REPORT CHILD POVERTY CARE

Poverty proofing the future of early years childcare

Expansion of funded early years childcare in Scotland must focus on children aged 1 and 2, and be designed to reduce poverty as well as costs.

Published on: 25 April 2024
Written by: Jack Evans, Carla Cebula

Reading time: 64 minutes

Executive summary

Despite the significant uplift in funded childcare available for families with 3 and 4 year olds in Scotland, families experiencing poverty still struggle to afford, and therefore access childcare, particularly for younger children.

As a result, there is still work to do in designing an early years childcare that gives children the best chance of growing up free from poverty.

And we start from a strong platform, parents value their existing childcare highly. This report shows that across all income groups parents report benefits to their children's social and learning development.

However, this report also shows that a ‘do nothing’ approach to early years childcare would leave behind families on low incomes. The current system keeps low-income parents locked out of the labour market, stuck in less secure jobs, and childcare eats into household budgets, while child poverty scars the lives of hundreds of thousands of children.

Despite well-evidenced delivery challenges with the existing offer, addressing them must be done in parallel with expansion.

We show that 9 in 10 of parents with an under 5 agree that more funded early years childcare should be available. And we have asked them what they want, detailing a possible expanded offer: 35 hours per week, all year, for 3 and 4 year olds and 25 hours per week, again all year, for 1 and 2 year olds.

This report models the impact of that offer if it were to be made universally available, and universally free, and while the impact on poverty is positive, it is marginal. It is the impact on disposable income that is great. We can show a fourfold increase in the disposable income of a low-income household via a newly funded offer. This would create a genuinely life-altering breathing space for families that have been made to struggle too much with incomes too low.

And the benefits of such an offer go beyond household budgets. Parents see an extension of funded support as not just boosting incomes and reducing costs, but as a way of improving their whole families' wellbeing. This was most common in families with children under 3, where almost 9 in 10 (89%) cited this as a benefit of a potential extension.

An expansion would also increase parental labour market participation. We found that 2 out of 3 parents would work more if there was more funded provision. It is not just the amount of work that would change, but the type as well. Over half of parents told us an expanded offer would enable them to look for more secure work.

But the indicative cost of our example offer, an additional £2.2 billion per year, creates a challenge to government. Clearly such a cost, with a limited impact on reaching the child poverty reduction targets, is difficult to justify in the face of the impact such a sum could have if invested in directly increasing household incomes. Yet the status quo, and its stifling impact on household budgets, demands change.

That is why low-income families must be prioritised in a wide expansion of early years childcare.

It is beyond the scope of this report, but such an expanded offer must also be supported by a more effective labour market. With mothers continuing to take on most of the unpaid early years childcare, any expansion is undermined by a labour market that continues to underpay women and undervalue the work that they do.

Ultimately, to effectively harness childcare as a means for parents to earn and keep their incomes we need to first work with parents to design a new offer. But we also need a wider debate about the best method of funding and ensuring good take-up, particularly for children growing up in poverty.

This report concludes that:

- A new early years childcare offer for 1 and 2 year olds is needed.
- Low-income families should be prioritised for any expansion in the first instance.

- A new offer will require exploration of how to best focus public funding on low-income families.
- A new offer would enable parents to find secure work and more hours, and this should be supported by complementary labour market, economic development and employability strategy with a particular focus on women.

1. Introduction

Early years childcare as a poverty reduction tool is a key policy in the Scottish Government's mission to reach the 2030 child poverty targets.

Reports by the Joseph Rowntree Foundation (JRF) and others repeatedly highlight that low-income parents see a lack of affordable early years childcare as a significant barrier to increasing their earnings and/or a significant cost to them that is keeping them in poverty.

The voices of the parents we have worked with demanded we write this report. We thank them for their time and dedication.

The relationship between early years childcare, poverty and work is complex and is personal to individuals and families. This can make it difficult to target additional support at those families who need it the most and to the parents who need and want it, but we attempt to unpick some of these complexities in this report. This can result in broad assumptions being made about why and how early years childcare should be reformed that do not reflect what we hear from parents in this report.

Through a combination of polling, modelling and desk-based research we show what parents want from early years childcare and what impact that would have on child poverty rates as well as their disposable income.

We find that further child poverty reduction potential of early years childcare is limited in the context of the 2030 targets, due to the way they are measured, and that universal expansion is likely to be prohibitively expensive in the current public spending context.

That being said, the status quo is a bad outcome.

We know challenges exist with the existing offer. Parents still find their choices limited in some areas, even those accessing funded hours still report costs as too high and the sector itself is fragile after the expansion (Audit Scotland, 2023a). However, if we are serious about our national mission to reduce child poverty, we must have sights on what is next as well as fixing the existing system. This report centres on the former.

By reducing early years childcare costs we can dramatically increase household disposable income, with the biggest impact seen for low-income families. So an expanded offer should be designed and targeted at low-income families and while the impact on the child poverty targets would be modest, the improvement in quality of life of families, particularly for those currently struggling to get by, is potentially great.

Crucially, every effort must be made to make the labour market accessible so that families can thrive and individuals can make choices about their work that suit them. The cost of childcare must not dictate financial security, lock people out of the labour market and should not trap people in low-paid work. The evidence included in this report should act as a touch point for the further development of funded early years childcare that is so clearly needed.

2. Current tensions and consensus in early years childcare policy-making

The Scottish Government notes 3 key policy purposes of providing good early years childcare:[1]

1. poverty prevention: closing the attainment gap
2. poverty reduction: removing barriers to work, training or study
3. increased family resilience: better health and wellbeing for children and their families.

While we recognise that all of these are critical to creating the best early years childcare option for parents and their children, our focus in this work is on the second policy aim, although we will touch on policy objectives 1 and 3 where relevant. We have focused on poverty reduction as, with just 6 years to meet the Statutory Child Poverty Targets, it is time for the Scottish Government and Parliament to be turning over every rock to make progress.

Our focused investigation of this aspect of the policy is not to suggest that the others are less important. Indeed, we show that parents themselves highly value other aspects of childcare, critically their children's wellbeing and learning, as well as its ability to facilitate their employment. But the reality is that it is the aspect of childcare that can erode child poverty within the 2030 time frame. While we have taken an approach that will focus on households with low incomes, it is the impact on women that is most crucial to child poverty. We address this throughout the report, but there are some aspects that are not captured within the analysis. For example, we have not looked at the longer-term impacts of early years childcare on women's labour market participation or workforce issues about the childcare sector itself, which is over 90% women. There is also a challenge in how we look at poverty and income at a household level rather than having gender-disaggregated data. It can overstate women's financial security and hide poverty.

This section will look at consensus and tensions between the 3 policy purposes, the current early years childcare offer and what parents want for their children.

In October 2023 we worked with the Diffley Partnership to conduct a survey of 510 parents in Scotland with one or more child under the age of 5. We asked parents about their current use of early years childcare, their experience of their current childcare offer and what they want from future offers. This report will draw upon the survey to fill the knowledge gaps around what parents want from early years childcare.

We find evidence to suggest that parents agree that their current early years childcare does reflect the policy aims of the Scottish Government, however, there is some variation across different family groups.

Poverty prevention: supporting child development for all children

Almost half (49%) of parents selected that one of the top 3 benefits[2] that they have observed of accessing childcare is that it is good for their child's learning and language development. This was relatively consistently selected across family types although was less likely to be selected as a top benefit of childcare for low-income families – with 41% of low-income families selecting this compared to 53% of middle- and high-income families. This could be due to a number of factors such as different priorities for childcare (as respondents could only select their top 3) or different assumptions about the purpose of early years childcare.

Nearly two thirds (65%) of parents noted a top benefit being their child's social development, a wider aspect of their child's development. This was found consistently across groups, including incomes.

Parents were asked whether they thought more childcare would benefit **their child**. Reflecting the findings around current childcare, nearly 3 in 4 parents (73%) felt that additional childcare would benefit their child.

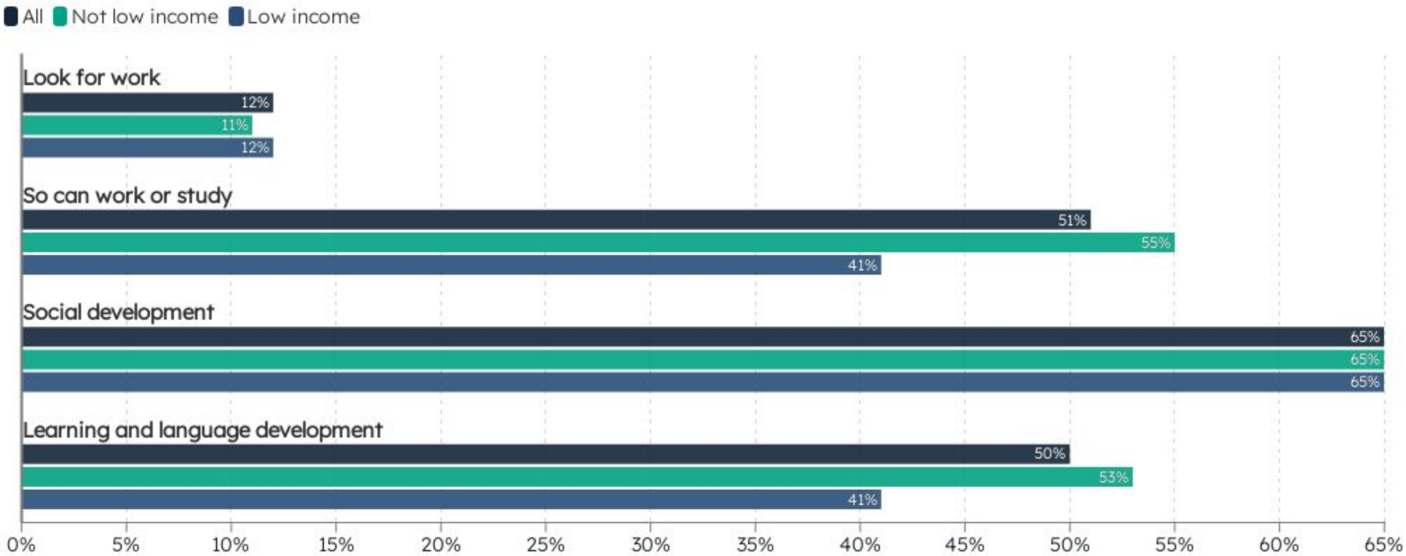
Poverty reduction: removing barriers to work and study

Around half of parents (51%) said that a top benefit of their current childcare offer was that it allowed them to work or study, while one in ten (11%) said it allowed them to look for work.

Focusing on low-income families, fewer felt that being able to work or study was a top benefit of their current childcare, 2 in 5 parents (41%) compared to more than half (55%) of middle- and higher-income families.

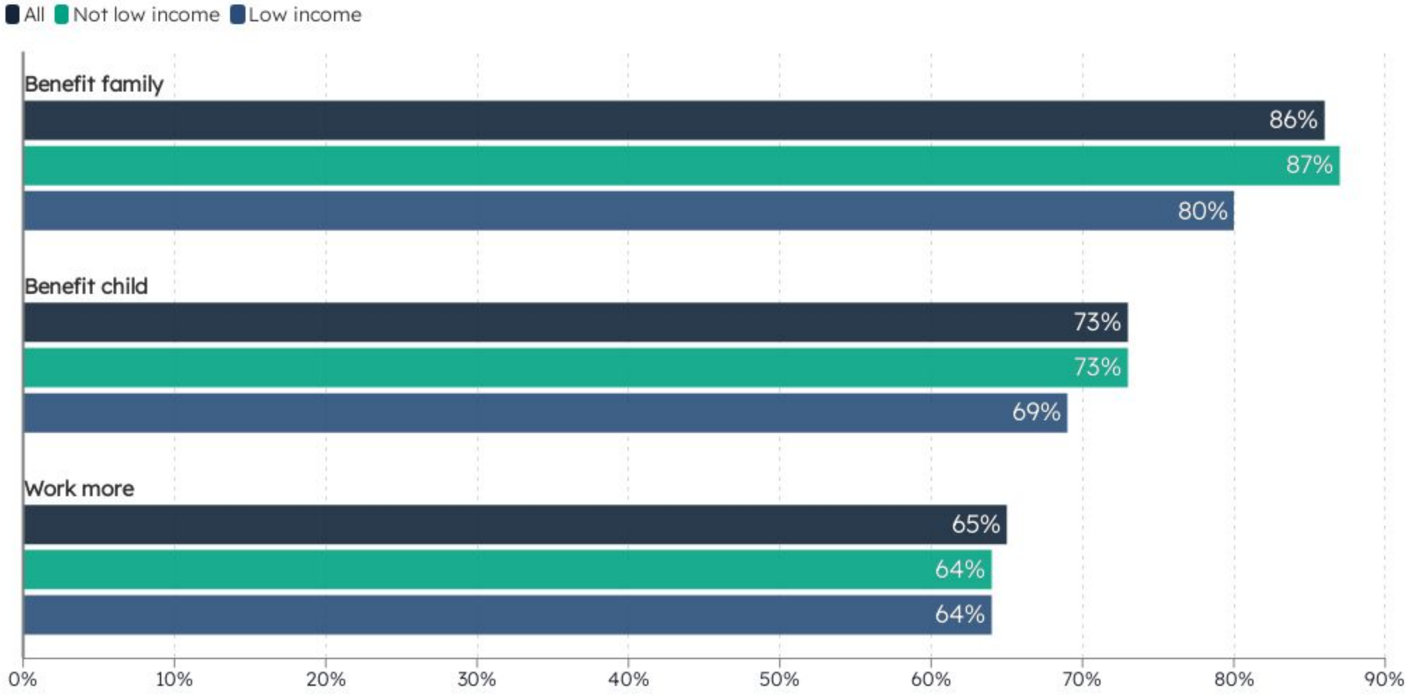
What came out most strongly in asking parents about the impact of additional childcare on work was that it would allow parents to work more and for many to find better quality work (see section 3). Nearly 2 in 3 parents (65%) said that more childcare would mean that they would work/study more. The same proportion of low-income parents agreed they would work or study more. The biggest predictor of this was whether the parent was currently working and the intensity (for example, full- or part-time or not working) of their current employment. Around half of parents who could work more hours (not in work or working part-time) are working less hours than they would like due to a lack of childcare. A further 6% of parents are already working full-time but additional childcare would allow them to work more.

Figure 1: The top benefits of the current early years childcare offer by income



Source: JRF analysis of a JRF survey of 510 parents of an under 5 conducted by the Diffley Partnership

Figure 2: The benefits of having access to more early years childcare by income



Source: JRF analysis of a JRF survey of 510 parents of an under 5 conducted by the Diffley Partnership

Increased family resilience

Parents were more likely to emphasise the benefit of childcare for their child when giving the top benefits of early years childcare, compared to benefits to themselves or more general family life. For example, selecting the top 3 benefits of childcare just 3% said it allowed them to carry out other caring responsibilities, 7% said that it allowed them to look after their home and 9% said it gave them time to rest.

However, nearly 9 in 10 parents (85%) said that more free childcare would benefit their family. This was notably reported more by families with an under 3 (89% reporting this as a benefit) compared to families with a 3 and/or 4 year old (79%).

3. Specific interventions on work

The second policy objective is where early years childcare links to work, earnings and poverty reduction. We see 3 ways that childcare could boost incomes from work:

1. It allows parents to increase their work hours, this could be from a base of no work, but it could also mean some parents moving from part-time to full-time work.
2. It allows parents to access better paid work, this is often through the move from part-time to full-time work where we know there exists a pay gap.
3. It allows parents to get more secure work, this gives families a more stable income, helping families to plan and have less 'lumpy' incomes.

It is also important to note that the dynamics between work and childcare are complex. For families currently paying for childcare (either in full or for additional care over the amount of free provision), some may work at least some of their time to cover the additional costs of childcare. This may mean that they reduce their work hours when additional free childcare is provided, while for others they will continue to work the same amount and have increased disposable income.

Work patterns for families with an under 5 in Scotland

It is important to understand the current work patterns of parents with an under 5 if we are considering how parents might alter their work hours if they were offered more free early years childcare. It is also critical to understanding the poverty-reducing impact of childcare as a policy tool.

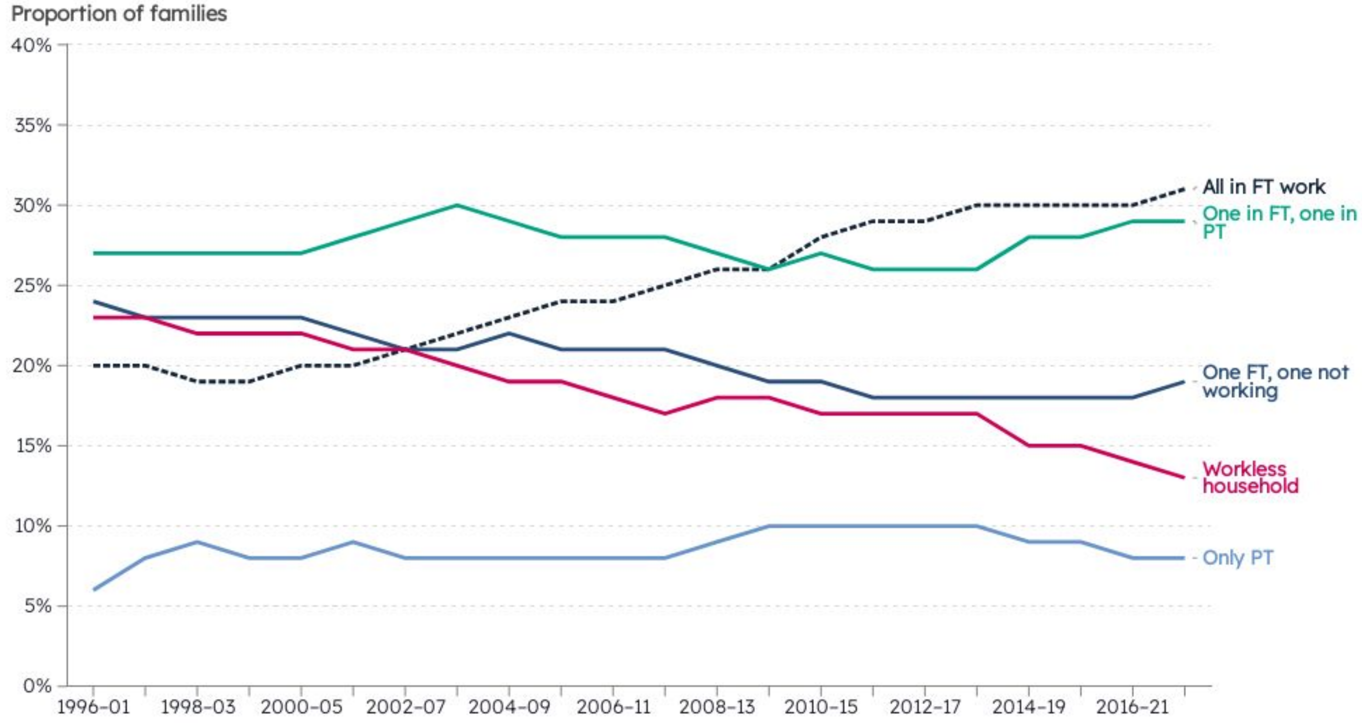
In general, parents with an under 5 are already working a lot. At the family level we see that for many families both parents are already working and therefore the gains to be made in moving parents into work is relatively low when looking at all parents.

Figure 3 shows that over the last 20 years the proportion of families with an under 5 where all parents are in full-time (FT) work has steadily grown from around 1 in 5 families to 1 in 3 families. This has been matched with a decline in families that are workless and, from around 2007–12, a decline in families where one parent works full-time and one is not working. This means that, in 2017–22, the majority (60%) of families with an under 5 have all parents in work.

The dominance of both parents being in full-time work is a new trend but one that has been rising since the financial crisis.

For families with an under 5, where one parent is working full-time and a second parent is not working or working part-time, the parent not on full-time hours is nearly always a woman. This shows the potential impact on gender equality that could occur by increasing childcare provision, with mothers' current work patterns being most likely to change.

Figure 3: Family work status for families with an under 5 between 1996–2001 and 2017–22

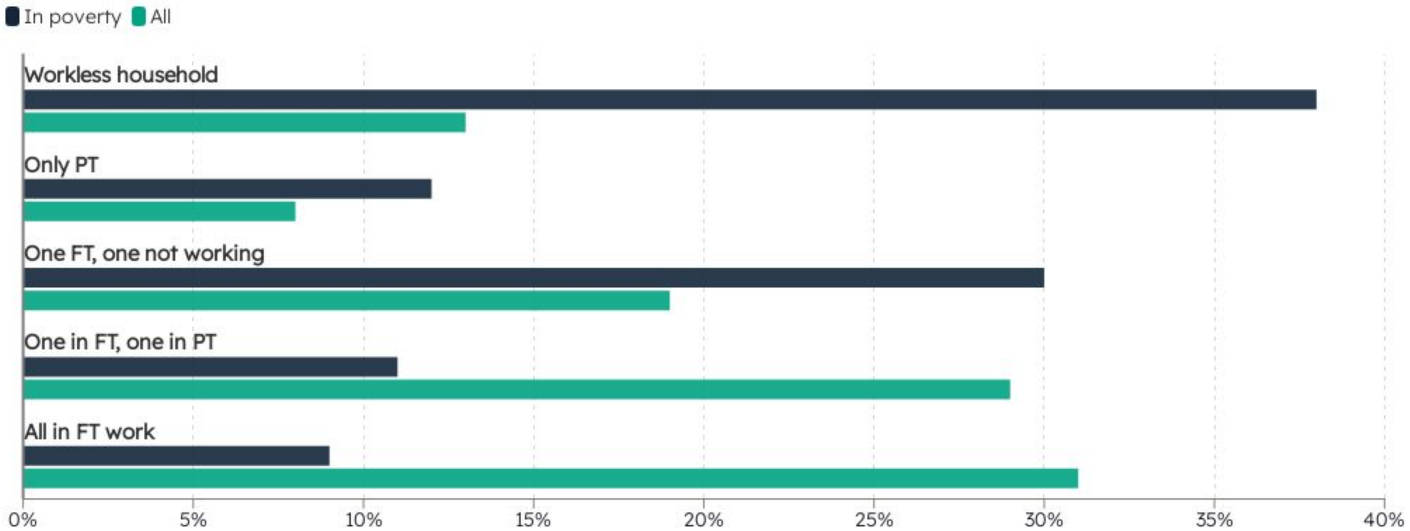


Source: JRF analysis of Households Below Average Income

When we focus on families in poverty, Figure 4, we see slightly different family work patterns in 2017–22. This is not surprising as work, particularly full-time work, protects families from falling into poverty.

A higher proportion of families in poverty with an under 5 have no one in work or have one parent working full-time and one not working than is seen for all families with an under 5. For some of these families, the cost of childcare could be prohibitive to accessing work, particularly for single parents, while for others work may not be feasible due to a disability or other caring responsibilities.

Figure 4: Family work patterns for families with an under 5, by income



Source: JRF analysis of Households Below Average Income

Work and current early years childcare use

Modelling by the Institute for Public Policy Research (IPPR) Scotland (Whyte et al., 2023) shows that the current 1,140 hours offer is likely to be holding around 10,000 people above the poverty line through the work they can do while their child/children are in childcare. However, there are complicated dynamics in balancing hours of work, hours of childcare, income from work and cost of childcare. This means that, when parents access free funded childcare, we would expect parents in lower income families to move into work/more work. For higher income families that are working to cover childcare costs, some parents may work less due to reduced childcare costs.

From our survey of parents, we find that only a slightly higher proportion of parents in low-income families who are not accessing free funded childcare are not in employment than parents in similar families **with** funded free childcare.[3] This suggests that access to funded childcare can help low-income parents into work, yet, with high levels of employment for families without funded care, it is clear that many parents are already using informal or private childcare to access work.

We also see a slightly higher proportion of parents in low-income families without funded free hours working in the lowest hours bracket (1–20 hours) while a higher proportion of parents in families with funded hours are in the higher hours part-time group (20–35 hours). This suggests that the funded offer is helping low-income families to work more hours and again highlights this complicated balancing act between work, income and childcare costs.

Increasing work hours through greater access to free early years childcare

In our survey of parents with an under 5 we asked 2 questions on how parents might make changes to their work hours if they had access to more free funded early years childcare: one is comparative while the other is more attitudinal. We asked parents how many hours they would work if they had access to more free childcare (comparative question): this allowed us to compare to the number of hours they currently work, and we asked whether parents would increase their hours of work or study (attitudinal question).

Nearly half of responding parents (48%) said they strongly agree that they would work or study more hours per week if there was more free childcare provision and a further 17% said they tended to agree.

This tells us that expanding funded early years childcare has the potential to unlock greater economic activity and increase incomes.

However, there are 2 notes of caution that come with this finding. First, we have not done analysis to show whether there is capacity in the labour market for this level of increased activity.

Secondly, while one aim of funded early years childcare is to reduce poverty via increasing earned income, there is a question of how much this expensive intervention is holding up or perpetuating low-quality employment. This is a fundamental challenge for policy-makers. Would increased childcare be required if more employers embraced fair work principles? What effort is being made by employers to drive down costs of childcare via increases in flexibility?

As key beneficiaries of a well-designed childcare offer, employers must be involved in these types of discussions.

Through the comparative question, by comparing the hour bands that parents selected for their current hours of work to the hours they would work if they had additional free childcare, we can see whether parents wish to change their hours enough to move between hours bands. We see that around 1 in 4 responding parents (23%) would increase their hours enough to move to a higher work-hours band. Around half would have the same hours band (52%). Nearly 1 in 4 responding parents (23%) would reduce their hours enough to move between hours bands. For low-income responding parents, 32% would increase their hours and 15% would reduce their hours. As mentioned previously, the balancing act of hours of work, hours of childcare, pay and the cost of childcare may mean that some parents are currently working to cover the cost of their childcare, meaning that some parents might work less if more funded childcare was available.

When we compare these questions we see that around 14% of responding parents answered the opinion question by saying that they would increase their hours yet selected a lower hours band, while 2% said they would increase their hours band but would not work or study more if there was more free childcare. The unclear elements of this work shows 2 things:

1. It is difficult for respondents to predict the relationship between hours of childcare and number of work hours they would work when thinking about prospective changes.
2. For a significant number of parents increases in hours worked are likely to be minimal and therefore not captured by a move in the work hours band that is selected.

Table 1: Comparison between attitudinal and comparative questions

Change in hours band	"I would work/study more hours per week if there were more free childcare provision"					Total proportion of parents
	Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree	

Reduce hours band	9%	5%	4%	3%	1%	23%
Same hours band	21%	8%	10%	5%	7%	52%
Increase hours band	18%	3%	1%	1%	0%	24%
Not in work/study	0%	0%	0%	0%	0%	2%
Total proportion of parents	48%	17%	16%	9%	9%	100%

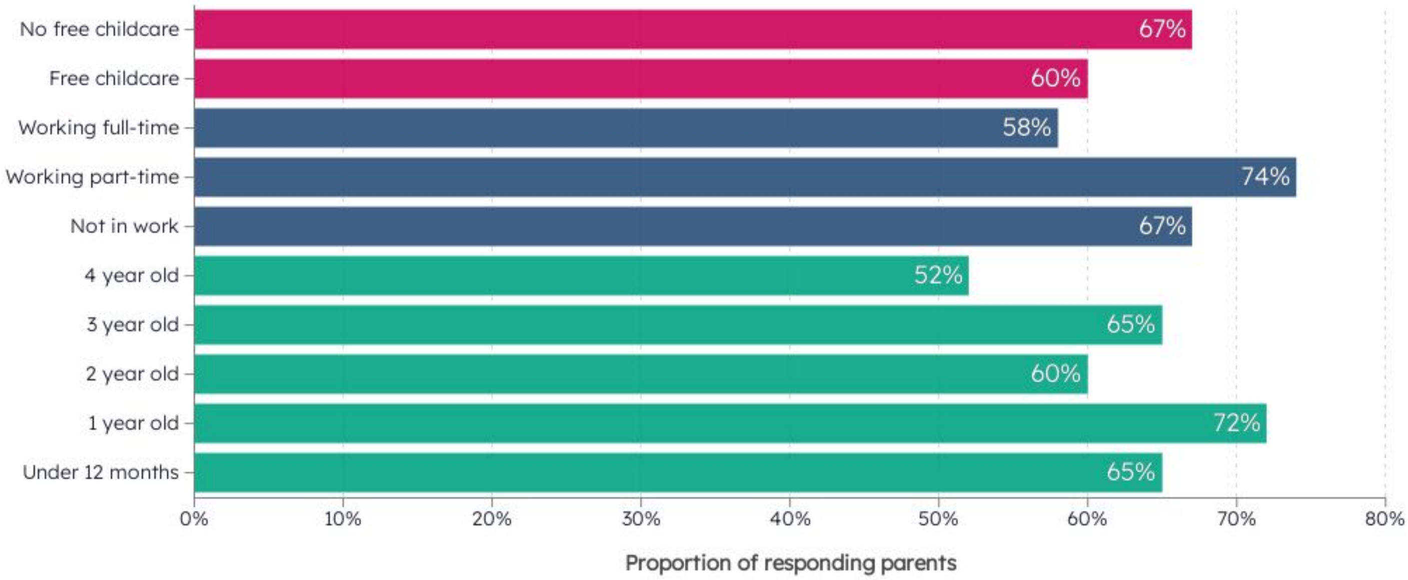
Who is more likely to increase their work hours with more free early years childcare?

Income group was not a strong predictor of whether people said they would increase the amount of work that they would do, with nearly 2 in 3 low-income and high and middle-income parents (64%) saying that they would work or study more if they had more free funded care. We also saw little variation by the gender of the responding parent, this is surprising when we know that the majority of unpaid childcare is undertaken by women.

When looking at a number of groups, we see that, across the board, the majority of responding parents say that they would work more hours if there was more free funded childcare. However, we do see some variation by the age of the youngest child, parent work intensity (for example, full or part-time or not working) and whether parents are currently using free childcare. It is important to note that these 3 groups are tied together due to the current early years childcare offer and its relationship to work.

Responding parents with younger children were more likely to say that they would work more hours. Nearly three-quarters of parents (72%) whose youngest child is 1 year old said this, compared to just over half of parents whose youngest child is 4 years old (52%). Parents who are not currently accessing free funded childcare are more likely to say that they would work more hours than parents who already have access to free childcare (67% compared to 60%). This is likely linked to child age as the majority of the current offer is to 3 and 4 year olds. Responding parents who are currently working part-time were much more likely to say that they would increase their hours of work (74%) than parents working full-time (58%). For salaried full-time workers, it is unlikely that increasing work hours is possible; however, for hourly paid workers this might be possible.

Figure 5: The proportion of parents who would work more with more funded early years childcare



Source: JRF analysis of a JRF survey of 510 parents of an under 5 conducted by the Diffley Partnership • Note: The ages shown are the age of the youngest child.

Focusing on parents who said that they would increase their work or study hours if there was more funded childcare, we can more closely interrogate how changes to their current and desired work hours relate to work intensity. When we look at parents' current work intensity and compare it to the work intensity of their desired work hours, we see that around 3 in 20 (14%) responding parents who said they would work or study more wanted to move from part-time to full-time work, while nearly 1 in 10 parents (9%) wanted to move from no work to part or full-time work.

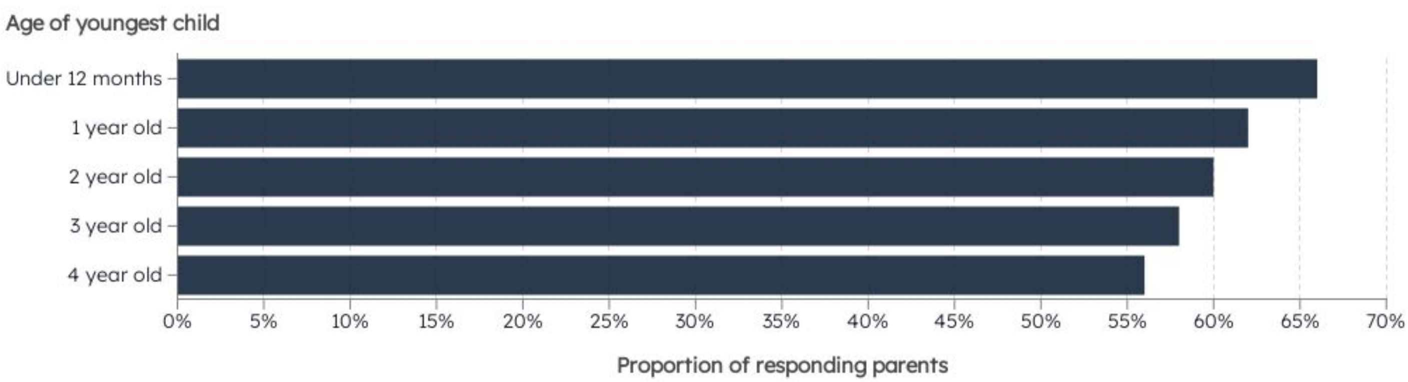
The majority of parents in work would keep their current work intensity, even if they said that they would increase their hours of work or study (60%). This could be because they would use this additional time to study, or that the increase in their hours is not sufficient enough to move someone from part-time to full-time work. If more childcare was offered, nearly 1 in 4 working parents (23%) said that they would increase their hours but would continue to work part-time and just less than 2 in 5 (38%) said they would increase their hours but continue to work full-time.

Finding better paid work with more hours of free funded early years childcare

We know that there exists a part-time work pay gap (Close the Gap, 2022), with part-time work being found in predominantly feminised and low-paid sectors. This presents many parents with a challenge to find suitable work that fits with the amount of care they want for their young children. We asked parents whether more childcare provision would allow members of their household to find better paid work. Nearly 2 in 3 parents (63%) said that more childcare would allow someone in their household to find better paid work. In this survey we find that around half of parents in families where everyone works full-time said that more childcare would allow them to find better paid work. This increases to 64% of parents in families where one or more adults work part-time and 71% of parents in families where someone is not working.

We do not see a great amount of variation in this response across different characteristics, with the exception of age of the youngest child. Just over half of parents (56%) where the youngest child is a 4 year old report that more childcare provision would help them to find better paid work, increasing incrementally as children get younger, to 2 in 3 parents with a baby (66%).

Figure 6: The proportion of parents who reported that more early years childcare would allow someone in their household to find better paid work



Source: JRF analysis of a JRF survey of 510 parents of an under 5 conducted by the Diffley Partnership

Increasing employment security with more hours of free funded early years childcare

Finally, we also asked whether having access to more free childcare would allow parents to find more secure work. Similar to pay, we also know that part-time work can be one characteristic of insecure work (Florisson, 2024). Furthermore, those in part-time work are less likely to be able to progress in their role (Nightingale, 2019). In addition to this, people with lived experience of poverty have told us that a lack of flexibility in childcare makes it a challenge to do irregular, insecure or shift work.

Half of responding parents (52%) agreed that more childcare provision would allow members of their household to find more secure work. However, there are some key groups where access to appropriate levels of childcare appears strongly linked to their ability to find more secure work:

- 57% of parents in low-paid families agreed that it would help a member of their household find more secure work, compared to 45% of middle and high-income families
- 58% of families with a baby agreed
- 70% of parents in a family where one or more person is not working agreed, compared to 38% of parents in families where everyone is working full-time.

This highlights the complex interlinking nature of early years childcare, income, work intensity and employment security.

4. Spatial differences

Previous research highlighted variation in early years childcare between different locations, in how free funded childcare is provided, cost, flexibility and accessibility.

One challenge to understanding whether parents have access to the childcare that they need, where they want, is that parents have different preferences as to where they want to access their childcare. Some parents want to use childcare near their home while others want to access childcare near their workplace (The Diffley Partnership, 2024).

Both Coram Family and Childcare (2022) and Audit Scotland (2023b) highlight challenges in provision in more rural areas. In 2022, Coram found a decrease in provision from 26% of rural areas in 2021 to 20% of rural areas. More recently, in 2023, Audit Scotland reported challenges in recruiting early learning and childcare staff for positions in remote or rural locations, which can limit the early years childcare offer in these areas.

Close the Gap and OPFS's (2023) also notes variation at the local level. As the implementation of the 1,140 hours of funded early years childcare is at the local level, with some but not all service criteria set nationally, different local authorities provide varying levels of flexibility. This has resulted in some local authorities providing inflexible provision. This has particularly challenging effects for women, limiting their opportunities to work.

JRF's polling is unable to drill down into each local authority or region. However, it was clear that parents in the Highlands and Islands had more challenges with access to the childcare that they wanted/needed. Over half of parents (54%) in the Highlands and Islands said that a downside of childcare was difficulty finding suitable options and half said that there was a lack of provision in their area (51%). This is compared to 1 in 4 parents (26%) in Scotland who reported a lack of provision in their area and 2 in 5 (39%) who said they had difficulty finding suitable options.

While there are specific access challenges for parents in rural and remote areas, work undertaken by the Care Inspectorate (2022) found that parents in densely populated urban areas faced different access challenges, such as limited or lack of spaces.

From parents' perspectives, JRF and Save the Children (2022) found that parents are also constrained by the types of childcare available for their children based on their age and needs (for example, disability/additional support needs):

"I get frustrated, some nurseries, they only take certain age ranged kids. So if you want your kid to go in younger, you don't have a lot of choice and if you don't have a car it makes it even worse trying to drive a one-year-old to a nursery that's 5 mile away."

Parent

5. Child age and variation in early years childcare offer

This section will try to answer 3 key questions:

1. Do parents with children aged 3 and 4 want more than the current offer?
2. How many hours of funded early years childcare do families with younger children want?
3. What are the key differences in the childcare asks for families by age of their youngest child?

What do families with younger children see as the key benefits of early years childcare?

The majority of the top benefits of childcare that were identified by parents with a young child were the same as were identified by parents with older children. Their child's social development, learning and language development and to allow the parent/other parent to work/study were in the most selected options for parents of children from birth to 4 years. Parents of very young children were more likely to include "to give my child(ren) the opportunity to have new experiences" in their top 3 benefits of childcare while parents of 3 and 4 year olds were more likely to select "to help prepare my child(ren) for school".

It is clear that parents with a baby are less likely to select work/study as a top reason while parents of babies and 1 year olds are slightly more likely to select a top benefit of childcare as "to give my child(ren) the opportunity to have new experiences".

Table 2: Top reasons why parents of under 3s use childcare

Top reason for using childcare	Age of child		
	Baby	1 year old	2 year old
It is good for my child(ren)'s social development	60%	66%	63%
It is good for my child(ren)'s learning and language development	56%	43%	56%
So that me or other members of my house can work/study	46%	58%	52%
To give my child(ren) the opportunity to have new experiences	35%	35%	28%

Focusing on parents with just one child under 5 we see a generally similar selection of the most popular ‘top benefits’ of childcare, but there are a few benefits that are of more relevance to parents with children of certain ages.

Parents of 1 and 2 year olds are more likely than parents of babies or 3–4 year olds to say that a top benefit of childcare is “that me or other members of my house can look for work/study”. This is likely linked to a combination of young babies requiring more time with parents and parents of 3–4 year olds already having a significant free funded childcare offer, meaning they are more likely to be in work at the moment.

Parents of babies are less likely than parents of young children aged 1–4 to give “my child(ren) likes spending time there” as a top benefit.

Parents of 3 and 4 year olds are almost twice as likely as parents of younger children to give “to help prepare my child(ren) for school” as a top benefit of childcare.

Table 3: Top reasons for using childcare for families with just one child under 5

Top reason for childcare	Age of child				
	Baby	1 year old	2 year old	3 year old	4 year old

So that me or other members of my house can look for work/study	5%	12%	16%	7%	9%
My child(ren) likes spending time there	7%	15%	18%	20%	16%
To help prepare my child(ren) for school	28%	23%	20%	44%	40%

This suggest that while there are some differences in parents' motivations around using childcare for their child, the majority of parents share the same top benefits. Most parents balance the benefits of childcare for their child's development and wellbeing with going to work.

How many hours of funded early years childcare do parents want?

We see that the majority of parents, whatever the age of their child/children, share a similar understanding of the top benefits of childcare, particularly child development and parents' ability to go to work. However, we also know that the needs of children vary with age. In relation to the hours of childcare that parents want, child age is strongly connected with their dependence and attachment to parents. For parents with a baby there are distinct aspects to this life stage that will affect this; mothers need time to recover after birth and a significant majority of families take maternity, paternity or adoption leave in the first year of their child's life. For older children, we also know that parents view childcare as helping to prepare their child for school, which could affect the hours of childcare they want to use and that they think their child could manage.

Considering these differences in both children and parenting in the early years we expected the number of hours of childcare that parents want to use to increase with the age of their child. In addition to this, we have also assumed that parents in families with more than one under 5 will only be able to work the hours used for their youngest child, since these are likely to be lower. Therefore, in this section we will focus on the age of the youngest child and the hours of childcare that parents want.

Figure 7 shows the proportion of parents who selected each hours band by the age of their youngest child. The age bands ranged from no hours of childcare up to 50 hours or more. The diagram shows 2 bars as highlighted: pink is the proportion of parents who would not want any childcare and in bright green is the proportion who would select the current offer of roughly 30 hours per week (note, this is a generous assumption as the current offer is only during term time and therefore works out as around 24.5 hours a week if used year round, excluding legal holiday allowance).

Across the age group of the youngest child there is no firm consensus on desired hours of childcare. However, there are some observable patterns and preferences.

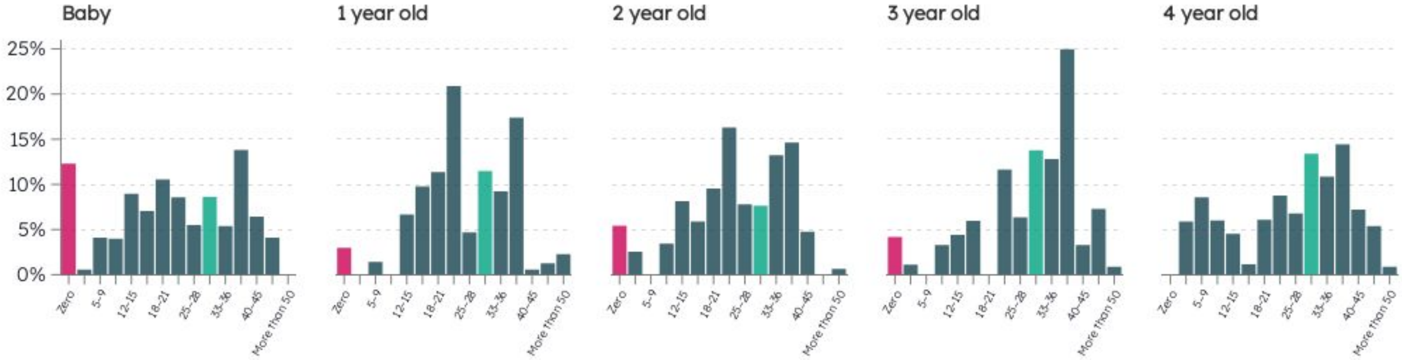
Parents with a baby were less likely to want to use childcare than families with older children. 12% wanted no hours of childcare. And 1 in 10 (9%) would like the current offer of 30 hours per week. However, the hours selected are much more varied than for parents with older children, for example, 14% said that they would like between 36 and 40 hours of childcare and 11% said they would like between 18 and 21.

Parents where the youngest child is aged 1 or 2 have more similar desired hours of childcare as do parents of 3 and 4 year olds.

Parents of 1 and 2 year olds, the majority of whom will have no funded childcare now, showed a general preference for between 21 and 25 hours (21% and 16%) followed by 36–40 hours (17% and 15%), with an average desired hour of childcare of 23 hours.

Parents of 3 and 4 year olds had an average of 30 desired childcare hours, around the level of the current offer. However, around 1 in 5 parents (19%) where the youngest child is aged 3 or 4 selected the hours band 36–40 hours.

Figure 7: Minimum desired hours of childcare by youngest child in the family
Proportion of parents selecting each hours band by youngest child in the family



Source: JRF analysis of a JRF survey of 510 parents of an under 5 conducted by the Diffley Partnership
Highlight colours: Pink = no hours of care, Green = current offer of 30 hrs

Finally, it is evident from this analysis that there are some families who wish to use 50 hours or more of childcare. However, this covers less than 1% of families with an under 5. Less than 1 in 10 (8%) would like between 40 and 50 hours, particularly families where the youngest child is under the age of 3.

Reflecting back on the 3 questions posed at the beginning of this section, there is evidence to suggest that parents where the youngest child is aged 3 or 4 years old want slightly more hours than the current offer – definitely more than the current offer if spread across the full year.

The vast majority of parents where the youngest child is aged 1 or 2 years old would use some childcare. This analysis suggests this is slightly less than the current offer for 3 and 4 year olds but more than their current offer which is limited to low-income families.

For parents with a baby, the childcare needs are much more mixed and this is likely due to the vast changes in babies between birth and turning one years old. Over 1 in 10 parents of babies (12%) said they wanted no hours of childcare.

It is clear from looking at parent attitudes and the literature on this topic that child social and language development and parents' ability to work are key requirements of childcare irrelevant of child age.

6. The cost of early years childcare for parents

There is a clear consensus that parents of under 5s feel like the high cost of early years childcare is a disadvantage of the current early years offer, with 4 in 5 parents (82%) selecting it as a downside in our survey, reflecting the findings of earlier research (Scottish Government, 2022). This section looks at parent satisfaction with cost by child age, use of free funded provision, family income and area deprivation.

From previous research we already know that there exists a complicated balancing act for parents in weighing up the cost of childcare against being able to access more/better work and in turn increase incomes. This results in a less binary relationship between incomes and spending on childcare. For example, a survey by the Scottish Government (2022) found that low-income parents are spending less on childcare than higher income parents. Even for parents who are eligible for the 1,140 hours of childcare, the average monthly household spend on childcare for those earning more than £60,000 was £330, whereas those on lower incomes spent on average £251–84.

Childcare cost, child age and free funded care

3 in 4 parents with at least 1 child who is currently accessing free funded early years childcare still report high costs as a downside. This rises to nearly 9 in 10 parents (87%) who have no children using free funded childcare.

While this suggests that parents with access to free childcare are less likely to list costs as a negative factor, a significant majority still have this view. It may be that parents of some 3 and 4 year olds will also have younger siblings who are not entitled to free early years childcare provision.

Focusing on parents where the youngest child is a 3 or 4 year old, who are much more likely to be accessing free funded childcare than parents of younger children due to the age limits on the current offer, we see similar responses around the high cost of childcare: 75% of parents whose youngest child is 3 and 70% of parents whose youngest child is 4 said that a downside of childcare is the high cost.

This suggests that the current early years offer is not meeting the needs of families, both those with a current free offer and those without. There could be many reasons why parents feel that childcare remains too costly:

- Parents working full-time do not receive enough hours through the funded offer.

- Parents are unable to access a provider who can offer funded places.
- Parents are unable to access a combination of providers so end up paying for their childcare in full.
- Parents are unaware of the current offer.

Work and early years childcare costs

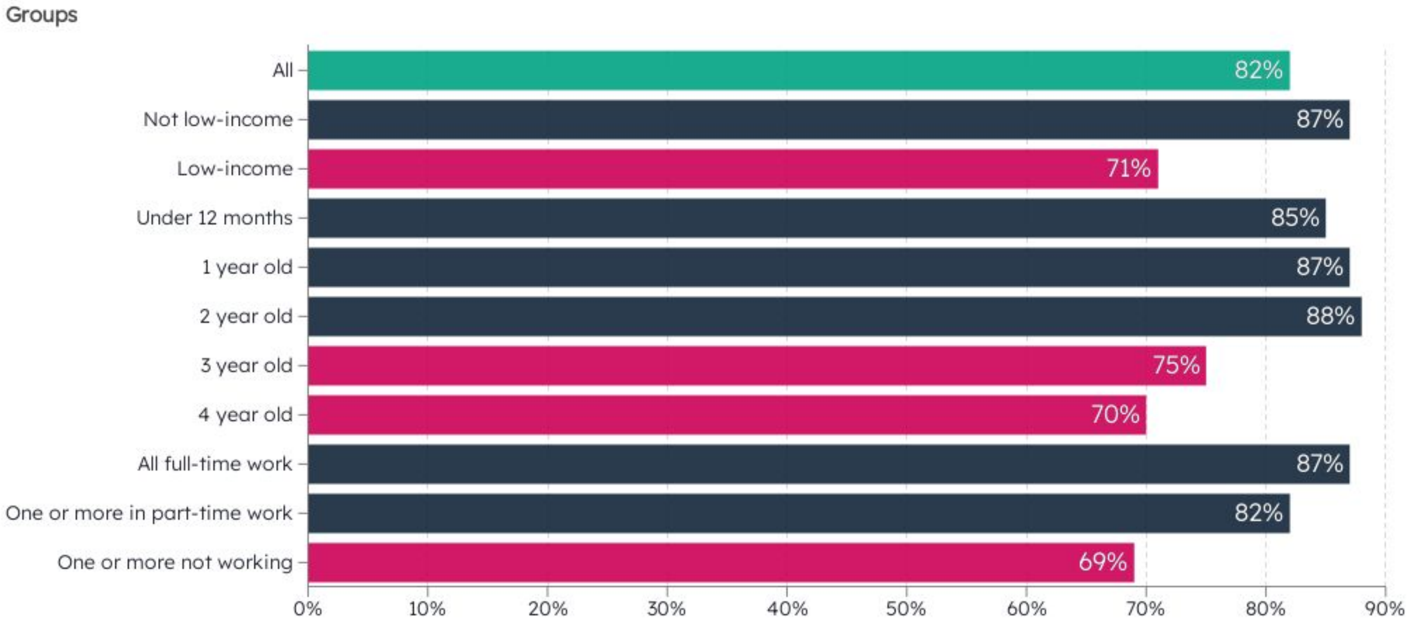
Nearly 9 in 10 parents (87%) who are in families where the adults work full-time said that a downside of childcare was its high cost. This falls to just 8 in 10 (82%) when one or more parent is working part-time and then to 7 in 10 (69%) for families where one or more person is not working.

Where one or more parent is working part-time or not working, parents are more able to cover work hours with the current offer if their child is aged 3 or 4.

For parents working full-time, the current offer is unlikely to cover parents' required hours without the household being one with 2 adults able to work flexibly. This means that they are more likely to need to cover these additional costs themselves.

The proportion of parents where one or more is not in work who report that a downside of childcare is the high cost is striking. This could be due to lower incomes for such families and/or the cost benefit analysis between high cost of childcare and taking on work.

Figure 8: The proportion of parents reporting high costs as a downside of the current early years childcare offer by income, age of youngest child and family work status



Source: JRF analysis of a JRF survey of 510 parents of an under 5 conducted by the Diffley Partnership

Household income, area deprivation and childcare costs

Low-income families and families in the most deprived areas of Scotland were less likely to say that high costs were a downside of early years childcare. There could be a number of reasons for this:

- Some low-income families will have funded free care from the time their child is 2 years old.

- Low-income families are less likely to have everyone in full-time work and therefore need fewer hours of childcare.
- Low-income families are less likely to use early years childcare.

All of which mean low-income parents are likely to be using fewer hours of paid childcare.

However, previous work by the Scottish Government (2022) found that parents in more deprived areas were more likely to report difficulties in affording childcare. This makes sense, low-income families may tend to spend less on childcare, but because their incomes are lower, the cost eats up more of their disposable income.

7. What do parents want from their early years childcare?

From the wider evidence and results from our polling it is clear that, across the board, parents want affordable early years childcare that supports the development of their child. There is a clear balancing act for parents to work out the best solution in terms of hours of work, hours of childcare and childcare cost. For example, some parents may choose to work to cover the cost of childcare, while others may choose to look after children themselves to reduce the amount they spend on childcare.

Considering what parents want from their early years childcare there are clear links to the Scottish Government's 3 policy purposes, although these may take different forms and perspectives:

1. **Poverty prevention:** It was evident from both the evidence review and polling that child development was a top reason for parents to use early years childcare. This is a vital benefit that is valued dearly by parents and that will have a long-lasting impact on children and families. It should be championed, protected and built upon. There is a lack of good data on current take-up rates for the 3 and 4 year olds, but the low take-up of

the current offer for eligible 2 year olds (most of whom are in low-income households) (JRF and Save the Children, 2022), combined with the levels of work seen for families in poverty with an under 5, would suggest that there is lower take-up of funded childcare by low-income families. This would mean that there is a gap between this policy aim and parents' current use of childcare. It will be impossible to prevent poverty through childcare if a funded early years offer is not designed with low-income parents in mind. Critically, the aim will only be achieved if low-income parents take up their offer, so childcare needs to prioritise becoming more accessible and affordable for low-income parents.

2. **Poverty reduction:** The majority of parents think that being able to work is a key benefit of childcare. Some parents, particularly those not working or working part-time and with a baby, think that more funded childcare would help them to access work that is better paid and/or more secure. While parents see a clear link between good work and access to childcare, the extent which this can reduce poverty will be investigated further in the following section.
3. **Increased family resilience:** There was consensus from parents that increased funded childcare would benefit families. Additionally, child wellbeing was a strong reason to access early years childcare, particularly for low-income families who were more likely to report their child liking childcare and gaining new experiences as top reasons for using early years childcare. In terms of policy, this lever could be used to encourage

more low-income families to take up their funded childcare offer. It is also critical that childcare is of a high enough quality to meet these expectations, particularly in low-income neighbourhoods.

Example early years childcare offer

Most parents of 1 to 4 year olds wanted some childcare. Based on the median desired hours of childcare, we will use an example early years childcare offer of 25 hours for 1 and 2 year olds and 35 hours for 3 and 4 year olds in the following sections of this report. For parents whose youngest child is aged 3 or 4 years old, this example offer is not dissimilar to the current offer, although it would be required all year round.

The desired hours for families with a baby varied much more than for older children with around 1 in 10 parents of a baby wanting no childcare. For this reason we have chosen not to include babies in our example offer. We believe that alternative support could be put in place for low-income families with a baby, such as providing a minimum income guarantee for families with a baby (Save the Children, 2023). This would allow parents the choice to supplement incomes when not in work and/or pay childcare costs.

Furthermore, there are existing policies that could be improved to ensure families with babies have a lower risk of poverty. Statutory Maternity Pay has been an effective policy to retain women in the workforce, with over 80% of women who take maternity leave returning to their job. However, it is failing as an income replacement mechanism. In 2019–22, 1 in 3 children in a family with a baby were living in poverty, meaning that having a baby greatly increases your chance of falling into poverty.

We have previously supported the proposal put forth by Pregnant Then Screwed and the Centre for Progressive Policy that Statutory Paternity Pay is increased to a minimum of 6 weeks, during which employees would be paid 90% of their salary, aligning with the existing Statutory Maternity Pay (Fogden et al., 2023).

While the statutory rates for these policies are too low, employers should be encouraged to step up. More and more employers are seeing the value of a progressive parental leave policy. There is a clear role for more action here.

8. Transforming early years childcare into a poverty reduction policy

How can early years childcare affect household incomes and reduce child poverty?

Early years childcare can affect household incomes in 2 ways:

1. Increase incomes through work: if families have access to more childcare, they can increase their income by working more hours and finding better paid and more secure work.
2. Reduce outgoing costs: by having more funded hours, parents can reduce the amount that they spend on childcare, meaning that they have more money in their pocket after paying for essentials.

While both have a direct impact on family incomes, only the first will affect relative child poverty levels. The relative poverty line is calculated using the total income from all sources after tax and housing costs. This means that the only way childcare can pull families out of relative poverty is if it enables them to sufficiently increase their incomes from work.

Because the calculation of the relative poverty line does not include the cost of childcare or other essentials, reducing how much families spend on childcare has no impact on whether a family moves closer to or over the poverty line. However, spending less on something as expensive as childcare does of course leave families with more in their pocket. This also tends to be what parents think of, and want, when they talk about the impact of having more funded early years childcare.

Two example families can illustrate the challenges posed by childcare affordability and highlight the tension between thinking about the relative poverty line vs household disposable incomes.

In family one, one parent works full-time on low pay, but the second parent does not work as the cost of childcare is prohibitive. As a result, they rely on one parent’s income from work and on social security, and struggle to make ends meet. In family 2, both parents are working and in low-pay jobs, and because so much of their income goes on childcare costs, they are also struggling to make ends meet.

An expanded childcare offer, which significantly reduces the cost of childcare, would have positive impacts for both families. In family one, the second parent could move into part-time work, with no childcare costs, increasing their household income and spending power. For the purpose of the relative poverty line their income will have increased and their disposable income will also increase.

For family 2, they will be able to keep their jobs and the amount they spend on childcare will have fallen significantly too. Their income will remain the same but their spending power will have gone up. While that change in the amount of money they have to spend in their home has increased, this will not have an impact on their likelihood of being in or out of relative poverty.

Clearly in both cases those are positive outcomes. Both families are able to work, sustain or increase their income and their household budgets are much more secure.

As a result, in this section we look at poverty from both of these perspectives. It will examine the potential that increasing access to funded childcare can have to affect relative child poverty levels by getting parents into more and better work. It will then look at how that same example offer can increase disposable incomes by reducing how much money parents are spending on childcare, showing how this will affect the money in people's pockets.

How far can early years childcare bring us towards meeting the 2030 child poverty targets?

To take the impact on relative poverty levels first, we model[4] how giving parents of 1 to 4 year olds their desired hours of childcare, the example offer, and a 'maximum offer', affects child poverty rates in Scotland. We test 4 scenarios, each of which assume different hours of work and pay rates.

In these models we change the work hours and pay for parents with a 1 to 4 year old, assuming an employment rate for these parents that matches the employment rate for primary age children (see note on Table 4). All other adults are left as they are, with no changes to their pay or hours, including parents of 1 year olds. In all but the last scenario, we assume that parents use the desired hours of childcare over as many full days of childcare as possible and travel around 30 minutes between work and childcare, resulting in the hours of work used in the model (Table 4).

The National Living Wage (NLW) model is the minimum level of pay we could expect for parents moving into work, meaning that in this scenario parents are moving into low-paid, part-time work. It is critical to note that, for many women, this is the reality of moving into work, and previous JRF analysis has found that the majority of people trapped in persistent low pay are women (Birt et al., 2023).

The average wage scenario takes the average wage for mothers and fathers in work with children of the same age. This pulls parents into better paid (above real Living Wage), part-time work but maintains the gender inequality seen in the labour market. The more equal economy model closes this gender gap for parents whose hours or pay are changed by paying mothers (as well as low-paid fathers) the same as the average hourly wage for fathers with children of the same age.

The final model includes the maximum hours of work at a reasonable minimum level of pay, the real Living Wage. Assuming a 30-minute commute between work and childcare, this would require around 43 hours of childcare. This is a significantly higher amount of childcare than most parents of 1 and 2 year olds wanted to use and higher than the majority of 3 and 4 year olds.

Table 4: Modelling scenarios and child poverty rates

Scenario name	Rate of pay for those increasing or moving into work	Hours of work for parents where youngest child is aged 1 or 2	Hours of work for parents where youngest child is aged 3 or 4	Modelled child poverty rate in 2030	Reduction (percentage points)
Baseline	Nothing is altered	Nothing is altered	Nothing is altered	21.2%	n/a

Scenario name	Rate of pay for those increasing or moving into work	Hours of work for parents where youngest child is aged 1 or2	Hours of work for parents where youngest child is aged 3 or 4	Modelled child poverty rate in 2030	Reduction (percentage points)
NLW	National Living Wage	20	33.5	20.2%	1.0
Average wage	Average wage by gender of parent and age of their youngest child	20	33.5	19.9%	1.2

Scenario name	Rate of pay for those increasing or moving into work	Hours of work for parents where youngest child is aged 1 or2	Hours of work for parents where youngest child is aged 3 or 4	Modelled child poverty rate in 2030	Reduction (percentage points)
More equal economy	Average wage for **men** by the age of their youngest child	20	33.5	18.3%	2.9
Maximum work	Real Living Wage	37.5	37.5	15.9%	5.3

Additional assumptions: Take-up of employment in all reform scenarios is defined by pooled 3-year average employment rates for parents whose youngest child is of primary school age (aged 5–10).

Note: Average wage of working parents of 1 to 4 year olds is above the real Living Wage in all years, for all genders. Parents not in work are moved into work at the noted hours and pay. Parents working at less than the given number of hours or pay are increased to the noted hours and pay.

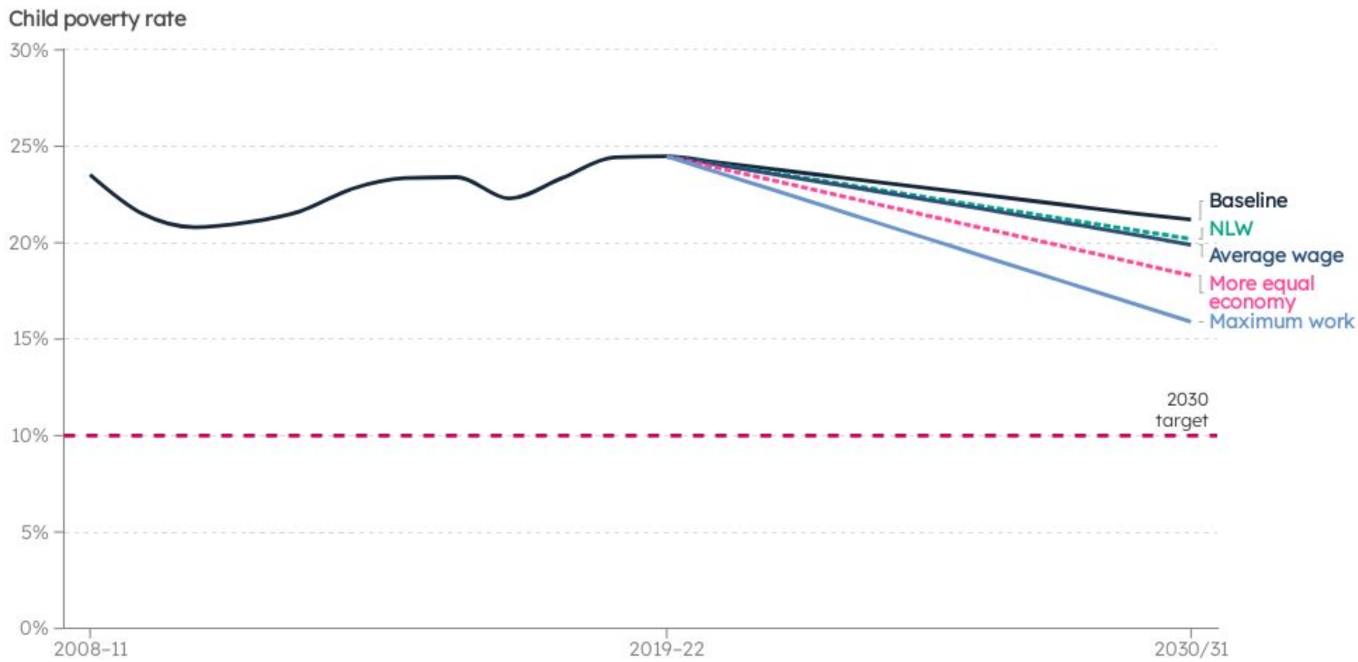
We find that there is a modest impact on the 2030 Child Poverty Targets in moving parents of 1 to 4 year olds into more and/or better paid work through childcare expansion.

Making minimal changes to parents' work by moving them into the proposed hours at the NLW reduces the child poverty rate by just 1 percentage point. This reiterates a point made previously by JRF and others that work is not an automatic route out of poverty (Birt et al., 2023). Increasing incomes to the average wage for mums and dads with children of the same wage, which is above the real Living Wage each year, only reduces the child poverty rate by a further 0.3 percentage points.[5]

Only by reducing gender inequality for parents with a 1 to 4 year old do we see any larger impact on child poverty, lifting 28,000 children out of poverty by 2030. However, the poverty rate remains 8.3 percentage points above the 2030 target and this solution would require major changes to the labour market, particularly for mothers.

We see the biggest fall (5.3 percentage points) in child poverty levels when all parents are moved into full-time work at the real Living Wage, lifting 52,000 children out of poverty. This still leaves child poverty levels nearly 6 percentage points above the 2030 targets and would require significant increases in nursery places, parental employability services and full-time employment (that is tailored to parents).

Figure 9: Modelled 2030/31 child poverty rates for five scenarios



Notes: See scenario names in Table 3 for detail.
This modelling uses FRS data from 2017/18, 2018/19 and 2019/20 to model child poverty rates for 2030 therefore will not match the most recent Scottish Government modelling. These years were selected due to small sample sizes and/or data concerns due to the Covid-19 pandemic in 2020/21 and 2021/22. Additionally, as changes are being made to a small population (families with a 1 to 4 year old) it was important to use a sufficient enough sample for this analysis.

These modelling results highlight the sustained and significant levels of change required in the labour market to substantially reduce levels of child poverty. This is partly because employment rates are already high for families with an under 5, although a number of these parents will be paying for private childcare. There is also a complex interplay between work, social security, housing costs and family type.

Focusing on the Scottish Government's priority families, the groups most affected by moving parents into more/better work are single parents, parents with 3 or more children (large families) and minority ethnic families, where the family work patterns are more likely to include one parent not working. Moving a parent from no work into work means that they can increase their income more though this intervention. However, for many of these families, the impact on family incomes will not exceed what is seen more generally.

These moves into work do not always lift families out of poverty. This is likely due to other drivers of poverty such as high housing costs, social security taper rates and benefit capping. For example, for single parents in poverty, they will remain in a household with just one income from work, with social security tapers affecting the extent to which they can increase incomes sufficiently. Additionally, for families where someone is disabled, parents may continue to be unable to work, so raising incomes through social security is the only means by which to increase household incomes sufficiently.

In these scenarios, it is only by increasing work hours to full-time (maximum work scenario) that we see a greater impact on reducing poverty for some of the priority families than is seen for all children. In this scenario, for all children, we see the poverty rate fall by 5.3 percentage points compared to the baseline. For large families, the fall in child poverty is 6.4 percentage points and for single parents 9.1 percentage points.

However, it is critical to note that this maximum work offer requires significant amounts of early years childcare for children aged 1 to 4 and may be required to be higher for single parent families where one parent is required to juggle all parental responsibilities. This makes the scenario we have modelled extremely unlikely, and ultimately undesirable, to be a reality for single parents, a tiny proportion of whom are currently in full-time work due to all the other demands on their time.

Many of these parents are also more likely to be disengaged from the labour market and, while childcare is a barrier to accessing work, an unsupportive, family-unfriendly and inflexible employment market needs to be resolved for parents to be able to move into work (JRF and Save the Children, 2022).

It is also critical to note that moving parents (particularly mothers) into good work when their child is still in the early years is also likely to produce other significant labour market shifts which are not captured in this type of model. For example, we know that there is a caring penalty for people who care for children. Taking into account what carers would have earned had they not taken up unpaid care, the pay penalty for unpaid childcare givers comes to an average of £1,264 per month, reaching £1,785, 6 years after starting caring (Thompson et al., 2023). Moving back into good work is likely to have implications, particularly for gender equality, beyond the immediate increase in household income, that are not captured in these scenarios.

An effective early years childcare policy aimed at increasing incomes via paid employment could work in concert with employability policy. Employability policy is currently failing to deliver for parents. This is despite some good intentions with ideas like the Parental Employment Support Fund which, as outlined in Best Start Bright Futures in 2022, aimed to move 12,000 parents in to work. However, funding has been cut and mainstream services are failing to deliver. Parents make up less than a fifth of those receiving support via No One Left Behind.

It would make a great deal of sense for a government with such stretching child poverty targets to invest in the employability services needed to connect parents who are seeking more hours and better work with the labour market opportunities that an early years childcare offer could enable. There might also be opportunity to attach employability offers and outreach to childcare.

How can more funded early years childcare help low-income families to make ends meet?

Although increasing incomes for parents with an under 5 through work has modest impacts on poverty rates, it is possible for a larger funded offer to significantly reduce families' outgoing costs. While reducing childcare costs will help families to make ends meet, as explained earlier, this will not affect relative poverty levels.

This is critical as a report from the Centre for Research in Social Policy at Loughborough University (Hirsch and Stone, 2022) found an increasing gap between real-time family income in Scotland and the cost of raising a child. By reducing the cost of early years childcare, it would be possible to further decrease this cost of raising a child.

We have looked at what is left in household budgets for 4 families after they pay for early years childcare, both currently and if parents received the example offer that we outlined earlier. For each family we vary the family work intensity (both parents full-time or one full-time and one part-time) and rate of pay (National Living Wage, real Living Wage or higher pay of £20 per hour).

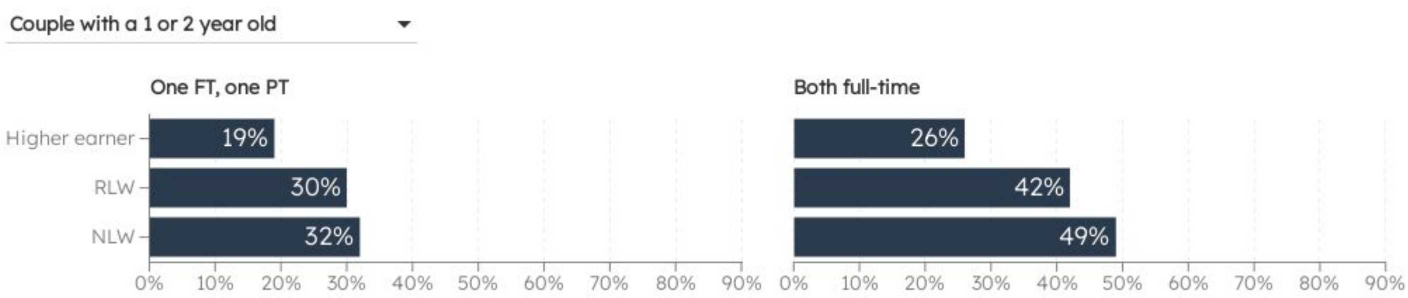
For the purposes of making simpler comparisons, we have only looked at families with 1 to 4 year olds and not older or younger children who would not be affected by the example early years offer.

While single parents would clearly benefit from the example offer, we have also not looked at disposable incomes for single parent families for a few reasons:

- Greater interactions between work, social security and childcare. This means that any analysis is likely to reflect inadequacies and complexities of the social security system over the relationship between childcare, work and disposable income.
- Single earner: as incomes from work will naturally be lower for families with a single earner, while childcare costs remain the same, weighing up the benefits, and practicalities, of hours of work, childcare, pay, benefits and childcare costs is much more complex. This makes some work and childcare combinations unlikely for low-income single parents: for example, a single parent with two 1 to 2 year olds is unlikely to be able to be working full-time on the NLW. This means that these example families would need to be presented very differently.

Looking at the current offer, we see that families with a 1 or 2 year old have significant portions of their income eaten up by childcare costs (Figure 10). Even higher paid families use over half (53%) of their disposable income on childcare if they have two 1 or 2 year olds and are both working full-time. This increases to 85% of disposable income when both parents work full-time on the NLW. Even a family with one 1 or 2 year old sees around half (49%) of their disposable income going to childcare if both parents work full-time on the NLW.

Figure 10: The proportion of family disposable income (AHC) taken up by childcare costs



Note: Analysis undertaken in March 2024

In Figure 11 it is possible to switch between the four families, comparing the amount of disposable income that would be left after paying housing costs and childcare.

Families with a 3 or 4 year old are left with the largest disposable income with the current offer, with families where one parent is working part-time having all of their childcare covered by the current offer. For parents with a 3 or 4 year old, working on the NLW, we see a clear example of where it does not make financial sense with the current offer for both parents to be in full-time work. Parents' disposable income after housing and childcare costs is £9 lower per week than if one parent worked part-time. If this family were given the example childcare offer, their disposable income would increase to £576, higher than both their disposable income on the current offer (£56 more) and on the example offer if one parent was working part-time (£47 more).

Families with two 1 or 2 year olds are left with the lowest amount in their pocket after paying for housing and childcare. When both parents are working full-time on the NLW families are left with just £101 in their pocket after paying for housing and childcare. This is not enough to cover the essentials. Increasing their early years childcare offer to the example offer, their disposable income would be more than four times the amount they would have with the current offer. However, with the example offer, one adult working full-time and one working part-time makes most financial sense for couples paid the NLW, increasing their income to £611, 40% more than what they would have in their pocket if both parents work full-time.

While the example offer leaves parents in a better financial situation than the current offer, the financial gains made by having both parents working full-time is greatest the higher the wage. Not all families see an income rise from moving both parents into full-time work in the example offer. For the example offer, for the highest earning parents, where both are working full-time, we find that they are only worse off having both parents in full-time work, compared with one full-time and one part-time, when they have two 1 or 2 year olds.

Figure 11: Weekly disposable income (£) after housing and childcare costs comparing the current and example early years childcare offer

Note: FT= full-time, PT = part-time
Analysis undertaken in March 2024

9. The early years childcare expansion challenge

The most recent Scottish Budget, particularly the painful cuts to housing spending, highlights the need for deep thinking about how services are delivered and funded. That thinking needs to be focused on our expectations of those services, how they can be most effective, what our priorities for them are and how, as a society, we contribute towards them.

But much of the Scottish Government's explanation of their choices in the recent budget risks inertia. We cannot simply accept that the fixed budget is spent and there is nothing further we can do. If current spending patterns persist the statutory child poverty targets will be missed, by quite some way.

Early years childcare must be part of that discussion. The status quo is unacceptable, but the next step is unclear. This is mainly because the Scottish Government has stretched its rhetoric beyond its budget and is now stuck, but also partly because of the multiple policy aims of early years childcare that can be put in tension with each other.

The case for expansion of funded childcare is clear

The purpose of this report has been to reflect on what early years childcare could achieve as an instrument for child poverty reduction. We have analysed its suitability as a policy to increase parents' income via work, in line with the 2030 targets.

A driving factor for JRF's work on this issue is the voice of the parents we work alongside and those we strive to advocate on behalf of. They consistently tell us that early years childcare is not working for them when it comes to work and training. It is holding them back from providing the best possible life for their families. This is a view supported by a review of evidence conducted as part of this report.

The increase in disposable income available to low-income families via an offer for their 1 and 2 year olds is a clear prize and arguably the most urgent priority.

The current offer is part of the evidence for the potential of an expansion. It is a policy that is working for a great many people. Delivering that universal childcare entitlement of 1,140 hours of funded early years childcare for 3 and 4 year olds was a hard-fought for and welcomed policy choice.

It has been rolled out successfully and the proportion of areas in Scotland with sufficient childcare provision to meet the needs of eligible children has changed markedly since the expansion of funded Early Learning and Childcare to 1,140 funded hours in August 2021. Sufficiency, which in this context means enough childcare provision to meet the needs of eligible children, has gone up from 50% in 2021 to 96% in 2022 for 3 and 4 year olds (Coram Family and Childcare, 2022).

It plays a role in reducing gender inequality and is already greatly increasing disposable income for eligible families. For parents currently paying for their children under 3 years old to access childcare (or waiting for the term after they've turned 3 to start), the moment that 1,140 hours kick in is circled in the diary.

It is also a significant investment for the Scottish Government, as it costs around £1 billion each year. It dominates what the Scottish Government calls its spending on child poverty, with around £1 in every £3 they say they spend on tackling child poverty being spent on delivering the current 1,140-hour offer.

But apart from a relatively small amount of funding for eligible 2 year olds it is not targeted at low-income families. And in the element that is targeted, take-up for eligible 2s is extremely low at just half of them, with wide regional variation. For example, Clackmannanshire has 94% of eligible 2s take up the offer (28% of all 2 year olds) while Aberdeen City and East Lothian only has 33% of eligible 2s take up the offer (7% and 6% of all 2 year olds respectively) (Scottish Government, 2023).

There are, of course, compelling reasons to provide universal services, including destigmatisation and promoting take-up, but it is hard to argue that the full £1 billion that is spent on the current offer is targeted at poverty reduction. That reality is important in the consideration of an expansion.

The cost of our example offer

We have outlined a new offer of 25 hours per week of early years childcare for 1 and 2 year olds and an increased offer for 3 and 4 year olds of 35 hours per week, including outside of term time. We have calculated this cost at around £3.2 billion, an increase of approximately £2.2 billion to the revenue budget.

Our cost is intended for illustrative purposes only but does account for details such as additional staffing requirements for 1 and 2 year olds, and is likely an underestimation. We have based the calculation on running costs and not set-up costs (that is, capital spending). Set-up costs would likely be required for an increased offer for 1 and 2 year olds as there is limited capacity in current early years childcare settings and capital costs may be needed to expand physical spaces. Additionally, there are larger space requirements for younger children who require sleep spaces and greater changing facilities. There would also likely be additional costs of recruiting and training staff through colleges and apprenticeships.

The costs of this example expansion raise fundamental questions about spending priorities for reducing poverty levels and meeting the child poverty reduction targets. If targeted more explicitly at low-income households, £2.2 billion could have a massive impact on poverty levels. For indicative purposes, that is nearly 5 times the annual cost of the Scottish Child Payment which, at £26.70 per week per child, will likely reduce child poverty levels by around 5 percentage points.

Yet, while the impact of the expansion of funded childcare modelled in this report on child poverty levels is potentially modest, its impact on household incomes is potentially great.

The modelling also masks the potential impact that removing barriers to work and increasing disposable income could have in the medium term. By facilitating parents' (mainly mothers') re-entrance to work earlier after a child is born and reducing the financial pressure of doing so, progression rates may be higher and persistent low pay could be reduced.

In both of these crucial ways, early years childcare is a preventative intervention – it allows children access to high-quality socialisation, nurture, play and learning and prevents parents from being excluded from the labour market.

As a result, the status quo is unacceptable, parents certainly think so and there is also a political consensus that something must be done about childcare costs.

Balancing the budget and valuing the investment

Is it then possible to reconcile the policy imperative with the fiscal situation? We think it is, but it requires policy-makers to be bolder in their commitment to change. We cannot just shrug our shoulders at the challenge and say we are stuck.

We need to have the debate about how we get unstuck. In simple terms the solutions are to either raise the extra funds needed, cut spending elsewhere and/or reduce the need to do both by reducing the burden on the public purse of such an expansion.

The best way, in our view, to do the latter is to focus public funding on low-income families. We will bring forward analysis as a second part of this work in the coming months to explore it in more detail.

We provide a bit of an introduction to that here. While we still favour the universal nature of the service, that is, that every child and their family should have access to the same service, that does not need to mean that the service is universally free of charge. An example of that would be a form of means-tested co-payment – where childcare costs would be subsidised by the government but individuals would contribute according to their household income and characteristics. Of course, the other option is to pay for the service through general taxation (in Scotland most likely via income tax), meaning the additional funding is raised progressively (that is, higher income households, with and without children, would pay more of the additional tax).

Means-tested co-payment

A means-tested co-payment offer for early years childcare that targets low-income families would see everyone entitled to the 25/35 early years childcare offer but there would be costs for parents that vary based on income or circumstance. We will explore such a system in a later report but such a system would likely have to consider some of the following elements:

Income Assessment: This assessment would partly determine their level of co-payment. This could vary from self-declaration of income (such as the tax-free childcare system) to a more labour-intensive application process.

Person Contribution Scale: The co-payment amount would be determined based on the family's income level. Low-income families would be eligible for a higher, or even total, subsidy (paying less out of their own pocket), while higher income families would receive a lower subsidy (paying more from their own pocket). The cost could be capped at proportion of household income.

Subsidy Calculation: The subsidy amount would be calculated based on a sliding scale that takes into account the family's income level, the cost of the childcare and possibly other factors such as the type of childcare and whether or not they are in a priority group or receipt of social security.

Application Process: Existing early years childcare processes are a barrier and are overly complex. A means-tested co-payment could add further complication unless simplicity was a foundational design concept.

Payment Timing: The co-payment amount could be structured in various ways, such as a fixed amount per hour or day of childcare, or as a percentage of the total early years childcare cost. We know that upfront costs are a barrier to families using childcare, so families should not have to pay in advance for their childcare.

Periodic Review: Eligibility for the means-tested co-payment offer could be subject to periodic review to ensure that families' circumstances have not changed significantly. This review process would help to adjust the subsidy amount accordingly.

Public Awareness: It is essential to ensure that low-income families are aware of such an offer and how to apply for it. The low levels of uptake for the eligible 2s offer shows that this should not be underestimated and could drastically affect the ability of childcare to prevent child poverty through closing the attainment gap. Public awareness campaigns and outreach efforts that focus on what parents tell us they want from childcare can help ensure that eligible families take advantage of the support available to them.

In principle such a system would help fund an expansion and the current offer, while smoothing and reducing the cost of childcare over the course of a child’s pre-school years. Plainly the level of public subsidy will determine the overall cost to government; again we would favour the subsidy benefiting low-income families most actively.

There could also be simpler versions of this where, for example, the services were free to those in receipt of means-tested benefits (the Scottish Child Payment being the obvious choice) and that those who were not would pay a flat contribution. This would negate the need for any sort of means testing but would be regressive in nature as it would mean those on lower incomes would have to contribute a higher proportion of their incomes.

In any model, whether a co-payment, flat contribution or simply through taxation, it is important to analyse in more detail the distribution of both the cost and benefit of the system.

Again, if introduced, these are the sorts of issues that parents would need to analyse and then co-produce solutions with government to maximise buy-in and ultimate take-up.

Delivering the expansion

As well as these financial challenges expanding the early years childcare offer comes with significant practical challenges. First, the sector is unlikely in the short term to have the capacity to cope. We already know that the delivery of 1,140 hours is not fully functioning for all parents and that providers are struggling to recruit, train and retain the staff required. Any expansion would need to be carefully planned and staged in close consultation with providers across all sectors supported by a workforce plan.

Related and part of the current workforce challenge, our evidence review highlighted important issues with the quality of work in the sector already. Too often jobs in the sector are low paid, low status, with low opportunity for progression (Webb and McQuaide, 2020).

There is also a capital consideration. To care for younger children, a higher ratio of staff to child is required, and in turn more physical space. Building or buying new facilities will be needed.

However, these challenges can be also strengths. It is right that Scotland should invest in its early years childcare infrastructure. We could create jobs and spaces in and for communities that need them. This argument is well worn and accepted by government in the past, just as it should be in the future.

A note of caution on any expansion would be the vital importance of maintaining the quality of the care. The de facto social licensing model that is in place should be protected and strengthened (Jitendra, 2024). While local authorities have the responsibility to commission providers who meet nationally agreed standards there is no legal basis to reject a provider’s offer to provide childcare. This can result in legal action against the local authority. If an expansion of funded hours were to happen, many local authorities would need to procure new providers at scale and they should do so with fullest confidence that they are getting the absolute best and not allowing the marketisation of childcare that has been growing in England. These extractive ownership models have proven to be a threat to independent providers as well as to the quality of care and quality of employment.

Finally, and fundamentally, there is the issue of take-up. To deliver an expanded childcare offer that targets low-income households, a significant effort will be required to understand and then overcome why there is such inconsistency in the take-up for eligible 2 year olds. We have, from our survey, seen that parents in low-income households want more childcare, but we also know that some areas of Scotland see very low take-up of the existing offer for 2 year olds which is targeted at low-income parents. We know from our polling that parents in different income groups value different aspects of their childcare higher than others. This could be an important part of understanding take-up rates, but more research and data are needed.

10. Conclusions and recommendations

The 25/35 example offer we have modelled in this report would meaningfully help address three of these outcomes. Yet we have also shown that the cost is prohibitive to offer universally. Levels of funding required for an offer of this scale would likely be better spent on a targeted suite of poverty-reducing policies but at the same time increasing a funded offer should be a priority and should be targeted at low-income families.

The seismic changes that are required to enshrine equality in our labour market in both outcome and participation are more than matched in scope and scale by their prize, which includes the erosion of poverty as an all-too-common experience in Scottish childhood. This is the key to sustainably rewiring our economy.

This rewiring must go hand in hand with the 2030 child poverty targets by focusing on the least well off first. We want parents to join and thrive in the workforce but in ways that suit their personal situation and enhance their lives. For this vision to be a reality childcare must be a pillar of this new type of economy.

Recommendations

Scottish Government should expand funded early years childcare for 1s and 2s in low-income households:

- **Create a partnership around what is next for early years childcare**

  A collaborative partnership between parents, practitioners, providers and government should be rapidly established with the aim of creating a vision for, and then implementing, the next phase of early years childcare. Its scope should include, but be wider than, the poverty reduction aspect we have focused on. All while ensuring that the sector is sustainable.

  Our survey of 500 parents gave new insight into what parents think about their childcare. From this we feel confident that they want a new offer, about what they like about their childcare and the rough shape of a new offer. However, this is not nationally representative and should also be supplemented with extensive qualitative research to understand what next steps should be taken.

- **Additional/focused support for families with multiple children under 3**

There is huge barrier to work if you have more than one child under the age of 3. Even if both parents are working full-time on the real Living Wage they would need to spend 80% of their disposable income on childcare. Families in this situation need support now.

- **Employability and childcare to interact**

If early years childcare is a policy that is to support parents to increase their incomes via paid work, it should be integrated with policy areas with the same aim. We have shown that a portion of parents who want to have additional childcare want to do so to move into better paid and more secure work. This should be the focus of the Parental Employment Support Fund.

- **Re-establish a robust gender focus in Fair Work and the National Strategy for Economic Transformation**

A childcare system that supports parents to work rather than costing so much as to act a barrier is clearly the desired outcome. The space for impact falls largely in increasing women's incomes. We showed in our modelling that a more equal labour market is key to lowering child poverty. This means that specific and urgent action needs to be taken at scale to enable this.

- **Scottish Government to prioritise families with children under 1 for Minimum Income Guarantee**

  We have not recommended that an offer of funded childcare starts before the age of 1. However, this requires other policy interventions to support families with a baby as they have a greater risk of being in poverty. We propose that the Scottish Government should consider making families with babies one of the first groups to benefit from the proposed Minimum Income Guarantee. This would allow parents who want childcare for their under 1s to access it but allows families to decide for themselves what is best for their families.

Notes

1. When we refer to childcare in this report we are referring to interventions to early years childcare provision unless otherwise stated. We are not discussing childcare for school-age children.
2. Due to rounding, the proportion selecting an answer as one of the top 3 reasons does not always match the sum of people selecting it as a first, second or third top reason.
3. When we discuss family work intensity we have looked at the work patterns of the first 2 adults in the household unless the respondent has said that they are a single parent.
4. Modelling was undertaken using the IPPR Tax Benefit model by the Fraser of Allander Institute for JRF.
5. Due to rounding, this difference does not match the difference between these figures presented in Table 4.

References

Audit Scotland (2023a) Early learning and childcare expansion delivered but sector fragile (https://audit.scot/news/early-learning-and-childcare-expansion-delivered-but-sector-fragile/)

Audit Scotland (2023b) Early learning and childcare: Progress on delivery of the 1,140 hours expansion (https://audit.scot/publications/early-learning-and-childcare-progress-on-delivery-of-the-1140-hours-expansion)

Birt, C. Cebula, C. Evans, J. Hay, D. and McKenzie, A. (2023) Poverty in Scotland 2023 (https://www.jrf.org.uk/work/poverty-in-scotland-2023)

Care Inspectorate (2022) Early learning and childcare statistics (https://www.careinspectorate.com/images/documents/6815/Early%20Learning%20and%20Childca

Close the Gap (2022) Gender pay gap statistics 2022 (https://www.closethegap.org.uk/content/resources/Gender-pay-gap-statistics-paper-2022.pdf)

Close the Gap and OPFS (2023) A childcare system for all (https://www.closethegap.org.uk/content/resources/CtG-and-OPFS---A-childcare-system-for-all-FINAL.pdf)(https://www.closethegap.org.uk/content/resources/CtG-and-OPFS---A-childcare-system-for-all-FINAL.pdf)

Coram Family and Childcare (2022) Childcare survey 2022 (https://www.coram.org.uk/resource/resource-coram-family-and-childcare-survey-2022)

Florisson, R. (2024) The UK insecure work index 2024 (https://www.lancaster.ac.uk/media/lancaster-university/content-assets/images/lums/work-foundation/UKInsecureWorkIndex2024.pdf)

Fogden, R. Singh, T. Merkulova, T. Brearly, J. Fabianski, L. and Franklin, B. (2023) Leave in the lurch: Paternity leave, gender equality and the UK economy (https://www.progressive-policy.net/publications/leave-in-the-lurch/)

Hirsch, D. and Stone, J. (2022) The cost of a child in 2022 (https://cpag.org.uk/sites/default/files/2023-08/The%20cost%20of%20a%20child%20in%202022.pdf)

Jitendra, A. (2024) A new social contract system in the childcare system (https://www.jrf.org.uk/care/a-new-social-contract-in-the-childcare-system)

Joseph Rowntree Foundation and Save the Children (2022) Delivering for families? (https://www.jrf.org.uk/report/delivering-families)

Nightingale, M. (2019) Stepping-stone or dead end: To what extent does part-time employment enable progression out of low pay for male and female employees in the UK? (https://doi.org/10.1017/S0047279419000205)

Save the Children (2023) Better for babies: Ending poverty among families with babies (https://www.savethechildren.org.uk/content/dam/gb/reports/scotland/better_for_babies_scotlan

Scottish Government (2022) Parents' views and use of early learning and childcare in Scotland (https://www.gov.scot/publications/parents-views-use-early-learning-childcare-scotland-2022/documents/)

Scottish Government (2023) Summary statistics for schools in Scotland 2023 (https://www.gov.scot/publications/summary-statistics-for-schools-in-scotland-2023/pages/early-learning-and-childcare-elc/)

The Diffley Partnership (2024) Literature review on early years childcare in Scotland (https://diffleypartnership.co.uk/joseph-rowntree-foundation-literature-review/)

Thompson, S. Jitendra, A. and Woodruff, L. (2023) The caring penalty (https://www.jrf.org.uk/care/the-caring-penalty)(https://www.jrf.org.uk/care/the-caring-penalty)

Webb, A. and McQuaid, R. (2020) Recruitment and workforce development challenges in low-status sectors with high labour demand–childcare work. In CIPD Applied Research Conference 2020, The shifting landscape of work and working lives (https://www.cipd.org/globalassets/media/comms/get-involved/events/recruitment-workforce-development_tcm18-76928.pdf)

Whyte, P. Hawkey, D. and Smith, C. (2023) Tipping the scales: The social and economic harm of poverty in Scotland (https://www.ippr.org/articles/tipping-the-scales)

Acknowledgements

The authors would like to thank Haley Barnes, Mairead Redmond, Scott Edgar and Fiona Hutchison from the Diffley Partnership for their work on polling and literature review.

We would also like to thank Emma Congreve, Ciara Crummey and Hannah Randolph from the Fraser of Allander Institute for their work on modelling.

Finally, we are extremely grateful to the members of the End Poverty Scotland Group for their valuable insights into their experience of childcare.

How to cite this report

If you are using this document in your own writing, our preferred citation is:

Cebula, C. Evans, J. (2024) Poverty proofing the future of early years childcare. York: Joseph Rowntree Foundation