest a further two areas for development in the future – collaborative funding and commissioning to a sub-regional level and devolving power to London.

1. Better use of existing public spaces

Childcare needs appropriate premises located near where parents live or work. It is this combination of space intensive and hyper local that makes it such a challenge for providers to establish themselves – or to provide care at affordable rates – in London, where premises costs are higher than elsewhere. Childcare providers report that premises costs are on average 9 per cent of total operating costs in England (Brind et al 2014). These costs are likely to be much higher in London and as such be a leading contributor to the high running costs borne by London’s childcare providers. Total running costs for providers in London are almost double those of settings in other regions (Brind et al 2012).

Government has a significant role as a land owner, and can utilise this to increase childcare affordability and accessibility, ringfencing property for sale to childcare providers, renting it out to providers at affordable rates or facilitating co-location of multiple services – including childcare – in hubs (using children’s centres as a model).

The GLA Group (including Transport for London and the London Fire and Emergency Planning Authority) has a large land and asset portfolio (GLA 2016k). Though many buildings will not be appropriate for childcare, those that are could be let exclusively to LAs or providers, at affordable rates. The wider government body – including London’s LAs and the NHS – has many unused buildings. Though there is a precedent for selling publicly owned land to achieve public policy goals (for example, large scale sell off of central government land to build more homes in 2015 [DCLG 2015]), this is the exception rather than the norm. More commonly, each government body aims to get the highest market value for their property in order to reinvest these revenues. Instead of doing so, government bodies including the GLA Group and LAs should make best use of their premises taking into account their local childcare challenges rather than direct revenue generation. The NHS disposed of 145 surplus sites in 2014/15, and a further 59 in 2015/16 (NHS Property Services Limited 2015 and 2016 respectively). Better collaboration across different arms of government could put these unused buildings – where they are appropriate – into use by childcare providers.

2. Better planning and market making

As well as better use of existing space, various tiers of government can also use their planning powers to ensure that new developments take into account the childcare needs of their future residents. London’s population is set to grow from 8.6 million to 11 million between 2015 and 2050, and these future families will want and need high quality childcare nearby (GLA 2015e).

Childcare is an essential amenity for working families, yet it is not routinely required under the planning process. As the main arbiters of planning regulations, the government has the potential to put children and childcare at the heart of the planning process. LAs can make better use of Section 106 planning obligations and Community Infrastructure Levies, while the GLA can set an example through the London Plan.

3. Better use of existing subsidies

At present, many eligible families do not take up childcare support, whether in the form of tax credits or free early education. The extent of low take-up varies across London boroughs and different household types. All tiers of government can capitalise on their track records of public awareness campaigns to drive take-up of existing subsidies.

4. Collaborative funding and commissioning at the regional and sub-regional level

In the previous chapter we saw that there are considerable benefits to more collaborative funding and commissioning, including more efficient programmes and better integration of policy objectives. As we have seen, this is already happening to a certain extent and there is potential to learn from and build on these examples. London boroughs, the GLA and local delivery bodies can work together to achieve better value for money and improve outcomes for children and families.

5. Devolving funding to London

Similarly, devolution of funding and powers is happening in some policy areas across regions of England (as well as in the devolved nations). As we have seen, there is significant scope to improve outcomes for London's children and families through devolution of childcare policy and funding in London.

7.3 A SUMMARY OF OUR RECOMMENDATIONS FOR CHILDCARE IN LONDON

In the short term

Better use of space

1. In order to address the undersupply of childcare in London, local authorities, together with the GLA, should make greater use of unused public spaces. These could include redundant GLA group premises, and buildings being sold off by the NHS. Local authorities and the GLA should draw on existing DfE capital funding for early years to support this objective. As well as increasing supply, this could also lead to reductions in the cost of childcare if these conditions were to ensure that savings were passed on parents.

Better planning and market-making

2. The mayor should amend the London Plan to include stricter requirements to ensure there are enough childcare places in new developments.
3. Local authorities should include stricter requirements for childcare provision under Section 106 planning obligations and the Community Infrastructure Levy.
4. The Department for Education should provide advanced funds (loans) to local authorities in order to ensure this provision can be built in a timely manner.

Better use of existing subsidies

5. To tackle lower-than-average take-up of national childcare subsidies in London, the mayor should lead a campaign to improve take up of the two-year-old offer, and increase awareness of the extension of the free offer for three- and four-year-olds. Led by the GLA, this 'know

your rights' campaign would increase awareness and understanding of available support.

In the medium term

Improving quality in London

6. The GLA should work with London boroughs to introduce a package of measures to improve the quality of childcare in London. This package should include:
 - introducing a 'leaders in childcare' scheme to help London move towards a graduate-led workforce in childcare
 - supporting the growth of childminding in London through a pan-London subsidised training scheme and start-up offer to new childminders
 - offering tailored business support to childcare providers in London.

Family friendly working in London

7. The mayor should lobby DfE, HMRC and HMT to cover 85 per cent of childcare costs under tax credits at the next financial statement – bringing it up to the level of support available in the incoming welfare system, universal credit, now forecast for rollout by 2022.
8. To prevent mothers in lower income households in London being locked out of work, the mayor should lobby DWP and HMT to add a second earner disregard before universal credit is fully rolled out.
9. The GLA should create a pan-London returners scheme, providing a deposit loan scheme first piloted throughout the GLA group and then expanded to cover all London employees.

In the long term

Regional and sub-regional funding and commissioning structures

10. London Councils and the GLA should work together with LAs to pool funding at a sub-regional level to better support children with specialist needs.
11. London's sub-regional partnerships should work with DWP and the boroughs to co-commission support for out-of-work parents who would face overwhelming childcare costs to move into work.

New deal on childcare for London

12. London's government should lobby for a new deal for childcare in London, offering to deliver £680 million worth of central funding in the first year after the introduction of 100 per cent business rates retention. This should be channelled into a single supply-side funded grant for childcare providers in London, to replace the current complex array of income top-ups, grants and in-kind support.

7.4 OUR RECOMMENDATIONS IN FULL

Short-term

Better use of space

The undersupply of childcare – and the high costs of care – are directly linked to the lack of affordable, appropriate spaces for childcare providers to establish themselves in the capital. The government can

leverage its role as a significant landowner to increase the supply and affordability of childcare. The GLA should intervene where possible to enable appropriate properties in childcare- poor areas to be repurposed for childcare. The London Land Commission, based at the GLA and chaired by the mayor and the Minister for Housing, should include this in their programme of work. The GLA should work with LAs to avoid oversupply or duplication.

As well as increasing the pool of affordable premises available to providers, this policy would enable the GLA to impose conditions on providers in line with their policy objectives. For example, they could require that the premises are **used to co-locate other services**, creating quasi children's centres or to require social mixing – an important objective for the mayor's ambitions on increasing social integration. Government could extend this policy to rent premises at affordable rates to providers, while imposing conditions on provision, such as mandating fee caps for parents. As well as increasing supply – and potentially increasing access in areas that are underserved by the market – this would also lead to reductions in the cost of childcare if these conditions ensured that savings were passed on to parents.

Recommendation: The GLA should repurpose unused group property and intervene in sourcing other premises where possible, drawing on existing DfE capital funding for the early years.

This approach would have some cost to the GLA, both in the opportunity cost from not selling the buildings and change of use costs, and actual costs from maintaining the buildings, buying buildings from other parts of government and potential ongoing costs from subsidising providers' rents. In the 2015 Spending Review, the government announced at least £50 million of capital funding to create additional places in nurseries (DfE 2015b). The GLA should leverage this funding, through partnerships with providers or other bodies to help fund this recommendation. If a partnership approach to funding property is necessary, this could build on precedent of the DfE's Neighbour Nursery Initiative which saw co-ownership between private and state providers (Rutter 2016b).

Better planning and market making

The undersupply of childcare is exacerbated by planning processes that fail to take account of future needs. This package of interventions will use the government's current powers to increase the supply and affordability of childcare in the capital through better planning and financing of childcare premises.

London has grown considerably and will continue to do so. Many LAs have seen and/or will see significant increases in the number of pre-schoolers living locally. The main vehicle for addressing these future needs is Section 106 of the Town and Country Planning Act 1990. The most proactive LAs are already ensuring that new developments take into account the needs of future resident families through Section 106. For example, the then mayor of Newham, Sir Robin Wales, used Section 106 planning requirements to guarantee that, before its opening in 2011, the developers behind Westfield shopping centre built nursery space (GLA 2016c).

However, new developments can often overlook or underserve future childcare needs. There is potential for more – and more successful – intervention to ensure that developers are required to plan for the next generation. The education requirements under Section 106 are interpreted in different ways across London’s boroughs, with some focusing on the needs of school-aged children, with early years and childcare needs taken on a more variable and less stringent case by case basis. Rather than being a possible outlet for the community provision required by developers, childcare should be an essential requirement when there is predicted need for it. Therefore, we recommend that the implementation of Section 106 is strengthened to guarantee capital investment in new or expanding existing childcare provision where it is needed. As well as ensuring that new developments fit the needs of families with young children, this may work well because there is a hole in funding for capital investment in childcare at present. Most government funding goes on providing childcare places, rather than building or expanding premises.

Another vehicle for investment in childcare infrastructure is the Community Infrastructure Levy (CIL), an optional levy that LAs may enforce. Though the CIL is levied on developers to contribute to community infrastructure, it differs from Section 106 obligations as it does not need to be used on the site where development is taking place. Thus CIL is relevant here, as childcare provision needs to be local but not necessarily on site. LAs could invest the money off site in nearby areas and greatly benefit local families.

Recommendation: LAs should strengthen requirements for childcare provision under Section 106 planning obligations and the Community Infrastructure Levy (where it exists).

LAs should also use their Business Improvement Districts (BIDs) as a vehicle for collaborative investment in childcare, as recommended in the Lambeth and Southwark Childcare Commission (Lambeth and Southwark Childcare Commission 2015).

The GLA has a role in supporting and encouraging LAs in their strategic planning. As the author of the London Plan, London’s spatial development strategy, the GLA can lead on this. The GLA can and should have an explicit role in ensuring childcare provision is in-built in new housing developments and office developments, where appropriate.

Though boroughs create their own local development plans, they are required to align with the London Plan. The uniformity that this will provide will enable boroughs to make demands of developers without losing out on potential developers to other boroughs. As well as increasing supply of premises, this move would also be beneficial to children as purpose-built premises are often more conducive to play and learning in the early years than converted spaces. This policy would have no direct costs to the GLA.

Recommendation: the GLA should lead pro-active planning to ensure enough childcare places for all new developments by including in the London Plan an explicit requirement for developers to meet the needs of families by ensuring purpose built, affordable childcare provision within the development.

The GLA currently has a regional CIL. The mayor's Community Infrastructure Levy, introduced in 2012, aims to contribute up to £600 million for Crossrail. The GLA could also create an additional regional CIL for investment in social infrastructure.

Recommendation: the DfE should provide advanced funds to LAs so that childcare provision can be built promptly.

Though planning obligations and levies are key to investment in childcare, LAs report a blockage in the building process. In order to rectify this, the GLA should build on the DfE proposal in the *Educational Excellence Everywhere* white paper (DfE 2016g), which stated: 'DfE will also consider providing funding for schools that are part of housing developments to be built in advance of contributions from developers being paid, to bridge the gap between places being required and funding being available.'

The GLA can smooth the process by providing loans to ensure provision is built in a timely fashion. This policy would have a minimal cost to the GLA to administer the loans. The GLA could explore using the same mechanism to fund it that DfE would use to fund their proposal in the *Educational Excellence Everywhere* white paper. Alternatively, the GLA could explore future rounds of the DCLG's Growing Places Fund, administered through the LEP.

Better use of existing subsidies

Information is a constant challenge as new families come under the remit of the childcare system every year. At present, there is a large degree of confusion among parents, and low awareness of LA family information services. No agency or organisation currently has the capacity to significantly increase awareness of childcare support and provision across London. Yet levels of take-up of benefits are lower in London and the South East than elsewhere. Low take-up is particularly problematic for the early education offer for disadvantaged two-year-olds, which has very low uptake in London, and among families from ethnic minority communities who are less likely to take up support.

In its response to the 30 hour free childcare entitlement consultation, the DfE has sought to address low awareness (and uptake) by deepening regulations on LAs (DfE 2016j). However, this is unlikely to improve the situation, as the problem is lack of resources and necessary prioritisation of other elements of the LA early years remit.

Recommendation: the GLA should proactively raise awareness of existing subsidies for childcare, leading a 'know your rights' pan-London information campaign to increase awareness and understanding of available support.

This ‘know your rights’ campaign would include use of community champions (building on the Family and Childcare Trust’s parent champions) and online and offline marketing. Importantly, the campaign should target low uptake families, working with LAs to identify these families. As well as improving uptake of means-tested benefits by seeking to increase the level of knowledge about entitlements and the eligibility rules, it should also seek to reduce the stigma and the complexity of claiming.

Any campaign should also focus on the importance of early education for the development of pre-schoolers, rather than simply the benefits to support mothers into work. This is not only because 15 hours of early education per week is unlikely to be conducive to maternal employment on its own, but also to raise parents’ awareness of the importance of early education in itself. Parents may not have a need for childcare but would want to pursue early education given awareness of the benefits. In addition to focusing on the two-year-old offer, the campaign should also promote the new extension of the free entitlement to 30 hours for three- and four-year-olds in working families. This campaign would use the proven expertise of the GLA in running successful information campaigns. An alternative or complementary approach would be to invest in specialist welfare rights and advice services, co-locating these in community locations.

This campaign could be funded by DfE using a small portion of the £200 million of unspent childcare funding from the low take-up of the two-year-old offer (Ofsted 2016c). Other areas with levels of take-up below the national average should also have access to this funding.

Medium-term

Improving quality in London

Although, as we have seen, the quality of childcare in London is patchy, quality improvement is not a role that is consistently fulfilled by any tier of government. We recommend that London’s regional government should have a role in improving the quality and affordability of care for all children, particularly those in deprived communities who are currently underserved by the market. Below we outline a package of support to improve the quality of childcare in London.

The foundation for any improvement in quality of childcare is suitable funding for childcare and early education. As we have shown, funding levels are and will continue to be inadequate under current government plans. As an influential voice, the GLA should act on the advice of the London boroughs to campaign for a more appropriate, sustainable funding agreement for the free entitlement that guarantees quality and grows the market, including an increase in the level of funding for disadvantaged children through the EYPP.

In addition, an overarching principle for ensuring an appropriately skilled workforce is that childcare qualifications have high quality content and appropriate coverage. The DfE should implement the recommendations of the Nutbrown review (the independent review of early education and childcare qualifications published under the Coalition government) to ensure childcare qualifications are of a high quality and appropriately suit the needs of the role.

Recommendation: GLA should work with London Boroughs to introduce a package of measures to improve the quality of childcare in London.

This should include the following, explored in greater detail below.

1. Introducing a ‘Leaders in childcare’ scheme to help London move towards a graduate led workforce in childcare.
2. Supporting the growth of childminding in London through a pan-London subsidised training scheme and start up offer to new childminders.
3. Offering tailored business support to childcare providers in London.

1. Introducing a ‘Leaders in childcare’ scheme to help London move towards a graduate-led workforce in childcare.

At present there is no ringfenced support to increase the number of graduates in the workforce despite the strong evidence base for their role in quality improvement. Previous schemes have successfully increased the proportion of graduates in the workforce (Mathers 2011), but funding for these schemes has now been cut. Though some LAs have been able to continue support for graduates, most areas have no or dwindling support.

Recommendation: The GLA, in partnership with local authorities, should introduce a ‘Leaders in childcare’ scheme targeted at increasing the proportion of graduates in childcare workforce.

Every child in childcare in London should be in a graduate-led setting, being cared for and taught by staff who have at least a level 3 early education and childcare qualification. This scheme would support graduate leadership in London’s PVI provision by providing a top-up fund that is linked to staff qualifications. This would be similar to the Graduate Leader Fund, a positively evaluated initiative for which funding has now been withdrawn by DfE. This would be administered through the GLA to LAs, who would then target and fund PVI providers.

The original incarnation of this programme was the Transformation Fund (created in 2006/07–2007/08) of £250 million, which was superseded in 2007 by the Graduate Leader Fund (GLF). There was a further £305 million in funding between April 2008 and March 2011 ‘to support all full day care PVI sector providers in employing a graduate or Early Years Professional by 2015’. The ringfenced GLF funding ended in March 2011; at which time LAs were encouraged to use the early years funding block to support workforce development through the Early Intervention Grant.

Supporting the workforce through a pan-London training scheme echoes previous recommendations by London Councils (London Councils 2007). This should be treated as a flagship GLA policy, funded by repurposing areas of GLA spend where possible.

2. Supporting childminding

Our ambition is that every child receiving childcare or early education with a childminder benefits from a workforce that is highly trained and receives regular continuous professional development, and that families should be able to access high quality childminders if they wish to. But childminder numbers are relatively low in London, and many state that training and start-up costs are a considerable barrier to starting off.

Recommendation: The GLA in partnership with LAs should support the growth of the childminder workforce through a pan-London subsidised training and start up offer to new childminders.

To increase supply and quality of this vital, flexible childcare source, the GLA should build on the DfE's introduction of childminding agencies by sponsoring its own childminder agency. This agency would provide help with start-up and training costs and be run by an external organisation, such as Pacey or a top performing LA. The agency would also ensure that new entrants underwent high-quality training that includes the key features of the home learning environment, and received continuous professional development.

This builds on a previous recommendation by the London Assembly, for additional resources to be made available for the training and support of childminders (London Assembly Economy Committee 2016), and follows the trend of childminder training in the devolved nations. Wales saw an improvement in the quality of childminder provision following the introduction of increased training for childminders in 2002 (Kalitowski 2016) and Scotland has recently introduced a similar reform (Morton 2015).

There are currently around 8,000 childminders caring for 40,000 children in London (FCT 2016b). This project should be treated as a pilot that, if successful, could be rolled out regionally across England. Funding should be made available to DfE to pilot this approach. Alternatively, funding could be sought from the LEP, given the employment and skills focus of both the programme and the LEP.

3. Offering tailored business support to childcare providers

There is a clear need for business support for childcare providers. This used to be provided by LAs, but has now mostly been cut. The government have just launched some online guidance for providers; this now needs to be matched with personalised support (DfE 2016e).

Recommendation: The GLA and LAs should work in partnership to provide tailored business support to all London providers who need it.

This would also include support for the formation of school-PVI partnerships. The GLA should build on previous examples, including past best practice in LAs and the GLA's own experiences under CAP, as well similar schemes in other areas. For example, the Welsh government have put a focus on building the market by providing business support to providers and ensuring childcare is a part of new development and regeneration projects (Welsh Government 2013).

This support would be delivered by an in-house GLA team, in partnership with the best-performing LAs. We estimate that these medium-term measures would come to a total of between £13 million and £15 million.

Family-friendly working in London

Maternal employment rates are low in the capital. Childcare policies that better support maternal employment would boost household incomes, support many of the poorest families in the capital and boost London's economic strength. Yet at present, parents wanting to return to work can face prohibitively high costs, particularly in the gap between the end of their parental leave and the beginning of the free entitlement in the first school term after their child turns three (or two for children from the 40 per cent most disadvantaged families).

The childcare subsidies on offer to working families through tax credits are a crucial pillar of support for thousands of low-income families in the capital. Yet for the lowest earners this support isn't enough to make work pay, as we saw in chapter 4. To improve work incentives and better support low-income families with young children, childcare support under tax credits should be increased from 70 to 85 per cent, bringing it up to the level of support available in the incoming welfare system, universal credit. This is particularly important given the long delays in the rollout of universal credit, now forecast for 2022.

Recommendation: The GLA should lobby DfE, HMRC and HM Treasury to cover 85 per cent of childcare costs under tax credits at the next financial statement.

Though for many universal credit will be an improvement over the current tax credits system, it serves second earners poorly. Work incentives for the second earner in a couple household with childcare costs are particularly poor. This will result in many mothers in lower income households in London being locked out of work (as mothers tend to be the second earners in couple households). The change in the withdrawal rate of universal credit – from 65 to 63 per cent – in the 2016 autumn statement 2016 shows that the government is still receptive to improving universal credit.

Recommendation: The GLA should lobby DWP and HMT to add a second earner disregard before universal credit is fully rolled out.

Those looking for – and then trying to establish themselves in – new jobs are poorly served, as most childcare support is available only to those already in work. Part of this difficulty is the upfront costs of childcare. Upfront costs are another significant barrier to returners, particularly those in low-income households. With many nurseries requiring a fee to be placed on the waiting list – and a large upfront deposit for fees if successful – parents in low-income households who want to go back to work can face considerable financial barriers. A loan deposit scheme would remove this barrier for lower and mid income second earners. The GLA is already trialling this scheme among City Hall employees, providing deposit loans to parents. This should be expanded to all parents.

Recommendation: The mayor’s business compact should be used to promote family-friendly practices among employers in London.

The mayor’s business compact is aimed at making London a better place to work and ensuring that all Londoners earn a decent wage. The GLA should consider using the business compact to increase family-friendly attitudes among London employers. This can be done through two main mechanisms: creating more transparency by requiring and publishing metrics on family-friendliness for large employers; and increasing competitiveness by ranking employers on these metrics and awarding the best through recognition by the mayor’s business compact. Family-friendly metrics should include availability of flexible, part-time work and job-shares, as well as support for childcare schemes and shared parental leave. The GLA should consult with experts on best practice in family-friendly employment such as Working Families (see for example Bright Horizons and Working Families 2015). This would in effect be a good employer guide and a gold mark for families in London.

The mayor should also leverage influence with employers to ensure that they follow the GLA’s lead in terms of offering a loan deposit scheme for employees returning to work after having children as an employee benefit. The new childcare deposit loan scheme will help parents pay costs such as registration fees and a month’s deposit, which can be as much as £1,500. The interest-free loan is being rolled out to parents working for the GLA group, but could be adopted by employers across London to create a pan-London returners scheme.

Long-term

Regional and sub-regional funding and commissioning structures: integration

Meeting the needs of children with special educational needs and disabilities (SEND)

As we have shown, the needs of children with SEND are largely not met in London. Steps must be taken to increase quality, support and affordability for those with children and their families. We recommend that London’s sub-regional government takes on responsibility for specialist needs, pooling funding and overseeing delivery of support for special needs. This would capitalise on the benefits of collaboration between boroughs. Moreover, international comparison shows that regional and sub-regional oversight and funding of specialist provision, as in the Danish model, may increase access to and supply of childcare for children with specialist needs, who are severely underserved by the market at present. A degree of decentralisation may lead to more joined-up working and greater efficiencies, as in Sweden, while international comparative analysis shows that having a direct link between funder and provider can improve outcomes.

Recommendation: London’s sub-regional partnerships should work in cooperation with London Councils and the GLA to pool funding at a sub-regional level to better support children with specialist needs.

London's sub-regional partnerships, in cooperation with London Councils and the GLA, could oversee sub-regional funding and delivery of support for special needs. Sub-regional partnerships could be responsible for working with LAs to ensure there is enough high quality provision to meet specialist needs, including SEND and flexible provision. Pooling the funding top-ups that are currently available to providers caring for children with specialist needs for the free entitlement (through LAs) at this level would increase the amount of provision and quality of provision to meet the needs of children with SEND.

By giving these sub-regional partnerships the responsibility to fill gaps in supply of provision that meets specialist needs and the funding to do so, they could identify both gaps in provision and how to fill them – rather than the current situation whereby some LAs are able to identify gaps but few have the resources to fill them. Pooling resources would also enable the growth of specialist expertise, which can then be shared with providers across the capital. As with other areas of specialist need, expertise in service delivery can enable local and national pooling of expertise, which then provides a model for an extended education service.

By building on the sub-regional and regional approach to supporting children in care and providing adoption services, and the Danish example of pooling funds at a regional level, London's sub-regional partnerships would develop pockets of expertise to deliver specialist needs in mainstream settings. This recommendation builds on the government's recent suggestion in the EYFF consultation that LAs create 'Inclusion funds' to support children with SEN (DfE 2016i). By pooling funds, London boroughs would effectively create sub-regional inclusion funds, using the current principles of funding following the child and extending this to be across multiple boroughs to enable centres of excellence to evolve and parents to access these best performing nurseries for their children.

This recommendation would also build on the experiences of the DfE's disabled children's access to childcare (DCATCH) pilot. This initiative aimed to improve childcare provision for disabled children by funding 10 LAs to pilot ways of improving the range and quality of childcare for disabled children. The pilot received £35 million from 2008 to 2011. The parliamentary inquiry into childcare for disabled children concluded that:

'Despite the success of the programme, DCATCH did not have a sustained impact across the country due to the discontinuation of funding and failure to build on and roll out learning nationally.'

Contact a Family 2014

Recommendation: London's sub-regional partnerships should work with local authorities to support out-of-work parents who would face overwhelming childcare costs to move into work, through integrated work and childcare support programmes.

In a similar vein to the Work and Health programme, which focuses on multiple needs, this programme would target parents' childcare needs in tandem with their employment and skills needs. The programme

would target parents who are prevented from moving into work due to childcare costs and are excluded from the additional childcare support introduced in recent reforms (tax-free childcare and the extension to the free entitlement). As well as building on the many integrated local programmes across London that target employment alongside other needs, this would also build on Brent's childcare subsidy, which combined employment support with childcare subsidies (funded through Discretionary Housing Payments) for out-of-work parents in receipt of housing benefit. This programme could be funded through the current round of the ESF programme, which includes a focus on employment support for parents in low-income households (DWP 2015).

New deal on childcare for London: devolution

As figure 7.1 shows, the way £1.43 billion of public funding for childcare in London is spent is messy, complex and delivers poor value for money. There are three main forms of funding (in-kind support, income top-ups and LA funding for Sure Start children's centres and free or subsidised nursery schools). The funding is also a mix of supply-side funding of service provision (for example to nurseries or children's centres) and demand-side funding direct to parents (for example in the form of income top-ups through the benefits system or a tax-free allowance). This mix of supply-side and demand-side funding is handled by four different government departments before it reaches parents and LAs.

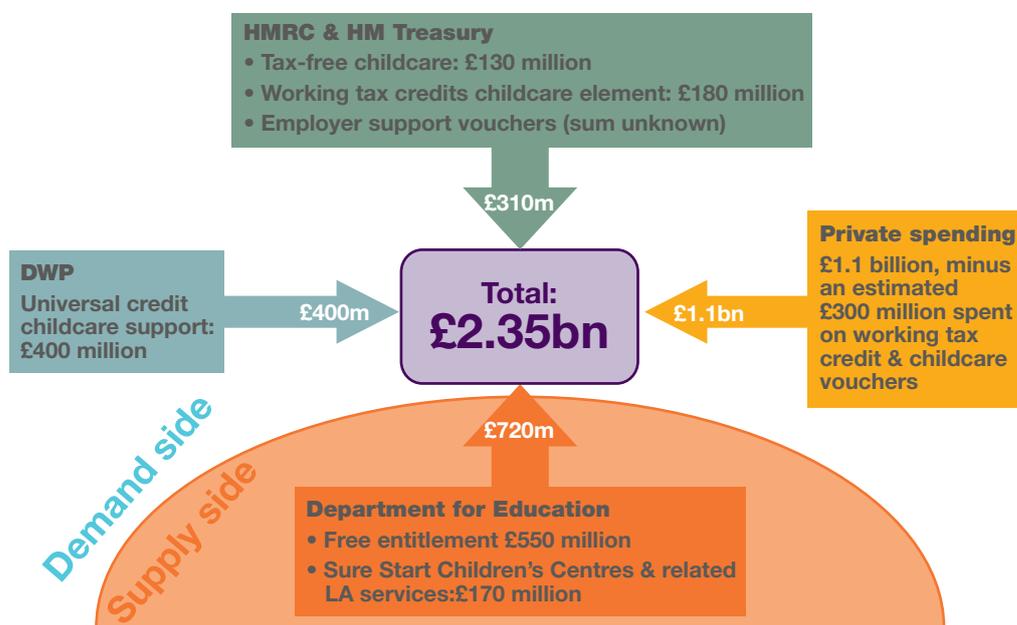
The system is difficult for parents to navigate, bureaucratic and can lock some parents out if, for example, they are unable to afford the up-front fees and deposits often required by providers. It is also regressive and poorly targeted. The extension of the free entitlement for three- and four-year-olds, for example, is restricted to working families. This is a particular concern in London, where more than one in 10 (12 per cent) of London's children are living in a workless household (ONS 2016h). Families with under-threes, and low-income families with three- and four-year-olds will not benefit from the extension to the free entitlement, despite facing the highest childcare costs and the biggest barriers to work.

Even though most childcare providers are reliant on public funding, local authorities have few levers over service provision as a significant proportion of pre-school childcare is provided by the private, voluntary and independent sector and much of the funding is channelled through parents rather than LAs.

In order to allow greater scope to improve quality, the affordability of childcare and to ensure that provision is more responsive to local need, more funding needs to be invested directly in services. This would be possible in London (and other regions or combined authorities across the country) if some or all central funding for childcare was devolved to allow the local area to decide how best to shape its childcare market and distribute funding.

FIGURE 7.1

Funding flows for childcare in London



Note: For a more detailed explanation of these funding flows see figure A.1 in appendix B.

The introduction of 100 per cent business rate retention over this parliament offers an important opportunity for this. The government has announced that it will allow local government in England to keep all of the money it collectively raises through taxing businesses ('business rates'), ultimately replacing the central revenue support grant (RSG) that funds local authorities. This will increase local funding powers, though some form of tariffs (effectively charges for redistribution) is expected remain (DCLG 2016; GLA 2015d). However, the government has suggested that the levy on disproportionate growth in the current system will be removed. This means that after the first year of the new scheme, local authorities stand to receive 100 per cent of the growth in their business rates, regardless of how much money they need to fund services (Stirling and Thompson 2016).

There will also be a disparity between how much London collects in business revenue and their present public service responsibilities currently funded through the business rates retention system and RSG. This could be up to £4 billion in London by 2019/20. As a result of this disparity local areas could take on more powers from central government to balance out the difference in funding, a process known as fiscal substitution. However, this does not affect all local authorities equally, and will depend upon the composition and monetary value of local service provision.

IPPR has argued that a fairer form of redistribution (compared with the present business rates retention system) between richer and poorer local authorities will be needed to ensure the move towards 100 per cent retention does not exacerbate existing regional inequalities further (Stirling and Thompson 2016). However, this should not prevent London

or any other area lobbying to substitute in additional responsibilities to be funded out of the new retention scheme.

We recommend that London's government lobby for a new deal for childcare in London, offering to deliver £680 million of central funding in the first year of the introduction of 100 per cent business rates retention and annually thereafter. This would be the equivalent to London's funding of the free entitlement for three- and four-year-olds* and the most disadvantaged two-year-olds and the early years premium, as well as the estimated cost of tax free childcare for London. This should be channelled into a single supply-side funded grant for childcare providers in London to replace the current complex array of income top-ups, grants and in-kind support.

This would only leave the childcare support funded through universal credit, employer-supported vouchers, and working tax credits. The latter two are due to be phased out over the next few years. Over the longer term the devolution of universal credit funding should also be explored.

*Note: If funding rates for the new free entitlement are insufficient to cover costs, additional funding may be required.

These reforms would allow London's government to have direct control over the childcare market – with the levers over service provision necessary to ensure that childcare in London is a more affordable proportion of parents' incomes and can reduce disparities in school readiness. This would also have the effect of lifting thousands of children out of poverty, as well as improving the capital's economic competitiveness.

It would mean that London could fund provision in line with the region's unique challenges, and to ensure that this provision met public policy objectives. London could act as a trailblazer for regions and combined authorities across the country, which should all have the opportunity to take on more centralised powers if they have the capacity to do so. This would be a fitting legacy for London's mayor, who has promised to leave behind a better city for the next generation. It should be a priority for devolution negotiations at the 2017 budget and beyond.

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TECHNICAL APPENDIX

METHODOLOGY OF HOUSEHOLD MODELLING USED IN CHAPTER 4

Approach

We look at the net change in household income from a given change in working hours.

We look at several different family types, wage levels and locations, in both the universal credit and tax credit scenarios in 2016/17.

We assume that the extension of the free entitlement is implemented, and therefore working families receive 30 hours of childcare for their three- and four-year-olds.

Examples given

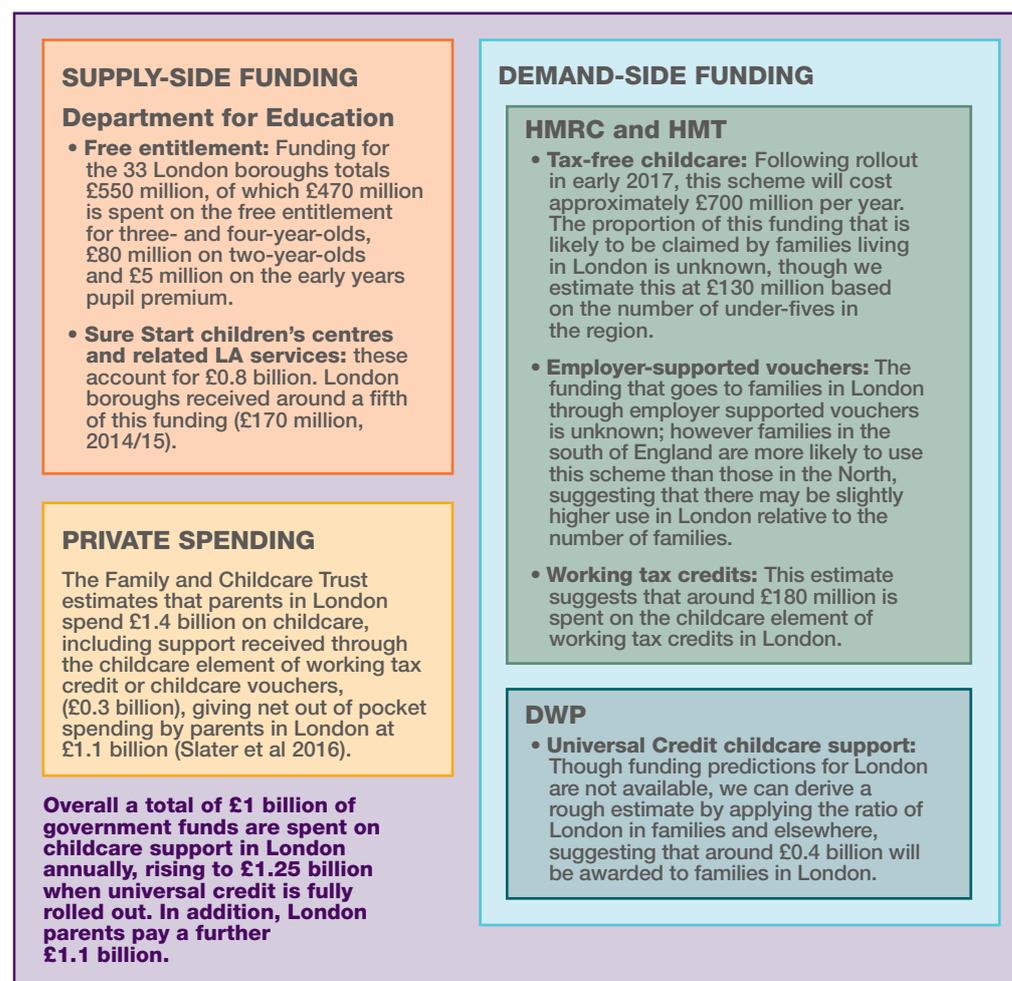
1. Children are aged two and four, in a household where the main earner is working full time on the national living wage (see figure 4.2 and section 4.2).
2. A single parent with two children (aged two and four) under tax credits. This parent would have similar financial work incentives to the example presented above. The absolute financial impact of working is greater than in couple households, given that the single parent is the only earner. For example, the net benefit of work is around £4,000 for a single parent working 16 hours or more compared to less than £1,000 for a second earner in a couple family. However, note that this is additional income; the couple household have a higher level of net income given the contributions of the other earner.

APPENDIX B

AN ILLUSTRATION OF FUNDING FLOWS FOR CHILDCARE IN LONDON

FIGURE A.1

Funding flows for childcare in London explained



Note: see figure 7.1 for a graphic representation of the above information.