

Childcare and child poverty

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'Childcare and child poverty' provides an assessment of the critical role of childcare policies in ending child poverty by 2020.

Over the past 10 years, great strides have been made in improving childcare, but more must be done to improve quality and to make childcare more affordable and available to the most disadvantaged groups. This report sets out how, with further improvements, childcare policy can continue to play a key role not just in reducing poverty for today's children, but also in improving outcomes and preventing poverty for the next generation.

The report addresses:

- the childcare strategy and its impact to date;
- how many children might be moved out of poverty through further childcare reforms;
- what further reforms to childcare policy are most needed to attain the child poverty goal.

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This chapter provides our assessment of the impact that childcare policies are likely to and might be able to have on the target of ending child poverty by 2020. We review the current state of childcare, and then look ahead to 2020, considering how likely it is that the current childcare strategy will enable the UK to reach its child poverty target. In addition, where current policies seem to be insufficient, we discuss specific problems and gaps and make recommendations for needed reforms.

Key findings

To date, the UK has pursued a two-track approach to childcare, with the dual objectives of providing free part-time early education for all three and four-year-olds and providing some support for other types of childcare for families where parents are working. We find that this strategy has had mixed success:

- The first track – the free offer for three and four-year-olds – has largely worked, showing that when parents are offered free, good quality early years education for their children, almost all will take it up. However, evidence on the provision of other types of care raises questions about the effectiveness of the market to respond to parents' diverse needs and about whether the complex funding system is the most effective way of supporting both families and childcare providers.
 - The extent to which the two tracks of the childcare strategy have been linked could also be improved.
 - In addition, solutions need to be found to address the need for childcare at atypical hours and for out of school and holiday care.
 - There is also a need to invest in raising the quality of early years education and care. To eradicate child poverty for this generation and the next one, childcare strategies need to enable parents who wish to work to do so at appropriate times and with affordable and accessible childcare provision that meets their needs, while also providing care that promotes children's health and development and thereby reducing poverty for the next generation. The childcare strategy has played an important part in beginning this work, but more is required to ensure it is delivered in all neighbourhoods and for all families in a sustainable way.
- Childcare and child poverty policy must take into account what types of families children in poverty live in today. Half of children in poverty live in families where at least one parent is already working – 43% in two-parent families in which at least one parent is working and 7% in single-parent working families – making it unlikely that childcare reforms alone will move them out of poverty. The other half live with non-working parents – 33% with lone parents who are not working and 17% with two parents, neither of whom is working – but at least some of these families will face other barriers to work in addition to childcare.
 - Our analysis indicates that existing childcare policies are unlikely to fully meet the needs of these varied types of families for childcare that supports parental employment and promotes child health and development.
 - Although it is not a simple matter to project the effect that childcare improvements could have on reducing child poverty (given that for most families in poverty, problems with childcare are not the sole or even most important barrier to moving out of poverty), the data suggest that childcare reforms could play a useful role in moving a substantial number of children out of poverty. Our upper-bound estimate suggests that childcare reforms could move as many as half of the children in poverty today out

of poverty, while our lower-bound estimate suggests that childcare reforms could move one-sixth of children in poverty today out of poverty.

Ways forward

These findings lead to our policy recommendations, which are grounded in three over-arching principles. First, whatever system is in place for childcare must be simple and straightforward for families to access. Second, although the focus of this report (in keeping with the overall focus of the set of reports being prepared for the Joseph Rowntree Foundation) is on measures to reduce child poverty by 2020, it is important not to lose sight of the tremendously important role that childcare can play in terms of improving child health and development and thereby reducing poverty for the next generation. Third, childcare policies must recognise the tensions that exist between working and caring for children (and other family members) and must also respect the fact that families will have different preferences as to the balance between work and care and that these preferences for any given family will vary over time depending on factors such as the age of the children and what stage they are at in school. However, the ambition to see free, universal childcare remains and if, as seems possible, the government may be considering a wholesale move towards a more universal approach, we would fully support this.

With these principles in mind, our key recommendations are as follows.

1. The tremendous progress the government has made in instituting the free offer for three and four-year-olds should be furthered by: (a) ensuring that the free offer for three and four-year-olds is truly free; (b) ensuring that it is taken up as much by low-income as higher-income families; (c) extending it to two-year-olds whose families wish to take this up, beginning with low-income children but ideally extending this on a universal basis in future; since writing this, the government has made an official commitment to fulfil this recommendation (d) extending the offer for three and four-year-olds to 20 hours, as the government has already pledged but with a more specific timetable and with consideration to extending it to 30 hours in future – recognising there is a tension between the merits of universal provision and fiscal constraints; (e) ensuring that the free part-time provision is set in the context of an integrated education and care approach for families who need wrap-around care for longer hours or care during atypical hours; (f) assessing what the free offer has meant in terms of the respective roles of the childcare versus education sectors and what opportunities for improvement now exist.
2. The progress the government has made in extending paid maternity leave to nine months and eventually 12 months and also instituting some paid paternity leave leaves a two-year gap between the end of paid maternity leave and the start of the entitlement to free part-time childcare when a child is age three. We recommend that the government undertake a focused consultation and review of policy options to address this gap.
3. A radical review of the childcare element of Working Tax Credit should be undertaken, with the goal of developing an alternative that would address the problems identified. The government in fact announced a comprehensive review of the tax credit system in May 2008 but with the starting assumption that childcare support should remain tied to Working Tax Credit. Our view is that it would be advisable to remove the childcare element from Working Tax Credit and either include it under the Child Tax Credit or make it a separate programme. In addition, we think a strong case can be made for eliminating or reducing the work hours requirement for low-income families to access childcare assistance. In addition, we think it would be advisable to raise the maximum rate of subsidy to 100% of costs (from its current maximum of 80% of costs) and to raise the cap for reimbursable costs for a second or higher order child.
4. Improving childcare quality is also a top priority.

5. A review of out-of-school and holiday provision should also be undertaken, to address whether sufficient quality and affordable provision exists to meet the needs of 5- to 11-year-olds, as well as those over age 11, and to develop a plan to address gaps that currently exist.
6. A review should also be undertaken to identify innovative ways to address the shortfall in quality and affordable care for families where parents work atypical hours and to consider how existing provision could be used more flexibly.
7. Although more money has been committed to this area, more needs to be done to make more childcare places available for and to reduce the cost of places for children with disabilities and children with special needs, including improving tax credits for this group and simplifying the process for providers to access the necessary funds.
8. Policy needs to take on board the fact that many parents will be moving in and out of paid work. As well as addressing sustainability of jobs, policy needs to ensure that the childcare element of Working Tax Credit (or its successor) continues in payment as parents move in and out of work, to reduce the potential negative effects on children and also to prevent parents from being effectively 'locked out' of future work because their childcare arrangements have collapsed with the loss of Working Tax Credit.

investing more funding in childcare and investing in other needed social programmes. An analysis of the costs and benefits of various childcare and other reforms is beyond the scope of this report but should be undertaken, to ensure that limited funds are being spent most advantageously.

Combating child poverty is a complex undertaking and childcare is only one of many essential elements in an anti-poverty strategy. However, it is a critically important one, as the government has recognised. Indeed, the government has invested a substantial amount of money and made great strides in improving childcare over the past 10 years. With further improvements, childcare policy can continue to play a key role not just in reducing poverty for today's children, but in improving outcomes and preventing poverty in the next generation as well.

Conclusion

In making these recommendations, we are of course mindful that there are trade-offs between the benefits of parents working and the benefits of parents being at home with their children. Our recommendations are grounded in what we know about what children need at various points in the life cycle, what we know about the benefits of high-quality childcare and also what we know about parents' preferences. That is why we have emphasised the importance of improving childcare quality as well as its affordability and availability. We also recognise that there are trade-offs between

This report provides our assessment of the impact that childcare policies are likely to and might be able to have on the target of ending child poverty by 2020. Our main focus therefore is on the role of childcare policies in reducing income poverty for the current cohort of children. However, it is important to recognise that childcare policies can also reduce poverty for the next generation by providing services that improve child health and development. For this reason, the quality of childcare, as well as its availability and affordability, must be a priority.

The UK has achieved a dramatic reduction in child poverty over the past 10 years and expansions in childcare have played an important role. However, we concur with outside observers as well as the government itself that further efforts are essential if the 2020 poverty reduction target is to be met (see, for example, HM Treasury, *et al.*, 2008). Childcare policies alone cannot eliminate child poverty, but they can play a critical role, and it is the purpose of this report to spell out that role.

1 The current state of childcare

The UK has greatly expanded support for childcare over the past decade, with the aim of improving availability, affordability, and quality. This section provides a brief overview of the current state of childcare, for all ages of children, but with particular emphasis on pre-school age children, considering:

- What policies have been adopted?
- What is the state of current provision in terms of availability, affordability and quality?
- To what extent does the current provision of childcare enable parents on low incomes to undertake paid work and to move out of poverty if they are working?
- What factors associated with childcare currently enable parents to do paid work? What factors prevent them?

The Daycare Trust recently undertook a comprehensive review of the National Childcare Strategy (Butt, *et al.*, 2007). Here we draw on some of that evidence, as well as other reports (see, for example, Land, 2004 and Masters and Pilkauskas, 2004). While the ambition to end child poverty is pan-UK, the Childcare Act 2006 covers only England and Wales, and the 10-year childcare strategy relates only to England with slightly different strategies in place in Wales and Northern Ireland, and an ambitious new 10-year early years and childcare strategy for Scotland due in 2008. The Daycare Trust is hoping to undertake similar studies in these three nations in due course. Here, where possible, we have tried to incorporate some of the evidence for all four nations of the UK, although not as extensively as for England.

The Childcare Strategy

Prior to 1997, childcare, outside of the education system, was mainly seen as a private matter. Access was patchy at best, with only one childcare place for every nine children under the age of eight and availability was often dependent on where families lived and in many cases whether they could afford to pay. The ability of parents (more specifically, mothers) to engage in paid work and to escape from income poverty was severely restricted, particularly for lone parents. Together with the unequal sharing of responsibility for children in families, lack of childcare therefore contributed to poverty by restricting many mothers of school-age children to low-paid work within school hours and term times. Since 1997, a number of strategies and initiatives have been undertaken to improve the availability and quality of childcare in England, starting in 1998 with the National Childcare Strategy and culminating in the 10-year strategy announced in 2004 – *Choice for Parents, the Best Start for Children* (HM Treasury, *et al.* 2004).

The 10-year strategy was built on three key principles: ensuring every child has the best possible start in life; the need to respond to changing patterns of employment and to ensure that parents, particularly mothers, can work and progress in their careers; and the legitimate expectations of families that they should be in control of the choices they make in balancing work and family life.¹

The strategy included proposals for achieving choice, flexibility, affordability, and quality childcare provision for children up to the age of 14. It also had, for the first time, a commitment to supply-side funding via schools and local authorities to establish extended schools and multi-agency children's centres – 3,500 centres by 2010. It committed the government to extending free early education places for three to four-year-olds to

15 hours a week for 38 weeks a year from 2010, with a long-term goal of 20 hours per week. Free places for two-year-olds are being piloted and will be introduced first in disadvantaged areas.

In Wales, after a review of the National Childcare Strategy, the National Assembly published a Childcare Action Plan for Wales in 2002 which mirrors certain aspects of the National Childcare Strategy including free places for three to four-year-olds and a focus on disadvantaged two-year-olds in the equivalent of Sure Start, known as Flying Start. The Scottish strategy also includes free places and childcare partnerships and an early years curriculum framework for three to five-year-olds. Work is also underway on a single curriculum from ages 3–18. The Northern Ireland Childcare Strategy – Children First – was published in 1999 and includes 25 Sure Start programmes. All four nations have access to tax credits and will be subject to the latest Department for Work and Pensions (DWP) welfare reform strategy.

There have been two distinct approaches in the UK. First, the commitment to the early years education agenda for three and four-year-olds and some two-year-olds has been driven by the substantial evidence of positive and long-lasting impacts on child outcomes, and also by the desire to reduce the gap between the most disadvantaged children and their peers (particularly in terms of educational achievement). As a result, part-time early years education is free (or at least is supposed to be) and universally available, and is supported through ongoing government funding that (should) cover the full cost of the free entitlement.²

Second, for other types of childcare (for under-threes, wrap-around childcare, and out-of-school services), the development of provision has been mainly driven by the child poverty and parental employment agendas. Such provision differs significantly from that for the early years: it is only partly funded; and funding is not universal, but targeted mainly at working parents and disadvantaged groups. Costs of provision have been supported through a mixture of fixed-term government funding given directly to providers, through initiatives such as the earlier Neighbourhood Nursery Initiative, and payment from parents, supplemented in some cases by demand-side funding such as tax credits.

This twin strategy, providing universal early years education for all young children while targeting and funding childcare for working parents, is a different approach from that developed in some other European countries, particularly the Nordic countries, where integrated early childhood education and care is seen as a ‘public good’ (OECD, 2006). In England, some efforts have been made to bring these strands together, for example, through the early years foundation stage (EYFS), Ofsted, the development of the early years professional and the move to bring government responsibility for children together into one department – the Department for Children, Schools and Families (DCSF) (formerly the Department for Education and Skills or DfES). In Scotland, efforts are underway this year to develop a strategy more firmly based in the Nordic model, but it is likely to depend for its success on finance beyond that already available to the devolved administration, and it will be interesting to see how this policy evolves.

Recent trends in the supply of and demand (need) for childcare have raised the question of whether the extent and nature of the government’s intervention are sufficient to provide good quality and affordable childcare for all. On the ‘demand side’, there is a question mark about whether a mixed economy of care can meet parents’ diverse needs. Research shows that while childcare use has increased among traditionally under-represented groups (such as lone parents, black and minority ethnic families and low-income families), it has not grown as fast as among other families (Kazimirski, *et al.*, 2008b).

Some ‘market imperfections’ are evident on the supply side too. First, while a substantial minority of parents continue to report a shortage of childcare places, most services report vacancies. Four in 10 parents think there are not enough places in their area, and half of non-working parents say that they would work if they could find good quality, affordable, and reliable childcare (Kazimirski, *et al.*, 2008b; see also Simmonds and Bivand, 2008).³ Yet recent figures on childcare supply have shown significant numbers of vacancies (Kinnaird, *et al.*, 2007).

Second, while many providers struggle to become financially viable, cost remains a barrier

to childcare use for some parents. In 2006, 16% of day care settings and 17% of out-of-school services made a loss (Kinnaird, *et al.*, 2007).⁴ The 2007 Parent's Childcare Survey shows that 36% of parents thought that childcare was unaffordable, with cost reported as a barrier to childcare use (and work) particularly among low-income families, lone parents and those not currently using formal childcare (Kazimirski, *et al.*, 2008b).

Research shows that a highly-qualified workforce is key to achieving high-quality childcare (Sylva, *et al.*, 2004). Although advances have been made with regard to qualifications and the workforce, it is likely that further investment will be needed if we are to achieve a high quality and respected workforce, like that seen in other European countries. Yet, to date, the government's ambitions in this direction have been fairly modest.

Finally, it remains to be seen whether enough money has been committed to achieve the government's ambitions, particularly in deprived areas where childcare services are harder to sustain without subsidy. The early signs are that there is possibly insufficient money available and also a significant amount of 'churn' in the places available, with fewer childminders in evidence and the private and voluntary sectors fearing they will lose out to local authority schemes.

Indeed, the evidence suggests that there are two distinct childcare markets in operation (Butt, *et al.*, 2007). More affluent areas are mainly served by private providers and services are typically shaped by market forces. Private provision in these areas is becoming increasingly concentrated in the hands of large corporate chains at the expense of smaller providers, while there is no evidence that private and voluntary providers in these areas are losing out to local authority provision. Deprived areas have been reliant on government intervention and initiatives such as the Neighbourhood Nursery Initiative and children's centres to redress market imperfections and the reluctance of private providers to establish themselves in those areas. Government intervention in deprived areas has brought about a significant increase in supply. It has also resulted in more flexible provision than is available via private providers with longer opening hours and more holiday care. However, there remain particular concerns about the viability of

provision in the most deprived areas, once the start-up funding provided by government initiatives runs out. For example, the decline in the proportion of day nurseries located in deprived areas in 2006 could reflect the inability of some Neighbourhood Nurseries to remain open once the Neighbourhood Nursery Initiative funding ended. The evidence also points to an increase in the number of nurseries in deprived areas making a financial loss.

Further thought therefore needs to be given to the role of government intervention in childcare markets. Government of course is and should be involved in regulating and monitoring childcare settings, regardless of their location. However, it may be that other, more active government intervention should be restricted to deprived areas, where long-term challenges to sustainable provision persist, although there may still be a role for government in more affluent areas, for example when it comes to meeting the challenges of providing care outside of typical hours or meeting the needs of disadvantaged groups. Ultimately, we need to find a resolution to the clear tension that exists between the supply- and demand-led approaches inherent in the current strategy and the evident market imperfections that exist – in order to arrive at a simpler, more manageable and more affordable strategy for parents.

The state of current provision

Quality

A considerable body of evidence, from the UK, but also the US and elsewhere, has shown the substantial benefits of early years education and care for children (see Sylva, *et al.*, 2004 and reviews in Waldfogel, 2004, 2006). Early years education benefits children's learning and development, improves their confidence and peer relationships, and can also help to break intergenerational cycles of child poverty. The Effective Provision of Pre-school Education study (Sylva, *et al.*, 2004) in particular has shown that high-quality care, characteristically teacher-led, leads to improved child outcomes evident even 11 years later and that the effects are the most long-lasting for the most disadvantaged children. High levels of childcare funding are also associated with low child poverty rates (OECD, 2006). Countries such as Denmark

and Sweden have reduced the link between parental educational attainment and income and that of their children, with equitable access and social mixing in childcare playing a key role (see Butt, *et al.*, 2007 and also HM Treasury, *et al.*, 2008). This contrasts starkly with the US and UK where parental income remains a key determinant of children's outcomes. But if childcare is to play a strong developmental role, the quality of provision is crucial.

Although the quality of childcare is improving, as we can see from annual Ofsted reports, there is still some way to go to achieve high-quality childcare for all children. For example, in England, 4% of settings were still graded 'inadequate' in 2006/07, showing no improvement on the previous year, and about one third were rated only 'satisfactory'. This remains the major outstanding issue of the childcare strategy with the challenge to raise quality without passing on these additional costs to parents – dubbed 'the quality and cost conundrum'. The Daycare Trust will undertake further work this year to estimate the cost of increasing quality to an acceptable standard and how it can be paid for, including through tax credits.

The importance of quality is behind the drive to encourage more parents to use formal care. The evidence suggests that informal care is generally associated with poorer outcomes (see reviews in Waldfogel, 2004, 2006). Yet, many parents say they prefer informal care, particularly for young children.⁵ This stated preference needs further study to establish whether this is a positive choice around trust and convenience or whether it is borne out of the assumption that formal childcare is not available, press reports that lead to fear of 'stranger care' or financial constraints. Many parents use informal care to wrap around more formal provision, as part of a patchwork of childcare arrangements.⁶ It is less common for it to act as a substitute for formal care and it is doubtful whether family and grandparents would have the hours available to provide it.

Several research studies have found that quality is higher in maintained settings, children's centres, and settings with highly-qualified staff (see, for example, Sammons, *et al.*, 2003; Smith, *et al.*, 2007). We need to enable all settings to be of this quality. The high quality in these settings

may be primarily due to the fact that they tend to have staff with higher qualifications and better pay and conditions. Another aspect that supports high quality in maintained provision (and children's centres) is the existence of networks of support (for example, speech and language therapists, special educational needs advisers, parenting support) alongside early education and care. Although these are available across all sectors, arguably, in practice the relationships are likely to be less well developed in the less formal sectors.

Research has also found that workforce consistency, low staff turnover and higher qualifications, both at manager and staff level, are crucial to the quality of a setting and therefore to children's outcomes (see, for example, Sammons, *et al.*, 2003; Sylva, *et al.*, 2004). Consistent and warm care for young children is an essential aspect of quality. In order to achieve high-quality childcare, therefore, investment beyond what the government is currently planning is needed in highly qualified, trained and motivated staff, with good terms and conditions and opportunities for continual professional development. Figures from the Childcare Providers Survey show increasing numbers of qualified staff,⁷ but the figures are still some way from meeting the existing day care standards, particularly in out-of-school clubs. Staff qualifications may be enhanced through initiatives such as the Graduate Leader Fund but graduate leaders alone will still leave us well behind the best in the world.

Increased investment is needed both in order to improve the qualifications of staff, but also their pay, which remains the lowest in the children's workforce – lower than school secretaries, nursing auxiliaries and school mid-day assistants.⁸ This gendered workforce (only 2% of day care staff are male; see Butt, *et al.*, 2007) is itself at a high risk of experiencing child and family poverty.

Availability

The government has done well at increasing the number of childcare places and providers but, according to the latest figures for 2007, progress has now stalled.⁹ The rise in use of formal childcare seen in 2004 has not continued and remains at 40% of families in England (Kazimirski, *et al.*, 2008b). Nevertheless, there is now one childcare

place for every three children under the age of eight. Most of the increase has taken place in the private, voluntary and independent sectors (PVI), and these dominate childcare provision. Current childcare gaps include lack of holiday care and out-of-school care for the secondary school age group and childcare for those working atypical hours. Also, childcare for children with disabilities is both scarce and expensive, and care for children of parents with disabilities is another under-explored area. These gaps are evident from the government's own Childcare Providers Surveys for England and Wales and are frequently referred to by parents in qualitative work (see, for example, Daycare Trust's Listening to Families series).¹⁰

The English Childcare Providers Survey provides mixed evidence on the success of the childcare strategy. On the positive side, there has been a significant increase in the provision of day care and out of school services, with increases in both the number of settings and the number of places available since 1998.¹¹ However, some types of provision, including care at atypical hours and during school holidays, remains limited,¹² and providers face considerable barriers to extending provision. There is also a question mark over whether all providers will be able to meet the planned extension to the free entitlement and will be able to provide this more flexibly than is currently the case.

More definitive evidence on the gaps in provision is available through childcare sufficiency assessments completed by local authorities in April 2008.¹³ A selection of the evidence has been published and most local authorities (93%) report gaps, including: childcare before and after school, holiday care, provision for special educational needs (SEN) and disabled children and, in some places, care for under-twos (OPM, 2008). There is considerable regional variation in supply. A good example is Northern Ireland where there is stark variation between the east and west (DHSSPS, 2007).¹⁴

While the number of childcare places has increased considerably in recent years, the services available do not always match parents' needs. For example, some providers such as nursery classes and playgroups still only offer part-time services, and many working parents need to find other (often

informal) carers who can provide 'wrap-around' care. While most day nurseries are open for a full day and for most days of the year, they can be very inflexible and, for example, do not allow parents to vary the days or hours when childcare is used or to use a combination of morning and afternoon sessions. There is also hardly any formal provision available outside standard hours (before 8am, after 6pm or at weekends), yet we know from research that a growing number of parents need childcare at these times, often to cover atypical working hours (see, for example, La Valle, *et al.*, 2002; Statham and Mooney, 2003; Harries, *et al.*, 2004; Bell and La Valle, 2005; Dickens, *et al.*, 2005).

There was a considerable increase in the take-up of early years education between 1999 and 2004,¹⁵ such that by 2004 only a small minority of mainly three-year-olds were not receiving early years education, although participation was lower than average among disadvantaged groups. However, between 2004 and 2007, there has been no equivalent increase.¹⁶ While parental choice seems to play a part in some families' decision not to use early years education, there is also evidence to suggest that some parents might still have difficulties in accessing the 'free entitlement', although it is not clear to what extent this might be due to lack of knowledge of the free entitlement or due to insufficient supply or to the fact that the 'free entitlement' is not always free due to 'top-up' charging (Butt, *et al.*, 2007). While the proportion of three and four-year-olds not receiving early years education is very small, it is still important to continue to monitor these issues in future to establish whether better information and outreach strategies might be needed to increase even further the take-up of the free entitlement among under-represented groups and to assess whether in some areas provision of early years education might still be insufficient to meet demand.

It is worth pointing out that the free entitlement only covers 12.5 hours a week and will rise to 15 hours a week in 2010. Given that 16 hours of work are needed to qualify for Working Tax Credit and that travelling to work could take a further 1.5 hours per day, it is evident that there has been little attempt to 'join up' the childcare and welfare-to-work strategies.

Finally, given current proposals to make it compulsory as of November 2008 for lone parents on benefits to look for work once their children reach age 12, and by 2010, age seven, it is important to note the low level of use of out-of-school services.¹⁷ Take-up of services for older children will need to increase considerably if these proposals are implemented and this legitimately falls under local authorities' new sufficiency duties. The government plans to extend the right to request flexible working arrangements to parents of older children in April 2009, following a review completed in May 2008 (Walsh, 2008). Nevertheless, it remains to be seen whether parents in low-paid work will be successful in negotiating working times that fit with school hours and terms. This raises the question of whether there will be enough out-of-school provision to meet the new demand and what would be the consequences if this did not happen (for example, it might lead to [increasing] reliance on children staying at home alone and caring for younger siblings, which could have a negative impact on child outcomes).

One major gap is childcare for students, particularly those in further education (FE) colleges. The system of financial support is complicated and discretionary, and students do not know before a course starts if help will be forthcoming, which acts as a powerful disincentive to train or study (see Daycare Trust, 2007c). This problem needs to be addressed if the new skills agenda is to help parents get better jobs (see p. 15).

Affordability

All four-year-olds have been entitled to a free, part-time early education place since 1998, and from 2004 this entitlement has been extended to all three-year-olds. The free entitlement is funded with government subsidies given directly to providers. Most parents are expected to pay in full or at least contribute to the cost of other types of care (for example, care to 'wrap-around' early years education, provision for children under three and out-of-school services). A range of childcare subsidies is available directly to parents, typically to enable them to enter or remain in work, with most of the funding targeted at low-income families.

The main source of childcare funding available to low-income families who use registered or

approved childcare is the childcare element of the Working Tax Credit. This is provided to families in addition to Working Tax Credit and Child Tax Credit. The latter is available to parents with an annual income of up to £58,000 (or £66,000 if they have a child under one), regardless of their employment status; a key aim of this credit is to reduce child poverty. Working Tax Credit is an in-work tax credit aimed at making paid employment more attractive to parents with low earning potential. Take-up of the childcare element has improved dramatically compared to its predecessor benefits, with nearly 450,000 parents claiming the childcare element of Working Tax Credit in April 2008 (HMRC, 2008) compared to around 27,000 claiming childcare help through Family Credit in 1999, before it was abolished (Inland Revenue, 1999). Yet in 2005/06 it reached only an estimated 5% of UK parents (Butt, *et al.*, 2007), and in 2008 it reached only 26% of the families claiming Working Tax Credit.

The idea behind demand-side subsidies such as the childcare element of Working Tax Credit is that they increase the 'purchasing power' of parents who might not otherwise be able to afford the 'market price' for childcare. Demand-side subsidies are also meant to encourage parents to 'shop around' and choose the services that best suit their needs. Even those who qualify for the maximum rate of the childcare element of Working Tax Credit still have to pay 20% of the cost – regarded by HM Treasury as a 'shopping incentive'. The early years and childcare sectors thus differ from the rest of the education system in that it is assumed that parents should pay for services, an assumption that should at least be open to challenge (and one that has been over-turned in the case of the free entitlement for three and four-year-olds).

Employer-supported childcare schemes are also available in the form of childcare vouchers or salary sacrifice plans. Unlike tax credits, this type of help with childcare costs is not linked to families' income, and parents must be in paid employment and have an employer who chooses to participate in order to benefit from it. While such schemes have been available for a number of years, in 2005 the financial incentives to provide employer-supported childcare were improved considerably. This probably explains the recent increase in parents

reporting they get help from an employer – up from 7% in 2004 to 19% in 2007 (Kazimirski, *et al.*, 2008b).

There are also a number of childcare subsidy schemes focused on very specific groups, for example, help with childcare costs through the New Deal for Lone Parents, offered to those who want to attend interviews or to take up some training. There is help in the week before a job starts and help for those working under 16 hours a week for up to a year. The Advisers Discretionary Fund and In-Work Emergency Fund held by New Deal for Lone Parents advisers help with one-off costs such as deposits when a child first takes up a place. These typically have a low take-up as they are discretionary.

In London, the Childcare Affordability Programme was launched as a pilot scheme in 2005. It subsidises places to reduce fees to the maximum level supported through Working Tax Credit. Places are open to low-income families getting Child Tax Credit at a rate higher than the family element and the programme also subsidises the cost of flexible childcare and childcare for children with SEN and disabilities. The Child Poverty pilots announced in June 2008 include an extension of the Childcare Affordability Programme to March 2011 in London and possibly its extension to other areas with high childcare costs.

The Parents' Childcare Survey series shows that the proportion of families (with children aged 14 or under) paying formal providers a childcare fee has declined from 68% in 1999 to 59% in 2004.¹⁸ This decline largely reflects the increase in take-up of (free) early years provision, and seems to indicate that the childcare strategy has not only led to a substantial increase in the take-up of childcare but, as would be expected, has also resulted in an increase in the proportion of families accessing *free* childcare services. However, as only 12.5 hours a week is free, most working parents will need to purchase additional childcare. Not all parents use the whole of the free entitlement, but currently, take-up of at least some free hours stands at 86%, although these figures are lower for more disadvantaged parents, including couples with one or neither working, lower-income families and Asian families.

However, it is worth noting that in 2004, 28% of families who were using fewer than 12.5 hours a week of early years education for children eligible to receive the free entitlement were still paying a *fee* (this figure excludes parents who were only paying for extras such as lunch, refreshments, trips etc.). This raises the question of why over a quarter of families were being charged for something that had already been paid for by the government. Some providers argue that they have to charge a 'top-up fee' for what is meant to be free entitlement because government funding is not sufficient to cover the cost of provision (NDNA, 2006). It is also possible that parents might be charged for requiring some flexibility in the way they use the 12.5 hours, for example, if they need longer sessions over fewer days, as currently the entitlement is to five 2.5-hour sessions. Finally, some providers do not consider it financially viable to offer a place for only 12.5 hours a week and argue that it is only viable for them to offer the 'free entitlement' as part of a 'package', requiring parents to use longer sessions, with a fee being charged for the additional hours. This kind of evidence led the (then) Department for Education and Skills (DfES) to introduce a new code of practice, in April 2006, which makes it clear that parents should not be charged directly or indirectly for any part of the free entitlement.

Childcare and parental employment

Overall maternal employment has not increased dramatically since 1999, although lone-parent employment has increased (Butt, *et al.*, 2007).¹⁹ On current trends, it seems unlikely that the government target for lone-parent employment will be met. However, there has been a significant increase in longer, rather than shorter, part-time working hours (that is, 16–29 hours per week).²⁰ If this trend continues, it may have implications for the demand for childcare, including necessitating a further move away from sessional care (where half-days are more often offered). As discussed earlier, proposed welfare reforms may also influence the need for childcare with more lone parents required to actively seek work.

An extremely important factor in maternal employment decisions is the age of the youngest child. In the UK, mothers typically return to work

after they have exhausted any maternity pay entitlement, contractual or otherwise.²¹ With the recent extensions in maternity leave and pay, mothers with infants will be more likely to remain home during the first year after a birth.²² When children are aged one and two, there continues to be a tension between the rewards to employment and the rewards to having a parent at home. Although there is evidence that high-quality childcare benefits children as young as one or two years of age, there are also concerns that early and extensive childcare might lead to more behaviour problems (see the reviews in Waldfogel, 2004, 2006). There is also a tension between the possible child development benefits of having a parent (typically a mother) stay at home for an extended period of time versus the likely adverse effect on that parent's economic independence and position in the labour market. Reflecting this tension, some have called for flexible child allowances that give parents the choice to purchase childcare or have a parent stay at home when children are under the age of three.²³

When children are aged three and four, maternal employment and childcare use increase sharply. This reflects the availability of the free part-time nursery provision for three and four-year-olds, and also the widely shared view that formal childcare for children in this age group is beneficial. As noted earlier, maternal employment and use of childcare is lower in low-income as compared to higher-income families, but the *increase* in employment and childcare usage as children move from age one or two to age three or four is greater, reflecting the importance of the free offer.

Although maternal employment and the use of childcare are viewed as more acceptable as children get older, the need to balance work and caring responsibilities remains. Evidence on lone parents indicates that they are particularly likely to exit employment during the summer holidays (when children are out of school) and also at the time of key school transitions (when children are aged 5, 11, and 16) (see the discussion in the reports by Simmonds and Bivand, 2008; and Streilitz, 2008). In addition, many mothers of older pre-school age and school-age children retain a preference for parental care and a mistrust of formal provision, which, in the absence of a change in attitudes, may

limit the extent to which the childcare strategy can be effective in increasing maternal employment. Nevertheless, the evidence suggests that there is scope for increasing maternal employment through improving childcare provision.

A lack of suitable childcare remains a barrier to work for a significant share of parents. This is particularly the case among low-income groups and lone mothers who currently have the lowest employment rates. Half (51%) of non-working mothers in these groups say they would prefer to work if suitable childcare were available. At the same time, qualitative research with (lone) parents has indicated that mothers differ in their work and childcare orientations and that employment decisions are influenced by a complex interplay of 'parent-centred' and 'child-centred' considerations. Cultural factors are also at play, with researchers identifying gendered, moral assumptions about work – for example, white working-class mothers are more likely to think that to be a 'good mother' you should not be in paid work, while certain black mothers think being in paid work makes you a good mother (Duncan and Edwards, 1999). Furthermore, parents' beliefs about the value of non-parental childcare, especially the trustworthiness of different providers, can also influence their childcare choices and employment behaviour. This suggests that childcare and employment responses might need to be refined in order to meet the diverse needs of different families (Bell, *et al.*, 2005).

A recent Economic and Social Research Council (ESRC)-funded study from the Institute of Education suggests that for working-class mothers in low-paid jobs, combining mothering and work was the source of enormous tension between being a 'good mother' and a 'good worker' (Vincent, *et al.*, 2008). Work offered mothers little flexibility and autonomy and childcare choices were constrained by income. Tax credits limited them to using cheaper childcare most often in the public or voluntary sectors, often supplemented by informal care (with fathers playing an ancillary role). Day nurseries were the most trusted source of care although there was still some distrust of care by strangers. By contrast middle-class parents tended to operate as active consumers in a wider, more diverse market. Once again this calls into question how effectively markets can operate within

these constraints and whether the 20% 'shopping incentive' in Working Tax Credit is appropriate in a context where high-quality care is needed both to induce trust and to deliver improved child outcomes.

It is regrettable that the timetable for welfare reform is ahead of the development of expanded childcare options such as extended schools for older children and holiday cover. The current plans for extended schools do not include supervised care for secondary school children, merely a range of activities. Qualitative work for Daycare Trust suggests that parents feel pressure to make sure their children are properly supervised and not getting into trouble and would therefore find such unsupervised provision unacceptable (Daycare Trust, 2007a). Jobseeker's Allowance regulations have been amended to allow parents to restrict the hours they are available to work in certain cases, but it seems unlikely that large numbers of jobs will be available that operate only within school hours and term times.²⁴

Recent research sheds light on how children are likely to be affected by their mothers going to work (Ridge, 2007; Millar and Ridge, 2008). Mothers working within school hours and terms had the least impact on them and children valued relationships with extended family. But they also made a contribution in terms of caring for themselves and siblings, taking on extra responsibilities, providing emotional support for their mothers and not making demands on their time. Children also moderated their own needs and accepted adverse situations, including inappropriate care. This contribution is rarely acknowledged and is significant to the debate about child well-being. US evidence has also suggested that as a result of US welfare reform some older children have shown below-average school performance and slightly increased likelihood of repeating a grade or needing special education classes; those concerned had younger siblings they were thought to be taking care of (Gennetian, *et al.*, 2002; Morris, *et al.*, 2005).

Summary of this section

The childcare strategy to provide part-time early years provision for three and four-year-olds

seems to have largely worked. It has shown that when parents are offered free, good quality early years education for their children, almost all will take it up. Difficulties seem to relate mainly to implementation (that is, providers who charge for the 'free entitlement', geographical areas where there might not be sufficient provision and some parents possibly not being aware of their right to free entitlement).

The evidence on the success or otherwise of the strategy to increase use of other types of care (mainly used by working parents) is mixed. While there have been some improvements (for example, increased take-up, including among disadvantaged groups), progress has been rather slow, and there is evidence to suggest that the cost of childcare might have contributed to this, particularly for lone parents, low-income families, and parents with pre-school children. These groups spend a higher proportion of their income on childcare than other families, and are also more likely to report difficulties in paying for childcare (Connolly and Kerr, 2008; Kazimirski, *et al.*, 2008b; OPM, 2008). Many of the same families also show a lack of awareness of the financial support available. Both take-up of childcare and maternal employment remain lower than average among the same groups.²⁵ Large families are another group more likely to report cost as a barrier to childcare use, and again, this is reflected in their below-average use of childcare.²⁶

There is a need for better evidence to assess to what extent slow progress in the take-up of childcare is due to parental preferences, to what extent families still face barriers, and in particular, whether cost and the complex funding system might prevent parents from using (more) childcare. The concentration of non-childcare users tends to be in the lowest income groups who are also more likely to cite affordability as a barrier and for whom awareness of childcare is also an issue (Kazimirski, *et al.*, 2008b). Cost is an important issue for larger families, those with small children and non-working parents, as well as those with diverse needs (for example, a need for care at atypical hours, flexible care). The continuing problems with affordability raise the question of whether the complex funding arrangements that have been used to stimulate childcare services constitute the most effective way of supporting both families and childcare providers.

The lack of responsiveness of the market to parental demand does raise basic questions about the effectiveness of market forces in the childcare context. Such issues will be increasingly important with the upcoming welfare reforms. It may be difficult for markets to anticipate parental demand because parents who are not in work or who have never used childcare are unlikely to indicate that they plan to use it in future. They may assume it is unavailable and will not therefore believe it is worth thinking about paid work. Arguably, there need to be vacancies in the system to encourage providers to look for customers and to assure parents that places are available. Outreach work may be needed to explain the advantages of, for example, early years care and education. Other parents may be the most trusted source of this information (see, for example, Daycare Trust, 2008). Such latent demand is unlikely to show up in local authority sufficiency assessments.

The extent to which the two objectives of the childcare strategy have been linked could also be improved. Lessons could be learned from the success of the free early years entitlement to apply to the development of paid-for childcare: namely that providing parents with free hours of childcare, rather than complicated subsidies to pay for childcare, works effectively. The key to providing parents with real options seems to be simplicity. Extending this to children under the age of three and for more than 20 hours, while bearing in mind the possible effects on child outcomes, should be considered. The lessons that free, good quality provision is taken up and that flexibility has been best promoted by government funding in disadvantaged areas could be transferable to out-of-school provision. Children from low-income families say that even a charge as small as 50 pence could act as a disincentive to participate (Daycare Trust, 2008).

In addition, solutions will need to be found to address the need for childcare at atypical hours and during school holidays. The increased funding for extended schools (£265 million over three years), recently announced by the Secretary of State for Children, Schools and Families, is likely to help to increase the accessibility of out-of-school services, but is unlikely to be sufficient to enable all children, particularly those from the most disadvantaged

backgrounds, to access the out-of-school provision they and their parents need. However, arguably, this exposes a further tension between the twin aims of the strategy – for example, informal childcare for parents working atypical hours, while not necessarily being detrimental, does not offer children the developmental benefits they would get from early years education places.

There is also the need to invest in high-quality early years education and care. The evidence suggests that some providers, particularly in disadvantaged areas where families cannot afford to pay for provision, will need subsidies and financial support to achieve a well-paid, well-qualified workforce. Indeed improving the qualifications and status of the childcare workforce across the board will need further government intervention in terms of standards, over and above the existing inspection and registration systems, as well as more funding. Meeting this challenge will be complicated by the mixed market that the UK has to deliver childcare. This has been achieved in New Zealand by adopting a national sustainability model, and insisting on an entirely graduate workforce by 2012, with salaries set and paid centrally. A comparable UK commitment is needed if we are to attract and retain high-quality staff and ensure the best outcomes for children. We need to raise the bar on quality and address inadequate pay.

The need to drive up quality alongside the need to reduce the cost to parents remain the outstanding issues. The evidence suggests that what is best for children is to grow up with a good attachment to a primary caregiver, particularly in infancy, and to have opportunities to access high-quality early years education, with consistent and highly qualified staff (see, for example, Butt, *et al.*, 2007). To eradicate child poverty for this generation and the next, childcare strategies need to enable parents who wish to work to do so at appropriate times and with affordable and accessible childcare provision (including out-of-school and holiday care) that meets their needs, while also providing care that promotes children's health and development. The childcare strategy has played an important part in beginning this work, but more is required to ensure it is delivered in all neighbourhoods and for all families in a sustainable way.

One final point is that paid work does not necessarily lift all children out of child poverty and the risk of poverty for lone parents working part time or for couples with only one worker or both working part time is still very high. We discuss this in the next section (see also other reports in this series, for example, Bivand and Simmons, 2008). Policies need to address the need for parents to move in and out of paid work, and to increase or reduce their hours, without losing the benefits of a childcare place, while maintaining continuity for children and helping to lift them out of poverty.

2 Looking ahead to 2020

This section looks ahead to 2020 and considers how likely it is that the current childcare strategy will enable the UK to reach its child poverty target. In addition, where current policies seem to be insufficient, we discuss specific problems and gaps. In particular, we consider:

- How will far the current childcare strategy take us towards the 2020 child poverty reduction target?
- How much more childcare is required to enable as many parents as possible to work?
- How close is the childcare strategy to meeting the requirements set out in the welfare reform green paper (DWP, 2007c) and the command paper, *Ready for work: Full employment in our generation* (DWP, 2007d)?
- What is the nature of childcare required not currently being provided?
- What are the actual and potential roles of formal and informal provision?
- What is the actual and potential role of extended school services?
- What is the current and potential role of childcare tax credits?
- How many children might potentially be moved out of poverty through further childcare reforms?

We consider these questions in light of what we know about the population of children in poverty. Children in poverty are not a homogeneous group, and identifying the distinct subgroups and their childcare needs is necessary if we are to understand the extent to which current policy is or is not sufficient to help their families move out of poverty.²⁷

So what types of families are children in poverty living in today?²⁸ As several recent reports have emphasised, half of all children in poverty live with working parents (Harker, 2006; Brewer, *et al.*, 2007; DWP, 2007b; Cooke and Lawton, 2008). Indeed, according to the *2005/06 Households Below Average Income* (HBAI) report (DWP, 2007a), the single largest share of children in poverty – 1.2 million children, making up 43% of all children in poverty – resides in two-parent families in which at least one parent is working.²⁹ The second largest group – 0.9 million children, 33% of all children in poverty – consists of children living with lone parents who are not working. The third, 0.5 million children, 17% of all children in poverty, live with two parents, neither of whom is working. And fourth, the smallest group – 0.2 million, 7% of all children in poverty – live with a working lone parent.³⁰

Of course, there are other categories that cut across these. One relevant category for this analysis is the share of children in poverty living with parents with disabilities. According to DWP (2007b), 26% of children in poverty live with a parent who has a disability. These families may have barriers to moving out of poverty that go beyond childcare. We will account for this in the analysis that follows by assuming that on average about a quarter of families in each of our four subgroups has a parent with a disability and may not be moved out of poverty by childcare policy.³¹

Also relevant for our analysis is the need to take into account the presence of children with disabilities. An estimated 12% of children in poverty have a disability (HM Treasury, *et al.*, 2008). In some instances, we have data on how these children are distributed across our four major types of families; when we do not, we will assume that roughly 12% of children in the subgroup have a disability. Although the evidence suggests that children with a disability are at only slightly higher risk of poverty than other children,³² it is still the case that it is both challenging and costly to find appropriate childcare for them. Childcare policy that aims to move these children out of poverty must therefore take into

account the special challenges and additional costs that caring for these children entails. We note that the government is aware of this issue and is already piloting some programmes to address it (DCSF, 2007).

Other factors that we will take into account include whether the family is large (sometimes defined as three or more children, and sometimes as more than three children), whether the family is from a black or minority ethnic group and whether the family lives in an area with unusually high childcare costs or shortfalls in childcare supply.³³ Each of these factors has been identified as potentially posing particular barriers to moving out of poverty and/or challenges in taking up childcare. Again, in the absence of data on the specific distribution of such families across our four family types, we will assume that these additional factors are present across all four family types and must therefore be addressed for each group. According to DWP (2007b), more than 40% of children in poverty live in a family with three or more children, and 25% are from a black or minority ethnic group. It is likely that these factors overlap so that a sizable share of families will be affected by more than one such factor.³⁴

Group 1: Working couples

The first group we consider are the 1.2 million children in poverty living with two parents, at least one of whom is working. As noted above, this group represents 43% of all children in poverty. It is helpful to distinguish families where only one adult is working and families where both adults are working. When we do so (using data from HM Treasury, *et al.*, 2008), we can see that it is rare for a child to be living in poverty if both parents are working full time. There are also relatively few children in poverty who live in families with one adult working full time and the other part time – about 100,000.³⁵

Much more prevalent among couple families in poverty are single-earner families, who have one parent working (full or part time) and the other not working at all. There are 700,000 children in poverty living in such families – 400,000 where one parent works full time and 300,000 where one parent works part time.³⁶ It is important to note

that approximately 150,000 of these children's families likely include an adult with a disability, which may limit the employment that could be undertaken by a second earner. But for the remaining 550,000 children's families, it is likely that childcare could play a consequential role. Nearly half of these families have children under the age of five, and 40% are very large families with more than three children. As noted earlier, these factors may overlap, and we do not know the share of families affected by both factors, but it is probably reasonable to assume that at least two-thirds of the 550,000 children's single-earner families without an adult with a disability have either a pre-school child or more than three children. These 370,000 children's families would likely face substantial childcare costs if their second earner entered employment and thus could be particularly sensitive to changes in childcare policy.

Currently, however, such families cannot claim any childcare assistance through Working Tax Credit until both adults are working at least 16 hours per week (although partners on New Deal moving into work of less than 16 hours per week can get help with childcare costs for up to a year through the Childcare Subsidy offered through Jobcentre Plus). If second earners need to know that they have childcare arrangements in place before they will venture into work, or if they want to move into work gradually by beginning with just a few hours of work, withholding childcare assistance until they are working steadily at 16 or more hours per week, as current policy does (except as noted above), may be counter-productive.

Moreover, the amount of assistance they can receive is capped at 80% of costs, up to a maximum of £175 per week for one child and £300 for two or more children. These reimbursement caps mean that even after receiving a subsidy, families can face substantial childcare costs. (These issues arise as well for non-working lone parents and are therefore addressed in further detail below.)³⁷

It is difficult to project what share of children in this group might be moved out of poverty through childcare improvements, but the discussion above suggests that the families of as many as 370,000 children from this group would likely face substantial childcare costs if their second earner

entered employment and thus could be particularly affected by changes in childcare policy.

Group 2: Non-working lone parents

The next largest group of children in poverty consists of the 900,000 who live with a non-working lone parent. Half of these families have pre-school age children; the other half have children aged five or older only.

Over the past 10 years, government policy has targeted non-working lone parents and with a good deal of success, as lone parent employment rates have risen substantially, from 44.7% in 1997 to 57.2% in 2007 (DWP, 2007d). Nevertheless, it is widely agreed that if further reductions in child poverty are to be achieved, more lone parents need to be working. A green paper issued in autumn 2007 proposed radical reforms in the treatment of lone parents getting Income Support (DWP, 2007c), and the command paper issued in December 2007 confirms that these reforms will go forward (DWP, 2007d). Beginning in November 2008, lone parents with a youngest child age 12 or older will no longer be eligible for Income Support (unless they qualify for another reason) and will instead have to participate in the more employment-oriented Jobseeker's Allowance programme; in October 2009, this rule will be extended to lone parents with youngest children age 10 and older; and in October 2010 to lone parents with youngest children age seven and older. Making sure that childcare policies are adequate to support those ambitious reforms is therefore now a pressing priority. An important barrier to achieving this is that although the proposed welfare reforms will apply UK-wide, responsibility for childcare developments rests with the devolved authorities in Wales, Scotland, and Northern Ireland over which the Westminster government has no control.

One question that must be grappled with is at what point lone parents who are not currently working can begin to access assistance with childcare costs. To date, the position of the government has been that assistance with childcare costs is provided only when a parent is working 16 or more hours per week (with a few exceptions, such as the universal provision for three and four-year-olds, some targeted provision

for two-year-olds and recent policies providing assistance for the first year in employment for lone parents participating in the New Deal).³⁸ This policy is open to criticism on three main grounds.

First, if childcare is meant to play a developmental role, it is not clear why policies should restrict provision only to children whose parents are working a specific number of hours; nor is it clear why children should lose their childcare support just because their parents have exited work or had a reduction in hours. This is particularly relevant in considering childcare for pre-school age children where the developmental benefits have been widely documented (see, for example, Waldfogel, 2004, 2006) and is also particularly relevant in considering provision for low-income families where parents are especially likely to move in to and out of work (HM Treasury, *et al.*, 2008).

Second, if lone parents are to move into the labour market, they may need to have childcare arrangements in place before, rather than after, doing so. Indeed, taking a child out to childcare every day may help lone parents develop the confidence and social networks to take that next step into employment.

Third, part-time work continues to be a very important component of mothers' employment in the UK (see, for example, Gregory and Connolly, 2008; Paull, 2008), and a substantial share of lone mothers prefer to work relatively short hours (that is, fewer than 16 hours per week) (see, for example, Lessof, *et al.*, 2001; Millar and Ridge, 2001; Bell, *et al.*, 2005). Yet, the share of lone mothers working short hours jobs is very low and has not increased over the past five years even as overall lone mother employment has increased (see the evidence in Bell, *et al.*, 2007). By denying childcare assistance to those who are working between 1 and 15 hours per week, the government may be missing an opportunity to support and incentivise such short hours employment. The government has now recognised this and is providing such support for up to a year for participants in the New Deal for Lone Parents. There is a risk, of course, that by doing so they might encourage some women currently working 16 or more hours per week to reduce their hours and addressing this risk is not straightforward (see the discussion in Millar, *et al.*, 2006). But the benefit of supporting such short

hours work is that it may provide a foot in the door of the labour market for non-working lone parents and may lead to their working more hours in future.³⁹

A second aspect of current policy that may pose barriers to employment is the rate at which costs are subsidised. As noted earlier, parents who meet the work rules can claim up to a maximum of 80% of costs, up to a cap of £175 per week for one child and £300 per week for two or more children. There is evidence that these subsidy rates leave lone parents facing costs that they perceive as burdensome and as a barrier to employment. This is particularly likely to be the case for those with large families or living in areas with particularly high childcare costs.

Even taking into account that a quarter of the 900,000 children living with non-working lone parents may have parents with a disability that interferes with their employment, it is likely that the remaining 675,000 children in this group (or a sizeable share of them) have a parent who could potentially be helped into employment and out of poverty by changes in childcare policy that address the problems identified above.

Group 3: Workless couples

Half a million children in poverty live in households with two adults, with neither working. These households may be particularly likely to face barriers to employment such as parental disability. Nevertheless, there is surely a role for childcare policy to play in enabling some adults in such families to move into employment. However, under current policy, each adult must work 16 hours or more per week before the family can access Working Tax Credit. A Daycare Trust report in 2004 recommended altering this rule to allow parents to establish eligibility for childcare subsidy by aggregating their hours, such that once the parents' hours combined totalled 30 or more, they would be eligible for childcare subsidy assistance (Masters and Pilkauskas, 2004). While an improvement, this would still require parents to be working a fairly substantial number of hours before they could access childcare subsidies. For the reasons discussed above, it might be preferable to enable them to access subsidies and set up childcare

arrangements before moving into work. Although as noted above, many parents in this group may face other barriers to work, it is probably reasonable to assume that up to half of this group – representing families with 250,000 children – could potentially be moved into employment and out of poverty by enhanced childcare policies.

Group 4: Working lone parents

Finally, a relatively small number of children in poverty – 200,000 currently – live in households with a working lone parent. Compared to other families in poverty, working lone-parent families with incomes below the poverty line have a relatively low rate of adult disability (11%), but a fairly high rate of child disability (9%); they are also distinctive in that relatively few have pre-school age children (only 14%) and relatively few have more than three children (only 18%) (HM Treasury, *et al.*, 2008). It is also worth noting that the majority of these families have incomes just slightly below the poverty line (within £50 per week, according to Bell, *et al.*, 2007). Thus, even a relatively small increase in childcare subsidies (or reduction in childcare costs) could be quite effective at moving at least some of these children out of poverty, either by reducing the childcare burden for the family or by inducing the parent to work more hours.⁴⁰

Under the current rules, as already discussed, the maximum subsidy that a working parent can receive is 80% of childcare costs, up to a cap of £175 per week for one child and £300 per week for two or more children, and many families receive a lower subsidy or none at all. As a result, childcare costs can be a substantial burden for working lone-parent families, and many report childcare costs as a barrier to working or to working more hours (see, for example, the discussion in Sutherland, 2002; Nichols and Simm, 2003; Masters and Pilkauskas, 2004; Lyon, *et al.*, 2006). As also noted earlier, relatively few lone parents work short hours (fewer than 16 hours per week), but among those who do, fully a third report problems with childcare as a reason for not working more hours (Bell, *et al.*, 2007).

Raising the subsidy rate so that some low-income families could be subsidised for up to 90% or even 100% of their childcare costs, and raising

the cap for second or higher-order children, would be effective ways to raise incomes for working lone-parent families and to allow their children to access higher-quality formal childcare. Increasing the availability of no-cost childcare – by extending the free offer currently in place for three and four-year-olds and by expanding the availability of extended schools services – is another way to accomplish the same goal. Such reforms could make a big difference to the families in this group, potentially moving all 200,000 children in this group out of poverty.

Summary

It is not a simple matter to project the effect that childcare improvements could have on reducing child poverty. For most families in poverty, problems with childcare are not the sole or even most important barrier to moving out of poverty. Thus, we should not expect childcare reforms alone to move substantial numbers of children out of poverty. A more extensive analysis is required to produce precise projections as to how many children might be moved out of poverty by particular reforms. At the same time, the data just discussed on the distribution and characteristics of children in poverty do suggest that childcare reforms could play a useful role for at least some families in poverty.

Our upper bound estimate, drawing on the analysis of the four main family types considered above and keeping in mind that some parents face barriers that childcare will not address, is that as many as 1.5 million poor children could potentially be moved out of poverty through improved childcare (either on its own or in concert with other policies to tackle child poverty). This upper-bound estimate represents as many as half of the 2.9 million children in poverty today.⁴¹ But this estimate may, of course, be unreasonably high. If we assumed that one-third of the 1.5 million children in poverty in families with apparent childcare needs would not be moved out of poverty with improved childcare (even if offered in conjunction with other policies to tackle child poverty), the number of children moved out of poverty would be one million (a third of those in poverty today). That perhaps is a reasonable mid-

range estimate. A more pessimistic, lower-bound estimate would reverse those odds and assume that only one-third would be moved out of poverty, yielding a potential reduction of 0.5 million children (a sixth of those in poverty today).

3 Policy recommendations

Drawing on the analysis in the preceding two sections, this section identifies the key changes in childcare policy that should be made to increase the likelihood of meeting the child poverty target in 2020. It is important to note that we do not discuss here all the changes in childcare policy that should be made to improve childcare affordability, availability and quality; for a more comprehensive set of recommendations along those lines, we refer readers to the recent Daycare Trust report, *Childcare Nation?* (Butt, *et al.*, 2007). The ambition to see free, universal childcare remains and if, as seems possible, the government may be considering a wholesale move towards a more universal approach, we would fully support this. Here, we focus on key changes that will increase the likelihood of meeting the child poverty target. In particular, we consider:

- What improvements in childcare policy, if any, should be made to address parental unemployment and inactivity?
- What improvements should be made to address low working hours and low earnings?
- What improvements should be made to address the need for flexible provision to match working patterns?
- What improvements are needed to improve child outcomes and to break the link between child and parental education and income levels?

There are a few overarching principles that it is helpful to articulate up-front. First, whatever system is in place for childcare must be simple and straightforward for families to access. Families must be able to understand how they can access childcare and, if childcare is not free of charge, how much financial support is available to them. Second, although the focus of this report (in keeping with the overall focus of the set of reports being prepared for the Joseph Rowntree

Foundation) is on measures to reduce child poverty by 2020, it is important not to lose sight of the tremendously important role that childcare can play in terms of improving child health and development and thereby reducing poverty for the next generation. Thus, although in our policy recommendations we mainly emphasise measures to improve availability and affordability, improving quality – so that provision is at a sufficiently good level to promote child health and development – is also essential. Third, childcare policies must recognise the tensions that exist between working and caring for children (and other family members) and must also respect the fact that families will have different preferences as to the balance between work and care and that these preferences for any given family will vary over time depending on factors such as the age of the children and what stage the children are at in school.

With these principles in mind, our key recommendations are as follows.

1. The government has made tremendous progress in instituting the free offer for three and four-year-olds. This illustrates how important it is to make options real, clear and simple. This progress should be furthered by:
 - a) ensuring that the free offer for three and four-year-olds is truly free;
 - b) ensuring that it is taken up as much by low-income as higher-income families. Outreach work may be needed to help get over the distrust some parents feel for formal childcare. This could be, for example, along the lines developed by Daycare Trust, where parent champions with a positive experience of childcare explain the benefits of formal childcare to other parents. This approach acknowledges parents' own desire to provide the best for their children;

- c) extending it to two-year-olds whose families wish to take this up, beginning with low-income children but ideally extending this on a universal basis in future (for evidence on the pilot scheme for two-year olds, see Kazimirski, *et al.*, 2008b);
 - d) extending the offer for three and four-year-olds to 20 hours, as the government has already pledged but with a more specific timetable and with consideration to extending it to 30 hours in future – recognising there is a tension between the merits of universal provision and fiscal constraints;
 - e) ensuring that the free part-time provision is set in the context of an integrated education and care approach for families who need wrap-around care for longer hours or care during atypical hours;
 - f) assessing what the free offer has meant in terms of the respective roles of the childcare versus education sectors and what opportunities for improvement now exist. For instance, if much of the provision for four-year-olds is being provided by the schools, is there now excess capacity in the childcare sector and if so, does this create opportunities to expand other types of care in that sector (for example, places for younger children, or wrap-around care for older pre-schoolers)? Consideration should also be given to the question of whether government should prioritise provision in the education sector when it expands services for pre-school age children, particularly in the most disadvantaged areas.
2. The government has also made great progress in extending paid maternity leave to nine months and eventually 12 months and also instituting some paid paternity leave. However, this leaves a two-year gap between the end of paid maternity leave and the start of the entitlement to free part-time childcare when a child is age three. How to fill this gap – taking into account the developmental needs of infants and toddlers, parental preferences and fiscal constraints – is not straightforward. We recommend that the government undertake a focused consultation and review of policy options, including: extending the baby element of the Child Tax Credit to allow parents more support in covering the costs of childcare or in offsetting the costs of a parent staying at home in the first two years of life; providing extended paid parental leave for the second year of a child's life, transferable between parents; providing a home care allowance payable to either parent; or providing easier access to childcare places and assistance, perhaps with the support of local children's centres.
3. A radical review of the childcare element of Working Tax Credit should be undertaken, with the goal of developing an alternative that would address the problems identified above. The government in fact announced a comprehensive review of the tax credit system in May 2008 (HM Treasury and HMRC, 2008) but with the starting assumption that childcare support should remain tied to Working Tax Credit. Our view is that it would be advisable to remove the childcare element from Working Tax Credit and either include it under Child Tax Credit or make it a separate programme. In addition, we think a strong case can be made for eliminating the work hours requirement for low-income families to access childcare assistance. However, if it is considered to be too costly to completely decouple childcare assistance from work requirements, then consideration should be given to reducing the work hours requirements to provide more encouragement for currently non-working low-income parents to enter short hours jobs. In this regard, it is interesting that the government proposed reducing the work hours requirement to eight hours per week in its 10-year childcare strategy for England (HM Treasury, *et al.*, 2004). In addition, we think it would be advisable to raise the maximum rate of subsidy to 100% of costs (from its current maximum of 80% of costs) and to raise the cap for reimbursable costs for a second or higher order child.⁴² These reforms have been

recommended by others (see, for example, Masters and Pilkauskas, 2004; Stanley, *et al.*, 2006), and we think the time has come to give them serious consideration. If it is too costly to offer a 100% subsidy indefinitely for the lowest-income families, we think it is advisable to consider offering it to selected families (as the government is currently doing for 50,000 workless parents undergoing training to prepare for work) or for a limited time period. For instance, free childcare might be offered for a year for non-working lone parents as well as for non-working adults in two-parent single-earner families (potential second earners), and childcare could be provided free for the first year in work claiming tax credits – a targeted or passporting approach. We cannot stress enough the difference from a low-income family's perspective between free childcare and childcare for which they must contribute at least 20% of the costs (and perhaps more if their eligibility for the 80% rate of subsidy changed). Providing free care to support children continuing in childcare as their parents transition into work is good for children – and good for parents' long-run labour market prospects. And, as we have emphasised, it is doubtful that the shopping incentive provided by the 20% contribution actually has the intended effects given how imperfect and unresponsive the childcare market is. We also are interested by the government's proposal to use income bands in setting tax credit entitlements as this would be another step towards making payments more transparent and certain for parents. We note that these types of issues do not arise when services are provided universally or in the maintained sector, so in future, as that type of provision expands, these types of problems should diminish.

4. Improving childcare quality is also a top priority. This could be achieved by following the New Zealand example and insisting on a graduate childcare workforce and paying for it on a national pay scale. The evidence from the Effective Provision of Pre-school Education study that the positive effects of high-quality care can last until the age of 11 and are the most

long-lasting for the most disadvantaged children means that improving quality and access to these places is all the more urgent. Given the aspiration to reduce poverty not just for the current generation but for future generations, action now could deliver real results.

5. A review of out-of-school and holiday provision should also be undertaken, to address whether sufficient quality and affordable provision exists to meet the needs of 5- to 11-year-olds, as well as those over age 11, and to develop a plan to address gaps that currently exist. Early indications from local authority sufficiency assessments show that lack of provision for secondary school children is identified in about half the sample reported on. In future, out-of-school and holiday places will need to be directly subsidised in order to provide them free or low cost, ideally on a universal basis, or at least, as a starting point, to low-income children. An estimated 40% of schools were providing access to the core offer of extended services as of March 2008 and this share is projected to increase to 100% by 2010 (HM Treasury, *et al.*, 2008). However, this provision must reflect the fact that working parents want children of secondary school age to be in supervised care (Daycare Trust, 2007a). The current extended school model does not guarantee this, assuming instead that a range of activities will suffice. This is not adequate care for parents needing to take paid work during these hours. But we applaud the government's initiatives to extend low-income children's access to positive activities and cultural activities, as well as its establishment of a Youth Taskforce to improve services for young people.
6. A review should also be undertaken to identify innovative ways to address the shortfall in quality and affordable care for families where parents work atypical hours and to consider how existing provision could be used more flexibly. This is an area where informal care is likely to play a particularly important role, given shifting and variable work patterns and the lack of out-of-hours care, even from childminders. There is a tension here as

informal childcare may be the best response in light of parents' available free time and labour market changes but will not provide the developmental benefits for children that they would receive from more formal care. One possible idea to explore could be the National Sitter Service, funded by the Scottish Executive, which was developed by One Parent Families Scotland to provide lone parents with childcare in the parent's own home.

7. Although more money has been committed to this area, much more needs to be done to make more childcare places available for and to reduce the cost of places for children with disabilities and children with special needs, including improving tax credits for this group and simplifying the process for providers to access the necessary funds. Provision for children with parents with disabilities should also be considered.
8. Policy needs to take on board the fact that many parents will be moving in and out of paid work. As well as addressing sustainability of jobs, policy needs to ensure that the childcare element of Working Tax Credit (or its successor) continues in payment as parents move in and out of work, to reduce the potential negative effects on children and also to prevent parents from being effectively 'locked out' of future work because their childcare arrangements have collapsed with the loss of the credit. The government pledged to consider this issue in its 10-year childcare strategy, but to date only a four-week run-on has been introduced; this could usefully be extended. One complicating factor is the 80% rule (families where parents have lost employment will have difficulties making their assessed 20% contribution but re-assessing their contribution would also pose difficulties for the system). Also, as discussed above, transitions into work need to be addressed by making up-front subsidies or a 100% pass-through for more claimants more readily accessible, at least in the first year of work. Some steps have been taken in this direction, but provision is not yet seamless.

In making these recommendations, we are of course mindful that there are trade-offs between the benefits of parents working and the benefits of parents being at home with their children. Our recommendations are grounded in what we know about what children need at various points in the life cycle, what we know about the benefits of high-quality childcare and also what we know about parents' preferences. That is why we have emphasised the importance of improving childcare quality as well as its affordability and availability.

We also recognise that there are trade-offs between investing more funding in childcare and investing in other needed social programmes. An analysis of the costs and benefits of various childcare and other reforms is beyond the scope of this report but should be undertaken, to ensure that limited funds are being spent most advantageously.

Combating child poverty is a complex undertaking and childcare is only one of many essential elements in an anti-poverty strategy. However, it is a critically important one, as the government has recognised. Indeed, the government has invested a substantial amount of money and made great strides in improving childcare over the past 10 years. With further improvements, childcare policy can continue to play a key role not just in reducing poverty for today's children, but in improving outcomes and preventing poverty in the next generation as well.

Notes

- 1 'Work' here means 'paid work' as distinct from the unpaid work many mothers provide in the home. We make the assumption throughout that mothers' paid employment is not the only 'work' that they do.
- 2 These provider-subsidies are to a certain extent demand-led as, at least in the PVI sector, they depend on the number of children enrolled rather than direct subsidy of places. In the maintained sector places are directly subsidised thus leading to the accusation that there is not a level playing field between the sectors. A review of the subsidy arrangements is underway that aims to eliminate this difference.
- 3 We recognise that survey data on parental preferences can be subject to reporting biases. One potential source of bias is that parents who are not working may find it more socially acceptable to cite childcare as a barrier than other factors, although at the same time parents who are not currently seeking work will not report childcare as a barrier even though it might be if they were seeking work. Another source of bias is that parents using childcare are often reluctant to express concerns about its quality.
- 4 This represents a slight improvement from 21% and 24% respectively in 2005. However, the financial position of day nurseries remains significantly worse in 2006 than in 2001 when only 10% reported a loss.
- 5 It is interesting to note that parents from disadvantaged groups, such as lone parents and certain black and minority ethnic groups, often express a preference for teacher-led, group-care settings, correctly identifying where some of the best quality lies (Daycare Trust/ NatCen, 2006; Daycare Trust 2007b).
- 6 Forty-two per cent of children are looked after by more than one (formal and/or informal) provider, and again it is unclear whether such arrangements reflect parental choice, the need to minimise childcare costs, or issues of trust (Bell, *et al.*, 2005).
- 7 For instance, according to the 2006 Childcare Providers Survey, 86% of paid staff working in day nurseries held at least a Level 2 childcare-related qualification while 72% held at least a Level 3 qualification. In Scotland, the equivalent figures were 68% and 59% and in Wales, 61.5% and 45.5%. Interestingly, in Scotland, the number of teachers employed in the pre-school sector has fallen owing to a policy to move them to school settings.
- 8 According to the 2006 Labour Workforce Survey, nursery nurses earned an average of £5.26 an hour, compared to £8.06 and £6.35 for nursing auxiliaries and education assistants respectively.
- 9 The Daycare Trust's figures suggest that places have increased by a factor of about 1.5, while government figures show the number of places to have more than doubled since 1997. It is hard to make an accurate assessment since the registration and counting of places changed when transferred to Ofsted in 2001.
- 10 The issue of childcare for disabled children is also addressed in McKendrick and Preston (2008).
- 11 For instance, there has been an increase in the number of day nurseries, from 5,500 in 1998 to 12,694 in 2006; and in out-of-school clubs, from 4,905 in 2001 to 7,656 in 2006. Similarly there was an 18% increase in the number of active Ofsted-registered places in the full day care sector between 2003 and 2005.
- 12 According to the Childcare Providers Survey, the proportion of nurseries offering holiday provision has fallen from 97% in 2001 to 72% in 2006.
- 13 Under the Childcare Act 2006, local authorities are responsible for surveying need and

- ensuring there is sufficient childcare to meet the needs of working parents, as well as improving outcomes for children and reducing inequalities between children. Local authority sufficiency assessments are unlikely to identify latent demand from groups who have not yet considered work as a possibility and probably assume formal childcare is out of their reach.
- 14 Childcare availability also differs widely across both Scotland and Wales. There are nearly twice as many places for one to four-year-olds in Edinburgh and Aberdeen compared to North Lanarkshire and West Lothian (Breitenbach and Wasoff, 2007) and in Wales there are fewer registered places per child under the age of eight in the Valleys than other parts of Wales, with 19 children for every childcare place in Blaenau Gwent compared to three in Denbighshire (WAG, 2004).
 - 15 According to the Parents' Childcare Survey series, the percentage of three and four-year-olds attending an early years setting increased from 77 in 1999 to 94 in 2004.
 - 16 It now stands at 86% of eligible three to four-year-olds (Kazimirski, *et al.*, 2008b) although the government estimate is higher, at 95%. Take-up of free, part-time places in Scotland in 2006 stood at 97.4%, according to the census and in Wales at 95% for children in their pre-school year in 2003/04.
 - 17 A very small number of children over the age of 11 use any out-of-school provision – the proportion trebled from 2% to 6% between 1999 and 2004 and fell again to 5% in 2007, according to analysis of the Parents' Childcare Survey (Butt, *et al.*, 2007; Kazimirski, *et al.*, 2008b).
 - 18 In Wales, 44% of families pay for childcare according to the Welsh Providers Survey and, in Scotland, around one-third of parents do.
 - 19 The share of mothers employed increased from 60% to 62% between 1999 and 2004. The share of lone mothers employed increased from 45% to 49% in the same period (Butt, *et al.*, 2007).
 - 20 Maternal employment in the 16–29 hours a week category has increased from 24% in 1999 to 28% in 2004.
 - 21 Although three-quarters of mothers are entitled to additional maternity leave, many take less time off. In 2007, 16% took less than the statutory 26 weeks and 35% took exactly 26 weeks; 46% took between 27 and 52 weeks and only 3% took more than 52 weeks (La Valle, *et al.*, 2008). The more generous the payments while on leave, the more likely a mother is to return to her job – 87% of mothers getting Statutory Maternity Pay and Occupational Maternity Pay returned to work, compared to 41% who got no maternity pay.
 - 22 For a more extensive discussion of maternity rights and income and employment when children are very young, see Evans and Williams (2008).
 - 23 See, for example, the allowance proposed in the recent Policy Exchange report, *Little Britons: Financing childcare choice* (Hakim, *et al.*, 2008).
 - 24 The devolved countries have different plans to meet any increase in demand, which central government projects will be minimal (see, for example, Work and Pensions Committee and House of Commons, 2008). It anticipates only 1,000 extra places needed in Scotland, for example.
 - 25 According to the Parents' Childcare Survey series, 34% of lone-parent families were using formal childcare in 2007, compared with 43% of two-parent families; and 33% of families on incomes of less than £10,000 were using formal childcare compared with 52% of families with incomes over £45,000. Maternal employment in 2004 was at 66% for couple families compared to 49% for lone-parent families; and 48% for families with pre-school children, compared with 63% for families with school-aged children.

- 26 According to the Parents' Childcare Survey series, 31% and 35% of families with one or two children respectively were using formal childcare in 2007, compared to 26% with more than two children. Maternal employment in 2004 was 68% and 62% for families with one and two children respectively, and 42% for families with three or more children.
- 27 See also analyses of subgroups in Evans and Williams (2008).
- 28 Unless otherwise noted, all the poverty statistics in this section refer to the share of children below 60% of median income, before housing costs (BHC). But the distribution of children in poverty across family types is similar if the after housing costs (AHC) measure is used instead. As others have noted (see, for example, Simmonds and Bivand, 2008), neither the BHC nor AHC poverty measures take childcare costs (or the value of free nursery places) into account, although they will reflect the value of childcare subsidies. This is an important omission, since it means that the direct effects of subsidies and free places on reducing families' childcare costs will be missed in official poverty statistics. Adjusting the official poverty figures to take childcare costs into account is beyond the scope of this report, but would be a worthwhile exercise to undertake in future.
- 29 There are, of course, many issues related to paternal employment and childcare that are highly gendered, since mothers continue to maintain primary responsibility for care of children in most families and accordingly frequently find themselves in a less advantageous position in the labour market than men or women without children. We recognise these gender issues but they are not a main focus of our analysis.
- 30 Newly released figures for 2006/07 (from DWP, 2008) are very similar: 45% of children in poverty reside in two-parent families in which at least one parent is working; 32% live with lone parents who are not working; 15% live with two parents, neither of whom is working; and 8% live with a working lone parent.
- 31 This assumes that parents with disabilities are evenly distributed across our four main family types; this is not quite correct, as we know that adults with disabilities are particularly prevalent in workless couple families.
- 32 In the latest poverty statistics (DWP, 2008), 32% of children in families with at least one child with a disability were in poverty, as compared to 28% of children in families with no child or adult with a disability. However, among families with children with a disability, the receipt of disability benefits makes a big difference, with child poverty rates much higher in families not receiving disability benefits than in those who do (see Evans and Williams, 2008).
- 33 In particular, problems with affordability in London have long been recognised, and the government is attempting to address this via its London Childcare Affordability pilots. We recognise that there is considerable regional or local variation related to childcare; however, addressing this variation is beyond the scope of this report.
- 34 This discussion of barriers to work assumes that most parents want to work and earn enough money to escape poverty but are prevented from doing so by one or more challenges. There are, of course, parents who prefer not to work, either temporarily or in the longer run, particularly when children are young. We do not have good data on what share of families this applies to, nor how preferences might change in the presence of better-quality or more affordable childcare. Thus in our analysis we focus on the number of families that might be moved into work and out of poverty through improved childcare provision, recognising that these numbers may well be over-estimates.
- 35 It is also worth noting that among couple families where the mother is working part time, a strong majority – 67% – say they are working part time because they do not want to spend

more time apart from their children (Lyon, *et al.*, 2006).

- 36 This latter group includes a very small number of families where both parents work part time, but to simplify the discussion we will refer to them as single-earner families.
- 37 There are, of course, other ways to incentivise employment by second earners. See Brewer (2007) for a discussion of the role that tax credit reforms might play.
- 38 If a lone parent is participating in the New Deal for Lone Parents, they may receive help with childcare costs for the first year that they work even if they are working fewer than 16 hours per week. In addition, the government recently announced a pilot programme to pay up-front childcare costs for lone parents in London (see HM Treasury, *et al.*, 2008).
- 39 See discussion in Bell, *et al.* (2007), who consider several options to support short hours jobs, including reducing the work hours to qualify for Working Tax Credit, increasing the earnings disregards in Income Support, and increasing the earnings disregards in Income Support, Housing Benefit and Council Tax Benefit (although they do not consider childcare policies). See also Hales, *et al.* (2007).
- 40 There are, of course, other ways to raise these families' incomes. For instance, the new In Work Credit could be particularly helpful.
- 41 The 1.5 million children include: 370,000 children from group 1 (the 1.2 million poor children with two parents, at least one of whom works) including all those who have two parents, only one of whom is currently working minus the share who might have a parent with a disability preventing employment; 675,000 from group 2 (the 0.9 million poor children with a non-working lone parent), representing the entire group minus the share who might have a parent with a disability preventing employment; 250,000 from group 3 (the 0.5 million poor children with two non-working parents),

representing the entire group minus the share who might have parents with disabilities preventing their employment; and 200,000 from group 4 (the 0.2 million poor children with a working lone parent), which represents the entire group.

- 42 In addition, although we have not considered local and regional variation in costs in this report, we recognise that such variation is substantial and needs to be addressed (for example, by setting caps that vary by location). We have also not discussed the merits of an hourly versus a weekly subsidy, but we think this is worth further consideration.

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