

Back to basics: what is childcare policy for?

Towards a childcare system based on choice



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Foreword

Childcare has become a political hot potato in the UK. Both major parties are now engaged in an ‘arms race’, competing to offer more and more ‘free hours’ of childcare to parents. With state spending on the Early Years already at record levels, we must ask: is it working? Are these billions of pounds of taxpayer cash achieving the desired effect?

This important and timely report from Civitas shows that, in short, the answer is ‘no’. Children are increasingly behind in developmental milestones. Family budgets continue to be squeezed and there has been no significant change to maternal employment. There is little evidence to suggest that formal childcare is ‘good’ for children; indeed, long hours in day care are very likely to have a detrimental effect on young infants. What’s more, as the report explains, the ‘free hours’ funding model is so constrained that childcare providers are being forced out of the market just at the point when they are being asked to expand. And parents, the majority of whom would prefer to work fewer hours rather than more when their children are young, get no help from the state unless they take up the inflexible offer of formal childcare during set hours over 38 weeks of the year.

Crucially, this report identifies and interrogates the key question that policy makers must answer: what – and who – is subsidised childcare actually for? Is it to facilitate a greater rate of employment of mothers? Is it to provide educational benefits to children? Or is the purpose to ease the financial burden of having children? A cynic might even ask if the main aim of promising more subsidised childcare is to win votes at the forthcoming election.

Given the confusion over what childcare is for and what counts as ‘success’ it’s unsurprising that results are far from good. But as well as describing the problem, this report identifies a range of reforms that would make life easier for parents and offer the kind of support that parents actually want and that benefits children. Instead of competing to offer more ‘free’ childcare, governments – both present and future – should be asking how the state can better support parents to do the vital job of raising children, a task that carries huge benefits for society today and tomorrow.

The answer lies in understanding the importance of the role of mothers and fathers in the pre-school years. Parents are not just material providers – they must be valued as an irreplaceable and non-transferrable physical, emotional and relational presence in a small child’s life, providing the attachment and security that lays the foundation for future health and success. If we really believe in supporting families, resources should be focused on easing the financial burden during the early years, giving parents choice and flexibility over how to provide the best possible care and nurture for their children.

Miriam Cates MP

Member of Parliament for Penistone and Stocksbridge

Summary

Childcare is a larger political priority in the UK than it ever has been before, and the target of unprecedented, and growing, levels of public spending. Despite this, there is little clarity on what the purpose of childcare policy is.

Politicians and policymakers often talk as though childcare policy is a labour market intervention, designed to increase the employment rate of mothers, or an educational one, designed to improve educational outcomes for children. However, if this is truly what childcare policy is for, then it is highly inefficient: both of these outcomes could likely be achieved more effectively by other means than the system we currently have in place.

Current childcare policy is also not effective at achieving what we believe it should be aiming for, which is supporting parents with the cost of raising children in the early years. This is a goal that seems to have been lost sight of, but it is an important one. Parents often face very high financial costs in the years between the end of parental leave and when their children start school, because those children have to be provided with full-time adult supervision. Whether parents achieve this by paying for childcare or doing it themselves at the expense of paid work, these costs for some may be prohibitively high. This is especially important in light of the worrying long-term consequences of falling birth rates around the world, as highlighted in a recent review in *The Lancet*.¹

This report makes several suggestions for reforms that would re-orient childcare policy towards the objective of supporting parents. We propose enhancing the level of cash support available to parents, by (1) making the current budget for 'free hours' and tax-free childcare available as a childcare voucher; and (2) uplifting the rate of Child Benefit available to parents in the early years by cutting it in the teenage years. Next, we propose streamlining childcare regulation, allowing it to work more effectively for parents and providers, by (3) making the learning and development goals of the Early Years Foundation Stage optional for childminders and (4) developing a simplified childminder-equivalent status for grandparents or other named adults. Next, we propose reforms to the tax system that would allow parents to keep more of their earned income: (5) raising tax thresholds for parents of early years children; (6) making childcare expenses tax-deductible; and (7) reviewing the relationship between taxation and household income. Finally, we propose (8) reconsidering the labelling of stay-at-home parents as 'economically inactive' in official data; and (9) zero-rating VAT on some products needed by parents in the first years of a child's life.

1 GBD 2021 Fertility and Forecasting Collaborators (2024) *Global fertility in 204 countries and territories, 1950-2021, with forecasts to 2100: a comprehensive demographic analysis for the Global Burden of Disease Study 2021*. Available at: [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(24\)00550-6/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(24)00550-6/fulltext) (Accessed: 5th April 2024).

Timeline of policy changes in England

Changes to non-welfare benefits for families²

- 1909 The 'People's Budget' creates a Child Tax Allowance of £10 per child.
- 1945 The Family Allowances Act creates a universal benefit of five shillings per week for families with two or more children, because larger families are more likely to be poor.
- 1975 Child Benefit Act legislates for Child Benefit to replace both Child Tax Allowance and Family Allowance. This is a universal benefit for all children including the first.
- 1991 Higher rate of Child Benefit introduced for first children only.
- 2013 Coalition government introduces an income cap for the previously universal Child Benefit: benefits begin to decrease for any parent with individual earnings of £50,000 per year, reaching zero at £60,000 per year.
- 2024 Income cap for Child Benefit extended: it will now begin to decrease when a parent has an income of £60,000, and reach zero at £80,000.

Changes to state provision of childcare

- 1989 First childcare voucher scheme introduced: employees' wages are used towards childcare.
- 1990 Tax relief on employer-provided childcare.
- 1992 Local authority inspection of daycare begins.
- 1998 First National Childcare Strategy emphasised raising quality of childcare and increasing the number of available places, making it more affordable and more accessible.
- 1998 Free childcare for four-year-olds introduced. Initially only 12.5 hours per week for 33 weeks per year is provided.
- 2004 Free childcare entitlement extended to three-year-olds.
- 2005 Childcare vouchers introduced. Employees could pay for registered childcare through salary sacrifice in order to save money on tax and national insurance. This scheme was closed to new entrants in 2018.
- 2005 Ofsted takes over registration and inspection of daycare and childminding from local authorities.
- 2006 Childcare Act 2006 sets out local authorities' responsibility to ensure 'sufficient' childcare, and introduces the Early Years Foundation Stage, a detailed learning and development framework for under-fives for all registered childcare providers.
- 2006 Free childcare for three- and four-year-olds extended to 38 weeks per year.
- 2010 Free childcare places extended to 15 hours per week (now the 'universal entitlement' for all three- and four-year-olds).

² Benefits aimed at supporting parents with the cost of raising children, not restricted to those on low incomes. Although there is an income cap for Child Benefit, this is set substantially higher than the average income.

- 2013 Free childcare places extended to disadvantaged two-year-olds (for instance those who are looked after by local authorities, those who are recognised as disabled, and those whose parents are entitled to certain benefits).
- 2014 Regulations concerning new Childminder Agencies; new early years education qualifications; free childcare places extended to 40 per cent of two-year-olds.
- 2016 Childcare Act 2016 legislates for free childcare for children aged three to four to be extended to 30 hours per week, but only for families where parents are in work (the 'extended entitlement').
- 2017 Tax-Free Childcare scheme is introduced, offering government top-ups of up to £2,000 per child per year for working parents' payments for registered childcare.
- 2023 A significant further expansion of 'free hours' announced: the 'extended' entitlement of 30 hours per week will cover all children from the age of nine months whose parents are in work by 2025.

Note: Scotland, Wales and Northern Ireland have different policies and chronologies.

Introduction

Childcare – the supervision or education of children outside of school, especially for children below school age – is a rapidly growing political priority. Every major political party has announced plans to expand the state’s involvement in childcare, and 42 per cent of the public say that a party’s plans for early education and childcare will be important in choosing who to vote for at the next general election.³

Before the 1990s, childcare was a subject in which the state had minimal interest. Although the state did offer some financial support to families and provided school places for children from the age of five, it was assumed that the supervision of children outside of school was something parents would either perform themselves or make their own arrangements for.

In the decades since, the UK has seen a rapid expansion of state intervention in this area (see ‘Timeline of policy changes in England’, page 2). Local authorities have a statutory responsibility to ensure that there is ‘sufficient’ childcare in their area, both for children in general and for those with special needs.⁴ Childcare providers (including childminders who operate from their own homes) are legally required to register with and be inspected by Ofsted,⁵ and to follow the Early Years Foundation Scheme, a statutory framework governing how childcare should be provided, including something akin to a national curriculum for children from birth to age five.⁶

Beginning with the introduction of free nursery care for four-year-olds for 12.5 hours per week for 33 weeks per year in 1998, via a series of expansions of both the number of hours and the pool of eligible children, the state now funds a growing number of childcare places for pre-school children. In the March 2023 Spring Budget, a further unprecedented expansion to cover all children of working parents from the age of nine months was announced.⁷ This means the government is set to go from funding approximately 50 per cent of all childcare places in England currently to 80 per cent in 2025. In the words of the Institute for Fiscal Studies (IFS), these latest reforms will ‘create a new branch of the welfare state’,⁸ with the provision of childcare for working parents becoming a new responsibility of the state, alongside the provision of medical care and schooling.

A general trend that we have seen in state support for families and children over recent decades is an increasing proportion of benefits available only to families where both parents are in work (or where the single parent is in work, for single-parent families) and earning above a threshold based on part-time earnings at the minimum wage. Though parents on some forms of disability benefit may also be eligible, notably, those in full-time study are not.

We have also seen a move away from support for families in the form of tax breaks and cash benefits and towards support in the form of subsidies for increasingly regulated and state-managed formal childcare. The number of childcare hours funded by the government has grown, from a small number of hours for four-year-olds in 1998; to a larger number of hours for four-year-olds, three-year-olds, and some two-year-olds today; to a planned expansion to cover all children of working parents from the age of nine months by 2025. At the same time, Child Benefit, a cash benefit to parents of children regardless of employment status, has had its eligibility criteria tightened, and its budget fall as a share of GDP.⁹

3 Early Education and Childcare Coalition, *Pulse check: Public attitudes towards early education and childcare*. Available at: <https://static1.squarespace.com/static/646ca30371a2ef6a657e9309/t/64f6076e72efd906dd1a8cbb/1693845359851/EECC+Pulse+Check.pdf> (Accessed: 25 March 2024).

4 UK Government (2006) Childcare Act 2006. Available at: <https://www.legislation.gov.uk/ukpga/2006/21/notes/division/6/1> (Accessed: 4 April 2024).

5 Note: A small number of childminders are instead registered with a childminding agency, which is in turn registered with and inspected by Ofsted.

6 Department for Education (2014) *Early Years Foundation Stage (EYFS) statutory framework*. Available at: <https://www.gov.uk/government/publications/early-years-foundation-stage-framework-2> (Accessed: 28 March 2024).

7 HM Treasury (2023) *Chancellor unveils a Budget for growth*. Available at: <https://www.gov.uk/government/news/chancellor-unveils-a-budget-for-growth> (Accessed: 28 March 2024).

8 Institute for Fiscal Studies (2023) *Childcare reforms create a new branch of the welfare state – but also huge risks to the market*. Available at: <https://ifs.org.uk/news/childcare-reforms-create-new-branch-welfare-state-also-huge-risks-market> (Accessed: 21 February 2024).

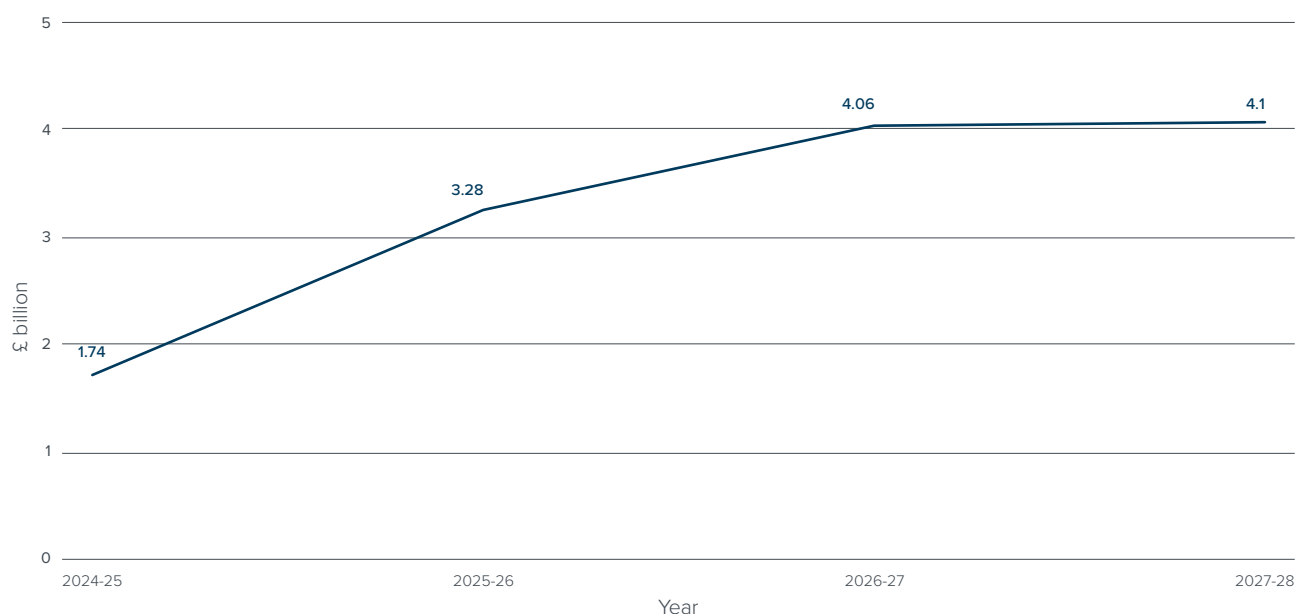
9 Office for Budget Responsibility, *Welfare spending: child benefit*. Available at: <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-child-benefit/> (Accessed: 28 March 2024).

Another key development is that ‘childcare’ for those below school age is now typically conceived of as *education*, rather than just supervision. Increasingly, ‘childcare’ and ‘early years education’ are treated as almost synonymous, for instance in the commonly used initialism ECEC – early childhood education and care. As younger children become eligible for state childcare support, this implies not only the state wishing to extend more support to families with young children, but also the state wishing to expand the remit of state education to include younger children. This is often presented as an approach to addressing inequality, since it is noted that gaps in educational attainment between children of higher and lower socioeconomic status are already present when children begin school.¹⁰

This recognition of the importance of supporting children’s development in the first years of their lives is commendable. Children are always learning, and in an ideal world their environment would be tailored to optimally support this. However, there is now very little acknowledgement of the possibility of childcare that is not explicitly educational: that providing a safe and supervised environment for early years children so that their parents can work is a useful service, independent of any educational benefits. We ought to be able to consider the educational qualities of childcare separately from the other major benefit that childcare has: outsourcing the supervision of children.

Underlying all these trends is a substantial increase in state spending on the provision of childcare. The current Conservative government now spends over £4 billion per year on childcare and has pledged further funding for the expanded ‘free hours’ scheme to the tune of an additional £4.1 billion per year by 2027-28.¹¹ At the 2023 Spring Budget, the Chancellor increased the spending-to-GDP ratio by 0.3 per cent, three-fifths of which reflected the provision of free childcare hours.¹²

Figure 1: New entitlement childcare costing, as of Spring Budget 2023 (£billion)



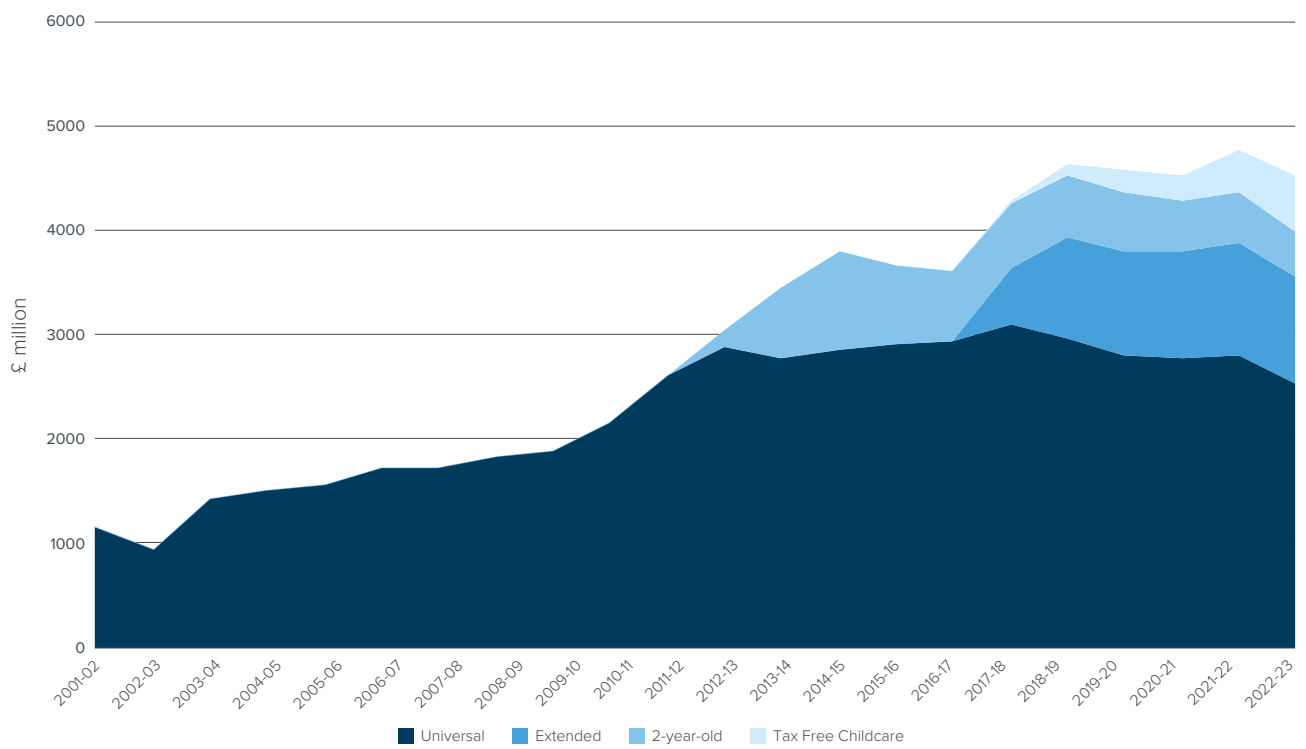
Source: Department for Education

10 Kindred Squared (2023) *Targeting Impact: A Contribution to the Early Education Debate*. Available at: <https://kindredsquared.org.uk/wp-content/uploads/2023/07/Kindred-Ark-Start-Targeting-Impact.pdf> (Accessed: 4 April 2024).

11 Department for Education (2023) *Spring Budget 2023 Childcare Expansion Policy costing information note*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1172402/Spring_Budget_2023_Childcare_Expansion_Policy_costing_information_note_July_2023.pdf (Accessed: 25 March 2024).

12 Office for Budget Responsibility (2023) *Economic and Fiscal Outlook*. Available at: https://obr.uk/docs/dlm/uploads/OBR-EFO-March-2023_Web_Accessible.pdf (Accessed: 25 March 2024) p96.

Figure 2: Government spending on childcare (£million), 2001-2023



Source: HMRC, OBR.

Every major political party in the UK has now indicated that they would also increase the current offering of childcare support (see box right).

UK political parties' commitments on childcare policy

Conservatives

'Free hours' entitlement of 30 hours per week for 38 weeks per year to be extended to cover all children of working parents from nine months old by September 2025.¹³

Labour

At the time of writing, Labour is yet to formally clarify what their childcare proposals would be going into the next general election.

However, Bridget Phillipson, Labour's shadow education secretary, told the *Sunday Times* in 2023 that she wanted to guarantee childcare from the end of parental leave until the end of primary school, saying her reforms would resemble the 'birth of the NHS'.¹⁴

Liberal Democrats

The Liberal Democrats have pledged 'free full-time childcare' from the age of two for all children and from nine months for children with working parents – a slight expansion on the current offer from the Conservatives.

They have also promised additional cash support for parents, through enhanced parental leave and pay, and a higher rate of Child Benefit for parents of one-year-olds whether they are in employment or not.¹⁵

Scottish National Party (SNP)

During his 2023 leadership campaign, SNP First Minister Humza Yousaf pledged 22 hours of free childcare per week for children aged one and two, as well as loans to help parents with childcare costs.¹⁶

More recently, the SNP have announced a pilot of free childcare from the age of nine months, and promised to ensure that early years staff are paid a minimum of £12 per hour from April 2024.¹⁷

Green Party

The Green Party have promised 35 hours per week of free childcare for all children from the age of nine months¹⁸ – a significant expansion on the Conservatives' offer of 30 hours for children of working parents only.

13 HM Treasury (2023) *Chancellor unveils a Budget for growth*. Available at: <https://www.gov.uk/government/news/chancellor-unveils-a-budget-for-growth> (Accessed: 4 April 2024).

14 Wheeler, C. (2023) 'Bridget Phillipson: Labour's childcare plan will be like the birth of the NHS', *The Times*, 15 January. Available at: <https://www.thetimes.co.uk/article/bridget-phillipson-labours-childcare-plan-will-be-like-the-birth-of-the-nhs-wf5wt7nxp> (Accessed: 4 April 2024).

15 Wilson, M. (2023) *A Better Start in Life for Every Child*. Available at: <https://www.libdems.org.uk/news/article/a-better-start-in-life-for-every-child> (Accessed: 4 April 2024).

16 Hutcheon, P. (2023) 'Humza Yousaf would introduce universal childcare for one and two-year-olds if he becomes First Minister', *Daily Record*, 28 February. Available at: <https://www.dailyrecord.co.uk/news/politics/humza-yousaf-would-back-universal-29327163> (Accessed: 4 April 2024).

17 Morton, K. (2023) *Scotland's first minister announces funded childcare expansion*. Available at: <https://www.nurseryworld.co.uk/news/article/scotland-s-first-minister-announces-funded-childcare-expansion> (Accessed: 4 April 2024).

18 Green Party (2023) *Green sets out fairer, greener plan for economy ahead of Spring Budget*. Available at: <https://www.greenparty.org.uk/news/2023/03/14/greens-set-out-fairer-greener-plan-for-economy-ahead-of-spring-budget/> (Accessed: 4 April 2024).

However, despite this huge increase in public expenditure, the childcare system is not functioning well. Firstly, the sector appears to have insufficient capacity for the number of children it is intended to cater for.¹⁹ Many childcare providers face significant financial difficulties: in 2023, the National Day Nurseries Association reported that 38 per cent of nurseries expected to operate at a loss that year, and 45 per cent expected to only break even. The same report noted an 87 per cent increase in the closure of nurseries between April and December 2022 compared to the same period in 2021, with a disproportionate number of closures in more deprived areas.²⁰ Staff recruitment and retention is widely recognised as a problem within the sector, especially since Covid-19.²¹ Parents in some areas face waiting lists of up to two years for childcare places.²² The IFS estimates that the new entitlement could generate demand for an additional 65,000 childcare places by 2027.²³ It is difficult to see how this increased demand could be met under the current system.

Secondly, many parents find the assortment of different childcare schemes difficult to navigate. Take-up of many entitlements among eligible families is low, meaning that support is not reaching the parents and children it is intended for. Despite the provision of subsidies for formal childcare, the proportion of families with children aged four and under who use formal childcare has remained remarkably consistent, at 71 per cent in 2022 and 69 per cent in 2010. 1.3 million families are eligible for tax-free childcare, but 800,000 are currently not benefiting from the scheme.²⁴

And most obviously, the financial cost to parents remains very high. According to official estimates, the average cost for a full-time²⁵ day nursery place for a two-year-old is £269.86 per week in the UK and £368.73 in inner London²⁶ – equating to 46 per cent and 41 per cent of the median full-time wages for the UK and London respectively.²⁷ Even for those who make use of the 30 ‘free hours’ provided by the government may find that the remaining costs for full-time childcare remain very high (see Chapter 1 for further detail).

The cost of childcare is significantly higher in the UK than in comparable countries. As of 2022, the UK’s net childcare costs as a share of income for couples were the fifth highest in the OECD, and twice the OECD average.²⁸ Net childcare costs for a single parent however have been below the OECD average.²⁹ Nevertheless, these high costs are frequently cited as one of the reasons that adults in Britain do not have as many children as they would like. This, more than anything else, should indicate that the childcare system is not working as well as it should.

In this report, we will argue that these failures are the result of ballooning government intervention that has lost sight of its purpose. A first priority for policymakers should be to return to first principles and clarify what it is that they are trying to achieve.

19 Department for Education (2023) *Childcare and early years provider survey*. Available at: <https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-provider-survey#dataBlock-bcda1838-b0d3-49cf-246a-08dbd9f9d559-tables> (Accessed: 26 January 2024).

20 NDNA (2023) *Childcare crisis: 98.4% of nurseries losing £1000s due to funding shortfall*. Available at: <https://ndna.org.uk/news/childcare-crisis-98-4-of-nurseries-losing-1000s-due-to-funding-shortfall/> (Accessed 21 September 2023).

21 EEECC. *Retention and return: Delivering the expansion of early years entitlement in England*. Available at: <https://static1.squarespace.com/static/646ca30371a2ef6a657e9309/t/65482050ded6710668b8b62a/1699225681784/Retention+and+Return.pdf> (Accessed: 25 March 2024).

22 Wainwright, D. and Clarke, V. (2023) *Childcare: Mum-to-be given two-year wait as demand rises*. Available at: https://www.bbc.co.uk/news/education-67274943?utm_campaign=Newsletter&utm_medium=email&_hsmi=79024846&_hsenc=p2ANqtz-8YkHSjV59SeNRjcy2Ww0tSzJ6QE0Aa3U5CTJg-5spolqWuA9ER6S9rQNVk4FN3lIn8VATjCzkLyDjg-PF3mNNSiWG3HFcRf8z4kNizl0sBbO5i&utm_content=79024845&utm_source=hs_email (Accessed: 25 March 2024).

23 Institute for Fiscal Studies (2023) *Childcare reforms create a new branch of the welfare state – but also huge risks to the market*. Available at: <https://ifs.org.uk/news/childcare-reforms-create-new-branch-welfare-state-also-huge-risks-market> (Accessed: 21 February 2024).

24 HMRC (2024) *Tax-Free Childcare Statistics Commentary December 2023*. Available at: <https://www.gov.uk/government/statistics/tax-free-childcare-statistics-december-2023/tax-free-childcare-statistics-commentary-december-2023#Families> (Accessed: 4 April 2024).

25 **Note:** 50 hours per week is considered ‘full-time childcare’, as this is the amount of childcare required for a parent to hold down an ordinary full-time job, allowing for commuting time.

26 Money Helper. *Average childcare costs*. Available at: <https://www.moneyhelper.org.uk/en/family-and-care/becoming-a-parent/childcare-costs#Full-time-childcare-costs> (Accessed: 25 March 2024).

27 Francis-Devine, B. (2023) *Average earnings by age and region*. Available at: <https://commonslibrary.parliament.uk/research-briefings/cbp-8456/> (Accessed: 25 March 2024).

28 OECD. *Net childcare costs*. Available at: <https://data.oecd.org/benwage/net-childcare-costs.htm#indicator-chart> (Accessed: 25 March 2024).

29 OECD. *Net childcare costs*. Available at: <https://data.oecd.org/benwage/net-childcare-costs.htm#indicator-chart> (Accessed: 25 March 2024).

Chapter 1: What is childcare policy for?

What does the state hope to achieve by intervening in childcare? What outcome is hoped for, and why is it an improvement on the outcome that market forces left unchecked would produce?

Despite a rapid growth of state intervention and expenditure on childcare over recent decades, there is a notable vagueness on what its purpose is. If we are to embark on a vast programme of state expenditure and intervention, it would seem necessary to set out what we hope to achieve by doing this. However, the aims of childcare policy are rarely discussed explicitly. This is a problem because it means we cannot objectively judge which policies would be the most effective, or whether a given policy is a success, if we do not have a clear shared understanding of its aim.

Although it is rarely discussed explicitly in these terms, there are two aims that are often implied to be the goal of childcare policy, both in the UK and abroad:

Aim A: To facilitate the employment of mothers.

Aim B: To provide social or educational benefits to children.

In the UK, the Department for Education is the government department responsible for childcare, as well as schooling and higher education. The Department's 'Outcome Delivery Plan' for 2022-23³⁰ stated that the 'priority outcome' relating to childcare is to:

'...support families and provide the best start in life for all, through improved family services and high-quality early education and childcare to raise standards and help parents to work'.³¹

The department's 'provisional performance metrics' included take-up of early education entitlements (**Aim B**), the percentage of early years settings rated as good or outstanding by Ofsted (**Aim B**), the percentage of five-year-olds achieving expected learning goals (**Aim B**), and the percentage of parents who would be working fewer hours or not at all if not for the government's 30 hours offer (**Aim A**).³² Notably, the price and availability of childcare do not appear to be used as metrics of success – although both would seem to be obvious indicators for childcare policy to try to influence. Neither is success measured by whether parents say they are coping financially or manage to have the number of children they say they would like in an ideal world.

This is perhaps the closest we can come to an officially stated aim of UK childcare policy. **Aim A** and **Aim B** are entwined within one stated goal – the 'priority outcome' mentions 'provid[ing] the best start in life' via 'high-quality early education and childcare' in the same sentence as 'help[ing] parents to work', with no acknowledgement that these are separate aims which we would want to measure separately, and which could conceivably be in conflict with one another. The Institute for Fiscal Studies (IFS) wrote in 2017 that in UK childcare policy, there is only 'a fuzzy distinction' between aims **A** and **B** as most policy programmes claim to target both.³³

30 This was published in 2021, and is the latest version of this document to be released at the time of this report's publication.

31 Department for Education. *Main Estimates 2022-23: Estimates memorandum*. Available at: committees.parliament.uk/publications/22269/documents/164868/default/, (Accessed: 25 March 2024) p.18.

32 Department for Education. *Main Estimates 2022-23: Estimates memorandum*. Available at: committees.parliament.uk/publications/22269/documents/164868/default/, (Accessed: 25 March 2024) pp.18-19.

33 Farquharson, C. (2018) *Childcare and Labour Supply*. IFS. Available at: https://ifs.org.uk/sites/default/files/output_url_files/Christine%252520Farquharson%252520050118.pdf (Accessed: 25 March 2024).

This statement by the Department for Education also contains a nod, in their mention of ‘support[ing] families’, towards another, more basic aim. We will refer to this as **Aim C**.

Aim C: To spread the cost of having children, making it easier to be a parent.

If we were to focus primarily on **Aim C**, this would mean focusing first and foremost on *doing whatever makes life easier* for the parents of small children. This may well involve increasing the number of children in daycare and the numbers of mothers in employment, but these would be side effects, rather than the primary objective. For instance, a policy with **Aim C** as its goal might have the average cost of childcare to parents as one of its performance metrics. Cheaper childcare may result in higher childcare take-up and higher maternal employment, but the primary reason for it being considered desirable would be that it *makes it easier* for families with small children to balance their budgets.

There are also places where policies suggested by **Aim C** might work against **Aim A** or **B**. For instance, longer or better-paid parental leave could make life easier for parents, but might result in children enrolling in childcare at later ages, and parents taking longer out of employment. **Aim B** might also be argued to be inherently in tension with aims **A** and **C**: higher quality childcare, which provides more educational enrichment for children, is likely to be more expensive, making arranging care for children less affordable (**Aim C**), in the absence of government subsidies, and meaning more women are likely to be out of work caring for their children themselves (**Aim A**).

This report will argue that an overemphasis on **Aim A** and **Aim B** in government policy on childcare has contributed to many of the problems in the sector. We argue that government policy with an explicit focus on **Aim C** would go some way towards alleviating these problems in the childcare sector, while still delivering many of the benefits that **Aim A** and **Aim B** are attempting to produce. We will also examine some conceptual problems associated with both aims **A** and **B**.

The following sections explain the rationale behind each of the aims **A**, **B** and **C**, and ask whether current policy is successful in achieving them.

Aim A: To facilitate the employment of mothers

Looking after a baby or small child represents at least as much demand on a parent’s time and attention as a full-time job. In many ways it is much more demanding than a full-time job: there are no holidays, no sick leave, and no clocking off at night.

The National Society for the Prevention of Cruelty to Children (NSPCC) recommends that children under the age of 12 should never be left alone.³⁴ If we take this at face value, this means every child that is born creates a requirement for 12 years in which a competent adult should always be present, 24 hours per day.

But children don’t only need adult presence: young children need assistance with all manner of daily tasks, and have a strong drive to seek interactive attention from their caregivers. All in all, this means that looking after a small child is a full-time, demanding occupation. It is not possible to have two full-time jobs at once; if somebody has the responsibility of looking after a small child, that means they cannot have another job unless somebody else takes on some of the work of childcare on their behalf.

The primary purpose of childcare is for parents to be able to sub-contract part of this job to somebody else, enabling them to do other things with their time, including paid employment. Subsidising childcare, then, is seen as a way to make this sub-contracting of care more affordable, facilitating the return of parents, particularly mothers, to the workplace after having a child (**Aim A**).

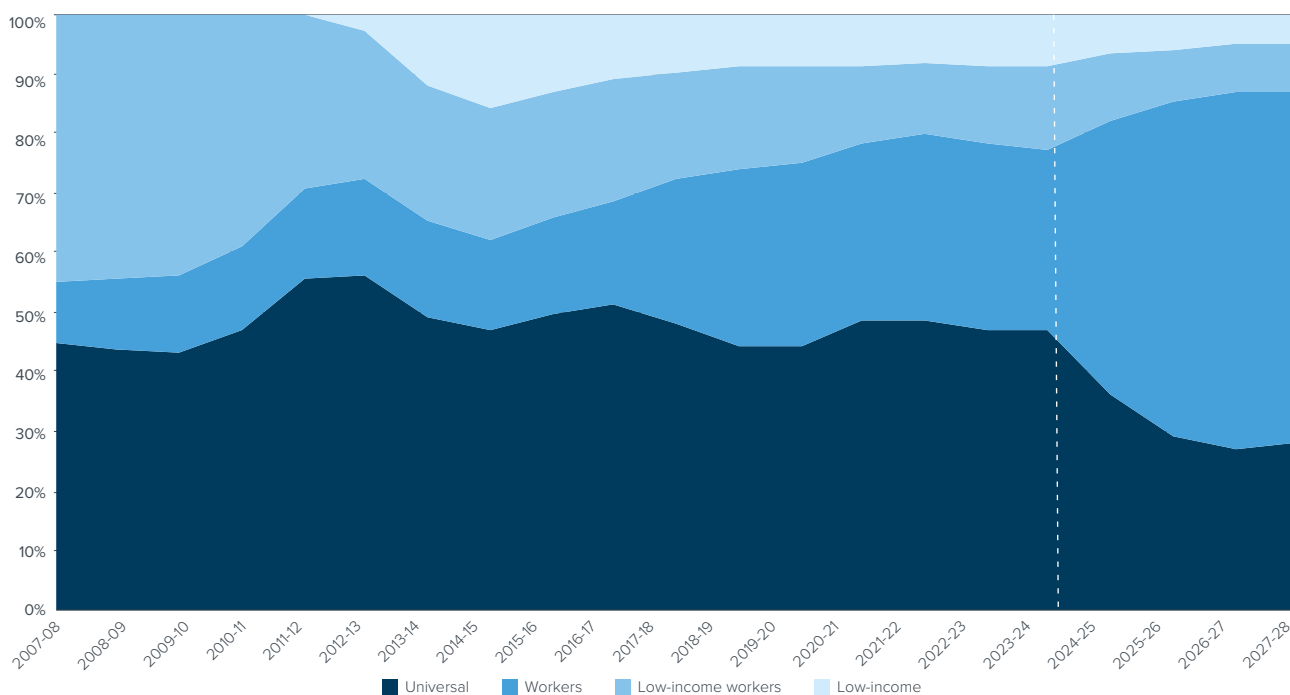
34 NSPCC. *Staying home alone*. Available at: <https://www.nspcc.org.uk/keeping-children-safe/in-the-home/home-alone/> (Accessed: 8 March 2024).

The often-stated rationale for this is that it will boost the economy by increasing the size of the labour force and creating a more efficient allocation of skills and training. If, for instance, a woman is qualified to work as a doctor, then any years that she spends looking after her children instead of working as a doctor are considered a loss of skills from the labour market. Facilitating the employment of mothers also provides an immediate increase in tax revenue, since they are now earning income which can be taxed.

The UK's 2023 Spring Budget included a pledge of a vast new investment in childcare subsidies, to the tune of an additional £4.1 billion per year by 2027-28 compared to 2023-24.³⁵ This was included in the section of the budget on increasing labour supply, along with reforms to working-age benefits, disability employment support, and more generous pensions tax allowances.³⁶ The policy announcement specifically stated that its aim was to 'reduce economic inactivity' by decreasing the number of women who are not full-time employed (and thus classed as 'economically inactive') because of childcare responsibilities. This is a clear demonstration of childcare policy assumed to be directly in the service of **Aim A**, rather than any other aim.

We can also see in practice that current UK government policy has a strong focus on incentivising employment, over and above the aim of making life easier for parents. In 2010-11, the share of childcare subsidies targeted towards all families where parents are in work was 14 per cent (with 39 per cent targeted specifically to low-income workers), compared to 47 per cent that was universal and zero per cent targeted towards low-income families. The share directed towards families with parents in work has increased to 30 per cent (and 14 per cent for low-income workers) in 2023-24, and with the new provisions announced in Spring 2023 it is projected to increase still further, to 58 per cent (and eight per cent for low-income workers) by 2027-28.³⁷ This is even though benefits which are either universal or targeted towards low-income families are more likely to help those in economic need.

Figure 11: Share of early education and childcare subsidies targeted at different groups



Source: Institute for Fiscal Studies.

35 Department for Education (2023) *Spring Budget 2023 Childcare Expansion Policy costing information note*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1172402/Spring_Budget_2023_Childcare_Expansion_Policy_costing_information_note_July_2023.pdf (Accessed: 25 March 2024).

36 Spring Budget 2023; OBR Economic and Fiscal Outlook (March 2023).

37 Institute for Fiscal Studies, *Early Years*. Available at: <https://ifs.org.uk/education-spending/early-years> (Accessed: 25 March 2024).

The maternal employment goal, or **Aim A**, is often also assumed to be in the interests of women as a group. State subsidies for childcare are seen to support women’s career aspirations and increase women’s lifetime earnings, which are lower than men’s in large part due to the time that women commonly spend on unpaid care.

For this reason, many feminist groups (on top of a broad liberal caucus) are loudly in favour of government intervention in childcare for the express purpose of **Aim A**. Groups such as Pregnant Then Screwed highlight survey results indicating that large numbers of women have difficulty resuming their careers after having children, for reasons that include the high cost of childcare. In 2023, Pregnant Then Screwed published the results of a nationally representative survey which found that one in five parents who use formal childcare say that it costs more than half of their household income, and one in three say they have had to use some kind of debt to pay for it.³⁸

In these circumstances, many women find that the expense of childcare is so great that it does not make financial sense for them to resume paid employment even if they would ideally like to – instead providing childcare themselves and living off savings or a partner’s income.

The solution to this is assumed to be that the state should subsidise childcare to make it cheaper, or free, at the point of use. Pregnant Then Screwed, for example, writes on their website that ‘we believe in a world where childcare is free’.³⁹ In a 2017 policy briefing, the Women’s Budget Group diagnosed ‘a lack of public funding’ as the reason for insufficient supply of childcare.⁴⁰ And the Women’s Equality Party state that they ‘want all families to have a free part time nursery place from when their child reaches nine months’, and that the price of any additional childcare should be ‘capped at £1 per hour’. This is proposed to be achieved through government subsidy.⁴¹

Are we succeeding at Aim A?

Increasing maternal employment

Regarding overall female employment, more women are in employment now than before mass childcare subsidies began. The UK’s overall employment rate for women has increased steadily over the last half century, from under 60 per cent in the 1970s^{42 43} to over 70 per cent today.⁴⁴ This rise has been seen both in the employment rate for women overall and for mothers specifically. Maternal labour force participation was 67 per cent in 1996, and has risen to 78 per cent in 2022 (an 11 percentage point rise) (Figure 1.2).

38 Pregnant Then Screwed. *New Pregnant Then Screwed data shows three-quarters of mothers who pay for childcare say that it does not make financial sense for them to work*. Available at: <https://pregnantthenscrewed.com/three-quarters-of-mothers-who-pay-for-childcare-say-that-it-does-not-make-financial-sense-for-them-to-work/> (Accessed: 24 January 2024).

39 Pregnant Then Screwed, *About Pregnant Then Screwed*. Available at: <https://pregnantthenscrewed.com/about-maternity-discrimination/> (Accessed: 24 January 2024).

40 Women’s Budget Group, *Costing and funding free universal childcare of high quality*. Available at: <https://wbg.org.uk/analysis/costing-funding-childcare/> (Accessed: 25 March 2024).

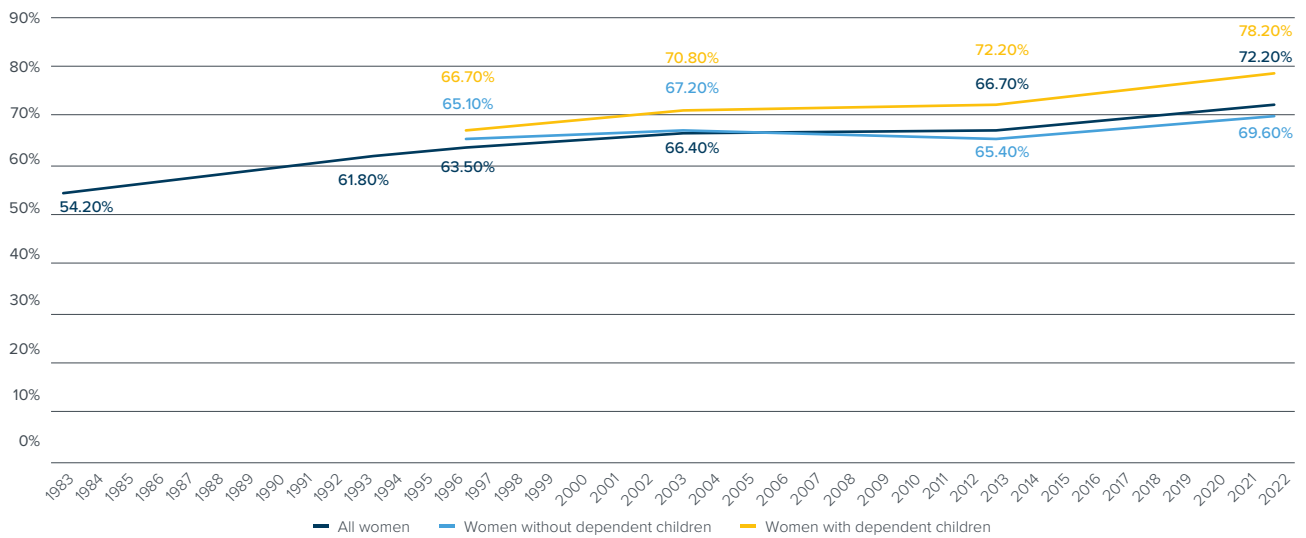
41 Women’s Equality Party. *Childcare*. Available at: <https://www.womensequality.org.uk/childcare> (Accessed: 30 January 2024).

42 Roantree, B. and Vira, K. *The rise and rise of women’s employment in the UK*. IFS. Available at: https://ifs.org.uk/sites/default/files/output_url_files/BN234.pdf (Accessed: 25 March 2024).

43 The Women’s Business Council. *Getting On and Branching Out Evidence Paper: transitions in work, flexible working and maternity*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/85554/evidence4.pdf (Accessed: 25 March 2024).

44 NatCen; Office for National Statistics.

Figure 1.2: Labour force participation: all women, women with and without dependent children.



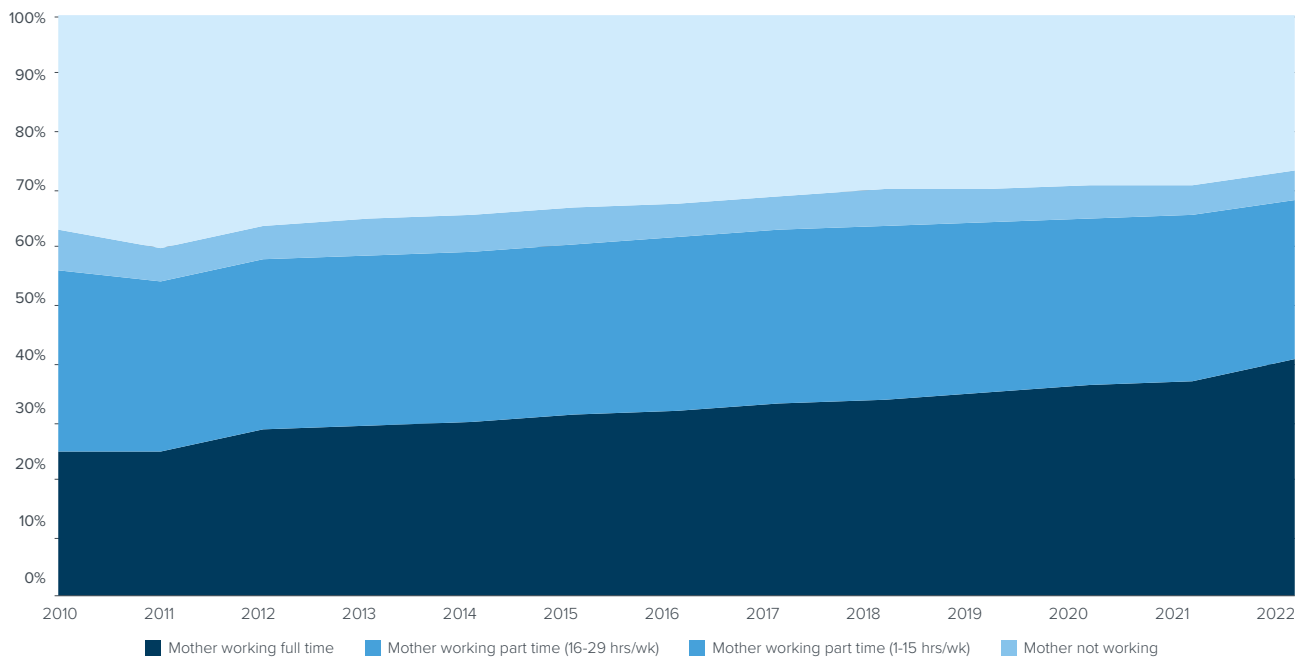
Source: National Centre for Social Research, British Social Attitudes Survey.

Employment rates specifically for mothers of children aged four and under have increased even more steeply during this same period: from 55 per cent in 1996⁴⁵ to 72 per cent in 2022⁴⁶ (a 16 percentage point rise). There has also been an increase in the proportion of mothers who are working full-time as opposed to part-time (see Figure 1.3).

45 Bourne, R. and Shackleton, L. (2017) *Getting the State out of Pre-School & Childcare*. Available at: <https://iea.org.uk/publications/getting-the-state-out-of-pre-school-childcare/> (Accessed: 25 March 2024).

46 Young, F. (2022) *Why can't mums choose?: Rethinking Child Benefit and childcare spending*. Civitas. Available at: <https://www.civitas.org.uk/publications/why-cant-mums-choose/> (Accessed: 25 March 2024).

Figure 1.3: Maternal employment patterns since 2010



Source: Department for Education. Data available for 2010, 2011, 2012, 2014, 2018, 2021, 2022.

The number of women in the UK who cited 'looking after family/home' as the reason for economic inactivity has also fallen steadily since the 1990s. The overall number of women citing 'looking after family/home' went from 2,913,000 in March-May 1993 to 1,378,000 in October-December 2023, a fall of 1,535,000.⁴⁷

If childcare policy has been a success as measured by **Aim A**, this would imply that a significant cause of increased female and maternal employment is that improved childcare access has enabled more mothers to join the labour force when otherwise they would have been unable to. However, it is not clear that this is the case.

For one thing, female labour force participation, as well as the labour force participation of both mothers and non-mothers, has been increasing steadily since before the current system of childcare subsidies began (see Figure 1.2). The link between childcare subsidies and maternal labour force participation is not as clear as public debate often suggests.

For another, among women who cite 'looking after family/home' as a reason for lack of employment, the proportions who say they do and do not want a job have remained remarkably fixed. Between 1993 and 2023, the proportion who say they want a job has remained between 20 and 30 per cent, while the proportion who say they do not has remained between 70 and 80 per cent. If increased maternal employment was due to improved childcare access allowing women to enter the labour force where previously they could not, we would expect the proportion of women who are 'looking after family/home' and would like to have a job to decrease as these women become newly enabled to seek employment. This is not what we have seen.

Instead, it seems likely that this trend is driven in large part by cultural and socioeconomic changes, in particular, rising house prices driving an increased need for families to have two earners rather than one. In addition, the rise of remote working has made it easier for mothers to work full-time from home.⁴⁸

47 Office for National Statistics (2024) *Economic inactivity by reason*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/economicinactivity/datasets/economicinactivitybyreasonseasonallyadjustedinac01sa> (Accessed: 4th April 2024).

48 Strauss (2023), 'Hybrid working boosts number of UK women in full time jobs, study finds', 13 September, *Financial Times*. Available at: <https://www.ft.com/content/f12d6e18-bf36-4095-b627-63a38fa351b6>. (Accessed: 14 March 2024).

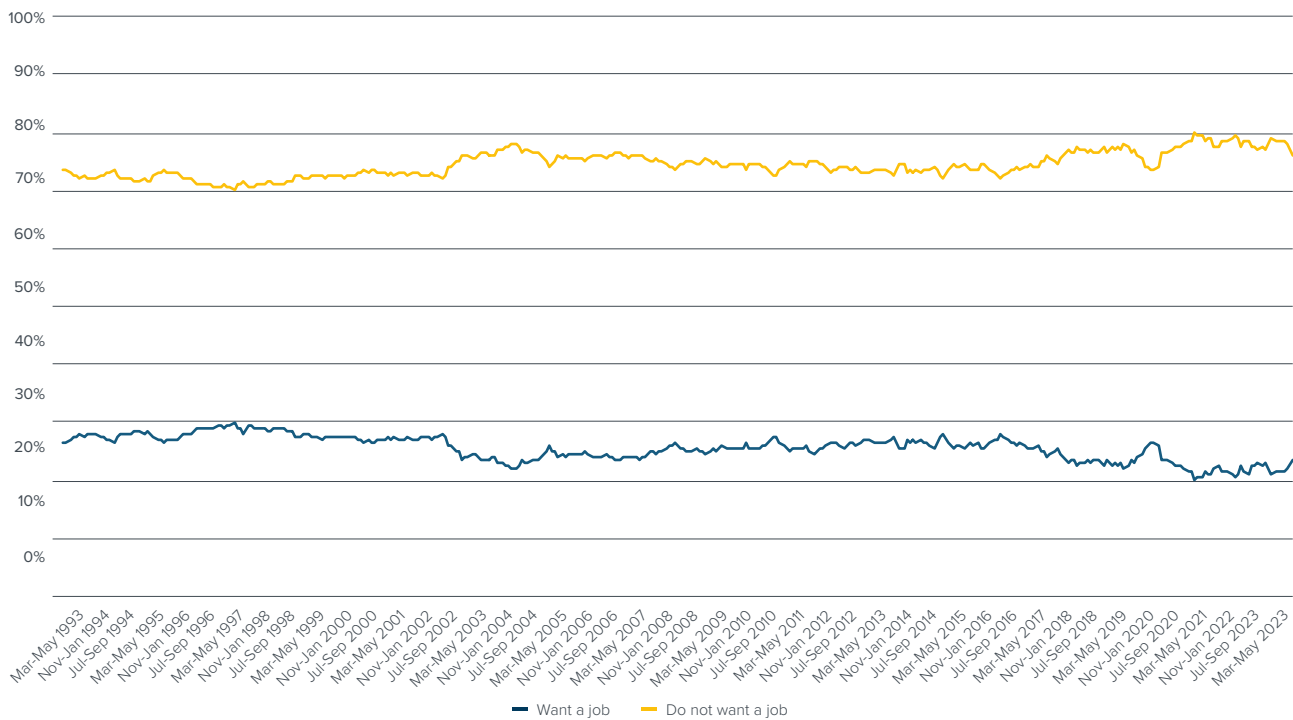
Reduced childbearing also means the average woman would spend fewer years of her career out of work caring for children in the early years, even if the amount of time out of the workforce per child had remained constant.

According to research from the IFS, expansion of childcare subsidies to provide free part-time childcare ‘only marginally affects the labour force participation of mothers whose youngest child is eligible’.⁴⁹ Another piece of research concludes that ‘around five-sixths of spending on the new entitlements [expanded free hours] will go on paying for the childcare that parents are already using’.⁵⁰ By way of international comparison, a recent paper from the National Bureau of Economic Research found that Quebec’s extensive state-funded childcare programme has had a surprisingly small impact on maternal employment and earnings: the difference in maternal earnings between Quebec and the rest of Canada, once the programme was fully phased in, ‘stabilises at around 4 percent’.⁵¹

This is consistent with the finding that the share of children aged four and under using formal childcare has remained remarkably stable over the last decade (see ‘Are we succeeding at Aim B?’). This implies that subsidising formal childcare has the effect of acting as a discount for families who were using it already, but not of moving children into childcare who were previously being looked after primarily by their parents.

Altogether, long-term workforce trends, combined with the relatively unchanging proportion of young children using childcare, suggest there is a certain constant proportion of women – a relatively high proportion of those who currently elect to forego paid work in order to look after their children – who have a strong preference to look after their children themselves and are unlikely to be persuaded out of this preference by the offer of further childcare subsidies.

Figure 1.4: Percentage of women aged 16-64 citing ‘looking after home/family’ as a reason for economic inactivity who do or do not want a job (seasonally adjusted).



Source: Office for National Statistics.

49 IFS, Brewer et al. *Does more free childcare help parents work more?*

50 Drayton, E. and Farquharson, C. (2023) *Early years spending update: Budget reforms and beyond*. Available at: <https://ifs.org.uk/publications/early-years-spending-update-budget-reforms-and-beyond> (Accessed: 4 April 2024).

51 Karademir, S. et al (2024) *The Multigenerational impact of children and childcare policies*. Available at: https://www.nber.org/system/files/working_papers/w32204/w32204.pdf (Accessed: 25 March 2024).

Growing the economy?

The aim of increasing the labour force participation of mothers is not pursued for its own sake: it is assumed that this will benefit the wider economy. But is this true?

The Office for Budget Responsibility (OBR) estimates that the 2023 ‘free hours’ expansion will result in 60,000 additional people entering the workforce by 2027-28, working on average 16 hours per week.⁵² An estimated 1.5 million mothers who are already in work are expected to increase their working hours ‘by a much smaller amount’.

By 2028, yearly spending on the extended free hours programme is scheduled to reach £4.1 billion.⁵³ Depending on the actual increase in working hours, this could mean that in 2028, the Treasury spends (speculatively) tens of thousands of pounds on childcare per additional full-time-equivalent worker in the workforce as a result of the scheme.⁵⁴ Even at the lower end of this expectation, these costs are too high to plausibly be recouped in the short-term from increased tax revenues. The scheme will be operating at a loss to the Treasury in the short-term, possibly to the tune of tens of thousands of pounds per worker. If increasing the size of the workforce is a central aim of this policy, there may be more efficient alternative ways to achieve this.

This cost is assumed to be worth paying due to increased wages of those who increase their work hours, and wider benefits to the economy. However, we should consider that the productivity that parents provide when they put their children in childcare and enter the workforce is not offset against nothing; it is offset against the productive activity that they would otherwise be engaging in by looking after their children. The increase in GDP that is observed when parents resume paid employment is at least partly illusory, because the value of looking after one’s own children is not captured by this measure. For instance, if a full-time nursery place for a toddler costs over £14,000 per year,⁵⁵ then we could say that a parent who looks after their toddler at home is carrying out work valued at £14,000, all else being equal. The net benefit of parents outsourcing childcare and going to work may be relatively small once this is taken into account, especially if they are parents to more than one early years child.

As well as being an inefficient way to increase labour supply, the current system of childcare subsidies may even *disincentivise* work for the highest earners, who contribute a disproportionate amount to tax revenue and to the wider economy. Since families where either parent earns £100,000 or more per annum are ineligible for ‘free hours’ or tax-free childcare, this effectively creates an extreme ‘cliff edge’, where work and career progression is disincentivised for those approaching this threshold; an effect that will be worsened by the 2023 Spring Budget plan to increase the number of families eligible for these subsidies. Recent calculations suggest that for a parent with two children under the age of three, disposable income would be higher on a salary of £99,000 than a salary of £130,000 following the proposed expansion.⁵⁶ Although only a relatively small number of parents earn enough for this to apply to them, fiscal drag means that this number will increase over time unless the £100,000 threshold is up-rated to account for inflation.

Empowering women?

The other motivation that is often cited for increasing the labour force participation of women via subsidised formal childcare is that it is good for the interests of women as a class.

It is well established that the birth of children has a negative lifelong effect on women’s, but not men’s, earnings

52 OBR (2023) *Economic and Fiscal Outlook*. Available at: https://obr.uk/docs/dlm/uploads/OBR-EFO-March-2023_Web_Accessible.pdf (Accessed: 25 March 2024) p.21.

53 Department for Education (2023) *Spring Budget 2023 Childcare Expansion Policy costing information note*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1172402/Spring_Budget_2023_Childcare_Expansion_Policy_costing_information_note_July_2023.pdf (Accessed: 25 March 2024).

54 Approximate estimate, based on reported OBR figures.

55 Clarke, V. et al (2023) *Childcare: Full-time nursery for under-twos nearly £15k a year, says report*. Available at: <https://www.bbc.co.uk/news/education-64865602> (Accessed: 19 March 2024).

56 Drayton, E. et al (2023) *Childcare reforms create a new branch of the welfare state - but also huge risks to the market*. Available at: <https://ifs.org.uk/news/childcare-reforms-create-new-branch-welfare-state-also-huge-risks-market> (Accessed: 25 March 2024).

and career progression.^{57 58} The earnings gap is not explained solely by the higher frequency of part-time work for women than for men. It is also caused by the way that having primary responsibility for children can ensure that women are restricted to lower-paid jobs than men, even when they work the same number of hours. Finding jobs that allow sufficient levels of flexibility can be difficult, which also means that women may be more reluctant to move jobs than men, restricting the scope for career advancement, or to negotiate for a salary increase in a current job. Encouraging the use of formal childcare is meant to mitigate this effect by allowing women to ‘keep up’ with men.

Has this worked? Well, we have seen the earnings gap between women and men steadily decreasing over recent decades. In 1997, the average wage of full-time employees was 17.4 per cent lower for women than for men; in 2023, that figure was 7.7 per cent.⁵⁹

It is possible that some of this change could be a result of state subsidies making childcare more affordable. However, in light of the observation that usage of childcare has increased very little over the last three decades (see Aim B), it does not seem likely that this has had a large impact. Other factors that may have contributed to the narrowing wage gap include the increasing proportion of university graduates that are women; cultural changes, including initiatives to recruit more women in some sectors; and improved employment protections for women.

Many feminists have argued that the solution to the continued pay gap is not to attempt to minimise women’s contact with their children so that they can work ‘like a man’; but rather a more equitable spread of domestic work within families, and a shift towards flexible working that makes room for caring responsibilities.

It is also worth challenging the assumption that ‘empowering women’ has to mean enabling them to carry out paid work (no matter how low-paid and unstimulating) at the expense of spending time with their children, which many parents find much more fulfilling and meaningful than their jobs outside the home. This is backed up by a wealth of recent survey evidence suggesting that most mothers of young children do not want to work full-time;⁶⁰ that mothers who work part-time are happiest;⁶¹ that very few adults of either sex believe that both parents working full-time is the ideal way to run a household;⁶² and that overwhelming majorities report that spending time with their family is one of the most important things in their lives.^{63 64}

Subsidising formal childcare is not the only way that the state could support women who are juggling childcare and paid work. There are many alternative ways that the state could redistribute resources to these women via benefits and tax breaks, which would more truly fit the description of ‘empowering women’ because it would allow them to make their own choices about how to balance these competing demands.

57 Gicheva, N. and Keohane, N. (2018) *Back on Track: Making the most of parents' working lives*. SMF. Available at: <https://www.smf.co.uk/publications/back-track-parents-working-lives/> (Accessed: 25 March 2024).

58 Karademir, S. et al (2024) *The Multigenerational impact of children and childcare policies*. Available at: https://www.nber.org/system/files/working_papers/w32204/w32204.pdf (Accessed: 25 March 2024).

59 Office for National Statistics (2023) *Gender pay gap in the UK: 2023*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2023> (Accessed: 1 March 2024).

60 Young, F. (2022) *Why can't mums choose?: Rethinking Child Benefit and childcare spending*. Civitas. Available at: <https://www.civitas.org.uk/publications/why-cant-mums-choose/> (Accessed: 25 March 2024).

61 Pew Research Center (2015) *Raising Kids and Running a Household: How Working Parents Share the Load*. Available at: <https://www.pewresearch.org/social-trends/2015/11/04/raising-kids-and-running-a-household-how-working-parents-share-the-load/> (Accessed: 25 March 2024).

62 National Centre for Social Research, “British Social Attitudes Survey 40: Gender Roles”, published September 2023. Available at: <https://natcen.ac.uk/publications/bsa-40-gender-roles>

63 Minkin, R. and Menasce Horowitz, J. (2023) *1. Gender and parenting*. Pew Research Center. Available at: <https://www.pewresearch.org/social-trends/2023/01/24/gender-and-parenting/> (Accessed: 25 March 2024).

64 Cerda, A. (2023) *Family time is far more important than other aspects of life for most Americans*. Pew Research Center. Available at: <https://www.pewresearch.org/short-reads/2023/05/26/family-time-is-far-more-important-than-other-aspects-of-life-for-most-americans/> (Accessed: 25 March 2024).

Conclusion

Current childcare policy appears to have had only a modest success in facilitating the employment of mothers – despite maternal employment, in general, having risen significantly in past decades. The high cost of further subsidising childcare means the expanded free hours scheme is extremely costly, and may not be the most efficient way to encourage the employment of women. Improvements to flexible working may deliver increased employment more effectively and less coercively.

Aim B: To provide social and educational benefits to children

Subsidising and expanding childcare is seen as a way of benefitting children, both by increasing the number of children who attend and by increasing the quality of provision to enhance their short-term welfare and long-term development.

In February 2023, as part of his successful campaign to lead the SNP, Humza Yousaf pledged an expansion of Scottish childcare provision to one- and two-year-olds, stating that this would give young Scots ‘the very best start in life’.⁶⁵ In March 2023, Labour’s Shadow Education Secretary, Bridget Phillipson, stated that the thing missing from the childcare system in England was ‘universality’, and that a Labour government would provide childcare which ‘delivers the best start for every child’.⁶⁶ The Liberal Democrats’ 2019 Manifesto has also previously pledged greater access to childcare, giving parents the assurance that ‘their child will be happy, healthy and ready to start school’.⁶⁷ And Siobhan Baillie MP, a leading proponent of formal childcare provision from within the Conservative Party, has said that childcare should be thought of primarily as a way to help children, and that it can offer ‘a chance to escape a violent home, to learn, to have some routine and to eat regularly’.⁶⁸

Providing educational benefits to young children is often framed as a long-term investment in the productivity of the future working population. In their policy briefing arguing in favour of publicly funded universal childcare, the Women’s Budget Group claims that attending formal childcare is ‘crucial to improving children’s outcomes and life chances, even for very young toddlers and infants’, and that universal childcare from an early age would ‘certainly’ result in improvements to children’s eventual economic productivity.⁶⁹ State provision of childcare is sometimes described by policymakers as giving a ‘double dividend’, the first dividend being increased labour force participation of women, and the second being a long-term economic gain resulting from improved child outcomes.⁷⁰

Childcare provision has even been claimed to decrease criminal behaviour in the long term. Neil Leitch, the head of the Early Years Alliance, argued on Woman’s Hour in 2022 that quality childcare could prevent children from ‘cost[ing] us thousands down the line’, citing the case of ‘a fourteen-year-old that stabbed a thirteen-year-old’ and stating that ‘they were three-year-olds at one point in time. That’s why we need to invest’.⁷¹

In particular, children from more disadvantaged backgrounds are seen to benefit from childcare. This means that, more than just benefitting all children, increasing childcare attendance through subsidies is intended to increase social equality, narrowing attainment gaps between richer and poorer children.

65 Bol D. (2023) ‘Humza Yousaf repackages SNP pledge on childcare’, *The Herald*, 28 February. Available at: <https://www.heraldsotland.com/politics/23351635.humza-yousaf-repackages-snp-pledge-childcare-expansion/> (Accessed: 14 February 2024).

66 Phillipson, B. (2023) ‘Our focus will be on reform’ – *Bridget Phillipson’s speech on childcare*.

67 Liberal Democrats (2019), *2019 Manifesto*.

68 Baillie, S. (2023), *Early Years Childcare. Volume 738: debated on Monday 16 October 2023*. Hansard. Available at: <https://hansard.parliament.uk/commons/2023-10-16/debates/33DE9895-22BA-4197-B4A1-D39A20AF5500/EarlyYearsChildcare> (Accessed: 19 February 2024).

69 *Women’s Budget Group (2017) Costing and funding free universal childcare of high quality*. Available at: <https://wbg.org.uk/analysis/costing-funding-childcare/> (Accessed: 25 March 2024).

70 IPPR (2022) *Towards a childcare guarantee*. Available at: <https://www.ippr.org/articles/towards-a-childcare-guarantee> (Accessed: 25 March 2024).

71 BBC Woman’s Hour (2022) 28 October episode. Available at: <https://www.bbc.co.uk/sounds/play/m001ddw9> (Accessed: 25 March 2024).

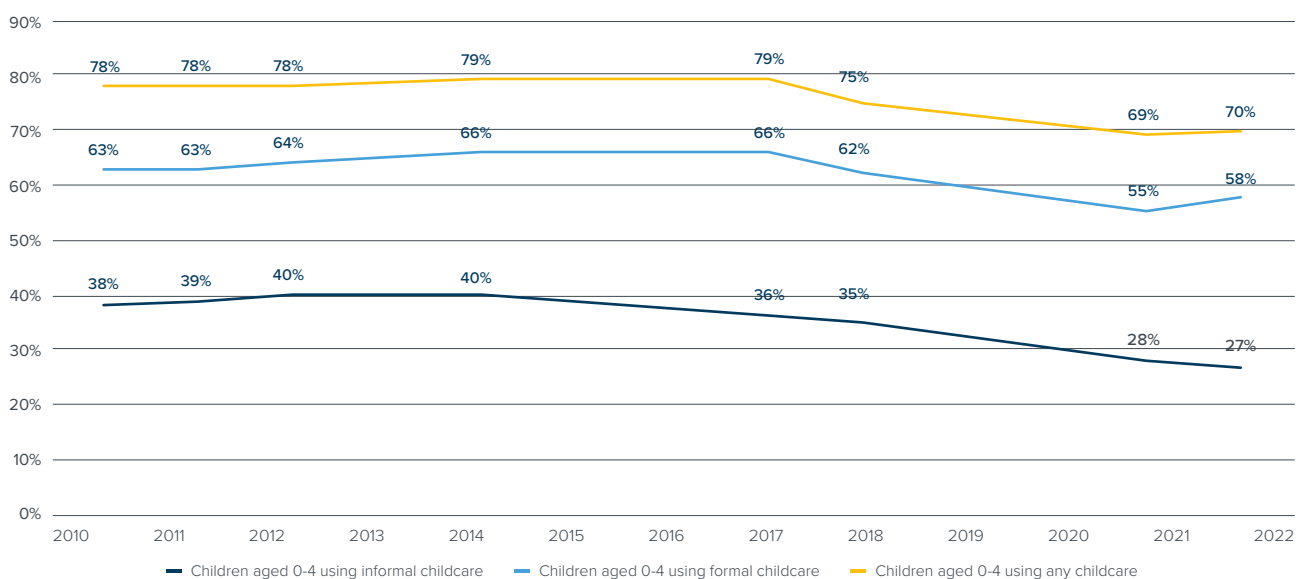
Are we succeeding at Aim B?

Has childcare usage increased?

If childcare subsidies are succeeding in providing benefits to early years children, this implies that usage of childcare has increased as a result of this intervention. Indeed, the number of children who have gained access to childcare is used as a metric by which the success of childcare schemes is judged.⁷²

However, according to the Department for Education's 'Childcare and early years survey of parents', the percentage of children in childcare across all forms of childcare, formal and informal, has remained remarkably consistent since 2010 (see Figure 1.5).⁷³ In 2022, 70 per cent of children aged zero to four were in any form of childcare, down from 78 per cent in 2010. The proportion using formal childcare⁷⁴ also decreased, from 63 per cent in 2010 to 58 per cent in 2022.⁷⁵

Figure 1.5: Percentage of children in childcare over time



Source: *Childcare and early years survey of parents*, Department for Education.

The number of hours that children spend in childcare has increased a little, but not by very much. In 2022, pre-school aged children in receipt of formal childcare used it for a median of 24 hours per week.⁷⁶ In 2010, this figure was 17.9 hours.⁷⁷ Despite significant expansions in public expenditure on formal childcare subsidies during this period, fewer children used formal childcare, although those who did use it increased their usage by six hours per week.

72 Department for Education. *Main Estimates 2022-23: Estimates memorandum*. Available at: committees.parliament.uk/publications/22269/documents/164868/default/. (Accessed: 25 March 2024) pp.18-19.

73 UK Government (2023) *Childcare and early years survey of parents*. Available at: <https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-survey-of-parents> (Accessed: 25 March 2024).

74 **Note:** The Department for Education considers formal childcare to include nursery schools, nursery classes, reception classes, special day schools, day nurseries, playgroups, childminders, nannies or au-pairs, baby-sitters, breakfast clubs, after-school clubs and holiday clubs.

75 UK Government (2023) *Childcare and early years survey of parents*. Available at: <https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-survey-of-parents> (Accessed: 9 April 2024).

76 UK Government (2022) *Childcare and early years survey of parents*. Available at: <https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-survey-of-parents/2021> (Accessed: 25 March 2024).

77 UK Government (2012) *Childcare and early years survey of parents: 2010*. Available at: <https://www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2010> (Accessed: 25 March 2024).

As discussed in the section ‘Are we succeeding at Aim A’, there is a body of evidence suggesting that the main effect of subsidies for formal childcare is not to move children into formal childcare who would otherwise have been cared for at home. Rather, it has the effect of moving children from informal to formal childcare, or acting as a discount for families who would have used formal childcare anyway. Offering discounts on formal childcare may be a reasonable thing for the state to do; but it is unlikely to be the most effective way either to offer educational benefits to children or to support parents with the cost of raising them.

Does increased childcare usage benefit children?

Another key assumption of **Aim B** is that increasing usage of childcare across the population as a whole would in fact benefit children. Although this is often taken as read (such as by childcare programmes that promise to offer ‘the best start in life’ for every child), this remains very much unproven.

A recent report from Civitas (*Universal childcare: is it good for children?*, Maria Lyons) reviewed the existing academic literature on universal childcare programmes,⁷⁸ and found that ‘the claim that universal childcare will enhance cognitive and socio-emotional development for children from all backgrounds is not supported by available evidence’.⁷⁹ This is not to say that universal childcare is necessarily *bad* for children; but the evidence that it is *good* for children across the board is lacking.

The report points out that, logically, formal childcare can only be considered ‘good for’ a child if it offers developmental advantages compared to the alternative care they would have received, whether that is care by their own parents, or some form of informal childcare arrangement. This is likely to be true for some, but not all, children.

In particular, formal childcare is unlikely to provide a better developmental environment than a parent who is deeply motivated to care for their own child; loves their child and has an intimate understanding of their needs, preferences, and communication; and can provide frequent one-to-one interaction. This is something that a formal childcare provider, no matter how well-credentialed, cannot replicate. Survey data from the Department for Education shows that most families with children aged zero to four years old engage in home learning activities (such as reading or learning numbers and letters) at least once a day,⁸⁰ suggesting that the idea that formal childcare is necessary in order to provide early years children with educational stimulation is likely to be inaccurate in many cases.

Lyons’ review of the research concluded that formal childcare can provide a short-term academic boost for children between three and five years old, with some research suggesting that this boost can persist longer term, and some suggesting that it fades away before the end of school. The review also highlighted that most evidence for benefits of childcare is for children aged three and older. There is much less evidence for benefits in children aged under three – the group to whom recent expansions in childcare subsidies are targeted.

The fact that it is children from disadvantaged families who are most likely to benefit from attending formal childcare is widely acknowledged: childcare provision is often presented as a route to ‘closing the attainment gap’ between children from more well-off and less well-off families, because the latter are likely to derive more benefit from it. However, despite this, the UK’s current childcare subsidies are strongly targeted towards families where both parents work, as previously discussed. If the purpose of childcare subsidies is to provide educational benefits to children, then surely this would be better achieved via programmes that target disadvantaged families.

78 **Note:** Universal childcare refers to a system in which every child from a certain age has access to government subsidised formal care and education before the start of school.

79 Lyons, M. (2024) *Universal childcare: is it good for children?* Civitas. Available at: https://www.civitas.org.uk/content/files/Universal_Childcare_v8.pdf (Accessed: 25 March 2024).

80 UK Government (2023) *Childcare and early years survey of parents*. Available at: <https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-survey-of-parents> (Accessed: 25 March 2024).

One key indicator of whether we are succeeding at delivering educational and social benefits to children in the early years is whether children are reaching developmental milestones when they arrive at school. On this front, there are some possibly concerning results from the charity Kindred Squared's annual school readiness survey. The charity state that 'almost half the children in England entering Reception are not achieving the developmental milestones appropriate for their age'.⁸¹ In their most recent survey, it was found that according to teachers, one in four children starting Reception class are not toilet trained; and 90 per cent of school staff report at least one child in a 2023 Reception class who is not toilet trained.⁸²

Without necessarily taking these results at face value, there would seem to be at least some reason to be concerned that the current approach to early years is not delivering the best results for children. There is little evidence to suggest that 'more of the same' (that is, spending vastly more to expand the current programme of subsidies to younger children) will lead to any improvement in these outcomes.

Conclusion

As public subsidies for formal childcare have increased, usage of formal childcare by children has changed remarkably little. Although the median number of hours spent in formal childcare by the children who use it has increased slightly, the proportion of children using formal childcare has actually decreased in the same period (see Figure 1.5).

We should also question the assumption that formal childcare necessarily benefits children. The idea that universal childcare will benefit all children across the board has little evidentiary support. In particular, there is little evidence of benefit to children under the age of three, who are increasingly the target of childcare subsidies.

Although some children are likely to benefit from childcare, others are not; if the alternative care that a child would have received is of high quality, then moving into formal childcare will not represent an improvement. Targeting provision towards more disadvantaged families, whose children are more likely to benefit from attending childcare, would be a more effective way to support optimal development in early years than the current government strategy.

Aim C: To spread the cost of having children, making it easier to be a parent

The rationale for **Aim C** rests on two observations: firstly, that having children and caring for them represents a significant cost to parents; and secondly, that in general there are benefits to society when people have children. The positive externalities of having children mean there is a case for the state to alleviate some of this high personal cost, and spread it among taxpayers.

Children are costly to parents

The Child Poverty Action Group estimate that the cost of raising a child to age 18 in 2022 was £166,000 for a couple and £220,000 for a lone parent, after accounting for state benefits supporting parents.⁸³

81 Kindred Squared (2023) *Targeting Impact: A Contribution to the Early Education Debate*. Available at: <https://kindredsquared.org.uk/wp-content/uploads/2023/07/Kindred-Ark-Start-Targeting-Impact.pdf> (Accessed: 4 April 2024).

82 Kindred Squared (2024) *School Readiness Survey*. Available at: <https://kindredsquared.org.uk/wp-content/uploads/2024/02/Kindred-Squared-School-Readiness-Report-February-2024.pdf> (Accessed: 4 April 2024).

83 Child Poverty Action Group (2023) *The Cost of a Child in 2023*. Available at: <https://cpag.org.uk/policy-and-research/findings-our-projects/cost-child-reports> (Accessed: 25 March 2024).

Housing represents a very substantial direct cost to parents: families with children require more housing space than childless adults. Since housing now makes up a huge proportion of living expenses, the increased housing costs can be a very significant part of the cost of children. One study by the United States Department of Agriculture calculated that increased housing costs were by far the largest cost of having children for American families;⁸⁴ these increased costs are due to both needing space for a child, and parents' increased desire to live in safe neighbourhoods near to good schools relative to non-parents.

Another is the cost of childcare, which adds a very large cost for parents in the early years of a child's life – whether that cost comes via paid-for childcare, or by parents foregoing income to provide childcare themselves.

As well as direct costs, having children represents a significant opportunity cost. As noted in the rationale for **Aim A**, caring for children is demanding work, which necessarily carries an opportunity cost. Parents are not infinite resources: devoting large amounts of time and energy to caring for children definitionally means less capacity to do other things. Often this means foregone income and career advancement; which is reflected in the clear negative effect motherhood has on women's lifetime earnings. It also means foregone leisure: in order to raise children, parents will give up much of their ability to spend time on hobbies, relaxing or socialising. As well as blocking out time, looking after a child almost always asks a lot of parents in terms of both mental and physical energy, as well as sometimes having negative effects on physical health.

Although the long-term costs – both the direct costs, especially in terms of housing and paid childcare, and the indirect costs including foregone income – are significant, the costs of having children are most acute in the first years of their lives, when needs for care are greatest. Before they start school, children must be provided with constant supervision. Simplifying somewhat, this means parents face the choice between either paying for childcare, which is very expensive; or one parent giving up work temporarily, at the cost of their entire salary.

These acute short-term costs are seen as unmanageable by an increasing number of young people. High childcare costs are often cited as a reason for not having children, or not having as many children as individuals would like. Housing costs and the tax burden on working people, both of which are at historic highs, combined with student loan repayments for increasing proportions of young adults, mean that would-be-parents have less financial security than their parents' generation did, contributing further to the unaffordability of parenting during the early years.

Rationale for spreading costs

Although much of the cost of having children falls on individual parents, there are significant benefits to wider society.

At a basic level, children are necessary for the continuation of a healthy society and economy. Without children who grow up to be working adults, there would be no taxpayers to fund public services, nor would there be any workers to perform those services. Growing food, nursing the sick, repairing roads: all these tasks which we rely on require a certain proportion of the population to be healthy working-age adults.

Like most wealthy countries, the UK's birth rate has been below replacement level for many decades, since 1972. It is now at 1.49 children per woman across England and Wales – more than 0.5 children per woman below the 2.1 required to maintain a steady population.⁸⁵ Crucially, this is also substantially below the 2.3 or so children that women say they would like, on average. The high costs of parenthood in the early years are often cited as part of the reason for this 'fertility gap' – the difference between the number of children that people say they want and the number they end up having.^{86 87}

84 USDA (2017) *2015 Expenditures on Children By Families*. Available at: <https://www.fns.usda.gov/cnpp/2015-expenditures-children-families> (Accessed: 25 March 2024).

85 Office for National Statistics, *Births in England and Wales: 2022 (refreshed populations)*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/bulletins/birthsummarytableenglandandwales/2022refreshedpopulations> (Accessed 2nd April 2024).

86 Whitestone Insights. *Childlessness and Motherhood Survey – September 2023*. Available at: <https://www.whitestoneinsight.com/birthgap> (Accessed: 25 March 2024).

87 Corfe, S. and Bhattacharya, A. (2021) *Baby bust and baby boom: Examining the liberal case for pronatalism*. Available at: <https://www.smf.co.uk/publications/baby-bust-and-baby-boom/> (Accessed: 25 March 2024).

Without high levels of immigration, a below-replacement birth rate necessarily means a shrinking and ageing population, which in the longer term will mean much of the welfare state is likely to become unviable, as well as causing severe challenges to the wider economy.⁸⁸

Immigration is often seen as the answer to this problem. If there are large numbers of people around the world who wish to come to Britain, then politically there is effectively a ‘tap’ that can be turned to increase the number of working adults at short notice, without the need to support them from babyhood domestically. However, there are many reasons to think this will not work as a solution indefinitely.⁸⁹

The alternative solution is for the state to make parenthood more financially feasible by spreading some of the high initial cost of raising children from parents to non-parents via the tax and benefits system. In the words of Neil O’Brien MP, considering the long-term consequences of allowing fertility to remain low, ‘we can’t afford not to’ take measures to make parenthood more affordable.⁹⁰

The point of subsidising children is not to ‘punish’ non-parents, or to push people into having children when they do not want to. Both having children and not having children are personal choices that should be respected. However, non-parents derive benefits from other people’s children: their pensions will be paid by taxpayers that others have raised, and they will benefit from all manner of services from medical care to military defence performed by other people’s children. They benefit more broadly from living in a thriving economy and culture which in the long term requires that people have children.

We can also argue that there is a moral case for the costs of having children to be spread. Many of us would agree that the kind of society we want to live in is one where those who want to be parents can afford to do so, rather than one where ordinary working people face insurmountable financial hurdles to parenthood. We think it is good not only to enable people who want to become parents to do so, but to enable older adults to experience grandparenthood, and children to grow up with siblings, neighbours, and cousins. Children enrich the lives of those around them; they are a vote of confidence in our collective future, and as a society it is right that we support the needs of parents so that they can raise children.

Are we succeeding at Aim C?

Does the current system of formal childcare subsidies effectively support parents?

The government aims to spend an additional £4.1 billion per year on the extended free hours scheme by 2028.⁹¹ This represents a substantial transfer from the taxpayer to working parents of early years children who use childcare. For parents who otherwise would have paid the full price for childcare, these schemes can considerably alleviate costs. The IFS estimate that for the average woman working full-time, with a two-year-old in childcare, the savings implied by the extended ‘30 free hours’ policy may be greater than exempting her from all income tax and National Insurance contributions.⁹²

88 GBD 2021 Fertility and Forecasting Collaborators (2024) *Global fertility in 204 countries and territories, 1950-2021, with forecasts to 2100: a comprehensive demographic analysis for the Global Burden of Disease Study 2021*. Available at: [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(24\)00550-6/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(24)00550-6/fulltext) (Accessed: 5th April 2024).

89 Morland, P. and Pilkington, P. *Migration, Stagnation, or Procreation: Quantifying the Demographic Trilemma*. Available at: <https://www.arc-research.org/research-papers/the-demographic-trilemma> (Accessed: 25 March 2024).

90 O’Brien, N. (2024) *Why we need a “New Deal for Parents”*. Available at: <https://www.neilobrien.co.uk/p/why-we-need-a-new-deal-for-parents> (Accessed: 25 March 2024).

91 Department for Education (2023) *Spring Budget 2023 Childcare Expansion Policy costing information note*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1172402/Spring_Budget_2023_Childcare_Expansion_Policy_costing_information_note_July_2023.pdf (Accessed: 25 March 2024).

92 Drayton, E. et al (2023) *Childcare reforms create a new branch of the welfare state - but also huge risks to the market*. Available at: <https://ifs.org.uk/news/childcare-reforms-create-new-branch-welfare-state-also-huge-risks-market> (Accessed: 25 March 2024).

However, it is likely that this is not the most efficient way to spread the costs of having children. Firstly, these schemes are only useful for parents who want to use formal childcare. As we have already seen, there seems to be a sizeable proportion of parents who do not make use of these schemes because they strongly prefer to look after their children themselves. Supporting parents via the offer of free childcare effectively makes support conditional on making childcare arrangements that are not preferred by a large group of parents. Some of these parents will not receive any help; others will, but in order to do so they will have to choose an option that is less preferred or less convenient to them.

Secondly, this model has not succeeded in making free childcare readily available to those who want it. Government funding per place is often not enough to cover providers' costs, meaning that in order to provide parents with 'free hours', providers are forced to raise their prices for younger children not currently covered by the free hours scheme, and for extras like nappies and snacks; or even to ask parents for donations to cover costs.^{93 94} Wages are forced to remain low, contributing to high staff turnover.⁹⁵

The National Day Nursery Association (NDNA) have recently reported that the average nursery has a funding shortfall of £2.30 per hour per child, which adds up to over £1,300 yearly per child on the 15 hour entitlement, or over £32,000 per year for the average nursery.⁹⁶ Funding increases have not kept pace with increased costs: the NDNA also report that funding rates per place have risen by 27 per cent since 2017, but during this same period, wages, which make up a significant portion of provider costs and are in large part fixed by the National Living Wage, have risen by 58-62 per cent.⁹⁷ One assessment suggests that since 2017, the sector has had to absorb a 13 per cent real terms cut in funding once rising costs are accounted for.⁹⁸ Unsurprisingly, many providers cannot make ends meet and are forced to close: the NDNA report a nursery closure rate 50 per cent higher in 2022-23 than in the previous year.⁹⁹

The upshot of this for parents is that they continue to face high childcare costs, and are not reliably able to find suitable childcare in their area. The average cost of full-time childcare for a child eligible for 30 free hours per week is still over £7,000 per year after the free hours are factored in, and not counting any extras such as meal costs.¹⁰⁰ Waiting lists for nursery places in some parts of London are two years long.¹⁰¹ In short, this policy has failed to deliver cheap and convenient childcare to parents; by trying to interfere in the childcare market, it may also have contributed to provider closures, reducing availability to parents.

93 The Money Whisperer (2017) *The lie that is '30 hours free childcare'*. Available at: <https://themoneywhisperer.co.uk/the-lie-that-is-30-hours-free-childcare/> (Accessed: 25 March 2024).

94 Americh, M. (2018) *30 Hours 'Free' Childcare Is A Lie: Is There A Solution?* Available at: <https://www.famly.co/blog/30-hours-free-childcare-solution> (Accessed: 25 March 2024).

95 Gaunt, C. (2023) *High staff turnover, business rates, and underfunding highlighted in APPG early years event*. Available at: <https://www.nurseryworld.co.uk/news/article/high-staff-turnover-business-rates-and-underfunding-highlighted-in-appg-early-years-event> (Accessed: 25 March 2024).

96 Gaunt, C. (2023) *Average nursery loses £32,000 a year by subsidising 15-hour childcare*. Available at: <https://www.nurseryworld.co.uk/news/article/average-nursery-loses-32-000-a-year-by-subsidising-15-hour-childcare#:~:text=This%20figure%20could%20be%20doubled,per%20cent%20in%20September%202021>. (Accessed: 25 March 2024).

97 Smith, R. (2023) *Funding rates 2024-25: Average rate increase lower than wages rise*. Available at: <https://ndna.org.uk/news/funding-rates-2024-25-average-rate-increase-lower-than-wages-rise/> (Accessed: 25 March 2024).

98 Drayton, E. et al (2023) *Childcare reforms create a new branch of the welfare state - but also huge risks to the market*. Available at: <https://ifs.org.uk/news/childcare-reforms-create-new-branch-welfare-state-also-huge-risks-market> (Accessed: 25 March 2024).

99 Argile, A. (2023) *Nursery closure rates up fifty per cent on last year*. Available at: <https://ndna.org.uk/news/nursery-closure-rates-up-fifty-per-cent-on-last-year/> (Accessed: 25 March 2024).

100 Average weekly cost of 50 hours per week, with 30 hours free, is reported as £120.93. Berg, V. (2024) *Childcare costs: How much do you pay in the UK?* Available at: [https://www.daynurseries.co.uk/advice/childcare-costs-how-much-do-you-pay-in-the-uk#full-time-\(50-hours\)-childcare-costs-in-2024](https://www.daynurseries.co.uk/advice/childcare-costs-how-much-do-you-pay-in-the-uk#full-time-(50-hours)-childcare-costs-in-2024) (Accessed: 25 March 2024). The 30 free hours are only available for 38 weeks of the year, however; assuming a parent needs 46 weeks per year (52 weeks minus six weeks of leave) this adds up to £7,013.94.

101 Koru Kids, *When to register for nurseries in London*. Available at: <https://www.korukids.co.uk/blog/finding-great-childcare/when-to-register-for-nurseries-in-london> (Accessed: 28 March 2024).

Against this backdrop, it remains unclear how the planned expansion of free hours to cover children from the age of nine months can be delivered. According to the IFS, the reforms will put the state ‘in charge of the price of 80 per cent of all pre-school childcare in England’.¹⁰² If the funding per place is not high enough to cover costs, this could lead to even more provider closures – especially since prices can no longer be raised for younger children to recoup the cost of providing ‘free hours’ for older ones. When the plan to expand the free hours scheme was announced in March 2023, the IFS stated that, until funding details were clarified, the promise of expanded free hours remains ‘a theoretical entitlement only’.¹⁰³ Since then, the funding rate for 2024-25 has been announced. The funding rate for under-twos is set to be higher than the average market price;¹⁰⁴ however, taken in totality, rates across the board are set to increase by 4.6 per cent, compared with a National Living Wage increase of 10 per cent.¹⁰⁵

Tax-free childcare is not affected by the same problem of state-set payment rates to providers. Eligible parents pay into an online account, which receives a government top-up of £2 for every £8, up to a maximum top-up of £2,000 per child per year, which can be used to pay a registered childcare provider.¹⁰⁶ However, it still has the same problem of restricted usage: this payment is worth £2,000 to parents only if they already wanted to pay for registered childcare anyway. Uptake of this scheme is low: as of 2023, only 36 per cent of eligible families were claiming tax-free childcare,¹⁰⁷ and only 53 per cent of families who had a tax-free childcare account were actually using it.¹⁰⁸ This suggests either that there is low awareness and understanding of the scheme, or that it is not very useful to parents.

Child benefit

Child benefit, on the other hand, represents an efficient form of redistribution from taxpayers to parents. Since child benefit is paid in cash, it can be spent wherever it is most useful – whether that’s covering childcare costs, supplementing reduced income, or contributing to the raised living costs that parents face as a result of having children.

However, although state spending on child benefit has more than doubled since the 1980s in absolute terms, spending as a fraction of GDP has plummeted, from 1.12 per cent in 1985-86 to 0.49 per cent in 2022-23.¹⁰⁹ The real-terms payment per child has stayed remarkably flat during this period, at around £20 per child per week in August 2022 terms,¹¹⁰ while the value of childcare subsidies available has grown dramatically.

In the March 2024 budget, it was announced that eligibility for child benefit will increase. Families where both parents earn under £60,000 will be eligible for the full amount (previously this threshold was £50,000) while eligibility will taper to zero for parents with incomes of £80,000 (previously £60,000). However, given that these thresholds have not previously increased since they were introduced in 2013, this represents at least as much an adjustment to account for inflation, bringing the number of families in receipt of the benefit back up towards where it was in 2013,¹¹¹ as it does an expansion of the scope of who is eligible.

102 Drayton, E. et al (2023) *Childcare reforms create a new branch of the welfare state - but also huge risks to the market*. Available at: <https://ifs.org.uk/news/childcare-reforms-create-new-branch-welfare-state-also-huge-risks-market> (Accessed: 25 March 2024).

103 Drayton, E. et al (2023) *Childcare reforms create a new branch of the welfare state - but also huge risks to the market*. Available at: <https://ifs.org.uk/news/childcare-reforms-create-new-branch-welfare-state-also-huge-risks-market> (Accessed: 25 March 2024).

104 Farquharson, C. (2024) *What you need to know about the new childcare entitlements*. Available at: https://ifs.org.uk/articles/what-you-need-know-about-new-childcare-entitlements?mc_cid=3ec9419bec&mc_eid=4fa8ab486f (Accessed: 4 April 2024).

105 Smith, R. (2023) *Funding rates 2024-25: Average rate increase lower than wages rise*. Available at: <https://ndna.org.uk/news/funding-rates-2024-25-average-rate-increase-lower-than-wages-rise/> (Accessed: 25 March 2024).

106 UK Government. *Tax-Free Childcare*. Available at: <https://www.gov.uk/tax-free-childcare> (Accessed: 25 March 2024).

107 Goodman, R. (2023) ‘Why are so many UK families missing out on a £2,000 childcare benefit?’, *The Observer*, 13 November. Available at: <https://www.theguardian.com/money/2023/nov/13/why-are-so-many-uk-families-missing-out-on-a-2000-childcare-benefit> (Accessed: 25 March 2024).

108 Morton, K. (2022) *Hundreds of thousands of families with Tax-Free Childcare accounts not using them*. Available at: <https://www.nurseryworld.co.uk/news/article/hundreds-of-thousands-of-families-with-tax-free-childcare-accounts-not-using-them> (Accessed: 25 March 2024).

109 OBR, *Welfare spending: child benefit*. Available at: <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-child-benefit/> (Accessed: 4 April 2024).

110 Corlett, A. and Try, L. (2023) *The Long Squeeze*. Resolution Foundation. Available at: <https://www.resolutionfoundation.org/publications/the-long-squeeze/> (Accessed: 25 March 2024).

111 HMRC (2021) *Child Benefit Statistics: Annual Release, August 2020 Main Commentary*. Available at: <https://www.gov.uk/government/statistics/child-benefit-statistics-annual-release-august-2020-child-benefit-statistics-annual-release-august-2020-main-commentary> (Accessed: 25 March 2024).

The fertility gap

A sign that we are not succeeding at **Aim C** is the ‘fertility gap’ – the difference between the number of children people want and the number they have. Recent polling finds that the number of children women say they want sits at 2.35,¹¹² while the number of children people in this country can expect to end up with continues to drop, widening the gap between actual and desired fertility.

This drop in fertility and widening fertility gap is a global phenomenon, with complex causes. It cannot be attributed to one factor alone. However, it seems that high costs of raising a child are a contributing factor, with many citing these costs – in particular, the costs of providing care for children in the early years – as a major reason that they do not have as many children as they would have liked.^{113 114} As such, the fertility gap should be taken as an indicator that current childcare policy is not working to alleviate costs for parents as well as we might hope.

Conclusion

The system of subsidies for formal childcare via ‘free hours’ and tax-free childcare is not an efficient way to alleviate the costs of raising children. Parents who use childcare still face high costs and long waiting lists; those who do not wish to use childcare are not helped at all by this system. The ‘free hours’ scheme may even have actively contributed to lower availability of childcare for those who need it by setting the price of childcare below what it costs to provide, causing significant financial difficulties for providers, many of which have either withdrawn from the scheme or closed.

Child benefit represents a more efficient direct transfer from taxpayers to parents. However, the value of the benefit is relatively low, and has not significantly increased in many decades. Spending on child benefit as a fraction of GDP has more than halved since the 1980s.

The fact that many British adults claim that childcare costs mean they cannot afford to have as many children as they would like should indicate that current childcare policy is not effective in making it cheaper and easier to raise children.

112 Whitestone Insights. *Childlessness and Motherhood Survey – September 2023*. Available at: <https://www.whitestoneinsight.com/birthgap> (Accessed: 25 March 2024).

113 Whitestone Insights. *Childlessness and Motherhood Survey – September 2023*. Available at: <https://www.whitestoneinsight.com/birthgap> (Accessed: 25 March 2024).

114 Aron, I. (2023) ‘We want a second baby, but can’t afford one’: The rise of Britain’s one-child families’, *The I*, 14 August. Available at: <https://inews.co.uk/inews-lifestyle/want-second-child-cant-afford-one-2539498> (Accessed: 25 March 2024).

Chapter 2: Problems with the current approach to childcare, and how this can be resolved

With respect to spreading the cost of children and making it easier to be a parent, the current model is not a success. Government policy has failed at ensuring childcare provision is cheap, flexible and accessible. An overemphasis on secondary aims of maternal employment and getting more children in to formal care has created three major problems for the childcare sector. First, it has resulted in a lack of respect for parental choice, forcing parents to make decisions contrary to their caring preferences. Secondly, it has created a stagnant market. As a result of overregulation and a broken subsidy model, all parties have failed to recognise the real costs of formal provision and have overregulated a sector in which venture capital and private equity firms are now among the primary means by which the industry can stay afloat, rather than facilitating a more dynamic social market in which smaller independent providers can succeed. Thirdly, and finally, the current approach has created an opaque policy offer in which parental expectations and government focus are highly incongruous.

The lack of regard for parental choice

The current childcare offer is almost all based on subsidies which privilege formal care over alternative forms of provision. Parents can be helped with the cost of caring for their children but only if they choose to use formal childcare. The current offer has been described by one peer as having a ‘Ford-ist approach: “You can have any colour as long as it’s black” – or, “We’ll offer all sorts of help with childcare as long as you pay someone else to do it”.’¹¹⁵

Given the very high costs of childcare, many parents will find that subsidised formal provision is their only viable option as they cannot afford to provide care without some form of subsidy or cost spreading.

If we assume that aims **A** and **B** are the goals of policy, this makes sense. Subsidising formal childcare for the children of full-time employed parents, and not any other childcare arrangement, will indeed, all else being equal, result in more mothers in paid work (**Aim A**) and more children supposedly deriving benefits from childcare (**Aim B**). However, if we return to the first principles goal of **Aim C**, then it is not clear that we should privilege formal childcare over other forms of care.

Indeed, consistent and extensive survey evidence shows that this is not what parents want. The Government’s own data from the Department for Education’s ‘Childcare and early years survey of parents’ (2022) has revealed that policy is out-of-step with social attitudes and does not facilitate parental choice. For working mothers of children aged zero to four years old, 37 per cent either strongly agreed or agreed with the statement ‘If I could afford to give up my work, I would prefer to be at home and look after my children’.¹¹⁶ Other polling reveals similar disparities between policy and parental attitudes:

¹¹⁵ Lord Farmer, Front-loaded Child Benefit Bill [HL], Volume 823: debated on Friday 8 July 2022

¹¹⁶ Department for Education (2023), *Childcare and early years survey of parents*, Table 8.12

Polling by think tank Onward with J.L. Partners: ¹¹⁷

- 61 per cent of parents said that ‘if money were no object, they would prefer themselves or their partner to stay at home and look after their children instead of going out to work’.
- When parents were asked whether ‘It is better for a child to spend time primarily with a parent until their second birthday’ or ‘It is better for a child to attend formal childcare as soon as they are able’, the majority of parents (60 per cent) agreed it was better for a child to spend time primarily with their parent until their second birthday.
- Mothers were particularly in favour of this – with 64 per cent agreeing ‘It is better for a child to spend time primarily with a parent until they turn two’.
- A similar proportion of parents agreed that ‘It is better for a child to spend time primarily with a parent until their second birthday’ – with 67 per cent of mothers and 62 per cent of parents overall agreeing with the statement.

Polling by think tank The Centre for Social Justice with Public First: ¹¹⁸

- 78 per cent of parents with children aged four and under agreed that they would like to spend more time with their child but cannot afford to (80 per cent of mothers and 76 per cent of fathers).
- 44 per cent of parents of young children (aged four and under) would like to stop working altogether, and 47 per cent would like to reduce their hours to spend more time with their children if they could afford it.
- If finances were not an issue, 49 per cent of parents of children aged four and under said they would prefer for themselves or a partner to take care of their child on their own, whereas only 19 per cent of parents currently do so.

British Social Attitudes Survey: ¹¹⁹

- Evidence from the British Social Attitudes Survey (September 2023) demonstrates 33 per cent of the public thinks the best way to arrange work and care when children are young is for the mother to work part-time and the father full-time, and 18 per cent believed it is best for the mother to stay at home and the father to work full-time.
- Comparatively, 18 per cent of the public believe it is best to have both parents working full-time when children are young.
- In addition, the public has a strong degree of scepticism towards both the mother and the father working full time – 44 per cent of the public perceived this to be the ‘least good way to arrange work and care when children are young’.

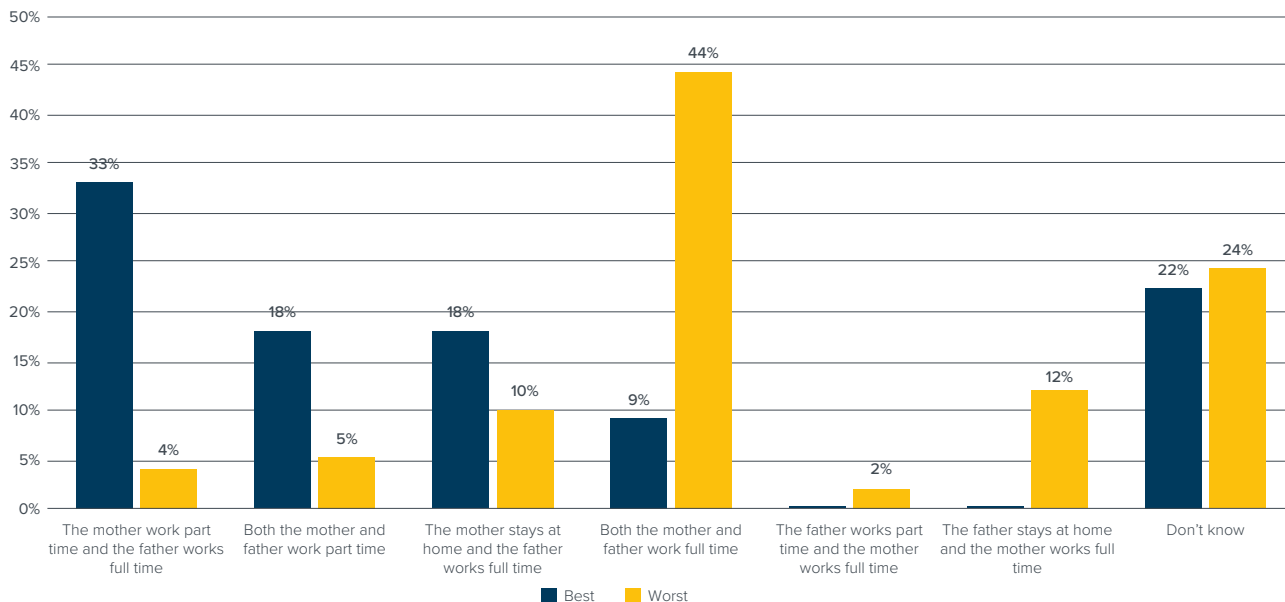
117 Guillaume, B. (2022) *First steps: Fixing childcare*. Available at: <https://www.ukonward.com/reports/first-steps-fixing-childcare/> (Accessed: 4 April 2024).

118 Centre for Social Justice (2022) *Parents know best: Giving families a choice in childcare*. Available at: <https://www.centreforsocialjustice.org.uk/library/parents-know-best> (Accessed: 4 April 2024).

119 Allen, J. and Stevenson, I. (2023) *Gender roles*. National Centre for Social Research. Available at: <https://natcen.ac.uk/sites/default/files/2023-09/BSA%2040%20Gender%20roles.pdf> (Accessed: 4 April 2024). Table 3, p19.

Figure 2.1 below illustrates respondents' views of the most and least ideal ways to arrange work and childcare when children are young, as found in the British Social Attitudes Survey in 2022. 'Both the mother and father work full time' is chosen as the least ideal arrangement by easily the largest share of respondents (44 per cent). Only nine per cent of respondents think that the best arrangement involves mothers working full-time, compared to 51 per cent who think the best arrangement involves mothers working part time, and 18 per cent who think the best arrangement involves mothers staying at home.

Figure 2.1: Views on the best and worst ways to arrange work and care when children are young



Source: National Centre for Social Research, British Social Attitudes Survey.

A system of early return to employment for both parents, supported by formal childcare for early years children, appears to be not only not what parents themselves want, but also not something that is endorsed by the wider public. This calls into question the legitimacy of pursuing it at great public expense.

A stagnant market and the need for supply-side reform

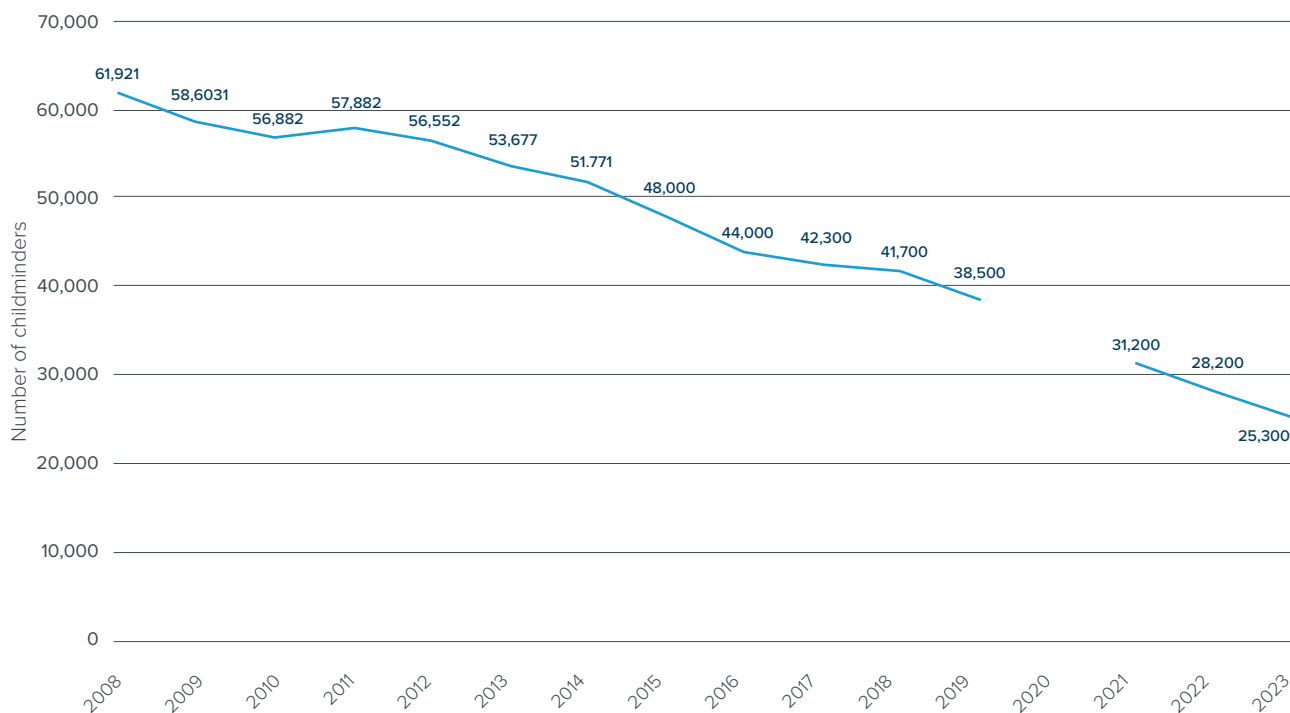
Regulation is there to distort away from what might be considered an unfavourable pure market outcome in favour of an outcome of higher quality and safety for children (that is, motivated by **Aim B**). This is a good thing to do in principle. In childcare, we want and require minimum standards, rather than a race to the bottom, which would compromise development in the early years and safety at a time when children are at their most vulnerable.

However, registered childcare providers – the only providers on which parents can use childcare subsidies – are subject to a significant regulatory burden. There is reason to believe that this drives up the cost of childcare and makes it more difficult for parents to find appropriate care for their child.

The Early Years Foundation Stage (EYFS) is a framework governing the provision of childcare from birth to the age of five, containing two major parts. The ‘safeguarding and welfare requirements’ dictates things such as the minimum floor space per child, and the qualifications required for staff. The ‘learning and development requirements’ dictates the expected attainment of children at the point of starting school in seven different areas: communication and language; physical development; personal, social and emotional development; literacy; mathematics; understanding the world; and expressive arts and design. Providers must carry out ‘ongoing assessment’ of how well children are progressing towards these goals, as well as completing a written assessment at age two and age five. There are two tailored versions of the EYFS: one for school- and group-based providers to follow, and one for childminders, but the basic principles of both are similar.^{120 121}

For childminders in particular, who look after up to six children in their own home, this may create a disproportionate burden, and is likely to have contributed to the very substantial declines in childminder numbers over recent decades. The number of childminders registered with Ofsted has more than halved since the EYFS was first introduced: from 61,921 in 2008 to 25,300 in 2023.¹²² Multiple reports have found that the burden of paperwork, and the confusion over what exactly is required of them, is one of the key reasons for childminders to leave the profession.¹²³

Figure 2.2: Number of childminders registered with Ofsted over time



Source: Childcare and early years provider survey, Department for Education.

Note: excludes childminders registered with an agency. (Gap in results due to Covid-19 pandemic.)

120 Department for Education (2023) *Early years foundation stage statutory framework: For childminders*. Available at: https://assets.publishing.service.gov.uk/media/65aa5e29ed27ca001327b2c6/EYFS_statutory_framework_for_childminders.pdf (Accessed: 4 April 2024).

121 Department for Education (2023) *Early years foundation stage statutory framework For group and school-based providers*. Available at: https://assets.publishing.service.gov.uk/media/65aa5e42ed27ca001327b2c7/EYFS_statutory_framework_for_group_and_school_based_providers.pdf (Accessed: 4 April 2024).

122 Department for Education (2023) *Childcare and early years provider survey*. Available at: <https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-provider-survey> (Accessed: 4 April 2024).

123 Shorto, S. and Landes, A. *Experiences of former childminders in London: Report for the Greater London Authority*. Family and Childcare Trust. Available at: https://www.familyandchildcaretrust.org/sites/default/files/Experiences%20of%20former%20childminders%20in%20London%20_%20Family%20and%20Childcare%20Trust_Final_0.pdf (Accessed: 4 April 2024).

In addition, even if there was no effect on the number of providers, this administrative burden necessarily drives up the price of childcare in the sense that a certain number of providers' working hours must be spent complying with regulations instead of providing childcare. This time is not 'free': providers must either pass on the cost to parents, or charge parents the same and absorb the cost themselves, leading to reduced pay in real terms.

When paired with the difficulties providers face as a result of the childcare subsidy model (discussed in 'Are we succeeding at Aim C?'), which keeps profit margins and wages low, it is unsurprising that large nursery groups make up an increasing share of the sector, and that an increasing proportion of providers are now backed by private equity firms.¹²⁴ A report from UCL concluded that these firms have 'risky financial operating models' which could put large numbers of providers at risk of having to close at short notice.¹²⁵ However, the current system makes it difficult for smaller providers, who cannot afford to take on debt, to stay afloat.

While the number of childcare providers has declined over time, driven by the exodus of childminders from the profession, the number of childcare *places* has remained relatively stable.¹²⁶ However, this does not reflect that there may be local shortages of suitable childcare, with nursery waiting lists of two years in some areas. Cumbersome regulation, low wages and staff recruitment difficulties may be making it harder for the childcare market to organically respond to demand.

Confusion over the delivery of childcare

Another issue is the opacity of the government's childcare policy. In the current policy offering, headline policies fail to give a coherent or accurate account of the funding mechanism in place. This creates problems in two ways. First, a lack of public understanding of policy, and secondly, a tension over or blurring of the duties of government, families and market providers which fails to deliver optimal outcomes for children.

In a call for evidence by the Education Select Committee, the committee reported that parents and carers described the state's support for childcare costs as 'complex', 'horrible' and 'an utterly opaque and frustrating system'.¹²⁷ Further contributions revealed that complexity was having a negative impact on policy awareness amongst lower-income communities and amongst parents of children with special needs.¹²⁸

In one hearing, Neil Leitch, CEO of the Early Years Alliance, commented that the childcare offer has now 'been developed by a series of bolt-ons', whilst Helen Donohoe, from the Professional Association for Childcare and Early Years, stated that parents are facing a 'complex mesh' of policy.¹²⁹ In response to comments from both, the select committee considered that this was 'an understatement'.¹³⁰

Matters are not helped by the confusing naming of different schemes. The 15 and 30 hours childcare for eligible working families in England are frequently referred to as 'free entitlements' or 'free hours', implying that there is a certain amount of childcare which they can access without any payment. However, families frequently have to top up what is in fact a subsidy and limited funding for a place, as the existing government rates, despite a recent uplift, have failed to meet the real cost of formal provision.

124 Garcia, C.A. et al (2023) 'Childcare sector in England must not become 'playground for private equity', experts say', *The Guardian*, 4 August. Available at: <https://www.theguardian.com/money/2023/aug/04/childcare-sector-england-not-playground-private-equity-experts-say> (Accessed: 4 April 2024).

125 UCL (2022) *Nursery sector risks being damaged by large corporate takeovers*. Available at: <https://www.ucl.ac.uk/news/2022/jan/nursery-sector-risks-being-damaged-large-corporate-takeovers> (Accessed: 4 April 2024).

126 Department for Education (2023) *Childcare and early years provider survey*. Available at: <https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-provider-survey> (Accessed: 4 April 2024).

127 *Summary of written evidence submitted by parents*. Available at: committees.parliament.uk/writtenevidence/120341/html/ (Accessed: 4 April 2024). House of Commons Education Committee (2023) *Support for childcare and the early years*. Available at: <https://committees.parliament.uk/publications/41066/documents/200023/default/> (Accessed: 4 April 2024), p32.

128 House of Commons Education Committee (2023) *Support for childcare and the early years*. Available at: <https://committees.parliament.uk/publications/41066/documents/200023/default/> (Accessed: 4 April 2024) p33.

129 House of Commons Education Committee (2023) *Oral evidence: Support for childcare and the early years, HC 969*. Available at: <https://committees.parliament.uk/oralevidence/12635/pdf/> (Accessed: 4 April 2024). Questions 5 and 9.

130 House of Commons Education Committee (2023) *Support for childcare and the early years*. Available at: <https://committees.parliament.uk/publications/41066/documents/200023/default/> (Accessed: 4 April 2024) p33.

A recent report from the Education Select Committee revealed that parental trust in the Early Childhood Education and Care system was low.¹³¹ The report went on to state:

*'A common theme was disillusionment in the Government's offer of 'free' hours, when they are not, in reality, free. We recommend that the 'free-hours' entitlements are renamed as 'funded' or 'subsidised' to reflect accurately the Governments' offer.'*¹³²

In a call for evidence, one parent stated:

'The 30 hours entitlement does not do nearly enough to cover childcare costs in reality... 30 hours for only 38 weeks of the year creates a significant gap in funding. Plus our nursery has to charge a small extra top up fee for each of the 30 hours to cover the actual costs, so for parents the 30 hours scheme falls far short of what is needed.'

In its assessment, the committee's final report stated

*'Many parents there felt that the 30-hours policy had been "mis sold" or was a "misnomer", as very few working lives are centred around school terms. The entitlements are often referred to as 'free hours' as well. Parents appeared frustrated, noting that the '30-free-hours' were not 30-hours and were not free, with one parent saying that "the 30 hours scheme is ludicrous". Providers also told us about the difficulty of explaining this situation to parents: Georgie's Childcare said that doing so puts the organisation's integrity into question and "make us look awful".¹³³ Many parents and childminders called for the policy to be renamed to 'funded' hours to prevent confusion.'*¹³⁴

Similarly misleading is 'tax-free childcare'. Whilst the name of the policy suggests a system of expensing in which working parents can offset childcare expenditure against tax, the scheme operates altogether differently. Tax-free childcare operates as a top-up scheme where for the government provides a £2 top-up per £8 of parental spend on registered childcare, up to £2,000 per year per child.

Finally, a lack of clarity from the Government on policy language and regarding where duties of government and families start and end may be having a detrimental impact. When parents are told 'provider X is most qualified to look after your child', parents may not see the need to invest personally in their child's development beyond leaving them with a formal provider.

School readiness reports consistently show there is a lack of understanding and agreement over who is responsible for children's development in the early years. Even though parents they think they should have input, according to the National Centre for Social Research, knowledge of child development is poor and personal confidence is low. Combined with messaging from government and providers that as early years institutions, they 'as educators' are responsible, it seems that children may be falling through the gaps and are not supported in early years development milestones as they ought to be.

131 House of Commons Education Committee (2023) *Support for childcare and the early years*. Available at: <https://committees.parliament.uk/publications/41066/documents/200023/default/> (Accessed: 4 April 2024) p4.

132 House of Commons Education Committee (2023) *Support for childcare and the early years*. Available at: <https://committees.parliament.uk/publications/41066/documents/200023/default/> (Accessed: 4 April 2024) p4.

133 *Written evidence submitted by Georgie's Childcare*. Available at: committees.parliament.uk/writtenevidence/115074/html/ (Accessed: 4 April 2024).

134 House of Commons Education Committee (2023) *Support for childcare and the early years*. Available at: <https://committees.parliament.uk/publications/41066/documents/200023/default/> (Accessed: 4 April 2024) p30.

Why childcare policy should aim to support parents with the costs of raising children

We have seen that there are several possible aims that childcare policy could have, and that these may be in tension with one another. The UK's childcare policy currently has a focus on increasing the number of mothers in employment (**Aim A**) and delivering developmental benefits to children via childcare (**Aim B**). However, we believe that alleviating the costs of raising children in the early years (**Aim C**) should be the primary aim of childcare policy.

Firstly, there is a clear practical and moral case that the costs of raising children should be partially borne by the taxpayer, rather than just individual parents. In a practical sense, high costs of raising children are often cited as a reason for below-replacement birth rates. The state should intervene out of self-interest, helping parents over the barrier of high short-term costs that might otherwise be unmanageable in order to avoid the disastrous long-term consequences of population shrinking. In a moral sense, if the costs of children are not shared, then non-parents are benefiting from a major public good that parents provide by raising children at personal cost. In addition, we might argue that children are *a good thing*, that they make people happy and represent hope and confidence in the future, and that there is a moral case for the state to support them on normative grounds, similar to other areas that we collectively agree are support-worthy on grounds of being *good*, such as public gardens and the arts.

It is generally accepted that governments should intervene in markets to prevent market failures and injustices.¹³⁵ The high personal cost to parents of children in the short-term, which mean that many people who want children struggle to afford to do so, combined with the long-term benefits to society of having and raising children, arguably represents both a market failure and an injustice, and is therefore grounds for intervention.

There is not as clear a conceptual case for supporting aims **A** and **B** as objectives for the state, although of course how individuals wish to look after their children is a matter of personal choice. We may be able to increase the employment rate of mothers (**Aim A**), but is there a purpose to doing this if the benefits to the economy are not very great, and it is not what mothers necessarily want? Similarly, we may be able to increase the number of children using formal childcare (**Aim B**), but whether this will always benefit those children is not clear, especially for the youngest children, to whom recent expansions in childcare provision have been targeted.¹³⁶

If early years children are not in childcare, and their mothers are not in employment, *because this is what families have chosen for themselves*, this does not necessarily mean there has been a market failure which needs to be corrected. By contrast, if parents cannot afford to provide the public good of raising children, which the general population benefits from, then arguably a market failure has occurred.

Secondly, **Aim A** and **Aim B** lack full popular support. A wealth of survey evidence suggests that most parents would prefer that they or their partner look after their children for the first years of their lives, rather than relying on full-time childcare;^{137 138} and that the public do not believe it is best for both parents to be in full-time work when children are young, instead favouring either both parents working part-time, or fathers working full-time and mothers staying at home or working part-time.¹³⁹ One of the key principles of representative democracy is that, in general, the government should pursue aims and policies which have the support of the electorate. This would suggest that aims **A** and **B** are less desirable as aims for state childcare policy than the simple aim of redistributing resources towards parents.

135 Greater London Authority (2006) *The rationale for public sector intervention in the economy*. Available at: https://www.london.gov.uk/sites/default/files/gla_migrate_files_destination/rationale_for_public_sector_intervention.pdf (Accessed: 4 April 2024).

136 Lyons, M. (2024) *Universal childcare: Is it good for children?* Civitas. Available at: <https://www.civitas.org.uk/publications/universal-childcare/> (Accessed: 4 April 2024).

137 CSJ (2022) *Parents know best: Giving families a choice in childcare*. Available at: https://www.centreforsocialjustice.org.uk/wp-content/uploads/2022/10/Parents_Know_Best-CSJ.pdf (Accessed: 4 April 2024).

138 Guillaume, B. (2022) *First steps: Fixing childcare*. Available at: <https://www.ukonward.com/reports/first-steps-fixing-childcare/> (Accessed: 4 April 2024).

139 National Centre for Social Research (2023) *BSA 40: Gender roles*. Available at: <https://natcen.ac.uk/publications/bsa-40-gender-roles> (Accessed: 4 April 2024).

Thirdly, while an overemphasis on aims **A** and **B** may detract from the aim of alleviating costs for parents, the same is not necessarily true in reverse. Indeed, some of the positive consequences of **A** and **B** might be expected to flow from achieving **Aim C**. If parents were better resourced, then all else being equal we would expect this to improve developmental outcomes for children (**Aim B**), as parents would be able to afford to spend more quality time interacting with their children, or would be able to afford high-quality childcare. If mothers were better compensated for the costs they incur by having children, this would mean greater economic parity between women and men (one of the goals sought by focusing on **Aim A**).

By contrast, if we pour ever more resources into the pursuit of shifting goalposts of ‘high quality’ childcare (**Aim B**), this might leave parents no better off, in terms of the cost and convenience of raising children, than they were before. Similarly, pursuing the aim of having as many mothers in employment soon after giving birth as possible (**Aim A**) might not make life easier for parents if i) it is not what they want for themselves, and ii) they are still faced with high childcare costs, meaning the financial gains from working are small.

In addition, **Aim C** – redistribution to parents – is a simple aim that we can expect to be able to achieve efficiently through changes to the tax and benefit system. By contrast, aims **A** and **B** are more complex and have weaker, less predictable responses to policy levers. An exclusive focus on either of these two aims is likely to achieve less clear success for the same amount of investment.

Finally, the fertility gap – the difference between the number of children people say they want, and the number they end up having – is arguably a growing sign of a failed childcare policy. However, if childcare policy is geared only towards aims **A** and **B**, then we are blind to this policy failure. To illustrate, let us imagine that the fertility gap grows larger and larger, driven by rising costs to parents, and very few children are born – but of those that *are* born, 100 per cent of them are placed in high quality childcare facilities and 100 per cent of their mothers are back in full-time employment by the time they are nine months old. This would look like a great success if we are measuring only against **Aim A** and **Aim B**. However, measuring against **Aim C** would show us that the costs of raising children are too high and that this is pricing people out of parenthood.

In summary, there is a clear case that **Aim C** is a legitimate aim for government to pursue. A focus on **Aim C** would allow us to efficiently address a market failure that poses a significant long-term risk to the country’s future. **Aim C** has a clear, limited scope, with clear metrics of success, such as the disposable income of households with and without children, and the gap between parental wishes and achieved fertility. By contrast, there is not a clear conceptual case that **Aim A** and **Aim B** are desirable aims for government. They have low popular support, they are difficult to achieve, and they risk distracting us from what matters: supporting parents.

Chapter 3: What would a good childcare policy look like?

If the purpose of childcare policy should be to alleviate the costs of raising children, what policy solutions would help to achieve this?

A new offer to parents aimed primarily towards supporting them with the costs of having children ought to fulfil the following criteria:

- i. Meets parental preferences

If we accept that childcare policy is there to *help parents*, then it should serve the interests and preferences of parents, rather than attempting to shape or nudge parental preferences.

As we have already seen, a majority of parents would rather they or their partner were able to provide more childcare themselves. However, others prefer to use various forms of external childcare. An ideal childcare policy would allow these preferences to be met as far as possible.

- ii. Offers flexibility, autonomy, and convenience

No two families are the same, and the childcare arrangements that work best for one family will not be the same as for another. This depends on their individual circumstances, including finances, careers, wider family and social network, the needs of their children, and the parents' own values and preferences. Parents should have the right to make decisions about the care of their own children.

Where possible, childcare policy should enable flexible provision to allow parents to use support in the way that best suits them, instead of restricting their choices to options that are less useful or that they do not want.

- iii. Fair

Childcare policy should treat parents fairly with respect to non-parents by recognising the costly contribution that parents make by raising children, which parents and non-parents both benefit from. It should also treat parents fairly with respect to one another, not favouring parents who make one choice in terms of childcare arrangements over those who make other choices.

- iv. Simple

The support available to parents of early years children should be streamlined, so that for parents it is both easier to understand and more convenient to apply for, alongside being easier for the state to administer.

- v. Ensures support reaches those who need it most

Middle-income parents increasingly require support with the cost of having children. Childcare policy should ensure these parents are effectively supported.

Educational benefits of attending childcare are clearer for disadvantaged children than for the general population – but these children are less likely to use childcare, even when it is subsidised. Programmes aimed at delivering these benefits should be targeted towards disadvantaged children.

Policy proposals to increase choice for parents

Below, we outline some proposed changes that could bring childcare policy more in line with the criteria considered above. These proposals include *a voucher model* for help with childcare costs; *enhancing child benefit in the early years* through frontloading; *streamlining of childcare regulation* to make the sector work better for parents and providers; and several suggestions for *reform of the tax system* to be more family-friendly.

A common criticism of offering cash benefits to parents is that it disincentivises work. We believe that parents looking after their early years children *are working*, and staying at home with children in the early years, whether part-time or full-time, should be a more feasible financial choice than it currently is. This necessitates some cash benefits being available to stay-at-home parents. However, parents who choose to take on paid work (again, either part-time or full-time) should also be given a helping hand. This is why we have balanced some benefits which can be claimed by stay-at-home parents (points 1 and 2) with suggested changes to the tax system which would make work more worthwhile for parents, allowing them to keep more of their earned income (points 5 and 6).

Financial support for parents

1. Replace ‘free hours’ with a voucher model of childcare support

Instead of being entitled to a certain number of free hours, for which providers are paid at a fixed rate, the spending on the free hours scheme and the tax-free childcare scheme should entitle each child’s parents to a certain amount of money as a ‘voucher’ that can be used towards the costs of raising their child. Rather than providing ‘free’ places and receiving a set payment for them, childcare providers would be free to charge whatever rates they deemed most appropriate. Parents would be able to use the childcare voucher to obtain a discount on these fees.

The ‘stronger’ version of this proposal would allow each child’s parents to be paid this money directly, which they could then use either to contribute to the costs of paid childcare, or to contribute to funding care by a stay-at-home parent. This would be a maximally **flexible** form of support that **respects parents’ choices** on how to raise their children.

The ‘weaker’ version, which may be more politically feasible, would not allow parents to claim their childcare funding as cash, and would only allow them to claim it as a ‘voucher’ that gives a discount on registered childcare providers. This would not allow as much room for parental choice as the ‘stronger’ version, because it would not support care by a stay-at-home parent. However, it would still offer improvements in **simplicity** compared to the existing model, where funding rates are often insufficient to provide the ‘free hours’ advertised, and where parents may be confused by multiple overlapping schemes. To the extent that underfunding under the current model has contributed to nursery closures, this change might also **promote choice and convenience** in the sense that there might be more childcare providers for parents to choose from.

Civitas’ 2022 paper *Why Can’t Mums Choose* calculated that if the budgets for ‘free hours’, tax-free childcare, and the tax-free childcare underspend were pooled, this would generate a budget of £1,162 per child under four.¹⁴⁰

¹⁴⁰ Young, F. (2022) *Why can't mums choose?: Rethinking Child Benefit and childcare spending*. Civitas. Available at: <https://www.civitas.org.uk/publications/why-cant-mums-choose/> (Accessed: 4 April 2024).

We can re-calculate this figure based on substantially higher childcare spending projected for the next few years. The IFS estimate that spending on the existing ‘free hours’ entitlement (the ‘universal’ and ‘extended’ entitlements for three- and four-year-olds, and the entitlement for disadvantaged two-year-olds) will cost £4 billion per year in 2027-28.¹⁴¹ The latest data show spending of around £0.6 billion per year on the tax-free childcare scheme,¹⁴² plus an underspend of another roughly £0.5 billion per year¹⁴³ – in the absence of more precise forecasts we will assume that these figures will remain roughly constant. On top of this, the extended free hours entitlement is expected to cost £4.1 billion per year by 2028.¹⁴⁴ This gives a total expected budget of £9.2 billion in 2027-28 for free hours and tax-free childcare.

Using ONS population forecasts for 2028,¹⁴⁵ we can calculate that this could work out to a voucher value of £2,377 per year, if distributed to every child under the age of five in the UK. If it was available only between the ages of one and four (between the end of parental leave and the start of school), this would instead come to £2,958 per child per year. This is assuming universal eligibility: if eligibility was restricted to those with income under a certain threshold (currently both parents must have an income of not more than £100,000; many have suggested that this threshold could be lowered, or based on household income, which would make significantly more families ineligible)^{146 147} then the value of the voucher would be higher for eligible children.

We propose a system where eligible parents could log on to an online account, similar to an online pension account, where they could see the amount that was available to them that year, and choose to directly send it to their childcare provider of choice or, in the ‘stronger’ version of this proposal, withdraw the money into their own bank account if they have declared that they are providing childcare themselves.

2. Uplift the rate of Child Benefit in the early years through frontloading

Child Benefit is intended to alleviate some of the financial costs to parents of raising children. Parents of early years children in particular face a very significant financial burden, because of their child’s need for care. The Child Poverty Action group estimate that, for a couple with one child, the cost of that child per week, including housing costs and childcare costs, is £273 per week when the child is one year old, falling to £169 by the age of 11, and £73 by the age of 16.¹⁴⁸

Despite this, the rate of child benefit is no higher in the early years than it is for teenage children. Parents can claim a uniform rate of child benefit from their child’s birth until the age of 16, or 20, if the child is in full-time education or training.¹⁴⁹

141 Drayton, E. and Farquharson, C. (2023) *Early years spending update: Budget reforms and beyond*. Available at: <https://ifs.org.uk/publications/early-years-spending-update-budget-reforms-and-beyond> (Accessed: 4 April 2024).

142 HMRC (2024) *Tax-Free Childcare Statistics Commentary December 2023*. Available at: <https://www.gov.uk/government/statistics/tax-free-childcare-statistics-december-2023/tax-free-childcare-statistics-commentary-december-2023#Families> (Accessed: 4 April 2024).

143 NDNA (2022) *Early Years Funding 2020/21: Local Authority Underspends and Overspends*. Available at: <https://ndna.org.uk/wp-content/uploads/2022/03/NDNA-Underspends-Report-2022.pdf> (Accessed: 4 April 2024).

144 Department for Education (2023) *Spring Budget 2023 Childcare Expansion Policy costing information note*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1172402/Spring_Budget_2023_Childcare_Expansion_Policy_costing_information_note_July_2023.pdf (Accessed: 25 March 2024).

145 Office for National Statistics *UK population pyramid interactive*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/ukpopulationpyramidinteractive/2020-01-08> (Accessed: 27 March 2024).

146 Kindred Squared (2022) *Solutions for an Improved Early Years System*. Available at: <https://kindredsquared.org.uk/wp-content/uploads/2022/11/Solutions-for-an-Improved-Early-Years-System.pdf> (Accessed: 4 April 2024).

147 CSJ (2022) *Parents know best: Giving families a choice in childcare*. Available at: https://www.centreforsocialjustice.org.uk/wp-content/uploads/2022/10/Parents_Know_Best-CSJ.pdf (Accessed: 4 April 2024).

148 Hirsch, D. and Stone, J. (2022) *The cost of a child in 2022*. Child Poverty Action Group. Available at: <https://cpag.org.uk/sites/default/files/2023-08/The%20cost%20of%20a%20child%20in%202022.pdf> (Accessed: 4 April 2024).

149 UK Government. *Child Benefit*. Available at: <https://www.gov.uk/child-benefit/eligibility> (Accessed: 4 April 2024).

We propose that parents' total child benefit entitlement is 'frontloaded', so that a higher amount can be claimed in the early years, and less in teenage years. This would **ensure support reaches those who need it** by providing greater support to parents during the financial strain of their child's early years, while being cost-neutral to the government over the long term.

Frontloading child benefit has long been supported by a range of think tanks, including the Centre for SocialJustice,¹⁵⁰ Policy Exchange,¹⁵¹ and Onward.¹⁵² Polling carried out by Onward and JL Partners in 2022 found that 70 per cent of parents supported the idea of higher child benefit in the first few years of a child's life.¹⁵³

In 2022, Lord Farmer put forward a Private Member's Bill in the House of Lords, proposing that:

'The person to whom child benefit is payable may choose to vary the rate of child benefit paid, such that the weekly amount may decrease as the child or qualifying young person gets older, but the total amount received over the young person's childhood would be the same.'

At the time of writing, this bill has not progressed past the Committee Stage in the House of Lords, where it has been since December 2022.¹⁵⁴

Rather than allowing parents to choose whether to frontload their child benefit entitlement, however, we propose that for reasons of simplicity the change is made for all claimants across the board. Policy Exchange have previously suggested that the rate should be halved from the age of 13, in order to redistribute funds to younger children.¹⁵⁵ We suggest adopting this recommendation, and also that entitlement should stop altogether when children reach the age of 16. This abrupt cut-off may seem harsh, but parents of children in their late teens are much less in need of state support than parents of children in their early years. Teenagers do not require supervision and thus have a much smaller impact on parents' earning capacity; they are also in a position to take on weekend jobs in order to earn some of their own money. Parents of older children are also likely to be higher earners, because they have had more time to progress in their careers.

Table 3.1 shows the additional child benefit that would be available in the early years under several scenarios, calculated using the latest data on child benefit claimants by age¹⁵⁶ and the OBR's estimate of £12.5 billion spending on child benefit in 2023-24.¹⁵⁷ Following the changes to child benefit eligibility announced in the 2024 Spring Budget, total spending on child benefit is likely to increase, and the age profile of claimants is also likely to change, since parents of older children are likely to have higher incomes.

Using current data, however, we find that an additional £719 per year could be given to children under the age of five if entitlement was halved from the age of 13, as suggested by Policy Exchange. If instead we stopped child benefit entirely from the age of 16, we could allocate an additional £648 to children under five. If we made both changes, so that parents received half the standard amount of child benefit while their child was 13-15 and then nothing from the age of 16, this would free up £1,043 per year for those under five.

150 CSJ (2022) *Parents know best: Giving families a choice in childcare*. Available at: https://www.centreforsocialjustice.org.uk/wp-content/uploads/2022/10/Parents_Know_Best-CSJ.pdf (Accessed: 4 April 2024).

151 MacDonald, C. and Kelly, R. (2022) *Better Childcare: Putting Families First*. Policy Exchange. Available at: <https://policyexchange.org.uk/wp-content/uploads/2022/08/Better-Childcare.pdf> (Accessed: 4 April 2024).

152 Guillaume, B. (2022) *First steps: Fixing childcare*. Available at: <https://www.ukonward.com/reports/first-steps-fixing-childcare/> (Accessed: 4 April 2024).

153 Guillaume, B. (2022) *First steps: Fixing childcare*. Available at: <https://www.ukonward.com/reports/first-steps-fixing-childcare/> (Accessed: 4 April 2024). The question relates to higher child benefit in the early years but makes no reference to lower rates as the child grows older.

154 UK Parliament (2023) *Front-loaded Child Benefit Bill [HL]*. Available at: <https://bills.parliament.uk/bills/3162> (Accessed: 4 April 2024).

155 MacDonald, C. and Kelly, R. (2022) *Better Childcare: Putting Families First*. Policy Exchange. Available at: <https://policyexchange.org.uk/wp-content/uploads/2022/08/Better-Childcare.pdf> (Accessed: 4 April 2024).

156 HMRC (2023) *Child Benefit Statistics: annual release, data at August 2022*. Available at: <https://www.gov.uk/government/statistics/child-benefit-statistics-annual-release-august-2022/child-benefit-statistics-annual-release-data-at-august-2022> (Accessed: 4 April 2024).

157 OBR, *Welfare spending: child benefit*. Available at: <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-child-benefit/> (Accessed: 4 April 2024).

If instead the higher rate of child benefit only began once a child reached one year old (at the end of statutory maternity leave), then all of these sums would be higher, with a maximum of £1,259 available if we halved child benefit from age 13 and stopped it at age 16. This would double the rate that is currently available for first children, and be an even larger increase for second and subsequent children.

These figures ignore the higher rate of child benefit that is currently paid for first children currently, instead assuming that the uplift would be paid at equal rates for all eligible children. If different rates were paid for first and subsequent children, then the figures in Table 3.1 would represent the mean rate across all children eligible for the uplift.

Table 3.1: Child Benefit uplift in early years generated by decreasing entitlement in teenage years

	Yearly uplift per child for children aged 0-4	Yearly uplift per child for children aged 1-4
Entitlement halved from age 13	£719	£867
Entitlement stopped from age 16	£648	£782
Both of the above	£1,043	£1,259

Source: Civitas calculation from government Child Benefit Statistics on age of claimants and OBR estimate of spending on Child Benefit.

We propose a gradual phasing in of a re-profiled child benefit, because it would be unfair for rates to be cut for parents of older children who did not receive higher rates when their children were younger. This would mean increased spending in the short-term on the early years uplift; however, costs could begin to be recouped in nine years, when children who are currently four years old turn 13. In the long run, this re-profiling would be entirely cost-neutral.

Responding in 2023 to an Education Select Committee recommendation for HMRC to explore ways to frontload child benefits, the Government stated:

‘Frontloading child benefit risks making the benefit system more complex and difficult for claimants to navigate, and would require significant changes to IT systems and upskilling of staff. This would also lead to additional Government borrowing, given the upfront cost to taxpayers.’¹⁵⁸

However, the change we propose, where the rate is simply halved at 13 and then stopped at 16, would be much simpler to implement and to manage than the proposal of variable rates for different claimants. This change would require little or no upskilling for staff and elementary changes to IT systems, which would not have been the case with variable rates for claimants. Costs would also be more clearly forecastable, instead of unpredictable and variable rates. A simple cut-off would also reduce confusion amongst claimants. We remain unconvinced by arguments that there are serious logistical barriers to implementing this change.

¹⁵⁸ House of Commons Education Committee (2023) *Support for childcare and the early years: Government response to the Committee’s Fifth Report*. Available at: <https://committees.parliament.uk/publications/41642/documents/206387/default/> (Accessed: 4 April 2024).

Streamlining childcare regulation

3. Make the learning and development requirements in the Early Years Foundation Stage optional for childminders

There is reason to believe that the current regulatory system for childcare is disproportionately burdensome, in particular for small-scale providers like childminders. This is likely to have the effect of constraining parental choice and increasing costs of childcare, by dissuading registration for new providers and by increasing costs for existing providers, since provider-hours must be spent not only planning educational activities for children but assessing and demonstrating their progress.¹⁵⁹ This is especially problematic since ‘free hours’ and tax-free childcare can only be spent on registered childcare providers.

We propose a change to reduce this problem: childminders, who look after up to six children in their own home, should not be required to follow the learning and development requirements in the Early Years Foundation Stage (EYFS), the guidelines that govern the provision of childcare from birth to age five. Childminders could feasibly choose whether or not they wish to follow this part of the EYFS when they register with Ofsted. For childminders who elected not to, this would save them a considerable amount of time and effort, which may mean they were able to offer their services at a lower cost to parents. It may also make childminding a more attractive casual work option, and do something to stem the steady flow of childminders leaving the profession.

A reassessment of the EYFS has been discussed previously and has received broad support, including from the Centre for Policy Studies,¹⁶⁰ Policy Exchange,¹⁶¹ the Institute for Economic Affairs,¹⁶² and, recently, the Department for Education itself. In January 2024, the Department for Education made several small changes to the way the EYFS is applied to childminders. This was the outcome of a consultation carried out in 2023 aiming to ‘ensure regulation is proportionate and appropriately flexible’ in order to ‘address the challenges [providers] are facing in recruiting and retaining the right staff’.¹⁶³ However, while this represents an important concession that disproportionate regulation may be a problem, the changes do not go far enough. Some of them – for instance, childminders are no longer required to ‘take reasonable steps to provide opportunities to develop and use their home language in play and learning’ when children have a first language other than English – perhaps indicate the scale of the problem that may remain. If until very recently individuals have been not legally permitted to look after children in their home without also offering foreign language teaching, then we have surely lost all sight of proportion.

Rather than reviewing every individual item in the EYFS, we propose that the learning and development section of the EYFS in its entirety should be optional for childminders. This would be an option that offers **flexibility and autonomy** to both parents and providers. Individuals wishing to work as childminders could decide which service they preferred to offer: one where the full EYFS is followed, providing a more rigorous educational experience for children; or one which is more casual and cheaper to provide. Parents could in turn choose which option was most suitable for their family.

159 MacDonald, C. and Kelly, R. (2022) *Better Childcare: Putting Families First*. Policy Exchange. Available at: <https://policyexchange.org.uk/wp-content/uploads/2022/08/Better-Childcare.pdf> (Accessed: 4 April 2024).

160 Dunkley, E. (2022) *Solving the Childcare Challenge*. CPS. Available at: <https://cps.org.uk/wp-content/uploads/2022/05/Solving-the-Childcare-Challenge-CPS.pdf> (Accessed: 4 April 2024). Bourne, R. and Shackleton, J.R. (2016) *Getting the state out of pre-school and childcare*. IEA. Available at: <https://iea.org.uk/wp-content/uploads/2017/02/Getting-the-State-out-of-pre-school-childcare.pdf> (Accessed: 4 April 2024).

161 MacDonald, C. and Kelly, R. (2022) *Better Childcare: Putting Families First*. Policy Exchange. Available at: <https://policyexchange.org.uk/wp-content/uploads/2022/08/Better-Childcare.pdf> (Accessed: 4 April 2024).

162 Bourne, R. and Shackleton, J.R. (2016) *Getting the state out of pre-school and childcare*. IEA. Available at: <https://iea.org.uk/wp-content/uploads/2017/02/Getting-the-State-out-of-pre-school-childcare.pdf> (Accessed: 4 April 2024).

163 Department for Education (2023) *Early Years Foundation Stage (EYFS): Regulatory Changes Government consultation response*. Available at: https://assets.publishing.service.gov.uk/media/653a7a0ee6c9680014aa9bc6/Early_years_foundation_stage_regulatory_changes_-_consultation_response.pdf (Accessed: 4 April 2024).

Some might argue that these regulations in the EYFS are necessary in order to provide the best educational environment for children. However, if insisting on full EYFS compliance even for small-scale providers makes childcare less affordable and accessible, then it is not justified. Making this part of the EYFS optional for childminders will not affect minimum safety standards, as the safety and welfare provisions could remain in place.

4. Develop a streamlined childminder-equivalent status for grandparents or other named adults known to parents

Care by grandparents or other extended family is an extremely popular form of childcare. Forty-five per cent of the public believe family members should provide childcare for children below a school age, compared to just 20 per cent for government agencies.¹⁶⁴ An Age UK poll in 2017 also revealed 40 per cent of grandparents over the age of 50 already provide regular childcare for their grandchildren.¹⁶⁵ Twelve per cent look after their grandchildren at least once a day; 18 per cent look after them four to six times a week; 38 per cent look after them two to three times a week. However, there is very little support in place to make this form of care feasible for more families.

We propose that grandparents, or other named adults known to parents, should be able to access a streamlined registration process that would give them childminder-equivalent status for an individual child with the consent of that child's parents. This could be administered through a branch of the same online platform that allowed parents to manage their childcare 'voucher' entitlement (point 1). Parents could then directly transfer the value of their voucher entitlement to the named adult through the online system. Alternatively, parents could pay in cash and have this count as a tax-deductible payment for registered childcare (point 6).

Given that this mechanism would entitle individuals to childminder equivalent status only for a particular child or children, rather than to advertise their services as a childminder more widely, it would seem reasonable for the requirements for registration to be significantly relaxed. We suggest that named adult registration should require proof of identity, a statement of relationship to the child, a statement of the amount of childcare they expect to provide, a DBS check, and for parents to log on and approve the application from their own account. Parents would be seen as waiving their right to more thorough checks (for instance, for the individual to attend childminder training or obtain a certificate of fitness from a GP). This would be a system that offered **flexibility and autonomy**, respecting parent's right to choose who looks after their child. In many cases this is also likely to be a **convenient** option for parents, and one that is likely cheaper than formal childcare, since grandparents are unlikely to be seeking to profit from providing care, but may appreciate the opportunity to cover expenses.

Tax reforms to benefit parents

5. Raise tax thresholds for parents of early years children

The United Kingdom is less generous to families in its tax system than many other comparable countries. Countries such as the United States, France, Poland, and Spain offer tax deductions to parents, accounting for their reduced earning capacity and increased outgoings.¹⁶⁶ In the words of Neil O'Brien MP, 'this is the same "ability to pay" concept that justifies higher earners paying more tax'.¹⁶⁷ All else being equal, tax breaks for parents make taxation more progressive, because households with children tend to have less disposable income.

164 NatCen (2022), Table 6, p.26

165 Age UK (2017) *5 million grandparents take on childcare responsibilities*. Available at: <https://www.ageuk.org.uk/latest-news/articles/2017/september/five-million-grandparents-take-on-childcare-responsibilities/> (Accessed: 4 April 2024).

166 Booth, P. and Rogobete, A.E. (2022) *Taxing Families Fairly*. Policy Exchange. Available at: <https://policyexchange.org.uk/publication/taxing-families-fairly/> (Accessed: 4 April 2024).

167 O'Brien, N. (2024) *Why we need a "New Deal for Parents"*. Available at: <https://www.neilobrien.co.uk/p/why-we-need-a-new-deal-for-parents> (Accessed: 25 March 2024).

Tax breaks for parents are also **fair** because they recognise that, by raising children at a personal financial cost, parents are making a contribution to their country's future that could be counted in lieu of tax.

The Marriage Allowance is the only recognition of families in the UK tax system – allowing eligible couples to transfer a small fraction of their tax-free allowance between them. However, this policy is fairly ungenerous, saving eligible couples only a maximum of £252 off their income tax bill.¹⁶⁸ It also doesn't account for childcare costs directly – it is available to couples in a marriage or civil partnership whether they have children or not.

We propose giving an additional tax-free allowance to the parents of all children under five. We propose a tax-free allowance of £5,000 for those with one child under five, and a further £2,000 for each additional child under five. This means that for a family with a four-year-old and a two-year-old, if both parents were paying basic-rate income tax, in total they would keep £2,800 more of their earnings than an equivalent couple without children.

The UK has a precedent for this in the form of the Blind Person's Allowance. This is an additional £2,870 of tax-free allowance for those who are blind, on account of the fact that they 'cannot do work for which eyesight is essential'.¹⁶⁹ A similar approach should be taken to parents of early years children, recognising also that not only does parenting reduce earning capacity but that it is a contribution to the country's economy and public services in the long-term.

6. Make childcare expenses fully tax-deductible

HMRC allows workers to deduct the cost of work expenses (such as uniform, equipment, and travel for work, or gas and electricity bills when working from home) from their taxable income.¹⁷⁰ This means that income tax is treated broadly speaking as a tax on profits, rather than a tax on gross income. However, childcare costs are not recognised as tax-deductible work expense, despite the fact that paying for childcare is often necessary in order for parents to work.

We propose that the cost of childcare should be fully tax-deductible, in recognition of the fact that it is a necessary work expense. This would be **fair** to parents, because it would treat childcare the same as other work expenses. It would also **respect parental choices**: if childcare is not tax-deductible, then a parent who spends the money in their childcare voucher (point 1) on childcare so that they can work, and is then taxed on their earnings, is subject to a tax penalty compared to another parent who instead keeps the childcare voucher and does not go out to work. In order to remain tax-neutral and not unfairly favour one option over the other, the government should make childcare tax-deductible.

7. Expand the review by HM Treasury of Child Benefit and household income to an overall review of the relationship between income tax and household income

At the Spring Budget 2024, as well as making immediate changes to the income thresholds for child benefit and the high-income child benefit charge (HICBC), the government announced a plan to hold a consultation into the possibility of administering child benefit and the HICBC on the basis of household income, rather than individual income, by 2026.¹⁷¹

In addition to this, the Chancellor should launch a commission to review the question of whether income tax could be administered on the basis of household, rather than individual, income. This could enable families where one parent is looking after a child either full-time or part-time and therefore is on a low salary, to keep more of their income, offering parents more **autonomy** in how they arrange work and childcare.¹⁷²

168 UK Government. *Marriage Allowance*. Available at: <https://www.gov.uk/marriage-allowance> (Accessed: 4 April 2024).

169 UK Government. *Blind Person's Allowance*. Available at: <https://www.gov.uk/blind-persons-allowance> (Accessed: 4 April 2024).

170 UK Government. *Claim tax relief for your job expenses*. Available at: <https://www.gov.uk/tax-relief-for-employees> (Accessed: 4 April 2024).

171 HM Treasury (2024) *Spring Budget 2024*. Available at: <https://www.gov.uk/government/publications/spring-budget-2024> (Accessed: 4 April 2024) p45-46.

172 Booth, P. and Rogobete, A.E. (2022) *Taxing Families Fairly*. Policy Exchange. Available at: <https://policyexchange.org.uk/publication/taxing-families-fairly/> (Accessed: 4 April 2024).

An alternative to a fully household-based system of income tax would be to expand the Marriage Allowance, so that the full tax-free allowance can be transferred between eligible couples, rather than only a fraction of it. This would bring the maximum tax saving up to £2,514 from £252. The early years tax allowance (point 5) could also potentially be transferrable between couples, increasing savings further for parents of small children where one is earning significantly more than the other.

Additional policies to support parents

8. Reconsider the categorisation of those caring for dependents as ‘economically inactive’ in official statistics

As the sponsoring department of the UK Statistics Authority, the Cabinet Office should review workforce categorisation of the ‘economically inactive’ in labour supply statistics given by the Department for Work and Pensions, HM Treasury, and public bodies like the Office for National Statistics.

From October to December 2023, there were 1,649,000 people in the UK who were economically inactive and cited ‘looking after family / home’ as the reason. Of this group, 1,239,000 did not want a job compared to only 383,000 people (31 per cent) who did.¹⁷³

Those who are ‘looking after family / home’ and raising children (as well as those caring for the elderly) should not be considered as ‘economically inactive’ – they are still contributing to the British economy. To group those who are contributing by raising children with people who are out of work due to long-term sickness or early retirement is misleading.

This inaccuracy risks causing government to ‘weight the scales’ in favour of policy that encourages parents to enter paid work in favour of looking after their children. It is assumed that this is a way to create economic growth, since the alternative is ‘economic inactivity’ of zero value. However, these policies may be economically inefficient, since the value parents contribute through paid work may be equivalent to or lower than the value they would alternatively provide by raising their children.

9. Remove Value-added Tax (VAT) on goods and services needed by parents of early years children

VAT is a tax added at the point of spending for goods and services, currently at 20 per cent.¹⁷⁴ Some goods and services are at a reduced rate of five per cent and some are zero-rated (no VAT).¹⁷⁵ Which goods are reduced or zero-rated depends on which things the government considers ‘essential’, and also works to incentivise spending on ‘merit goods’ (such as education).

Many products that parents spend money on for their children, such as basic food, formula milk for babies, books, and children’s clothing, are currently VAT-exempt. Ofsted-registered childcare is also VAT exempt. However, some other products, including prams, car seats, cots, and high chairs, are subject to VAT. These products can represent a very significant initial outlay for parents when they have their first child.

Some economists have criticised VAT exemptions as distortionary and inefficient, and argued that VAT should be charged at a flat rate on all goods and services.¹⁷⁶ However, given that the current system of VAT exemptions exists, it could be used to better support parents. Zero-rating prams, car seats, cots, and high chairs would be **fair** to parents because it would correctly recognise both that these items are essential and that they are merit goods, given the significant positive externalities that parents provide by having and raising children.

173 ONS (2024) *INAC01 SA: Economic inactivity by reason (seasonally adjusted)*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/economicinactivity/datasets/economicinactivitybyreasonseasonallyadjustedinac01sa> (Accessed: 4 April 2024).

174 UK Government. *VAT rates*. Available at: <https://www.gov.uk/vat-rates> (Accessed: 4 April 2024).

175 UK Government. *VAT rates*. Available at: <https://www.gov.uk/vat-rates> (Accessed: 4 April 2024).

176 Adam, S. et al (2011) *Tax by design*. IFS. Available at: <https://ifs.org.uk/books/tax-design> (Accessed: 4 April 2024).

Conclusion

Childcare has never been a bigger political priority in the history of the United Kingdom. Over several decades, policy has evolved dramatically and has expanded at an even faster pace over the last few years. However, there is no clear and explicit consensus on what policy in this area is aiming to achieve.

There is a strong case to be made that general redistribution of resources to parents via subsidies, cash transfers, and tax breaks should be a priority for government policy concerning childcare. However, there is little discussion of this aim, and the current system of childcare subsidies is inefficient at achieving it. Childcare policy has instead evolved into pursuing primarily the objectives of getting mothers back to work and deciding that children would be better off away from their parents in formal care.

Current policy has had limited success. Women have less choice than they did before whether to work or stay at home, whilst the marginal increase in maternal labour force participation has come at a heavy cost to the taxpayer. A series of bolt-on policy measures, underpinned by a heavy state subsidy mechanism, has created a stagnant childcare market which will be difficult to revive to its former self. There is little regard for the principle of parental choice, and allowing parents to decide what is in the best interests of their families.

This is a political opportunity ripe for the taking – families are under increased financial pressure, and couples are now having fewer children than they want to. Politicians and policymakers should urgently reconsider what childcare policy is for, how we can best financially support parents and children, and the most effective and efficient methods of delivery.

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- We facilitate informed public debate by providing accurate factual information on the social issues of the day, publishing informed comment and analysis, and bringing together leading protagonists in open discussion. Civitas never takes a corporate view on any of the issues tackled during the course of this work. Our current focus is on issues such as education, health, crime, social security, manufacturing, the abuse of human rights law, and the European Union.
- We ensure that there is strong evidence for all our conclusions and present the evidence in a balanced and objective way. Our publications are usually refereed by independent commentators, who may be academics or experts in their field.
- We strive to benefit public debate through independent research, reasoned argument, lucid explanation and open discussion. We stand apart from party politics and transitory intellectual fashions.
- Uniquely among think tanks, we play an active, practical part in rebuilding civil society by running schools on Saturdays and after-school hours so that children who are falling behind at school can achieve their full potential.

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Childcare is a larger political priority in the UK than it ever has been before, and the target of unprecedented, and growing, levels of public spending. Despite this, there is little clarity on what the purpose of childcare policy is.

Politicians and policymakers often talk as though childcare policy is a labour market intervention, designed to increase the employment rate of mothers, or an educational one, designed to improve educational outcomes for children. However, if this is truly what childcare policy is for, then it is highly inefficient: both of these outcomes could likely be achieved more effectively by other means.

Current childcare policy is also not effective at achieving what we believe it should be aiming for, which is supporting parents with the cost of raising children in the early years. This is a goal that seems to have been lost sight of, but it is an important one. Parents often face very high financial costs in the years between the end of parental leave and when their children start school, because those children have to be provided with full-time adult supervision. Whether parents achieve this by paying for childcare or doing it themselves at the expense of paid work, these costs for some may be prohibitively high.

This report makes several suggestions for reforms that would re-orient childcare policy towards the objective of supporting parents, including cash support, tax reform, and streamlining childcare regulation.

CIVITAS

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Civitas: Institute for the Study of Civil Society is an independent think tank which seeks to facilitate informed public debate. We search for solutions to social and economic problems unconstrained by the short-term priorities of political parties or conventional wisdom. As an educational charity, we also offer supplementary schooling to help children reach their full potential and we provide teaching materials and speakers for schools.

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