

Rt Hon Nicky Morgan MP  
Ministerial and Public Communications Division,  
Department for Education,  
Piccadilly Gate,  
Store Street,  
Manchester, M1 2WD

Date: 04 March 2016

Dear Secretary of State,

### **Expanding childcare provision in London**

I am writing to you as Chair of the London Assembly Economy Committee. Last month, the Committee met with stakeholders including childcare leads from the London Boroughs of Merton and Islington, and representatives from the National Day Nurseries Association, the Pre-School Learning Alliance and The Family and Childcare Trust, to discuss the challenges that London faces in successfully delivering the Government's expansion of free childcare provision.

Parental employment in London remains low in comparison to the rest of the country, particularly for women. This leaves many families struggling financially and deprives London of talent and experience. The shortage of affordable, flexible childcare is seen as a key reason for the under-representation of women in the workplace. We therefore welcome the extension of the Government's free childcare commitment to 30 hours for many parents as essential support to helping more people back into work.

The take-up of the current 15 hour childcare entitlement has been patchy in London. Roughly 50 per cent of all eligible two-year-olds benefit from the 15 hour childcare commitment in London, although in some inner London boroughs the take-up is below 40 per cent. While take-up improves for three and four year olds, London's rate is still below the national average.

The reasons for London's below average take-up are complex. Firstly, childcare in London remains more expensive than in any other region of the country. The average cost of 25 hours of nursery care for under two year olds in London is £158.73 per week, compared with the English average of £118.13. Across all types of childcare, the difference can be as much as 40 per cent. Secondly, parents living in London may require more hours of childcare due to longer commute times, a lack of informal care provided by families, and the increasing number of jobs which require evening or weekend work, or are based on zero hour contracts. Finally, concerns about the quality of childcare provision persist. In London, almost a quarter of providers are rated 'poor' or 'requiring improvement' by OFSTED, which rises to over a third in some boroughs. This is in contrast to the superior performance of London's primary and secondary schools.

**The expansion of free childcare in London over the past decade has been a qualified success. It has undoubtedly allowed more people to go back to work, boosting their family's income and the economy. However, there are also deep structural issues in the childcare market, particularly for providers, which the decision to double the free childcare commitment could worsen. Failing to address these issues could have detrimental impact on the successful delivery of the childcare extension in the capital.**

One of the Committee's main concerns is the impact the extension will have on childcare costs. Historically the Government has not provided sufficient funding to cover the market cost of childcare in London. As a result, much of the childcare sector has developed a funding model where providers effectively cross-subsidise the Government's 15 hour commitment by charging parents at a higher rate for additional hours.

This model has been important in maintaining the financial viability of the sector. However, many providers offering the Government's commitment are now facing a significant shortfall in funding. The evidence indicates that this shortfall is most acute in London, due to its higher property and wage costs.

The extension to 30 hours could further exacerbate provider's financial position as they will lose the additional income they would have previously received from the more expensive additional hours. If providing state subsidised childcare is no longer economically viable then providers may close their doors, or decide to switch to a wholly privately funded model. Reducing the number of places in London will make childcare ever more expensive, making the Government's goal of allowing more parents to work and giving their children the best start possible in life more difficult to achieve.

**Going forward, the Government must ensure that providers of the free childcare commitment are properly reimbursed.**

In addition to funding, there are a number of other areas we feel the Government and local authorities should consider to ensure the successful implementation of the childcare extension in 2017:

#### Support for reducing provider costs

The Treasury's recent study of childcare provider costs identified up to 15 per cent of savings that could be found in changes to staffing ratios and scheduling. Providers have told the Committee that this may be difficult to implement on a wide scale, as parents are concerned that a lower staff to child ratio could affect the quality of childcare. We acknowledge that there are inefficiencies in the London childcare market, and that better sharing, collaboration and even merging of back office provision could create a more robust sector. **We would urge the Government to look at how it could encourage and support providers to make these changes.**

#### Increase the number of childminders

Childminders are expected to play an important role in the Government's free childcare provision once it is expanded to 30 hours. However, the success of this mixed-model is at risk due to the declining numbers of childminders in London, which is down nine per cent in the last five years. **The Government should provide more resources to identify gaps in provision in the childminder market, and target training and support to help childminders become OFSTED registered.**

### Encouraging greater nursery provision in schools

Most of the spare childcare capacity in London exists in its schools. We are encouraged by the number of maintained schools and academies who are offering nursery provision and **would like to see more capital funding to help schools establish nurseries. This will increase provision without the high start-up costs that many providers face.**

### Capital investment in the sector

We are concerned the additional funding of £50 million nationally to help expand and refurbish the childcare estate is not enough. While the extra funding is welcome, we note the concerns of stakeholders that it is not sufficient as the pressure to expand the sector grows throughout this Parliament. London previously received an additional £8 million in capital funding when the Government's childcare commitment was extended from 12.5 hours to 15. **We believe the case for additional funding for the next extension is even stronger.**

### Review of the childcare sector

In December 2013, the Economy Committee published *Parental Employment in London*, a report outlining the challenges to increasing the number of parents, and especially women, in the workplace. We heard evidence that the way childcare is funded and governed in England is highly inefficient, with the Government paying more for poorer outcomes. The report recommended that the Government should establish a review into how it funds childcare to ensure it is getting value for money. In particular, the review should explore whether there are any lessons to be learned from other countries which might make future childcare funding models more efficient and effective. As part of this review, Government should consider devolving more powers to London government to set childcare policy and control funding. This would ensure that local knowledge can be better used to improve local services.

**A large, sustainable and quality-driven childcare sector is of vital importance to London, particularly with its rapidly growing population. London has long been disadvantaged by the current funding allocation for childcare. This has made it challenging for many providers to offer the Government's childcare entitlement, and has led to increasing costs for parents. While we welcome the Government's decision to review childcare funding this year, the funding allocations need to reflect the real costs of childcare in London.**

**By supporting measures to reduce inefficiencies, while expanding the capacity of the childcare sector through the use of school buildings and greater capital investment, providers in London can better adapt to the changes coming in 2017. And while we recognise the role the market can play in developing its own innovations, we believe the Government must play a more proactive role in helping the sector adjust to the new financial climate.**

The Committee hopes that you will investigate the points raised in this letter further. As a Committee, we will continue to monitor the delivery of the Government's expansion of free childcare provision, and would welcome more information about the proposed pilot programmes, the rationale, and how they will inform future decisions on funding and support for the sector. We look forward to receiving your response shortly.

I would be grateful for a response to the points raised above by 15 April. Please send a copy of your reply to Matt Bailey, Scrutiny Manager at [Matt.Bailey@london.gov.uk](mailto:Matt.Bailey@london.gov.uk).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Fiona Twycross', written in a cursive style.

Fiona Twycross, AM

**Chair of the London Assembly Economy Committee**