THE FUTURE OF CHILDCARE IN LONDON

Devolving funding for greater affordability, access and equality

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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.

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.

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

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 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

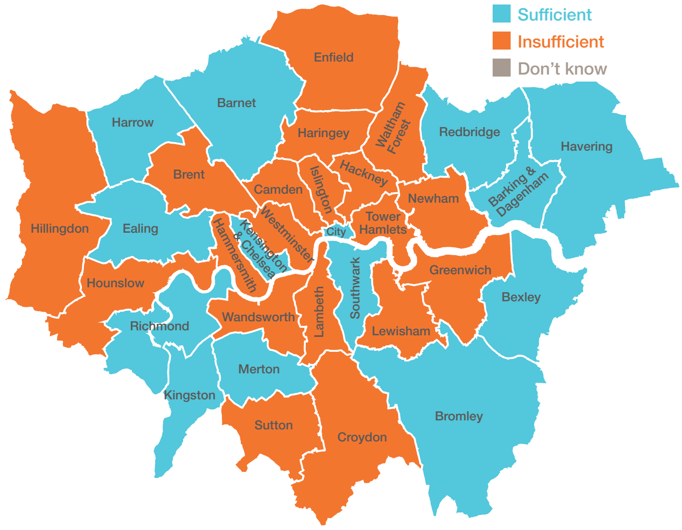
Regional and sub-regional funding and commissioning structures

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

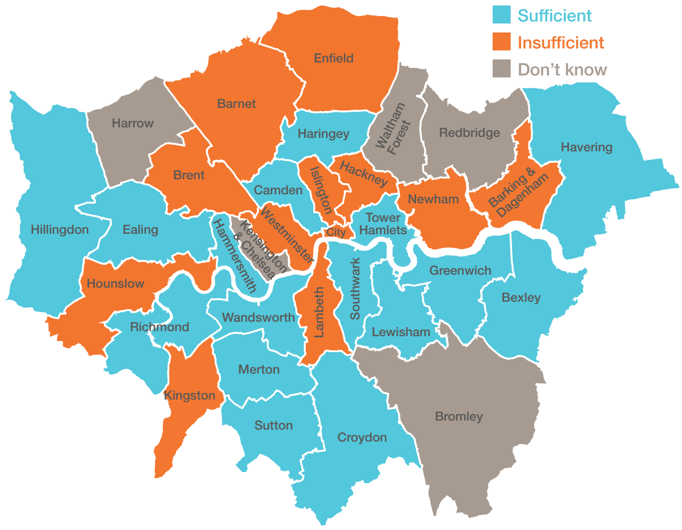
12. London's government should lobby for a new deal for childcare in the capital, offering to deliver £680 million's worth of central funding after the introduction of 100 per cent business rates retention. This would be the equivalent to the funding of the free entitlement to childcare in London and 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.

Childcare sufficiency for two-year-olds in London



Source: Rutter and Lugton (2014)

Childcare sufficiency for three- and four-year-olds in London



Source: Rutter and Lugton (2014)

For the full report, including all references, data sources and notes on methodology, see:
www.ippr.org/publications/the-future-of-childcare-in-london

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