

Working Paper 94

Demand for childcare in London – drivers and projections

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1 Executive summary

1.1 Purpose

This paper assembles the available evidence on childcare use and drivers of it at a London and national level, and considers it in two ways by assessing:

- the reasons for differences in the use of childcare, both formal and informal, between London and the rest of the country;
- developments in the drivers in terms of policy, cost, and demographic effects, how this might have impacted on the historic demand for formal childcare, and what this might mean for the future.

There is a review of possible modelling approaches to incorporate these insights, and which informs the methodology adopted to produce childcare demand projections.

The evidence presented in this paper relates to all children who might require childcare, that is 0-14 year olds. At various places throughout the paper there is also specific reference to early years provision for pre-school age children, which is a topic of considerable policy interest.

It should be noted that the later chapters of this paper are self-contained on specific topics. This chapter thus integrates those summaries to provide an overview of the paper as a whole.

1.2 Childcare definitions

The data source used for trends in childcare is the Childcare and Early Years Survey of Parents¹ (CEYSP) commissioned by the Department for Education (DfE). This survey uses a broad definition, and includes most if not all forms of formal childcare:

- Nursery school
- Nursery class attached to a primary or infants' school
- Reception class at a primary or infants' school
- Special day school or nursery or unit for children with special educational needs
- Day nursery, which may be run by employers, private companies, a community/voluntary group or a local authority
- Playgroup or pre-school – a service is often run by a community/voluntary group, parents or privately
- Childminder
- Nanny or au pair
- Babysitter who came to home
- Breakfast club
- After-school clubs and activities
- Holiday club/scheme

It includes early years school provision, and is a broader definition than that covered by Ofsted inspections.

¹ [Statistics: childcare and early years - GOV.UK](#)

Informal providers include:

- Ex-husband/wife/partner/the child's other parent who does not live in this household
- The child's grandparent(s)
- The child's older brother/sister
- Another relative
- A friend or neighbour

Some children will receive both formal and informal childcare.

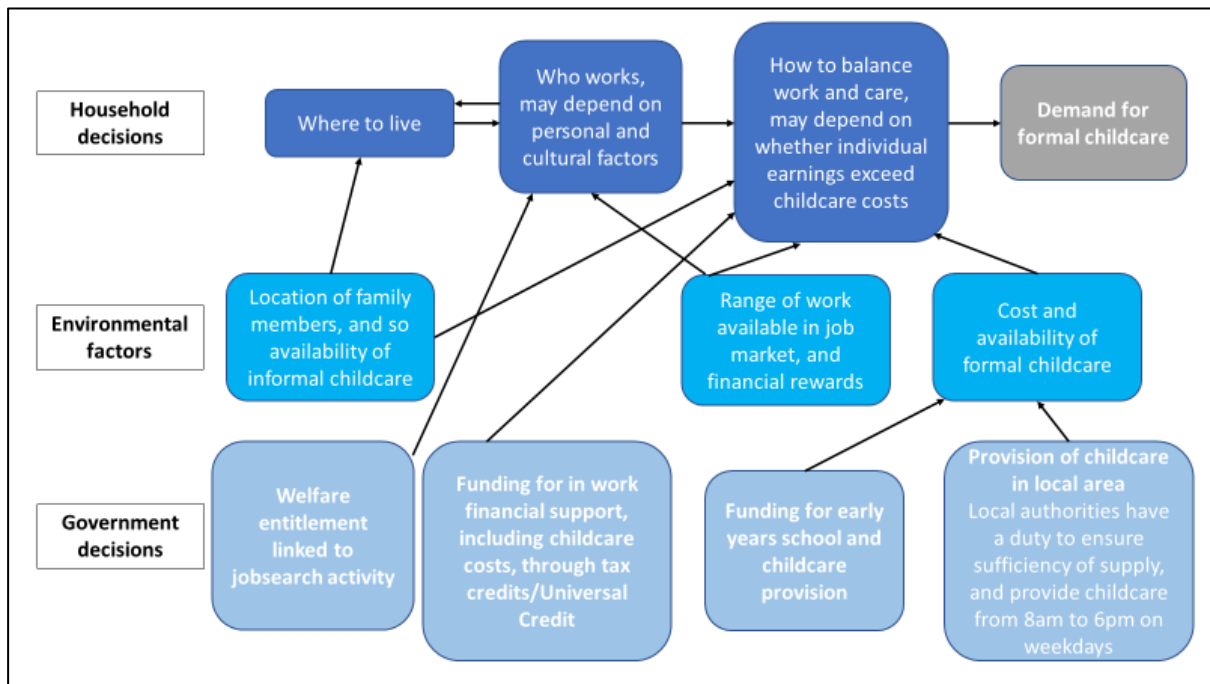
1.3 Drivers of formal childcare demand

Figure 1 provides a conceptual framework which sets out the interplay of factors which influence the use of formal childcare. Around formal childcare there are three questions:

- **Who pays?** Either the state or the household pays.
 - The state pays at the present time for provision in early years settings, which may be schools or childcare providers.
 - Households will pay, typically, from earnings
- **What are the alternatives?**
 - One is informal childcare. Adults will use this where there are family members nearby, which depends on household decisions on where to live. For some households informal childcare might be a substitute for formal childcare.
 - Couples² decide on how to divide work and caring responsibilities. Almost all men with dependent children work, while female partners tend to make a more balanced decision, which can depend on whether income from earnings is greater than childcare costs. State-funded provision can provide a contribution to these costs for young children.
 - Lone parents have, in the past, received benefit income solely to recognise their caring responsibilities, although increasingly benefit receipt has been conditional on jobsearch activity.
- **Do I want formal childcare?**
 - There may be personal and cultural factors which influence decisions on work and childcare.
 - One of the purposes of state-funded provision is to promote child development, and its use is not necessarily linked to the working patterns of parents

² The analysis of couples in this paper concentrates on heterosexual couples. There are same sex couples with children, but in the datasets used the sample sizes are small for London, and so it has not been possible to draw any robust conclusions.

Figure 1: Flowchart of drivers of formal childcare demand



Source: GLA Economics

At all stages in the decision-making process around the use of formal childcare there is government intervention, either in terms of:

- the provision of financial support for households whether in or out-of-work, which subsidises demand
- funding for early years provision, which may both subsidise demand which would otherwise have occurred, and increase supply
- or, managing the market to ensure a sufficient supply of childcare in a local area.

The paper uses the terms use of childcare and demand for childcare interchangeably. It does not attempt to estimate the relative quantitative impact of individual government initiatives on the supply and demand for childcare.

The interaction between these factors has changed over time. The main paper considers the interaction in the demand for formal childcare in a number of ways:

- Through considering **trends in childcare use** at a London and national level with breakdowns by age and ethnicity of children
- By identifying **policy drivers of childcare demand** by listing policy changes, and assessing their impact on labour supply and use of formal childcare where possible
- By considering **cost drivers of childcare demand** by comparing childcare costs at a London and national level for different types of childcare, both over time, and relative to median earnings
- Through an analysis of **changes in household structure and characteristics**, including labour supply, and migration patterns for London and at a national level

The main paper has chapters on each of these themes. **The interaction between these factors also depends on a range of personal and household characteristics.** The relative impact varies by type of household, whether lone parent or couple, and other characteristics of adult household members such as ethnicity and qualifications. It also varies by age of child, where for example for children under 5 childcare costs are highest, and there is state-funded provision.

1.4 Trends in childcare demand

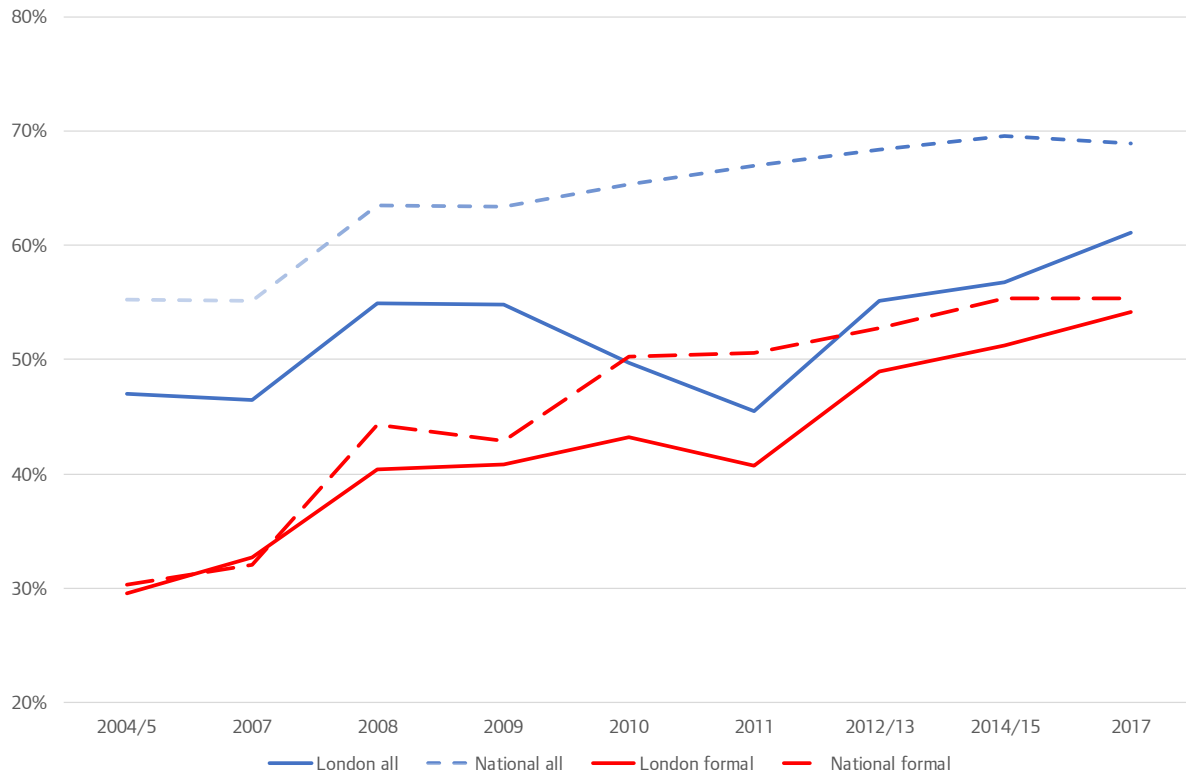
There has been strong growth in the demand³ for childcare, and formal childcare, both in London and nationally⁴ over the period 2004/5 to 2017, (Figure 2). At the beginning and end of the period use of formal childcare was similar for both areas, and its usage has increased from 30% to 55% of 0-14 year olds. There has been faster growth in the use of formal childcare in London since 2011 reflecting its stronger labour market conditions. The divergence in trends in use of formal childcare from 2008 is perhaps also indicative that the use of formal childcare in London is more sensitive than nationally to labour market conditions.

The demand for any childcare has also risen both in London and nationally over 2004/5 to 2017, being used by 47% of 0-14 years old children in London in 2004/5 and rising to 61% by 2017. For both years it was eight percentage points lower than the national rate. The source of this difference is the much lower use of informal childcare in London. This reflects demographic factors, because London is a large city with a large migrant population. As such, there are more limited opportunities for informal childcare provided by family members than in other parts of the country. That said informal childcare use has risen slightly in the last few years in London with improving labour market conditions.

³ For the past period the terms 'demand' and 'use' are used interchangeably

⁴ The analysis in this paper comes from a number of datasets. For national comparisons the highest level geography is used. In some cases this is England, or, England & Wales, and others it is the UK. The titles of tables and figures report which geography has been used.

Figure 2: Trends in demand for childcare, and formal childcare, proportion of 0-14 years old children, London and England, 2004/5 to 2017



Source: *Childcare and Early Years Survey of Parents*

Demand for childcare, whether any, formal or informal, has been lower in London than England for all children 0-14, and across all age and ethnicity groups, and for almost all years for which there is survey data for the years 2004/5 to 2017, Table 1 reports results for 2017. This shows that the different composition of London’s population relative to that nationally does not explain variations in the use of childcare⁵.

⁵ It should also be noted that some children receive both formal and informal childcare, and so use of any childcare is lower than the sum of the use of individual types of childcare.

Table 1: Demand for any, formal and informal childcare, London and England, by child's age and ethnicity, 2017

	London			England		
	any childcare	formal childcare	informal childcare	any childcare	formal childcare	informal childcare
all 0-14 year olds	61%	54%	15%	69%	55%	28%
0-2 year olds	48%	39%	14%	62%	43%	35%
3-4 year olds	92%	90%	19%	92%	89%	30%
5-7 year olds	66%	60%	19%	75%	64%	28%
8-11 year olds	59%	51%	13%	68%	52%	27%
12-14 year olds	45%	36%	11%	52%	36%	23%
white	69%	62%	17%	72%	57%	32%
black Caribbean	47%	40%	14%	56%	49%	18%
black African	52%	45%	8%	56%	47%	11%
Indian	70%	57%	14%	64%	55%	19%
Pakistani	50%	43%	9%	49%	36%	14%
Bangladeshi	26%	19%	8%	34%	27%	8%
other	54%	49%	12%	69%	58%	26%

Source: *Childcare and Early Years Survey of Parents*

The link between formal childcare use and labour market participation is not direct, in part because the state provides free childcare⁶ to young children to support child development. Formal childcare use is, and has been, highest for 3-4 year olds for this reason.

The observed rates of increase in formal childcare use are not sustainable over longer-term planning horizons, and they have been diminishing. For example, for 3-4 year olds the rate of use of formal childcare is very high at around 90% of children, and is approaching the limit towards which it might reasonably be expected to reach.

1.5 Summary on drivers of trends in formal childcare use, and possible impacts going forward

The paper considers three explanations for the trends in formal childcare demand:

- Policy drivers
- Cost drivers
- Changes in household structure and characteristics

Since 1998 there have been a number of policy initiatives to improve the quality, affordability, and number of childcare places. The Government published National Childcare Strategies in 1998⁷ and 2004⁸. It is likely that this has had a significant impact on the use of formal childcare. Of note has been the guarantee of a free education place for every four year old, the

⁶ School attendance for the under 5s is considered to be formal childcare by the Department for Education.

⁷ See [The 1998 Green Paper - Every Child Matters](#)

⁸ See [Choice for Parents, the best start for children: a ten year strategy for childcare](#)

provision of out-of-school places for 3-14 year olds on week days from 8am to 6pm, and a duty on local authorities to ensure sufficiency of childcare supply. Welfare initiatives have acted to increase the maternal supply of labour, through the introduction of jobsearch requirements on lone parents, and so indirectly on the demand for childcare. Since the introduction of in-work financial support through tax credits in 2003 funding for formal childcare improved before being tightened more recently. The guarantee of childcare around school hours for all children under 14 is a clear statement of intent. Since 2010 initiatives have tended to focus on children under 5, for example, through the provision of free childcare. Its introduction might have substituted to some extent for other formal privately funded or school provision, as childcare use for 3-4 year olds has historically been high. Tax-free childcare is a more recent initiative, which in this case has replaced childcare vouchers. For these reasons the impact of these initiatives is likely to have a more marginal effect than earlier initiatives.

The available evidence indicates that childcare costs have been persistently higher and rising faster in London than nationally, and reached 30-40% higher in early years settings in 2016. While average earnings are also higher in London, median earnings growth has been slower. This is a factor which might explain why formal childcare use has been persistently lower in London across age and ethnicity groups. Comparable information on earnings is not available at a household level for London, or for families with children, but **the available information would suggest that the affordability of childcare is worsening in London, which other things equal will reduce the demand for childcare.**

There are a variety of factors which determine labour market participation, such as household composition whether lone parent or a couple, age of youngest child, age of adults, ethnicity, and qualifications. What distinguishes London is that its inhabitants are highly qualified and ethnically diverse. Lower employment rates for women from ethnic minorities are consistent with lower use of formal childcare. Employment rates are higher for more qualified women. The expectation is that London will become more diverse in the future, while women with younger children are relatively more qualified than their older counterparts. These are opposing influences on the trend in the demand for formal childcare.

1.6 Affordability of childcare

There is seemingly contradictory evidence that:

- childcare has become relatively more expensive in London, and that median London earnings growth has not kept pace with the national trend, so childcare has become less affordable in London
- and, the use of each of any, formal, and informal childcare has been lower in London than England for all children 0-14, and across all age and ethnicity groups, and for almost all years for which there is survey data for the years 2004/5 to 2017
- while, in seeming contradiction, the rate of worklessness in London for lone parent and couple households has fallen to national levels
- and, the rate of use of formal childcare in London has returned to the national rate after a period of divergence
- the use of formal childcare in London and nationally is similar by family working status and income

The nature of maternal labour supply helps to provide an explanation of where the relative lack of affordability of childcare might have affected demand in London. Not all working lone

parents or women in couples make use of childcare. Further, in couples the female employment rate is 7 percentage points lower in London than the UK in 2016. It is also noticeable that:

- part-time working amongst women is much lower in London than elsewhere
- on average, hourly pay (excluding overtime) of part-time workers is lower than for full-time work (which, in itself, is a discouragement to part-time work) both in London and for the UK
- mothers who work part-time see little wage progression in real terms
- it is relatively uncommon for low income in-work couple families in London on tax credits to receive support for formal childcare (through the childcare element) both in absolute terms, and relative to the UK

This suggests that in London the costs of childcare can be a deterrent to part-time work. This is one interpretation of the evidence, and there may be other factors. While it is difficult to measure changes in working practices in the economy⁹, there is evidence of increasing numbers of workers wanting to work more hours¹⁰, and of constraints in the availability of childcare, particularly for parents who work atypical hours. It is therefore possible that there is imperfect responsiveness of certain types of childcare provision to demand, and that this may have a bearing on labour supply.

1.7 Available data on formal childcare provision

The data in this paper uses the CEYSP¹¹. This is a survey, and sample sizes are insufficient to report at a lower geographic level than London.

There is some information available at a borough¹² level from other sources, but it is partial. The GLA has published a Childcare Sufficiency Assessment template¹³ to set out the range of types of information by age of child which, if collected, would allow a more complete assessment of childcare provision at a local level. The GLA has also published pre-population templates on the London Datastore¹⁴, which provides the data which is currently available. The DfE¹⁵ provides data on early years school pupils, and Ofsted¹⁶ has data on childcare places. There are some important limitations to this data which means that the record of childcare provision at a **local level** is incomplete:

- There is no way of knowing the numbers of children under 5 receiving both a school place and a childcare place
- Ofsted reports the number of registered places for most providers offering care for children under 8, but does not at the time of inspection collect data on the number of places taken by age group

⁹ See [Good work: the Taylor review of modern working practices - GOV.UK](#) which brings together much of the available evidence

¹⁰ See Chapter 9 of [Economic Evidence Base for London 2016 | London City Hall](#) for evidence for London

¹¹ [Statistics: childcare and early years - GOV.UK](#)

¹² This paper, throughout, uses the term borough to refer to the 33 local authorities in London, although strictly speaking City of London is not a borough.

¹³ [Early years and childcare | London City Hall](#)

¹⁴ See [London Datastore](#)

¹⁵ See [Statistics: school and pupil numbers - GOV.UK](#)

¹⁶ See [Early years and childcare statistics - GOV.UK](#)

- There is no legal requirement for some carers to register with Ofsted, notably homecarers¹⁷, although it is a condition of entitlement to tax free childcare that the provider is registered with Ofsted¹⁸
- There is no legal requirement for childcare settings supporting children over 8 to register with Ofsted, so it would be for boroughs to collect this information as part of their Childcare Sufficiency Assessment to understand the available mix of provision for this age group

It has not been possible to produce borough-level childcare demand projections because of the limitations in the available data.

1.8 Childcare demand projections

When considering approaches to the modelling of projections of formal childcare demand GLA Economics has borne in mind a number of factors:

- There is a complex interplay of factors which impacts on the demand for formal childcare, as set out in Figure 1.
- There are factors such as the implementation of wraparound childcare¹⁹, and the extension of university education which happened at similar times, which both are likely to have had a significant (but unknown) positive impact on the historic demand for formal childcare²⁰, and where any further impact over the coming years is likely to be much diminished.
- There are other factors which might reduce the rate of use of childcare such as increasing diversity²¹ of the London population, and low earnings growth relative to increases in childcare costs²².
- And there are unknowns such as the mix of childcare provision in a local area, and the relative costs, which impacts on affordability, and so demand.
- CEYSP is the only dataset which holds information on the variables of interest, but sample sizes are too small to attempt to model and estimate the size of the interactions at a London level. Projections for childcare demand would need to estimate factors such as changes in household structure, and qualifications and ethnicity of adult members, as well as the path of childcare costs relative to earnings²³.
- The Institute for Fiscal Studies (IFS) has modelled the impact of the provision of free childcare on labour supply²⁴, and the same paper reports other studies which have modelled the effects of childcare initiatives. These papers do not have models of levels of childcare demand in terms of explanatory variables, which is the requirement for this purpose.

¹⁷ Many of whom are nannies

¹⁸ Tax free childcare is only available for all children under 12

¹⁹ That is the provision of out-of-school places for 3-14 year olds on week days from 8am to 6pm

²⁰ The greater availability of childcare should encourage demand, and more highly qualified people are more likely to maintain contact with the labour market, be in employment and require formal childcare

²¹ Ethnic minorities tend to make less use of childcare, tend to be less likely to be in employment, and so be less likely to require childcare

²² This worsens the affordability of childcare

²³ The Annual Population Survey/Labour Force Survey holds extensive information on household and personal characteristics but it does not have information on childcare costs, or childcare receipt

²⁴ See [Free childcare and parents' labour supply: is more better? - Institute For Fiscal Studies - IFS](#)

- Projecting forward the historic trend for the proportion of children in receipt of formal childcare yields rates of over 100% by 2041 for 0-14 year olds, 3-4 year olds, 5-7 year olds, and 8-11 year olds. This is not possible.

Thus, in the light of our incomplete understanding of causal relationships and limitations in the available data, GLA Economics has reached the view that a simple methodology should be adopted to estimate childcare demand projections. As there are factors which might both increase or reduce the demand for formal childcare it has assumed that the rate of formal childcare receipt in the future is the same as that of the latest data available for 2017²⁵. This rate has been applied to the GLA Intelligence population projections²⁶ for 0-14 year olds to produce London-level childcare demand projections. There are also London-level projections by age group.

The finding of this analysis is that the numbers of 0-14 year olds in London attending formal childcare is expected to grow from 0.9m in 2016 to 1.0m in 2041, an increase of 100,000 childcare places, at a compound annual growth rate of 0.4%, which equates to an extra 4,000 places per year. Children over 5 are expected to account for three quarters of the increase in childcare demand.

Although it is an active policy area it should be noted that there are no projections of disadvantaged 2 year olds in receipt of formal childcare as the numbers depend on parental labour supply, which has not been modelled because of the lack of adequate data. Although take-up of free childcare places remained similar at the London level between 2016 and 2017 at around 57-58% at a borough level it went up in around half of boroughs, and down in around half of boroughs. Further, means to inform families of the provision, and promote access have not yet become well established.

²⁵ This is from the Department for Education Childcare and Early Years Survey of Parents, available at [Statistics: childcare and early years - GOV.UK](#).

²⁶ See, in particular the 2016-based central variant, [GLA Population and Household Projections](#)

2 Introduction

It has been an active policy area for 20 years²⁷ to support improvements in the quality, affordability, and accessibility of formal childcare. Over this time, there has been greater use of childcare both to support child development, especially in early years, and to support maternal participation in the labour market.

Formal childcare is the focus of policy and may be in a school, nursery, some other formal setting, or at home. It may or may not be free, and while in many instances the individuals providing the care may have training this will not always be the case²⁸. There is also informal childcare, which may be provided by a friend, relative or neighbour, and for which a parent may or may not pay.

This paper provides an assessment of the drivers of formal childcare in the London economy, and associated childcare demand projections. These projections build on GLA population projections²⁹, and are for childcare places in London, and by the age group, of children. They are available on the London Datastore³⁰. The projections support the new duty on boroughs to plan for the provision of childcare in the draft New London Plan³¹. While the paper provides an assessment of childcare demand by age of child it does not provide an in depth assessment of individual initiatives.

Information on childcare use at borough level is partial, and so it has not been possible to produce borough-level projections of childcare demand. The lack of a shared data collection system means that it is difficult to make informed judgements of childcare sufficiency. GLA has published a Childcare Sufficiency Assessment template³² to set out the range of types of information by age of child which, if collected, would allow a more informed assessment of childcare provision at a local level. The GLA has also published pre-population templates on the London Datastore³³, which provides the data that is currently available. This only addresses the issue in part, as it is a small part of the data items on the template.

Finally, part of the analysis in the paper considers the relationship between the demand for formal childcare and maternal labour market participation. Previous GLA Economics research³⁴ reports that historically London's employment rate has been below that of the rest of the UK, and although this has narrowed there is still a gap. It found that the gap is driven by differences in the employment rate amongst women, particularly those working part-time, and is even starker when comparing women with dependent children. This analysis suggests that an explanation might be the lack of affordability of part-time work in London when childcare costs are taken into consideration for mothers who have a partner, and are second earners.

The remaining chapters of this paper cover:

²⁷ See, for example, [The 1998 Green Paper - Every Child Matters](#)

²⁸ Nannies, for example, do not have to register with Ofsted, and there is no regulation of babysitters.

²⁹ Specifically, the 2016-based central variant, see, [GLA Population and Household Projections](#)

³⁰ See [GLA London Childcare Demand Projections](#)

³¹ See [The London Plan | London City Hall](#)

³² [Early years and childcare | London City Hall](#)

³³ See [London Datastore](#)

³⁴ See [CIN 42: Part-time employment in London | London City Hall](#)

- Trends in childcare use in London (Chapter 3), which compares trends in the use of any, formal and informal childcare for London and nationally in aggregate, and by age and ethnicity of the child
- London childcare demand projections (Chapter 4), which explains the methodology behind the derivation of the projections, and some of the results. There are projections for London, and by age and ethnicity. The next three chapters cover the drivers of childcare demand.
- Policy drivers of childcare demand (Chapter 5), which reviews childcare provision initiatives, and welfare initiatives which affect labour supply and the affordability of childcare over the last 20 years. As well as setting out the initiatives the chapter reviews the available evidence on impact.
- Cost drivers of childcare demand (Chapter 6), which reviews trends in the use of childcare by type of childcare, and household income and working patterns, for all households, lone parents, and couples. It also considers trends in the cost of childcare and earnings. The analysis provides a comparison between London and the national picture.
- Changes in household structure and characteristics (Chapter 7), which provides evidence on trends in household characteristics and labour supply, again both for London and nationally. It considers the age and ethnicity distribution of children, and the characteristics of households, whether lone parents or couples, and of the adults within them in terms of attributes such as ethnicity and qualifications, and age of mother.
- Conclusion (Chapter 8)

3 Trends in childcare use in London

3.1 Introduction

This chapter provides the definition of childcare used in this analysis, both for formal and informal childcare. It provides analysis of trends at London and national levels, for all children, and by age and ethnicity group, for any, formal, and informal childcare. It also provides some discussion of the concept of childcare sufficiency, and the available evidence. Later chapters consider in more detail developments around possible drivers of trends, and the Executive Summary, earlier in this paper, brings together the analysis of trends, the way in which each driver has contributed, and might contribute in the future.

3.2 Childcare and Early Years Survey of Parents

The data for this chapter comes from the CEYSP³⁵ commissioned by the DfE. This provides data on parents' take-up, views and experience of childcare. While the published reports primarily report at a national level for England the data collected since 2004/5 has been made available at the UK Data Service³⁶. The survey has been conducted every year or second year, sometimes on a calendar year basis, and sometimes on a government financial year³⁷ basis. This data is what has been used in this paper, and it is reported by year of collection.

The survey collects data on childcare use, and by type of childcare for children up to 14 years of age. Some children may receive formal childcare from more than one provider and so take more than one childcare place, some may only receive informal childcare, from, say, grandparents, and others may receive both formal and informal childcare.

The definition of formal childcare employed in the survey is a broad one, and includes most, if not all, forms of formal childcare:

- Nursery school
- Nursery class attached to a primary or infants' school
- Reception class at a primary or infants' school
- Special day school or nursery or unit for children with special educational needs
- Day nursery, which may be run by employers, private companies, a community/voluntary group or a local authority
- Playgroup or pre-school – a service that is often run by a community/voluntary group, parents or privately
- Childminder
- Nanny or au pair
- Babysitter who came to home
- Breakfast club
- After-school clubs and activities
- Holiday club/scheme

It includes early years school provision, and is a broader definition than that used by Ofsted for its childcare and school inspections, which it encompasses. Ofsted coverage of some groups will

³⁵ [Statistics: childcare and early years - GOV.UK](#)

³⁶ [UK Data Service](#)

³⁷ Beginning of April to the end of March

be partial where registration is voluntary, such as for nannies, and childcare provision for children over 8³⁸.

Informal providers include:

- Ex-husband/wife/partner/the child's other parent who does not live in this household
- The child's grandparent(s)
- The child's older brother/sister
- Another relative
- A friend or neighbour

Some children will receive both formal and informal childcare.

The classification of ethnic groups used in the survey has changed several times between 2004/5 and 2017. The broadest classification which can be derived from the data for each year of the survey has been used in this paper³⁹. It is better to consider broad trends in the tables, as it is possible that changes in questions, or self-perceptions of ethnicity might have some bearing on year-on-year changes.

The survey covers around 6,000 households with children in England. This is a large survey, although sample sizes are somewhat smaller for London, and regions are the lowest level geography for which data is available. Numbers reported are the "best" estimate of the actual value, but sample sizes are such that there may be a relatively broad range, or more technically confidence interval, in which the "true" value may lie⁴⁰. Certain analyses have not been provided, such as age by ethnicity, because estimates would not be robust. It may also mean that some changes over time are not statistically significant, or differences between London and national estimates might not be statistically significant. That is the confidence intervals for any two estimates overlap. Where the paper reports a time series the supporting discussion focuses on the trends rather than year-on-year changes which might be more a reflection of sampling variation than actual changes.

3.3 Demand for Childcare

Over the period 2004/5 to 2017 the proportion of children in London receiving childcare has increased from 47% to 61% (Table 2). There was an increase to 55% by 2008 prior to a fall to 45% in 2011 before recovering in later years.

The use of childcare has increased across all age and ethnicity groups. Increases have been strongest for the older age groups, notably rising over the entire period from 41% to 59% for 8-11 year olds, and 28% to 45% for 12-14 year olds. These are the age groups for which use of childcare was the lowest in 2004/5. The increase in percentage point terms has been equally large for 5-7 year olds from 48% to 66%. The use of childcare has been consistently highest for 3-4 year olds rising from 82% to 92% over the period.

Trends are harder to discern in the series by child's ethnicity – this is also the case for national data shown in Table 3, which suggests it might be a consequence of the sampling methodology

³⁸ Ofsted classification of formal childcare, and the data that is collected is available through the publications at [Early years and childcare statistics - GOV.UK](#)

³⁹ ONS classification of ethnic groups also changed between the 2001 and 2011 Censuses.

⁴⁰ The analysis uses a 95% confidence interval. That is the likelihood that the "true" value lies in this range, or interval, is 95%.

for the survey. Looking across years there have been increases across years in childcare use for white, Indian, and Pakistani children, and children from other ethnic groups. The trends for black Caribbean, black African children, and Bangladeshi children have been more stable.

Table 2: Trend in London in use in childcare, proportion of children, by child's age and ethnicity, 2004/5 to 2017

Group	2004/5	2007	2008	2009	2010	2011	2012/3	2014/5	2017
all 0-14 year olds	47.1%	46.5%	54.9%	54.8%	49.8%	45.5%	55.1%	56.8%	61.1%
0-2 year olds	46.9%	54.2%	46.0%	48.3%	47.3%	39.7%	39.0%	46.2%	48.0%
3-4 year olds	81.6%	78.3%	86.2%	84.8%	77.9%	80.2%	82.6%	88.0%	92.3%
5-7 year olds	48.0%	48.9%	50.5%	58.6%	55.8%	49.8%	60.6%	56.1%	66.2%
8-11 year olds	41.3%	38.8%	57.6%	57.3%	47.6%	37.5%	56.7%	55.8%	58.6%
12-14 year olds	27.5%	25.0%	41.3%	34.5%	26.4%	25.5%	43.5%	39.3%	44.9%
white	51.8%	51.6%	62.0%	64.9%	53.6%	50.4%	62.0%	63.1%	69.2%
black Caribbean	64.8%	38.9%	53.4%	62.7%	65.9%	54.5%	63.0%	67.7%	47.2%
black African	45.1%	47.2%	56.1%	40.8%	48.9%	41.2%	45.1%	50.7%	51.6%
Indian	39.1%	40.9%	54.2%	38.9%	39.3%	43.6%	64.6%	58.3%	70.5%
Pakistani	23.7%	29.0%	43.2%	42.9%	33.3%	27.7%	37.3%	38.0%	50.0%
Bangladeshi	22.7%	17.6%	12.0%	21.8%	24.6%	33.3%	35.6%	42.2%	26.2%
other	36.1%	36.5%	37.2%	39.4%	43.7%	39.8%	33.9%	46.9%	54.2%

Source: *Childcare and Early Years Survey of Parents*

Over the period 2004/5 to 2017 the proportion of children nationally receiving childcare has increased from 55% to 69% (Table 3). Again there was a rapid rise up to 2008, when the rate reached 64%. However, there was not a marked dip in the use of childcare in the next few years, as occurred in London, and the subsequent increase to 2017 has not been as significant either.

The use of childcare has increased across all age and ethnicity groups, except black Caribbean children. As with London increases have been strongest for age groups 5 and over, and for white, Indian, Pakistani and other ethnic groups (that is in this classification of ethnicity people who are also not black or Bangladeshi).

Table 3: Trend in England in use in childcare, proportion of children, by child's age and ethnicity, 2004/5 to 2017

Group	2004/5	2007	2008	2009	2010	2011	2012/3	2014/5	2017
all 0-14 year olds	55.3%	55.1%	63.5%	63.4%	65.3%	67.0%	68.4%	69.6%	68.9%
0-2 year olds	60.7%	60.2%	59.4%	58.3%	58.8%	56.6%	58.1%	60.3%	61.6%
3-4 year olds	88.6%	87.7%	90.5%	89.1%	88.5%	90.4%	90.6%	92.7%	91.8%
5-7 year olds	52.8%	59.1%	63.3%	66.2%	68.6%	71.1%	71.4%	72.3%	75.1%
8-11 year olds	52.7%	49.5%	63.9%	64.0%	66.6%	66.7%	69.9%	71.0%	67.8%
12-14 year olds	36.2%	58.3%	49.8%	47.4%	49.7%	55.6%	56.0%	54.5%	52.1%
white	57.7%	57.7%	66.0%	66.3%	69.1%	57.1%	71.7%	72.5%	72.3%
black Caribbean	63.2%	42.1%	59.8%	68.1%	67.5%	54.8%	59.5%	73.6%	56.3%
black African	48.4%	44.3%	54.7%	45.9%	47.6%	47.3%	47.3%	55.6%	55.9%
Indian	44.0%	42.7%	57.9%	56.7%	55.0%	51.8%	65.3%	61.0%	64.4%
Pakistani	29.9%	33.3%	44.4%	44.0%	43.0%	44.9%	55.9%	55.3%	49.0%
Bangladeshi	25.0%	22.5%	25.8%	29.8%	28.9%	36.8%	33.3%	43.8%	34.4%
other	33.8%	39.6%	44.8%	46.8%	37.7%	60.8%	48.2%	63.1%	68.6%

Source: *Childcare and Early Years Survey of Parents*

In summary, there are parallels between London and national trends for all children, and for each age and ethnicity group. For almost every result regardless of year, age or ethnicity group use of childcare is higher at a national level than in London.

3.4 Demand for Formal Childcare

Looking at just formal childcare over the period 2004/5 to 2017 the proportion of children in London receiving this has increased from 30% to 54% (Table 4). The rate rose strongly to 40% in 2008, stabilised to 2011, and then has risen again subsequently.

The use of formal childcare has increased across age and ethnicity groups. The strongest rise has been for the older age groups, notably rising from 7% to 36% for 12-14 year olds, but there have also been large rises for 5-7 year olds and 8-11 year olds. The increases for the youngest ages have been less marked from 28% to 39% for 0-2 year olds, and 79% to 90% for 3-4 year olds.

The trends in demand for formal childcare across ethnic groups in London over the period 2004/5 to 2017 mirror those for any childcare. There have been notable rises for children who are white, Indian, Pakistani or from other ethnic groups. There has also been a substantial increase for black African children.

Table 4: Trend in London in use in formal childcare, proportion of children, by child's age and ethnicity, 2004/5 to 2017

Group	2004/5	2007	2008	2009	2010	2011	2012/3	2014/5	2017
all 0-14 year olds	29.5%	32.7%	40.4%	40.8%	43.2%	40.7%	48.9%	51.2%	54.2%
0-2 year olds	28.5%	40.0%	29.3%	29.5%	35.4%	32.1%	32.9%	39.2%	39.3%
3-4 year olds	79.1%	75.2%	83.1%	79.9%	72.7%	77.8%	80.1%	86.1%	90.3%
5-7 year olds	27.2%	30.6%	40.2%	47.0%	52.8%	44.1%	54.1%	50.9%	59.7%
8-11 year olds	21.1%	24.1%	38.9%	39.9%	39.1%	32.7%	48.2%	49.1%	50.8%
12-14 year olds	6.8%	10.1%	22.7%	20.3%	22.2%	22.7%	37.7%	33.2%	35.6%
white	33.1%	35.2%	47.9%	49.2%	48.3%	45.3%	54.6%	57.5%	61.6%
black Caribbean	50.0%	22.2%	30.5%	46.7%	61.4%	50.9%	55.6%	63.5%	40.0%
black African	22.5%	36.1%	37.4%	30.6%	39.4%	36.5%	42.4%	44.8%	44.9%
Indian	24.6%	25.0%	35.4%	32.7%	32.8%	36.4%	53.1%	53.2%	56.8%
Pakistani	15.8%	19.4%	22.7%	26.5%	27.7%	27.7%	28.3%	35.3%	43.1%
Bangladeshi	7.6%	14.7%	8.0%	16.4%	19.4%	25.4%	35.6%	34.1%	19.4%
other	18.2%	29.2%	26.5%	25.4%	32.2%	35.4%	33.4%	40.2%	49.5%

Source: *Childcare and Early Years Survey of Parents*

Over the period 2004/5 to 2017 the proportion of children nationally receiving formal childcare has increased from 30% to 55% (Table 5). The rate rose strongly to 44% in 2008, stabilised in 2009, and has risen again subsequently.

The use of formal childcare has increased across age and ethnicity groups. As in London the largest increases for age groups have been for children over 5, and again there have been large increases for children who are white, black African, Indian, Pakistani, or from the other ethnic group.

Table 5: Trend in England in use in formal childcare, proportion of children, by child's age and ethnicity, 2004/5 to 2017

Group	2004/5	2007	2008	2009	2010	2011	2012/3	2014/5	2017
all 0-14 year olds	30.4%	32.1%	44.3%	42.9%	50.3%	50.6%	52.8%	55.4%	55.4%
0-2 year olds	35.5%	38.3%	37.7%	34.9%	39.1%	35.8%	37.2%	40.2%	42.6%
3-4 year olds	86.2%	84.7%	86.1%	85.8%	84.2%	86.3%	87.9%	89.6%	89.2%
5-7 year olds	26.6%	33.7%	45.4%	44.2%	54.0%	53.5%	56.1%	60.5%	63.8%
8-11 year olds	21.2%	21.9%	42.2%	41.1%	50.1%	50.6%	52.5%	56.0%	52.3%
12-14 year olds	7.9%	6.9%	25.5%	22.5%	32.4%	34.9%	37.7%	35.5%	35.6%
white	31.2%	32.8%	46.0%	44.9%	52.9%	53.5%	54.8%	57.7%	57.5%
black Caribbean	47.1%	25.0%	39.1%	53.3%	61.8%	47.6%	48.6%	68.2%	48.6%
black African	27.9%	32.9%	37.6%	37.4%	39.1%	41.2%	43.5%	47.2%	47.3%
Indian	25.7%	25.0%	42.1%	37.9%	33.1%	38.6%	47.7%	46.7%	54.9%
Pakistani	15.4%	18.5%	27.1%	22.7%	32.7%	30.7%	37.6%	41.0%	35.5%
Bangladeshi	12.0%	16.9%	14.5%	20.2%	24.8%	26.2%	27.7%	34.8%	26.6%
other	22.7%	31.0%	33.2%	28.6%	33.2%	35.3%	44.7%	43.7%	58.0%

Source: *Childcare and Early Years Survey of Parents*

In summary, there are strong parallels between London and national trends for formal childcare for all children, and for each age and ethnicity group. For almost every group regardless of year, age or ethnicity group use of formal childcare is higher at a national level than in London.

Further, the slowing of growth in formal childcare demand in the period after 2008 coincides with the onset of a recession, and may indicate that there is a link between the use of formal childcare and local labour market conditions.

3.5 Demand for Informal Childcare

Over the period 2004/5 to 2017 the proportion of children in London receiving informal childcare has decreased from 24% to 15% (Table 6). The proportion remained fairly steady to 2009, when it was 20%, but declined to 8% by 2011 before rising slightly afterwards.

The use of informal childcare has decreased across age and ethnicity groups. The declines across each individual age group has been comparable to the decline in aggregate in percentage point terms.

The declines across ethnic groups have been more varied. The greatest has been for black Caribbean children where the fall has been from 32% to 14%, while for white children it has been from 27% to 17%.

Table 6: Trend in London in use in informal childcare, proportion of children, by child's age and ethnicity, 2004/5 to 2017

Group	2004/5	2007	2008	2009	2010	2011	2012/3	2014/5	2017
all 0-14 year olds	24.0%	24.0%	22.7%	20.1%	11.3%	7.7%	11.0%	12.3%	15.0%
0-2 year olds	22.6%	24.5%	25.3%	29.0%	17.1%	8.7%	11.9%	14.0%	14.4%
3-4 year olds	28.8%	22.8%	22.8%	19.4%	14.4%	10.7%	11.4%	13.2%	19.4%
5-7 year olds	26.1%	27.7%	20.9%	15.8%	10.3%	8.2%	7.8%	12.2%	19.1%
8-11 year olds	23.0%	25.6%	23.4%	22.9%	11.7%	6.2%	15.3%	13.6%	12.6%
12-14 year olds	20.7%	18.8%	20.5%	12.4%	4.9%	5.6%	6.8%	8.4%	10.7%
white	27.0%	27.3%	26.9%	26.2%	13.8%	8.8%	15.4%	19.5%	16.8%
black Caribbean	32.1%	23.6%	17.7%	20.3%	13.3%	16.1%	15.2%	12.7%	13.9%
black African	22.3%	21.3%	21.1%	10.5%	12.1%	3.6%	4.6%	7.6%	7.8%
Indian	22.1%	31.8%	32.7%	17.0%	6.7%	9.4%	17.5%	6.4%	13.6%
Pakistani	10.5%	18.8%	9.1%	14.3%	4.2%	0.0%	2.0%	1.9%	9.3%
Bangladeshi	*	*	*	*	4.3%	9.0%	2.3%	6.8%	8.1%
other	15.8%	11.9%	9.7%	7.1%	4.4%	17.6%	5.5%	21.4%	12.2%

Source: Childcare and Early Years Survey of Parents

Note: * indicates that sample sizes are too small to provide a robust estimate

Over the period 2004/5 to 2017 the proportion of children nationally receiving informal childcare has decreased from 35% to 28% (Table 7). The use of informal childcare has decreased across all age and ethnicity groups.

Table 7: Trend in England in use in informal childcare, proportion of children, by child's age and ethnicity, 2004/5 to 2017

Group	2004/5	2007	2008	2009	2010	2011	2012/3	2014/5	2017
all 0-14 year olds	35.3%	41.5%	34.1%	37.6%	27.3%	30.3%	31.0%	31.8%	28.4%
0-2 year olds	38.6%	39.1%	37.2%	40.1%	33.0%	33.6%	34.9%	37.2%	35.4%
3-4 year olds	37.4%	40.4%	39.0%	35.4%	26.6%	29.8%	30.7%	30.3%	30.5%
5-7 year olds	34.6%	40.5%	33.7%	39.0%	27.9%	34.5%	32.4%	32.4%	28.2%
8-11 year olds	37.7%	47.1%	35.2%	38.6%	27.8%	28.9%	31.3%	32.4%	27.3%
12-14 year olds	28.8%	41.7%	27.2%	35.3%	22.2%	25.3%	25.8%	26.6%	22.7%
white	37.8%	43.9%	36.4%	40.2%	30.5%	35.3%	35.2%	36.1%	32.5%
black Caribbean	28.7%	22.2%	25.0%	27.7%	16.9%	19.3%	17.8%	15.9%	18.3%
black African	23.0%	27.5%	19.5%	15.9%	11.1%	6.6%	8.3%	11.7%	11.0%
Indian	26.3%	41.5%	28.3%	29.4%	23.0%	12.8%	24.1%	15.3%	19.1%
Pakistani	16.0%	25.0%	20.2%	21.8%	12.4%	12.1%	18.1%	18.9%	14.5%
Bangladeshi	*	*	*	*	7.5%	7.2%	6.2%	8.0%	8.4%
other	28.2%	13.0%	10.0%	16.4%	4.7%	20.7%	19.4%	27.8%	26.5%

Source: *Childcare and Early Years Survey of Parents*

Note: * indicates that sample sizes are too small to provide a robust estimate

In summary, there have been declines in the use of informal childcare both for London and nationally across age and ethnicity groups. The general character of the changes would suggest that there are general demographic factors, such as household migration patterns, and not just cultural factors, influencing the use of informal childcare. There is also some evidence of rising informal care use in the period from 2010/2011 onwards suggesting a link with improved labour market conditions.

3.6 Childcare sufficiency

At any point in time the supply of childcare comes into balance with the quantity demanded either through:

- Changes in capacity – this might be significant, if say it was the opening of a new nursery, or more marginal through an extension of existing facilities, and childminders may have flexibility around whether or not they wish to provide services at a particular time
- Changes in price – some providers might be reluctant to do this where it would affect parents who have children for whom they already care
- Queueing – providers can have waiting lists until places become available

In making these decisions providers may face a number of considerations:

- Uncertainty in future demand – the numbers of children requiring formal childcare depends on parental labour supply and migration patterns (ie whether parents move into

or leave the area), and this may be difficult to predict. Chapter 7 provides more background

- Competitive pressures – there may be a large number of providers in an area, and entry and exit may be financially less significant for childminders. Expansion of places in a nursery might incur fixed costs which would need to be recouped over a number of years, which has risks in a market where margins are likely to be low.
- Affordability for parents – labour is a large element of the costs of childcare provision. Historically earnings have risen faster than prices, while more recently the national living wage⁴¹ increases will have disproportionately affected the childcare sector as pay levels are low. Chapter 6 provides more information on this point.

It is also a mixed market in that there is public provision, such as schools for early years, and public funding, notably free entitlement for early years provision.

Local authorities have a responsibility to manage the market through a duty to ensure sufficient supply of childcare, and the production of Childcare Sufficiency Assessments. The view of many local authorities, as reported by the Family and Childcare Trust (FCT) and summarised in Table 8, is that **there is not sufficient childcare across a range of parental requirements of types of childcare, both in London and nationally. The largest reported gaps both in London and nationally are for parents working atypical hours, disabled children, and after school provision for children aged 12-14.**

Table 8: Proportion of local authorities which report sufficient childcare for all children, various categories, London and England, 2017

Category	Inner London	Outer London	England
under 2s	36%	26%	54%
2 year olds entitled to free offer	36%	37%	47%
3 and 4 year olds entitled to free offer	64%	53%	64%
after school for age 5-11	40%	21%	33%
after school for age 12-14	10%	5%	12%
disabled children	9%	5%	18%
parents in full-time work	45%	44%	52%
parents working atypical hours	0%	11%	13%

Source: Family and Childcare Trust Childcare Survey 2017

What is not clear is the extent to which the gaps in provision are frictional in the sense that parents find a childcare place after waiting for a short period of time, structural, or fail to allow that the demand would not be there at market prices.

While it is difficult to measure changes in working practices in the economy⁴², and the extent to which parents are being asked to work atypical hours, there is evidence of increasing numbers of

⁴¹ The successor to the national minimum wage

⁴² See [Good work: the Taylor review of modern working practices - GOV.UK](#) which brings together much of the available evidence

workers wanting to work more hours⁴³. Constraints in the availability of childcare, and imperfect responsiveness to demand, may therefore have a bearing on labour supply.

3.7 Summary of childcare use trends

There has been strong growth in the demand for childcare, and formal childcare both in London and nationally over the period 2004/5 to 2017. Demand in London has been consistently lower over the years, for any, formal, and informal childcare in aggregate, and across age and ethnicity groups. That is differences at an aggregate level cannot easily be explained by differences in household composition and characteristics between London and elsewhere. Some other London specific factor may be at work, and the natural candidate is the relatively higher costs of childcare provision in London.

Labour market trends appear to have a bearing on the use of both formal and informal care, though more markedly for formal care in London. The long-term trend in the use of informal care in London and nationally is downwards perhaps reflective of demographic factors around household migration patterns. As the trend is occurring across ethnic groups it indicates that there are more than specific cultural factors.

There is also some evidence that the supply of childcare is insufficient to meet demand across a range of categories of childcare both at a London and national level. What is not clear is the extent to which the gaps in provision are frictional in the sense that parents find a childcare place after waiting for a short period of time, structural, fail to allow that the demand would not be there at market prices, or might be met if childcare was delivered in a more cost-effective way. It is conceivable that constraints in the availability of childcare, and imperfect responsiveness to demand, may have a bearing on labour supply.

Finally, in terms of factors which might influence the demand for formal childcare, the period under study is one where the government was active in encouraging childcare provision. There were two objectives to this. While the availability of childcare can support parental labour supply it is also a means to promote the educational development of children through free childcare places. The second objective explains why the use of formal childcare for 3-4 year olds has been very high throughout the period of study.

In summary, there is a complex set of factors which impacts on the demand for formal childcare. The next chapter provides the childcare demand projections, and the methodology employed to produce them. While later chapters discuss in turn at the factors which have a bearing on trends:

- Policy drivers
- Cost drivers
- Changes in household structure and characteristics

⁴³ See Chapter 9 of [Economic Evidence Base for London 2016 | London City Hall](#) for evidence for London

4 London childcare demand projections

4.1 Overview

These projections support the new duty on boroughs to plan for the provision of childcare in the draft New London Plan⁴⁴. There is a complex interplay of factors which impacts on the demand for formal childcare, and some of the growth over the last 20 years is probably down to policy changes which will not be repeated, and will not have a further significant impact on trends. CEYSP is the only dataset which has information on the full range of factors which influence the demand for formal childcare: household structure and labour market characteristics; individual earnings; and use, cost, and type of childcare. Sample sizes are too small to attempt to model and estimate the size of the interactions at a London level, so GLA Economics has not attempted to build such a model. Projections of childcare demand would also require projections of changes in the underlying factors. **Thus, in the light of our incomplete understanding of causal relationships and limitations in the available data, GLA Economics has reached the view that a simple methodology should be adopted to estimate childcare demand projections.** These projections are intended to be informative rather than definitive.

The childcare demand projections bring together the GLA population projections⁴⁵ and estimates of childcare receipt from the CEYSP. The projections are at the **London** level, as borough level data on childcare receipt is not available.

There are also London-level projections for age groups of 0-2, 3-4, 5-7, 8-11, and 12-14. As free childcare places are available for all 3-4 year olds the projections for this age group provide an indication of the change in places required. For 2 year olds free childcare places are only available for those from disadvantaged families. As the definition of disadvantage relates to income it also depends on parental labour supply. GLA Economics does not produce labour supply projections, as labour supply also depends on a complex set of factors, and so it has not produced projections of disadvantaged 2 year olds.

4.2 Borough level data on childcare provision

The data in this paper uses the DfE CEYSP⁴⁶. This is a survey, and sample sizes are insufficient to report at a lower geographic level than London.

There is some other information available at a borough level, but it is partial. GLA has published a Childcare Sufficiency Assessment template⁴⁷ to set out the range of types of information by age of child which, if collected, would allow a more complete assessment of childcare provision at a local level. GLA has also published pre-population templates on the London Datastore⁴⁸, which provides the data which is currently available. The DfE⁴⁹ provides data on early years school pupils, and Ofsted⁵⁰ has data on childcare places. There are some important limitations to this data which means that the record of childcare provision at a local level is incomplete:

⁴⁴ See [The London Plan | London City Hall](#). The projections published in the draft plan at November 2017 used the latest CEYSP data available which was for 2014/15. The projections in this paper use CEYSP results for 2017, published in December 2017, as the basis for the projections.

⁴⁵ See [GLA Population and Household Projections](#)

⁴⁶ [Statistics: childcare and early years - GOV.UK](#)

⁴⁷ [Early years and childcare | London City Hall](#)

⁴⁸ See [London Datastore](#)

⁴⁹ See [Statistics: school and pupil numbers - GOV.UK](#)

⁵⁰ See [Early years and childcare statistics - GOV.UK](#)

- There is no way of knowing the numbers of children under 5 receiving both a school place and a childcare place
- Ofsted reports the number of registered places for most providers offering care for children under 8, but does not at the time of inspection collect data on the number of places taken by age group
- There is no legal requirement for some carers to register with Ofsted, notably homecarers⁵¹, although it is a condition of entitlement to tax free childcare that the provider is registered with Ofsted⁵²
- There is no legal requirement for childcare settings supporting children over 8 to register with Ofsted, so it would be for boroughs to collect this information as part of their Childcare Sufficiency Assessment to understand the available mix of provision for this age group

It has not been possible to produce borough-level childcare demand projections because of the limitations in the available data.

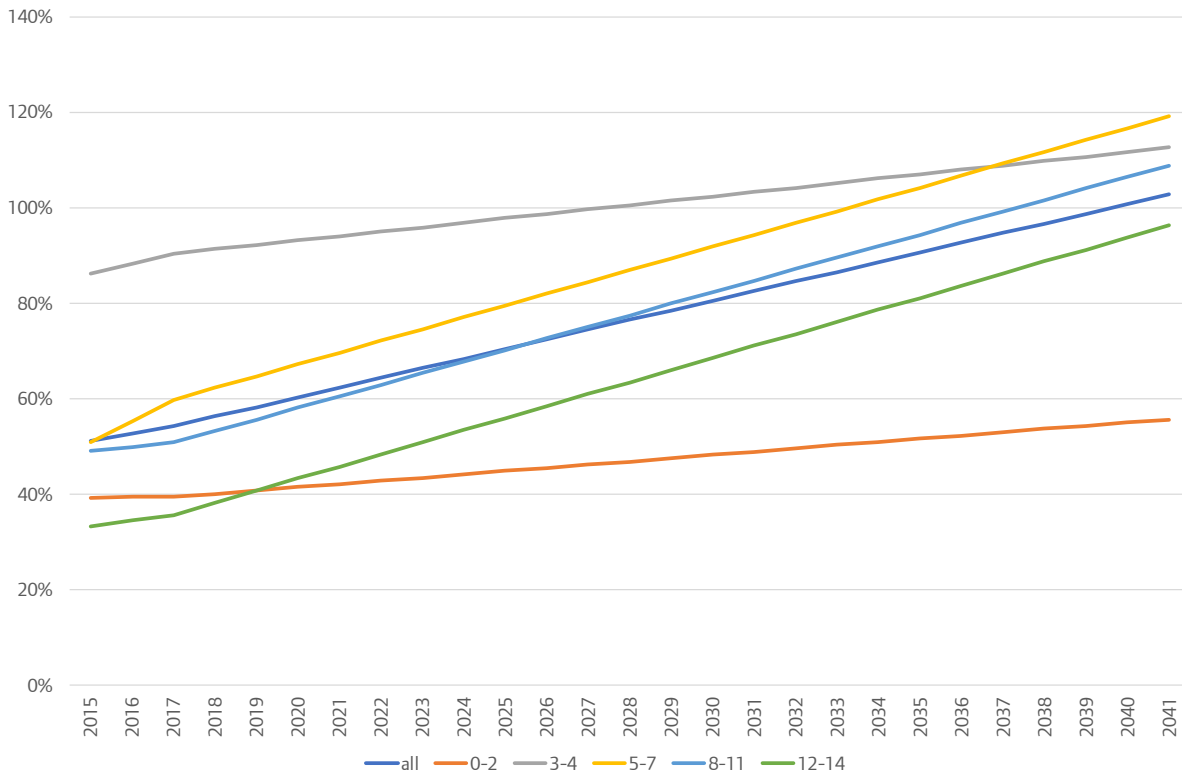
4.3 Methodology for London projections

The rate of increase in the demand for formal childcare between 2004/5 and 2017 is not sustainable. For 0-14 year olds, and all age sub-groups, except 0-2 year olds and 12-14 year olds, the rate reaches 100% or more when projected forward using linear regression, see Figure 3. This is not plausible. A reasonable assumption might be that formal childcare receipt would continue to be highest amongst 3-4 year olds, while by this approach it is higher for 5-7 year olds.

⁵¹ Many of whom are nannies

⁵² Tax free childcare is only available for all children under 12

Figure 3: Projected rate of demand for formal childcare in London applying historic trends by various ages of children, 2015-2041



Source: GLA Economics modelling

Note: modelling takes the second calendar year where CEYSP estimates of formal childcare receipt are for a financial year

It should be noted that the remaining chapters of this paper consider the factors which impact on childcare demand in detail, and Chapter 1 provides an Executive Summary. Still, in brief, there is a complex interplay of factors, and as Figure 3 indicates, this may have different effects on trends across age groups. There is no dataset which captures all these factors, and it is likely that there are policy factors whose impact on trends is uncertain but is unlikely to have a similar impact in the future. Further, arguments can be made that there are factors which might lower the rate of childcare receipt in future years, and factors which might increase it on the basis of what is happening now. **So, to reiterate in the light of our incomplete understanding of causal relationships and limitations in the available data, GLA Economics has reached the view that a simple methodology should be adopted to estimate childcare demand projections.**

In particular, the methodology used is that the demand for childcare places for children aged 0-14 in a year is the product of the projection of the number of children, and the estimated percentage attending formal childcare. (The estimate of formal childcare used is the latest available estimate from CEYSP which was for 2017, and is reported at Table 1).

Population figures flow off the central variant of the GLA Intelligence Unit 2016-based population projections⁵³. These are available by age, for individual boroughs, and for London as a whole. Figures for 2016 are an estimate, and for 2017 a projection. The source for formal

⁵³ See [GLA Population and Household Projections](#). This is the variant used in the draft new London Plan.

childcare receipt is CEYSP. This data is not available for boroughs, although sample sizes are sufficient at a London level to estimate age-based childcare demand. As a result, childcare demand projections are available at London level for 0-14 year olds, and within this by age sub-group. It follows the age groups of the tables in the previous chapter, and for which there is data from 2004/5 to 2017. The figures for 2017 on rate of use of formal childcare per child are an estimate from the survey, and the figures used for 2016 are a simple average of the figures for 2014/15 and 2017⁵⁴.

There is a similar calculation for each age sub-group. The first step is as for 0-14 year olds. For each year it is to take the product of the projection of the number of children in the age group, and the estimated percentage attending formal childcare. For each year of the projections is to take the product of the population in the sub-group and the latest estimate of the percentage attending formal childcare. (The estimate of formal childcare used is the latest available estimate from CEYSP which was for 2017, and is reported at Table 1.) As the sum of the projections in a year across each age sub-group may be greater than the estimate for the whole 0-14 age group there is a second step. Each age sub-group estimate is adjusted proportionate to its share of the sum of the total for age sub-groups so that the total across age groups equals the London total⁵⁵.

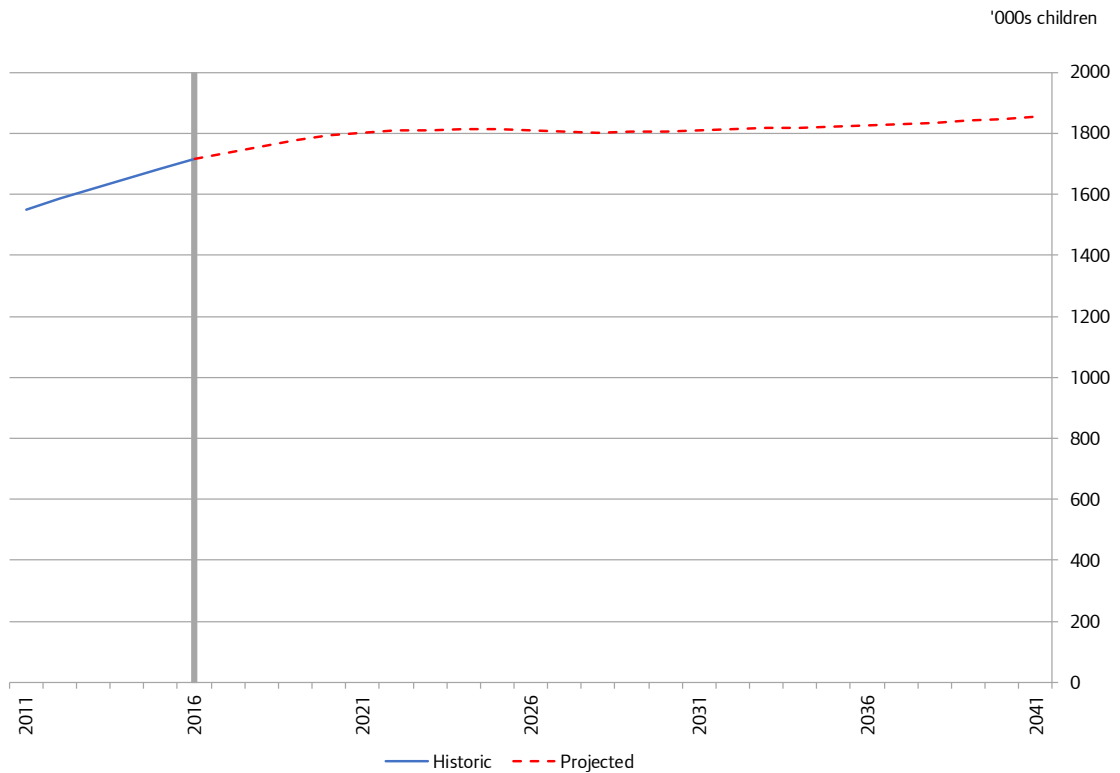
4.4 London projections

The population of 0-14 year olds in London is expected to grow from 1.72m in 2016 to 1.85m in 2041, an increase of 138,000 children, at a compound annual growth rate of 0.3%, and an annual average growth rate of 5,500 children, see Figure 4.

⁵⁴ For 2016 there is a process of calibration as the distribution of children 0-14 across age groups estimated by the source for the childcare rates, the CEYSP, is not the same as that of the GLA population projections.

⁵⁵ The process of calibration changes the implied childcare rate in a year. The age-based population projections are stronger for sub-groups with relatively low use of formal childcare, notably 12-14 year olds. Calibration tends to equalise growth rates, and implied childcare rates can go up or down. Across age groups the largest change is for 3-4 year olds rising by 1.8 percentage points by 2041 from 2017.

Figure 4: London population projection for 0-14 year olds, 2016-41

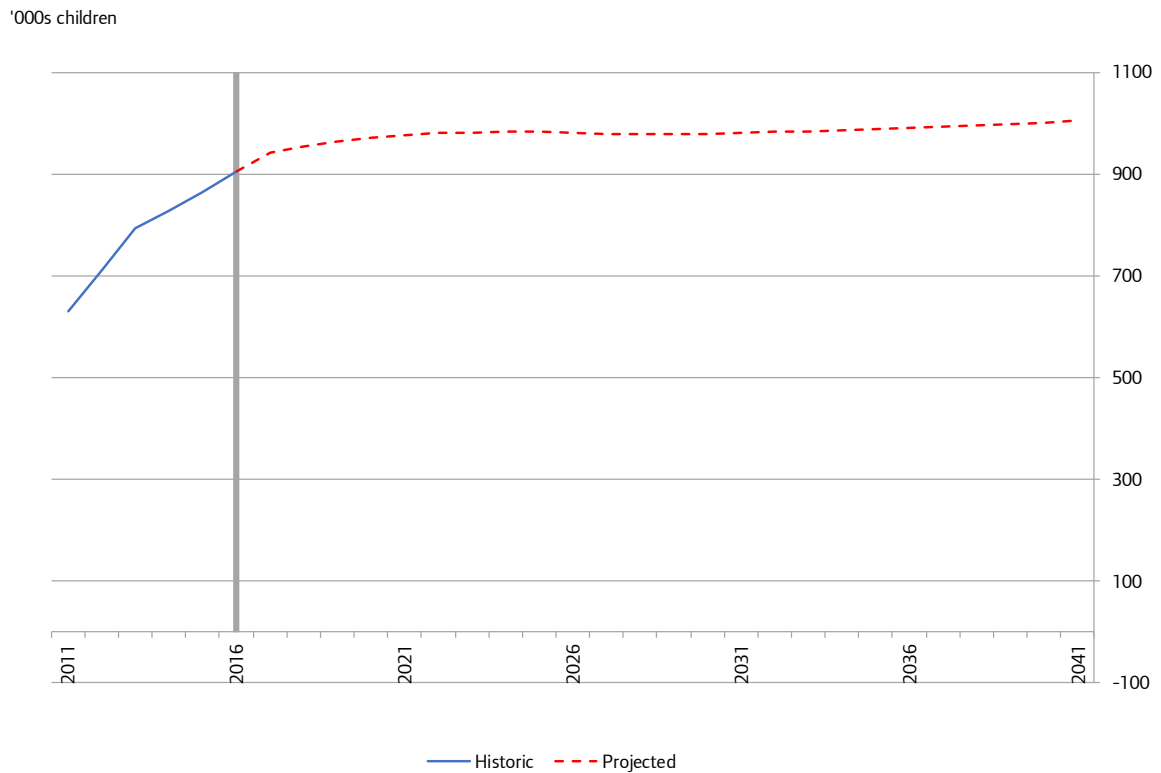


Source: GLA Intelligence Unit

The numbers of 0-14 year olds in London attending formal childcare is expected to grow from 0.9m in 2016 to 1.0m in 2041, an increase in demand of 100,000 childcare places⁵⁶, at a compound annual growth rate of 0.4%, and an annual average growth rate of 4,000 places, see Figure 5. 38,000 of these 100,000 places were expected to have been needed in 2017.

⁵⁶ There is an assumption that each child only requires one childcare place.

Figure 5: London childcare demand projection for 0-14 year olds, 2016-41



Source: GLA Intelligence Unit, including GLA Economics

The profiles of Figures 4 and 5 from 2017 onwards are identical as for all 0-14 children the proportion receiving formal childcare is set to be the same.

4.5 Age-based childcare demand projections

The growth in childcare demand varies across age groups broadly in line with the relative population growth. The fastest growth is for 12-14 years where the numbers attending formal childcare rises by 26% between 2016 and 2041, and slowest for 3-4 year olds at 5%, and for other age groups the increase is close to the increase for 0-14 year olds of 11%, see Figure 6.

Figure 6: London childcare demand projections, various age groups, index numbers for 2016-41



Source: GLA Intelligence Unit, including GLA Economics

Note: Estimates of the proportion of children receiving formal childcare come from relatively small sample sizes in CEYSP, and on occasion there is significant variation between surveys causing sharp fluctuation in estimates of numbers of children receiving formal childcare

Differences in the growth rate of the demand for childcare across age groups, as reported in Figure 6, will have some impact on the estimated relative share in the demand for childcare of each age group, Figure 7. In 2016, 3-4 year olds, 5-7 year olds, and 8-11 year olds each accounted for a quarter of childcare demand, while the 0-2 year olds constituted 16%, and the 12-14 year olds group constituted 11%. These figures are little changed by 2041, and so, in practice, the impact is relatively small.

Figure 7: London childcare demand projections, relative demand across various age groups, for 2016-41



Source: GLA Intelligence Unit, including GLA Economics

Table 9 provides a summary of the age-based projections for 2016-41. The compound annual growth rate (CAGR) is highest for 12-14 year olds at 0.9%, compared to 0.4% for 0-14 year olds, because the strongest population growth is expected in this age group. 24,000 of the 38,000 increase in demand for places expected between 2016 and 2017 is for 5-7 year olds. This is the age group with the largest estimated increase in receipt of childcare between 2014/15 and 2017. Across the period 2016-41 the largest increases in demand for places are amongst the age groups 5 and over, which account for three quarters of the total increase.

Table 9: Age-based childcare demand projections 2016-41, various measures, places are in '000s

	places		2016-2041			increase in places	
	2016	2041	increase in places	CAGR	annual average increase in places	2016-17	2017-41
0-14	904	1005	100	0.4%	4.0	38	62
0-2	147	162	15	0.4%	0.6	2	13
3-4	234	245	12	0.2%	0.5	0	12
5-7	208	233	26	0.5%	1.0	24	2
8-11	220	243	23	0.4%	0.9	7	16
12-14	96	122	25	0.9%	1.0	6	20

Source: GLA Intelligence Unit, including GLA Economics

4.6 Summary

GLA Economics has produced childcare demand projections. There is a complex interplay of factors, and as Figure 3 indicates, this may have different effects on trends across age groups. There is no dataset which captures all these factors with sufficiently large sample sizes that the relationships can be modelled robustly, and it is likely that there are policy factors whose impact on historic trends is uncertain but is unlikely to have a similar impact in the future. Further, arguments can be made that there are factors which might lower the rate of childcare receipt in future years, and factors which might increase it on the basis of what is happening now. **In the light of our incomplete understanding of causal relationships and limitations in the available data, GLA Economics has reached the view that a simple methodology should be adopted to estimate childcare demand projections.**

The principal conclusion is that because the number of children in London is projected to rise, and the proportion of children receiving formal childcare has been rising it is reasonable to expect that the demand for formal childcare will also continue to rise.

The rate of childcare demand is estimated to remain at 2017 levels. Regression modelling indicates that the changes observed since 2004/5 are unlikely to continue either for all 0-14 year olds, or most age sub-groups. It has not been possible to identify a more robust assumption as a basis for projections than the one used.

The numbers of 0-14 year olds in London attending formal childcare is thus expected to grow from 0.9m in 2016 to 1.0m in 2041, an increase in demand of 100,000 childcare places⁵⁷, at a compound annual growth rate of 0.4%, which equates to an extra 4,000 places per year. Children over 5 are expected to account for three quarters of the increase in childcare demand.

There is insufficient data on childcare use to produce borough-level projections, or projections for free childcare places for disadvantaged 2 year olds.

⁵⁷ There is an assumption that each child only requires one childcare place.

5 Policy drivers of childcare demand

5.1 Overview

Over the last 20 years there has been a series of government childcare strategies and initiatives to improve the quality, affordability, and number of available childcare places. There have also been a number of developments in the welfare system around the administration and structure of benefits and tax credits which might have impacted on the affordability of childcare, and the supply of labour. This chapter provides a summary of these developments around affordability, and number of available places as this has the most direct impact on childcare demand. It does not attempt to provide a comprehensive list of initiatives, nor attribute the effects of individual initiatives, but it does seek to provide an indication of how policy changes might have contributed to the observed increase in demand for childcare seen since 2004⁵⁸.

5.2 Childcare strategies and initiatives

5.2.1 Changes

The 1998 National Childcare Strategy⁵⁹ had three principal strands:

- To promote good quality childcare through the establishment of more Early Excellence Centres, and the training of up to 50,000 new childcare workers
- To improve affordability through more generous in-work financial support. Initially this was through Family Credit, then its replacement Working Families Tax Credit, which included an element for childcare
- To make it more accessible through the development of out-of-school childcare, and the guarantee of a free education place for every four year old

The entitlement to a funded early education place was extended to all three year olds in 2004⁶⁰.

The 2004 National Childcare Strategy⁶¹ included a further set of announcements, which included:

- The extension of paid maternity leave to nine months from April 2007, and a goal of twelve months by the end of the next Parliament
- An out of school childcare place for all children aged 3-14 between the hours of 8am to 6pm each weekday by 2010 – this will be based at school for 5-14 year olds, and includes holiday provision
- Legislation for a new duty on local authorities in place by 2008 so that over time they will secure sufficient supply to meet the needs of families

⁵⁸ For example, it does not cover the freeze in benefit and tax credit rates from April 2015 as this affects both in work and out-of-work income. Nor does it cover that from April 2017 the child element of Universal Credit will be limited to two children for parents who have a third or any additional child on or after 6th April 2017, while new claims made after April 2017 will not include the first child premium for the same reason.

⁵⁹ See [The 1998 Green Paper - Every Child Matters](#)

⁶⁰ See [DfE Provision for Children under 5 years of age in England, January 2016](#)

⁶¹ See [Choice for Parents, the best start for children: a ten year strategy for childcare](#)

- An increase in the limits of the childcare element of the Working Tax Credit⁶² to £300 a week (£175 for one child) from April 2005, and an increase in the maximum proportion of costs that can be claimed from 70 per cent to 80 per cent from April 2006

Schools also have powers at their discretion to allow children to attend school prior to their fifth birthday, and almost all children in England are able to attend full-time school (covering 30 to 35 hours a week, depending on school policy, for 39 weeks a year) before the statutory school age⁶³.

From September 2010, all 3 and 4 year olds have had an entitlement to 15 hours of funded early education per week for 38 weeks of the year⁶⁴.

From September 2013, the entitlement to 15 hours of funded early education per week for 38 weeks of the year was extended to certain 2 year olds⁶⁵, and extended further in coverage of 2 year olds⁶⁶ in September 2014. This is available to low income families, who may or may not be in work.

From April 2017, the Government started the roll-out of tax-free childcare available to working families, including the self-employed, with children under 12 (or under 17 if disabled). Up to £2,000 per child per year is payable under this scheme. This is replacing childcare vouchers. Further, families with children under 16 (or 17 if disabled) can get up to £933 in tax and national insurance savings if their employer offers childcare vouchers, or arranges childcare⁶⁷.

While from September 2017, 30 hours free childcare is being offered to working parents of 3 and 4 year olds⁶⁸. Both parents, or the sole parent in a lone parent family, must be working, and earning at least £120 a week⁶⁹. The purpose of this initiative may be to encourage both adults in a couple to work. There is discussion later in this chapter, Chapter 6, and Chapter 7 highlights that there can be policy, costs, and labour market drivers which deter labour market participation by both adults in a couple.

⁶² Working Tax Credit and Child Tax Credit were the New Tax Credits and replaced Working Families Tax Credit and parts of other benefits from 2003

⁶³ In 2012, more than 99% of children in England started school in an area which allowed them to do so in the September after they turned four, up from around 80% in the early 2000s. See, [Free childcare and parents' labour supply: is more better? - Institute For Fiscal Studies - IFS](#)

⁶⁴ See [Provision for children under 5 years of age in England, January 2017](#), Department for Education

⁶⁵ This group is part of the group listed at the next footnote.

⁶⁶ They have a parent in receipt of: income support; income-based jobseeker's allowance (JSA); income-related employment and support allowance (ESA); support through Part 6 of the Immigration and Asylum Act 1999; the guaranteed element of State Pension Credit; Child Tax Credit (but not Working Tax Credit) and have an annual gross income not exceeding £16,190 as assessed by Her Majesty's Revenue and Customs; the Working Tax Credit 4-week run on (the payment someone receives for a further four weeks after they stop qualifying for Working Tax Credit); or they are looked after by a local authority. During the early introduction of Universal Credit, children in families in receipt of Universal Credit are also entitled to a funded early education place. From September 2014, the entitlement to 15 hours of funded early education per week for 38 weeks of the year was extended further to 2-year-olds who met the following eligibility criteria: they have a parent in receipt of Working Tax Credits and have an annual gross income not exceeding £16,190 a year as assessed by Her Majesty's Revenue and Customs; they have a current statement of Special Educational Needs (SEN) or an Education, Health and Care plan; they are entitled to Disability Living Allowance; they are no longer looked after by the local authority as a result of an adoption order, a special guardianship order, or a child arrangements order which specifies with whom the child lives.

⁶⁷ For information on the government's childcare offer, and entitlement conditions, see [Childcare Choices | 30 Hours Free Childcare, Tax-Free Childcare and More | Help with Costs | GOV.UK](#)

⁶⁸ For more information see [Childcare service](#)

⁶⁹ The eligibility criteria are the same as the ones for tax-free childcare

5.2.2 Assessment of effects

This section provides an assessment of the effects of childcare changes where it has been possible to document it.

5.2.2.1 Free childcare places for 2-4 year olds

Across London the proportion of 3 and 4 years in receipt of a free childcare place has been over 85% for each year from 2011 to 2014, and 90% or over for 4 year olds for each year to 2016. Respective proportions have dipped slightly in the periods to 2017. Across boroughs the picture is more mixed. All or close to all 3 and 4 year olds receive the provision in some boroughs, while for some boroughs it is around 70%. In theory, there may be some children in receipt of paid childcare who are not receiving free childcare, and the minimum figures in the table below exclude City of London and Westminster which are outliers⁷⁰.

Table 10 also shows the proportion of disadvantaged 2 year olds in receipt of a free childcare place. This rose from 46% in 2015 to 57% in 2016, and 58% in 2017. The variation across boroughs was more pronounced ranging from 39% to 90% in 2017.

Table 10: Proportion of 2-4 year olds receiving free childcare places in London

	2011	2012	2013	2014	2015	2016	2017
2 year olds							
London					46	57	58
minimum across boroughs					26	34	39
maximum across boroughs					85	85	90
3 year olds							
London	85	86	87	86	83	82	82
minimum across boroughs	69	74	78	68	71	67	73
maximum across boroughs	96	101	97	100	97	95	93
4 year olds							
London	92	93	94	94	93	90	87
minimum across boroughs	78	79	78	80	71	72	68
maximum across boroughs	103	103	105	106	105	103	98
3 & 4 year olds							
London	88	89	90	90	88	86	84
minimum across boroughs	75	77	78	74	71	69	70
maximum across boroughs	99	101	101	101	99	99	96

Source: Provision for children under five years of age in England, Department for Education⁷¹

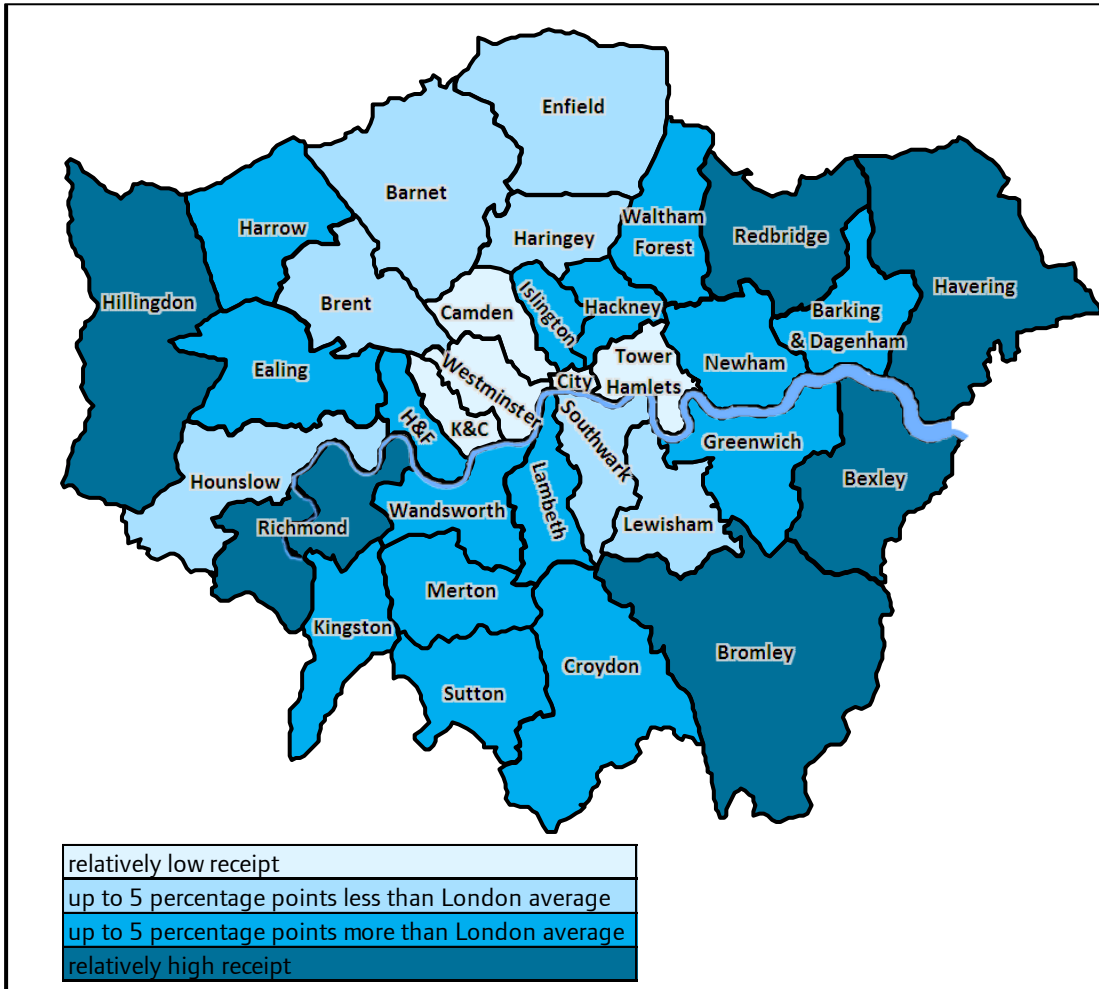
Note: figures are for January of the reported year. Figures for number of children in a borough are estimates calculated separately from numbers receiving childcare places. Minimum figures do not include City of London, and Westminster

⁷⁰ Relatively few children live in the City of London. It is possible that children in Westminster receive paid for formal childcare such as nannies, or there is a lack of non-domestic childcare provision.

⁷¹ See [Education provision: children under 5 years of age, January 2016 - Publications - GOV.UK](#)

Map 1 reports on the receipt of free childcare for 3 and 4 year olds by London borough in 2017. Seven of the 33 boroughs have a rate which is up to five percentage points below the London average, and another 15 have a rate which is up to five percentage points above the London average. The boroughs with the lowest receipt of free childcare are Camden, City of London, Kensington and Chelsea, Tower Hamlets and Westminster⁷² – all inner London boroughs. The highest receipt in London is amongst boroughs at the edge of London, namely, Bexley, Bromley, Havering, Hillingdon, Redbridge and Richmond⁷³.

Map 1: Proportion of 3 and 4 year olds receiving a free childcare place by London borough, 2016



Source: Provision for children under five years of age in England, Department for Education

Between 2015 and 2017 the numbers of 2 year olds with free childcare rose from 22,520 to 23,850. During that time the numbers of disadvantaged 2 year olds fell from 48,960 to 41,120, and the number of 2 year olds fell from 127,700 to 124,200. Consequently, the proportion of 2 year olds who were disadvantaged fell from 38% to 33%, and the proportion of all 2 year olds in receipt of a free childcare place rose from 18% to 19% (Table 11). This has not, though, been a linear trend. There were more children in receipt of free childcare places in 2016 than 2015 or

⁷² These are boroughs for which receipt is more than five percentage points below the London average

⁷³ These are boroughs for which receipt is more than five percentage points above the London average

2017, which corresponds to a larger proportion of the population of all 2 year olds in receipt of free childcare places in 2016 than 2015 or 2017.

Table 11: Disadvantaged 2 year olds, and receipt of free childcare places in London

	2015	2016	2017
free childcare place	22,520	25,060	23,850
disadvantaged 2 year olds	48,960	43,960	41,120
% eligible in receipt	46%	57%	58%
all 2 year olds	127,700	124,520	124,200
% disadvantaged	38%	35%	33%
% receipt free place	18%	20%	19%

Sources: Provision for children under five years of age in England, and GLA Population Projections

Table 12 considers in more detail the changes between 2015 and 2017. For each individual year there has been a decline in the number of disadvantaged 2 year olds for all boroughs⁷⁴. Across most boroughs there has been a decline in the number of all 2 year olds, in 25 boroughs between 2015 and 2016, and in 20 boroughs between 2016 and 2017. At a London level the decline in disadvantaged 2 year olds has been faster than the decline in all 2 year olds. In contrast the proportion of eligible disadvantaged 2 year olds receiving free childcare rose in 29 boroughs between 2015 and 2016, and 15 boroughs between 2016 and 2017. In the second year this proportion only rose by 1 percentage point as there was a decrease in the proportion of eligible 2 year olds receiving free childcare in 17 boroughs. At a borough level there are similar patterns across all 2 year olds receiving free childcare places.

Table 12: Comparison of percentage point changes in eligibility for free childcare with percentage change in numbers with a free place, and both 2 year olds and disadvantaged 2 year olds

	disadvantaged 2 year olds	2 year olds	proportion disadvantaged 2 year olds receiving free childcare	2 year olds with free childcare place
between 2015 and 2016				
London	-10%	-2%	+11 percentage points	11%
boroughs with increase	0	7	29	23
decrease	32	25	3	9
between 2016 and 2017				
London	-6%	0%	+1 percentage point	-5%
boroughs with increase	1	12	15	10
decrease	31	20	17	22

Sources: Provision for children under five years of age in England, and GLA Population Projections

Note: figures exclude City of London

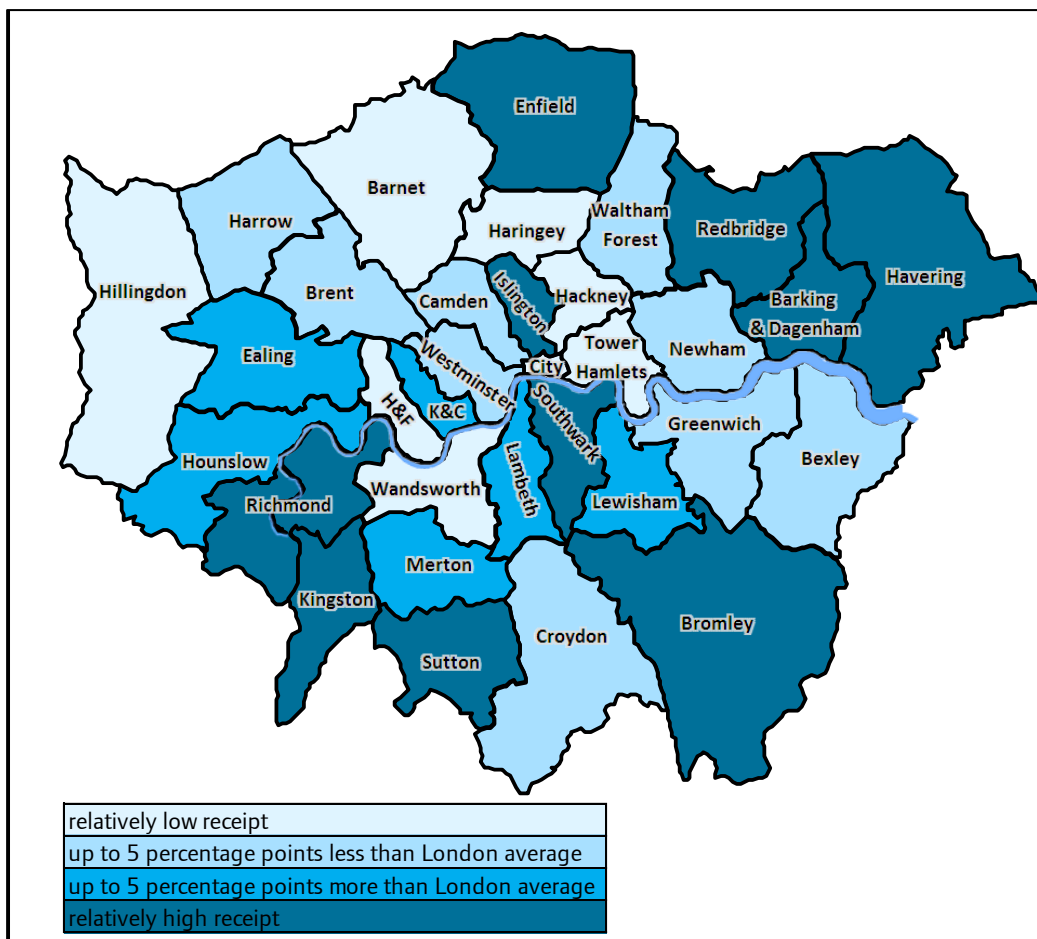
⁷⁴ With one exception

Maps 2 and 3 replicate Map 1 except they are for the proportion of 2 year olds receiving a free childcare place by London borough in 2016 and 2017, rather than 3 and 4 year olds. While the number of boroughs with this proportion above the London average has increased from 16 to 20, there have been notable changes across boroughs⁷⁵.

There were five boroughs with a proportion of 2 year olds receiving a free childcare place more than 5 percentage points below the London average in both 2016 and 2017, namely: Barnet, Haringey, Hillingdon, Tower Hamlets, and Wandsworth. There were another 2 in 2016 but not 2017, namely: Hackney, and Hammersmith and Fulham, while there were another 3 in 2017, but not 2016, namely: Greenwich, Newham, and Redbridge.

There were six boroughs with a proportion of 2 year olds receiving a free childcare place more than 5 percentage points above the London average in 2016 and 2017, namely: Barking and Dagenham, Islington, Kingston, Richmond, Southwark, and Sutton. There were another 4 in 2016 but not 2017, namely: Bromley, Enfield, Havering, and Redbridge (again), while there were another 5 in 2017, but not 2016, namely: Bexley, Croydon, Hammersmith and Fulham (again), Hounslow, and Westminster.

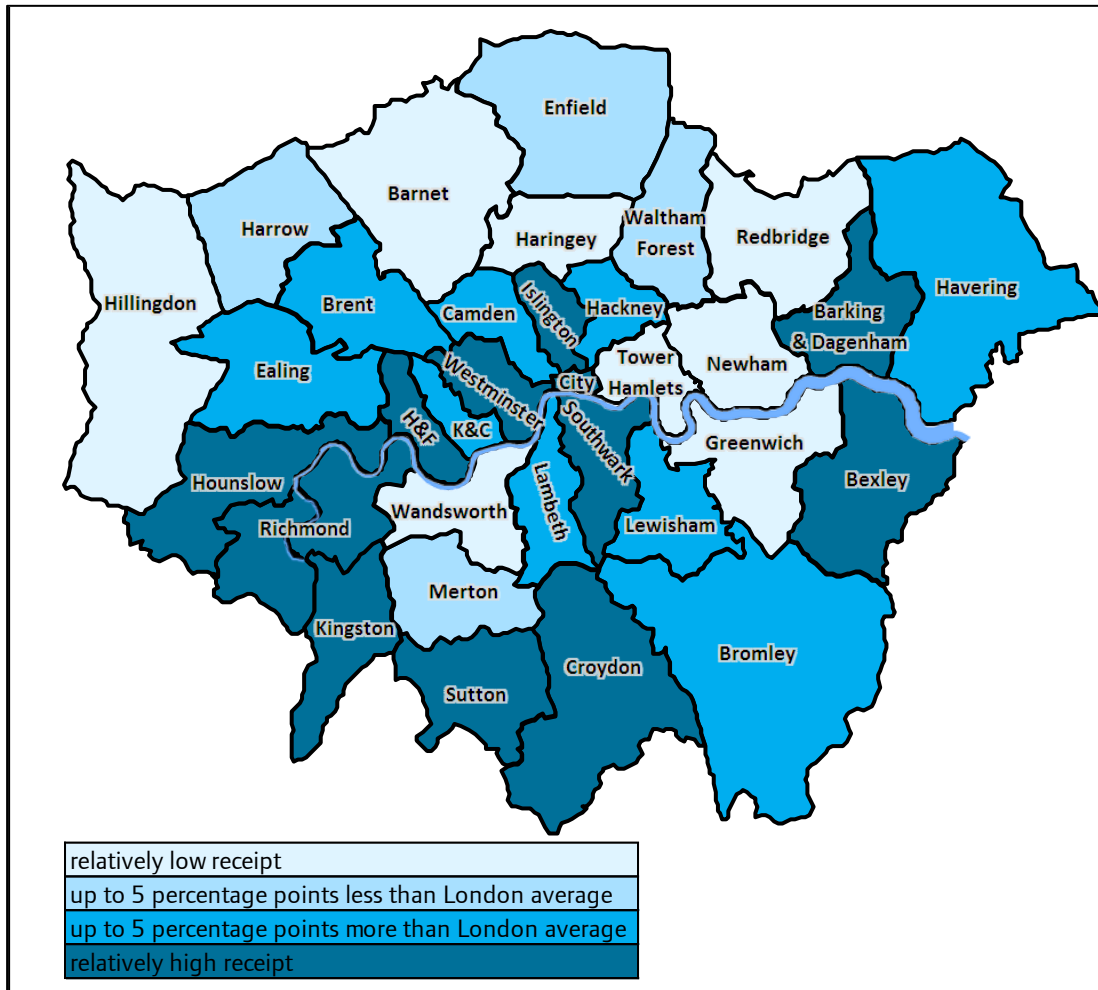
Map 2: Proportion of 2 year olds receiving a free childcare place by London borough, 2016



Source: Provision for children under five years of age in England, Department for Education

⁷⁵ This analysis excludes City of London because of the very small number of resident 2 year olds

Map 3: Proportion of 2 year olds receiving a free childcare place by London borough, 2017



Source: Provision for children under five years of age in England, Department for Education

It does not follow automatically that an increase in a type of childcare provision is matched by an increase in aggregate childcare demand. Nor might an increase in the provision of free childcare increase the use of free childcare. **One study concludes**⁷⁶:

- Mothers whose youngest child becomes eligible for free part-time childcare are no more likely to be in work than mothers whose youngest child is eligible for no free care. There was no effect for father or for mothers for whom it is not their youngest child who is eligible. The entitlement to free part-time childcare increases the amount of time that children spend in childcare by just 1.6 hours a week on average. This is because the policy of providing free care crowds out paid for formal childcare as well as informal care.
- The study found a much greater impact of free full-time care on maternal labour supply. By the end of the first year of full-time eligibility, mother whose youngest child is eligible for free full-time care are 3.5 percentage points more likely to be in work than

⁷⁶ For details, see [Free childcare and parents' labour supply: is more better? - Institute For Fiscal Studies - IFS](#)

mothers whose youngest child is in their third term of part-time entitlement. The effect on the labour supply of fathers is negligible.

Indeed, the same study reports some international evidence which indicates that impact of the provision of free childcare may be sensitive to labour market context. Larger impacts have generally been found where employment rates and childcare attendance have been relatively low, and where state-provided or subsidised childcare does not crowd out private childcare to a significant extent. Future childcare initiatives may have a different impact to a similar initiative at an earlier point in time because the context in which it is being introduced has changed.

5.2.2.2 Childcare vouchers

CEYSP provides some evidence on the relative use of childcare vouchers London and nationally⁷⁷. In 2014/15 for both geographies, around 10% of employers provided financial help for formal childcare, and for nearly 90% of families this took the form of childcare vouchers. Around three quarters of families who received any form of financial help from employers had annual income of £45,000 or more. In 2017 for both geographies, around 15% of employers provided financial help for formal childcare, and for a slightly lower 85% of families this took the form of childcare vouchers. Childcare vouchers are now being replaced by tax free childcare.

5.3 Welfare initiatives

There have also been a number of developments in the welfare system around the administration and structure of benefits and tax credits which might have impacted on the affordability of childcare, and the supply of labour, and which would impact on the demand for childcare. Rates of payments of benefits and tax credits affect the financial incentives to look for work, and the affordability of childcare. The conditionality regime, that is the requirements for job search, and employment support available, such as the New Deal for Lone Parents, will also impact on the supply of labour.

5.3.1 Affordability of childcare

More generous tax credits, whether or not it is in terms of more generous provision for childcare, will increase in work household income, and so encourage greater labour supply, and so demand for childcare. Improvements in the generosity of tax credits have already been noted as part of the 2004 National Childcare Strategy.

Subsequently, tax credits have become less generous⁷⁸:

- the maximum amount of childcare costs has remained the same since 2005/6, and so has not risen with inflation
- the proportion of eligible childcare covered by tax credits fell from 80% to 70% in 2011/12,
- the rate at which maximum tax credits were withdrawn for income over a threshold increased from 37% to 41% between 2007/8 and 2011/12.

⁷⁷ England

⁷⁸ The Institute Fiscal Studies provides a simple to read reckoner of rates over time at [Fiscal facts: tax and benefits - Institute For Fiscal Studies - IFS](#)

There are further changes in rates with the introduction of Universal Credit, which replaces into a single payment stream the six payments of: Child Tax Credit; Working Tax Credit; income-based Jobseekers Allowance; Income Support; income-related Employment and Support Allowance; and Housing Benefit. This will mean that households will no longer need to claim different payments if they move into or out of work. Universal Credit has work allowances, which are equivalent to the earnings disregards in legacy benefits⁷⁹, that is earnings over this limit are taken into account in the calculation of the value of a welfare payment. Work allowances for Universal Credit awards fell between 2015/16 and 2016/17, see Table 13⁸⁰. There has been no corresponding reduction in rates for legacy tax credits and benefits.

Table 13: Universal Credit work allowances, £ per year

	Without housing costs			With housing costs		
	2015/16	2016/17	change	2015/16	2016/17	change
lone parent with children	£8,808	£4,764	-£4,044	£3,156	£2,304	-£852
couple with children	£6,432	£4,764	-£1,668	£2,664	£2,304	-£360

Source: [2016 Benefits Upating - Commons Library briefing - UK Parliament](#)

Note: allowances are for non-disabled adults

The effect of these changes will likely be to deter labour market participation, as the financial gains from working will be less, although their full impact will not be felt for some time. At the time of writing in March 2018 Universal Credit has rolled out nationally for simple single claimants, the “live” service, began rolling out the “full” service in May 2016 for all claimants, and which it expects to complete by December 2018⁸¹. The migration of recipients of legacy tax credits and benefits may not be complete until March 2022⁸².

The work incentive effects of tax credit and benefit changes are complex. IFS analysis⁸³ concludes that with Universal Credit all in work recipients will be financially better off than if they were out-of-work. There is marginally less support for a lone parent when working part time (between 16 and 40 hours per week) than under the legacy system, but more support at higher levels of earnings and for those working only a few hours per week (‘mini jobs’). On the other hand, Universal Credit will cover up to 85% of childcare costs, rather than the 70% in tax credits. Across families with children the IFS estimates that it will only on average be one earner couples that will be better off (although within any group of families there may be some who are better off, and some who are worse off depending on their circumstances). There will be a strengthening of the incentive for there to be one earner in a couple, and a weakening of the incentive for there to be two earners.

In contrast, the DfE initiative, from September 2017, to provide 30 hours free childcare if both parents of 3 and 4 year olds are working and earning at least £120 a week may well improve work incentives for there to be two earners in a couple.

⁷⁹ Jobseekers Allowance, Income Support, and Employment and Support Allowance are payable if an individual is in work, and works fewer than 16 hours a week, and for more hours tax credits are payable

⁸⁰ More background on Universal Credit, the roll-out, and payment rates is available at [Universal Credit changes from April 2016](#)

⁸¹ See [Universal Credit “live” service roll-out](#)

⁸² DWP states that the migration will begin in 2019, and other sources indicate that this may not be completed until March 2022, see, for example, [Universal Credit roll-out: Autumn/Winter 2017](#)

⁸³ See [The \(changing\) effects of universal credit - Institute For Fiscal Studies - IFS](#)

Currently the earnings of families, lone parents and couples, with children on tax credits are relatively low, see Table 14. Over 80% in London earn less than £20,000 a year, with this standing at 75% nationally.

Table 14: Earnings distribution of in work tax credit recipients with children, London and nationally, 2015/16

	In work ('000s)	earnings			
		up to £19,999	£20,000 to £29,999	£30,000 to £39,999	£40,000 and over
London	376	81.4%	14.4%	3.7%	0.5%
United Kingdom	2920	75.3%	18.5%	5.5%	0.7%

Source: HMRC tax credit statistics, finalised annual awards, 2015/16

Note: recipients of disabled worker element, while included in published statistics, have been excluded in this table, and are all assumed to work less than £20,000

Further, use of the childcare element in tax credits amongst working families is relatively low, see Table 15, which indicates that low income working families are either using free formal care or informal care, or one adult is caring for a child, or working only during school hours. In London while 60% of families on Child Benefit are on tax credits, it is 35% of all families that are in work, and of those in work 13% use their entitlement to the childcare element. While there is a lower proportion of lone parents in work at 53%, 23% of them benefit from the childcare element. In contrast 65% of couples have someone in work, and only 4% benefit from the childcare element. National figures are similar except a slightly higher proportion of lone parents is in work, and couples in work are more likely to benefit from the childcare element. Lone parents constitute 53% of families on tax credits in London, and 48% nationally.

Table 15: Household and labour market characteristics of tax credit recipients with children, London and nationally 2015/16

	London	Great Britain
families with children on Child Benefit	978,000	7,154,000
% on tax credits	59.8%	58.3%
% in work	35.2%	35.1%
families with tax credits	584,000	4,168,000
% in work	58.8%	60.2%
with childcare element of % in work	13.2%	14.4%
lone parents on tax credits	309,000	1,992,000
% in work	53.0%	56.5%
with childcare element of % in work	22.9%	21.4%
couples on tax credits	276,000	2,176,000
% in work	65.4%	63.6%
with childcare element of % in work	4.5%	8.7%

Source: HMRC tax credit statistics, finalised annual statistics – small area data, 2015/16

Note: Child Benefit figures may exclude some high income families⁸⁴

What none of this analysis does is estimate changes in behaviour in terms of changes in numbers of people in work, or hours worked from previous or ongoing changes to the system of tax credits and benefits. There have been changes to work incentives, and so the demand for childcare, but it is not known what the size of any impact has been.

5.3.2 Supply of labour

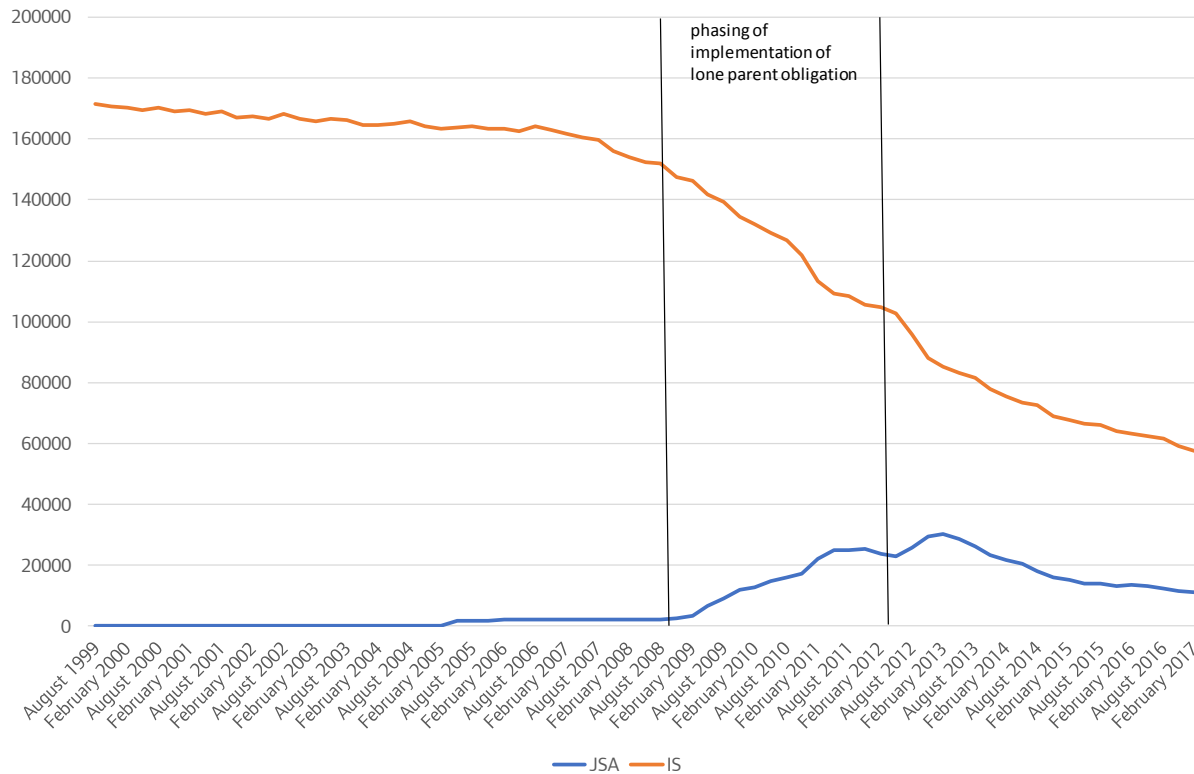
In 1998 the government introduced the New Deal for Young People to provide support to 18-24 year olds to find work. Subsequently there were a number of other New Deals including the New Deal for Lone Parents, participation on which was voluntary. These programmes evolved into the Flexible New Deal, and the Work Programme. The funding for these programmes, the coverage of the benefit population, and conditions on participation change over time, as will their impact on the supply of labour.

Prior to November 2008 an out-of-work lone parent with a child under 16 could claim Income Support, a benefit for which payment was not conditional on jobsearch activity. At this time entitlement for new or repeat claims was restricted to lone parents whose youngest child was under 12. Lone parents with older children still had entitlement to Jobseekers Allowance, which has job search requirements. The age limit fell further until by May 2012 only lone parents with a youngest child under 5 could make a claim for Income Support. This was known as the Lone Parent Obligations, and acted to increase labour supply as affected lone parents lost entitlement to a benefit which treated them as economically inactive, and received a benefit which treated them as unemployed.

⁸⁴ The High Income Child Benefit charge may discourage claims from high income households. It does not affect entitlement, but a recipient is liable to repay some or all of their Child Benefit if they or their partner has an individual income of more than £50,000 per year.

The direct effect of this change was a marked fall in the number of lone parents on benefit, see Figure 8. Over the period of implementation of the lone parent obligation the number of lone parents on Income Support fell by 45,000 from 147,500 while the numbers on Jobseekers Allowance rose by 20,500 to 23,000. Other destinations were employment, and inactivity benefits.

Figure 8: Lone parents on benefit in London



Source: Department for Work and Pensions

Note: Series are for individuals who claim benefit as lone parents, and exclude lone parents who claim benefits for other reasons

The Department for Work and Pensions (DWP) has commissioned a number of studies of the impact of lone parent initiatives in encouraging lone parents to move into work. The measure of impact is an assessment of the additional people who left benefit or moved into work beyond the number who might have done so any way. DWP Research Report 845⁸⁵ provides a summary of analysis at a national, in this case Great Britain, level:

- Lone Parent Obligations had a much greater impact on moving lone parents into work than other previous programmes and initiatives aimed at this group of claimants
- Nine months after loss of Income Support entitlement the share receiving any out-of-work benefit had fallen by between 13 and 16 percentage points, and the share in work had increased by between eight and ten percentage points
- The estimated impacts for other lone parent initiatives, such as for the Lone Parent Pilots, Work Focused Interviews, and the New Deal for Lone Parents were each around two percentage points⁸⁶. Strictly, this is not a like-for-like comparison as there was more

⁸⁵ See [Lone Parent Obligations: an impact assessment \(RR845\) - GOV.UK](#)

⁸⁶ The estimated impacts for these programmes are not strictly comparable with that for Lone Parent Obligation because they are for different periods after intervention, slightly different groups of lone parents, and the programmes were in place at different points in time.

comprehensive provision of out-of-school childcare places when the Lone Parent Obligations came into effect

- Lone parents with older children and lone parents aged under 25 appear to be less affected by the Lone Parent Obligations, consistent with these lone parents being further from the labour market, with less (recent) experience of work, and greater barriers to moving into work

One possible consequence is that the Lone Parent Obligations would continue to have an effect after the period of study. This is because the presence of a conditionality regime might mean that some lone parents might not have ongoing contact with the benefit system, drift into inactivity and lose contact with the labour market.

From April 2013 DWP introduced Universal Credit which is replacing income-based Jobseeker's Allowance and Income Support as explained in the previous section. The phased roll-out of Universal Credit will increasingly have an impact on the numbers on legacy benefits, and will explain some, if not all, of the declines in the last couple of years in Figure 8.

Another change with Universal Credit was that it extended further the conditionality regime, of those who need to seek work, to include:

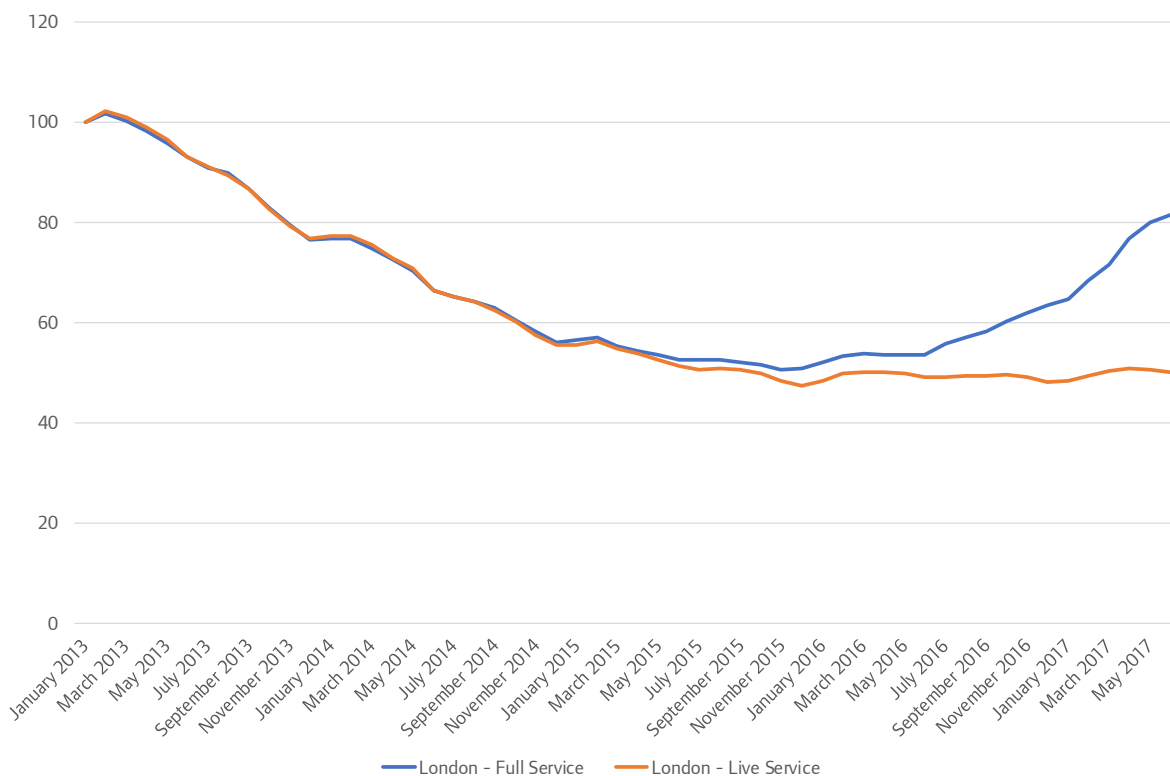
- all adults in a household, and not just the claimant
- out-of-work households entitled to tax credits who did not have entitlement to Income Support
- out-of-work households entitled to Housing Benefit who would not have claimed Jobseeker's Allowance
- claimants awaiting or appealing Work Capability Assessments⁸⁷
- parents whose youngest child is 3 or older, including lone parents

This will happen as part of the phased roll-out of the "full service", and will increase the estimate of the numbers looking for work of the Claimant Count. GLA Economics has provided a briefing note on the impact of the roll-out of Universal Credit on the Claimant Count⁸⁸, and, for convenience, Figure 9 reproduces one of the charts. The trends for "live service" and "full service" offices were very similar until an office offered "full service", and by June 2017 the Claimant Count was 60% higher in the offices that were providing a "full service" at that time. It is not known what proportion of the "live service" or "full service" groups have children, although in the case of the latter all previously with entitlement to tax credits would. As with the introduction of the Lone Parent Obligation the extension of the conditionality regime in Universal Credit is likely to have some impact in increasing parental labour supply, and so the demand for childcare. This will have an opposite effect on the likelihood to look for work from the less generous financial support in Universal Credit than legacy benefits.

⁸⁷ The claimants previously would not have had a requirement to seek work, as they would have received Employment and Support Allowance.

⁸⁸ See [The impact of the roll-out of Universal Credit on the Claimant Count – London Datastore](#)

Figure 9: Index of Claimant Count in London for Universal Credit “full service” and “live service” Jobcentre Plus offices, 2013=100



Source: Office for National Statistics

Note: Jobcentre Plus office classification based on Universal Credit service status at July 2017

5.4 Summary on policy drivers of childcare demand

There have been a range of government initiatives over the last ten or so years which have impacted on the availability, affordability, and demand for childcare. It is likely that the easier decisions have been taken, that they have had an impact on formal childcare use, and that the trend in growth in demand in childcare is not sustainable at past rates. The guarantee of childcare around school hours for all children under 14, for example, was a clear statement of intent. There is evaluation evidence which estimates the contribution of some of these initiatives, but not all, although the evidence is that the impact also depends on other circumstances at the time. Consequently, it is not possible to estimate the impact of policy changes on the demand for childcare.

A number of initiatives have been announced which may have a bearing on the future demand for childcare:

- Extension of hours of free childcare for working families with 3 and 4 year olds, and which may substitute for schooling for some 4 year olds
- Introduction of tax free childcare, which replaces childcare vouchers
- Introduction of Universal Credit, which has extended out-of-work conditionality compared to legacy benefits and tax credits, specifically in this context to parents whose youngest child is 3 or 4 or who were on tax credits but not on Jobseeker’s Allowance. There have also been changes to payment rates with the introduction of Universal Credit which may adversely impact on work incentives, especially for second earners.

The impact of these initiatives may well be fairly limited either because they are tightly targeted, replace existing provision, or concentrate on 3-4 year olds for whom formal childcare use is already high.

6 Cost drivers of childcare demand

6.1 Overview

It is well known that costs are higher in London than elsewhere, and that earnings are also higher. This chapter considers relative trends in childcare prices and earnings to form an assessment of the relative affordability of childcare in London compared to nationally. It provides evidence on the use of childcare by income and working patterns to support an assessment of the contribution of the costs of childcare to childcare demand.

6.2 Use of childcare by family income and working status

For both London and nationally, the use of childcare increases with reported family income both for any, formal, and informal childcare and formal childcare, see Table 16, both for London and nationally.

Table 16: Use of childcare by type of childcare and family annual income, London and England, 2010, 2014/15 and 2017

family annual income	London			England		
	any childcare	formal childcare	informal childcare	any childcare	formal childcare	informal childcare
2017						
All	61	54	15	69	55	28
Under £10,000	43	38	4	55	44	18
£10,000-£19,999	53	45	12	59	44	25
£20,000-£29,999	56	51	12	66	52	26
£30,000-£44,999	60	52	16	70	53	35
£45,000+	81	73	24	80	69	32
2014/15						
All	58	52	14	70	56	33
Under £10,000	54	44	10	60	45	26
£10,000-£19,999	50	45	8	62	46	28
£20,000-£29,999	50	44	9	66	51	31
£30,000-£44,999	71	58	25	76	59	38
£45,000+	72	68	23	80	69	37
2010						
All	51	44	12	66	50	28
Under £10,000	38	33	8	54	38	26
£10,000-£19,999	39	33	8	54	40	23
£20,000-£29,999	58	48	15	65	49	28
£30,000-£44,999	55	46	14	70	53	32
£45,000+	68	62	15	79	66	29

Source: Children and Early Years Survey of Parents

Use of any, formal, or informal childcare is highest if all adults in a household, whether a couple or lone parent, is working, both for London and nationally, see Table 17. Not all children are recorded as receiving any form of care even when all adults in a household are working.

Table 17: Use of childcare by type of childcare and family working status, London and England, 2010, 2014/15, and 2017

	London			England		
family working status	any childcare	formal childcare	informal childcare	any childcare	formal childcare	informal childcare
2017						
All	61	54	15	69	55	28
couple - both working	77	68	23	78	63	35
couple - one working	47	44	2	55	47	12
couple - neither working	26	18	8	50	37	12
lone parent working	63	52	21	79	58	47
lone parent not working	56	50	14	56	45	20
2014/15						
All	57	51	12	70	55	32
couple - both working	69	62	20	79	65	38
couple - one working	49	45	7	58	47	17
couple - neither working	53	50	5	51	42	15
lone parent working	61	54	17	79	56	51
lone parent not working	46	41	8	59	44	26
2010						
All	50	43	11	65	50	27
couple - both working	68	59	19	76	60	33
couple - one working	40	36	5	54	44	15
couple - neither working	26	22	4	39	31	9
lone parent working	59	52	18	76	53	44
lone parent not working	41	36	9	55	38	25

Source: *Children and Early Years Survey of Parents*

6.3 Childcare costs and earnings

The Family Resources Survey is the only data source which provides data on each of childcare costs, household income, and individual earnings. Unfortunately, sample sizes are not large enough to provide robust results for London. The Labour Force Survey has a larger sample size, and can provide robust information on household characteristics and labour market participation at a London level – thus it is the source used for the analysis in the next chapter. It does not, though, have granular information on household income or earnings, or use of childcare. In the

absence of information from official data sources this chapter makes use of data on childcare costs from the FCT. Second, there is no data source which provides good information at a London level on household earnings, for example, the extent to which both people in a couple are high earners, or low earners, and one is a high earner and one a low earner. Household income would be the preferred measure to consider the affordability of childcare. Instead this chapter uses earnings information from the Annual Survey of Hours and Earnings which has large sample sizes, and granular data on individual earnings. This data source has earnings information by gender, but does not have information on household characteristics such as whether an individual has a partner or children. Earnings are gross earnings, and so are before tax and not take home pay, and does not include other in work income such as tax credits. Reported data is for employee jobs, rather than individual earnings and so does not include self-employment and records each job separately where an individual has more than one job.

Prices generally in London are higher than other parts of the country, and this may influence decisions on where a household lives⁸⁹. The financial gains from work will influence labour market participation decisions. An important element is additional costs from childcare and transport that would not have been incurred out-of-work. The tax-benefit system also has a bearing on the gains from work, and the previous chapter discussed policy changes, such as the introduction of Universal Credit.

Over the period since 2002 nursery and childminder costs have typically been a quarter higher in London than nationally (Table 18). The evidence is that this ratio may have been creeping up a little over the last five or so years. In comparison after school club provision has been of a similar cost in London and elsewhere, although again in London costs have been rising relatively faster in the last few years, and are now around 10% higher.

Childcare costs (for the reported hours) are over two and a half times higher for a younger child in London than the costs of an after school club. Between 2002 and 2016 childcare costs have more than doubled in cash, or nominal, terms regardless of the type of the provision, both in London and nationally.

⁸⁹ See, for example, [\[ARCHIVED CONTENT\] Regional Consumer Price Levels, 2010 - ONS](#) the latest information on relative prices across the UK. This does not cover housing costs, and an analysis of the affordability of housing in London and elsewhere can be found at [Working Paper 72: an economic analysis of London's housing market | London City Hall](#)

Table 18: Childcare costs, London and national, 2002 to 2016, nominal values

	nursery (25 hours)		childminder (25 hours)		after school club (15 hours)
	under 2	2 & over	under 2	2 & over	
London value					
2002	£73.75	£65.25	£70.00	£68.00	£25.00
2016	£158.73	£148.74	£148.12	£146.81	£54.39
% change	115%	128%	112%	116%	118%
London relative to England					
2002	1.23	1.17	1.24	1.21	0.96
2003	1.26	1.21	1.17	1.16	0.88
2004	1.26	1.20	1.12	1.11	0.86
2005	1.30	1.22	1.15	1.17	0.74
2006	1.29	1.23	1.17	1.20	0.76
2007	1.27	1.19	1.23	1.23	0.87
2008	1.26	1.21	1.25	1.21	0.86
2009	1.25	1.21	1.23	1.17	1.15
2010	1.24	1.18	1.25	1.24	1.00
2011	1.23	1.20	1.32	1.32	0.96
2012	1.23	1.14	1.40	1.40	1.04
2013	1.23	1.17	1.32	1.32	0.97
2014	1.26	1.29	1.35	1.37	1.01
2015	1.30	1.26	1.39	1.39	1.12
2016	1.34	1.32	1.41	1.41	1.11
2017	1.26		1.33		

Source: Family and Childcare Trust

Notes: for some years published figures are for Inner and Outer London, and a simple average has been used up to 2009 nursery and childminder costs assumed a 50 hour week – figure in table uses half this figure figures for 2 and over not reported for 2017 because of the availability of free childcare

There is limited evidence on variation in childcare costs across the boroughs. Recent analysis by the FCT⁹⁰ reports that for the under 5s, costs are higher in wealthier boroughs. It might be expected that childcare in formal settings would be more expensive in areas where land values were higher, and the population was wealthier. In another report⁹¹, the FCT notes that there are price moves in both directions for different local authorities, some of significant magnitude. It comments that this appears to reflect considerable volatility in the childcare market as the sector responds to changing minimum wage and auto-enrolment legislation, along with the introduction of 30 hours free childcare for 3 and 4 year olds. These are national factors, and it is not clear if it would change the differential between London and national childcare prices.

⁹⁰ Unpublished at March 2018, but expected to become available at [Early years and childcare | London City Hall](#)

⁹¹ See [Childcare Survey 2017 | Family and Childcare Trust](#)

Table 19 provides a counterpart of Table 18 for gross weekly median earnings for all employee jobs both full-time and part-time, and jobs held by females by type of job. **By all measures weekly earnings in London have increased by at least a quarter between 2002 and 2016, compared to a more than doubling of childcare costs over the same period.** All figures are in cash, or nominal, terms. Further, earnings in London have risen more slowly than nationally, in this case for the UK⁹². For example, gross median earnings of part-time female jobs were 17% higher in London than the UK in 2002, but only 5% higher by 2016. It is also noteworthy that the differentials for female earnings between London and the UK are greater than for those for males and females combined⁹³.

Table 19: Gross weekly median employee earnings, London and national, 2002 to 2016 by working pattern for all jobs and female jobs, nominal values

	all			females		
	all	full-time	part-time	all	full-time	part-time
London value						
2002	£419.70	£479.90	£133.10	£353.10	£441.30	£138.20
2016	£536.60	£632.40	£183.00	£474.80	£585.00	£190.00
% change	28%	32%	37%	34%	33%	37%
London relative to UK						
2002	1.29	1.23	1.15	1.49	1.33	1.17
2003	1.30	1.23	1.17	1.47	1.32	1.20
2004	1.30	1.22	1.15	1.46	1.31	1.18
2005	1.31	1.22	1.14	1.44	1.30	1.16
2006	1.29	1.21	1.12	1.43	1.29	1.14
2007	1.29	1.21	1.11	1.47	1.29	1.15
2008	1.30	1.21	1.08	1.45	1.30	1.11
2009	1.30	1.22	1.08	1.45	1.29	1.10
2010	1.29	1.22	1.08	1.44	1.29	1.09
2011	1.29	1.22	1.05	1.42	1.28	1.08
2012	1.29	1.21	1.04	1.44	1.28	1.07
2013	1.25	1.19	1.06	1.40	1.25	1.06
2014	1.25	1.19	1.02	1.38	1.25	1.06
2015	1.24	1.18	1.04	1.37	1.22	1.05
2016	1.22	1.17	1.03	1.36	1.22	1.05

Source: ONS Annual Survey of Hours and Earnings

Note: Part-time workers work less than 30 hours a week, or if in a teaching profession less than 25 hours a week

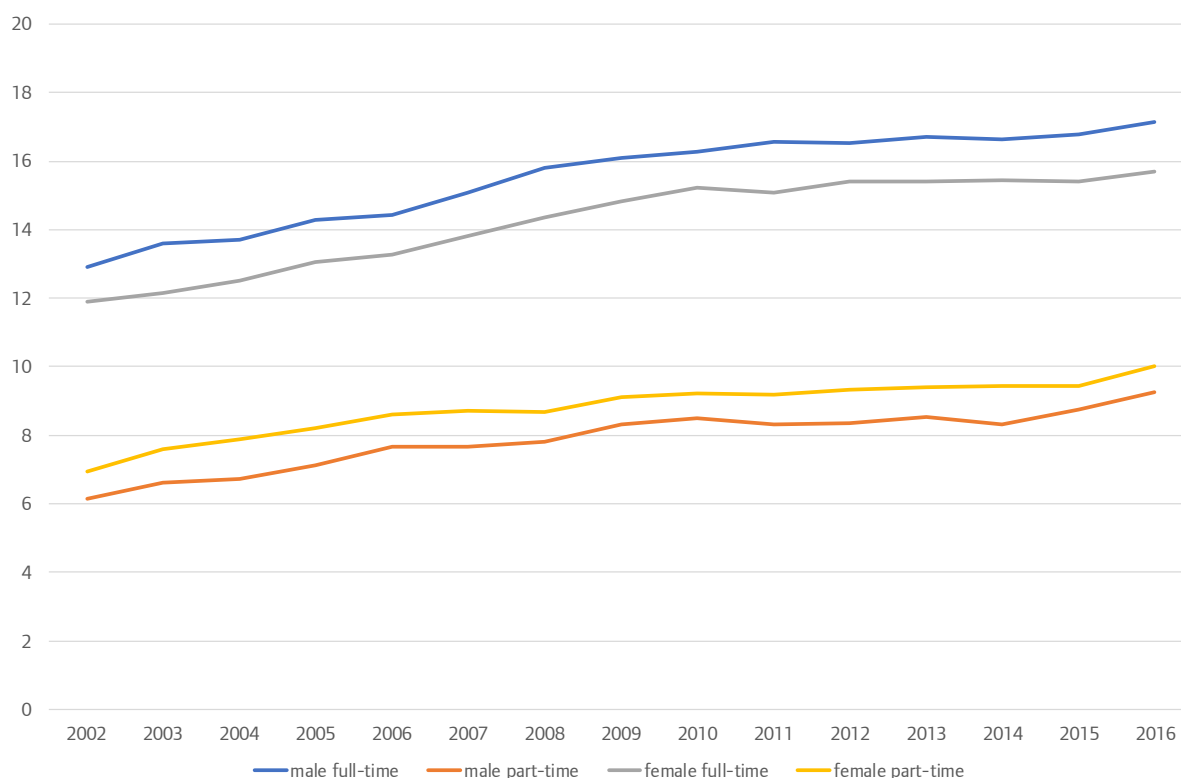
Further median hourly pay (excluding overtime) for London workers has been lower for part-time workers than full-time workers over the period 2002 to 2016 for both men and women, see

⁹² This is also true for males, but not reported in this table.

⁹³ The findings in this paragraph are also true for the metric hourly earnings excluding overtime with one exception. In all years bar one, since 2010, the differential for female earnings between London and the UK has been less, and not more, than the corresponding differential for male earnings.

Figure 10. Median hourly pay has risen slightly faster for part-time employees than full-time employees, with the full-time to part-time ratio for males falling from 2.1 to 1.9 and for females from 1.7 to 1.6, but the difference remains significant.

Figure 10: Trend in London median hourly pay (excluding overtime) by gender and work pattern, 2002-2016



Source: ONS Annual Survey of Hours and Earnings

Note: Part-time workers work less than 30 hours a week, or if in a teaching profession less than 25 hours a week

As noted earlier individual earnings is an imperfect measure of the affordability of childcare, and it is not possible to identify parents with dependent children. Nevertheless, to the extent that the labour market is competitive, and wage rates reflect market pressures, market trends should be useful in informing aggregate trends for sub-groups within the labour market.

Recent IFS analysis of the gender wage gap⁹⁴ reinforces this point. It concludes that the gap widens markedly after women have children. This is because women who return to work tend to return to part-time work for which there is little wage progression in real terms. This is the case for both graduates and non-graduates, and whether the woman returns to the same employer or not.

Additional analysis of the Annual Survey of Hours and Earnings indicates that London's share of UK jobs rose from 11.5% to 12.5% over the period 2002 to 2016 with similar increases for men and women. The growth in part-time⁹⁵ working has been predominantly by men over this period. In London, this has been from 9.9% to 14.9% of jobs, and for the UK from 8.3% to 13.8%. While for women the rise has been from 30.3% to 30.9% of jobs in London, and 42.0% to 42.2% of jobs in the UK. That is developments in the composition of the population with jobs

⁹⁴ See [Wage progression and the gender wage gap: the causal impact of hours of work - Institute For Fiscal Studies - IFS](#)

⁹⁵ Part-time for this purpose is work of less than 30 hours a week, or if in a teaching profession of less than 25 hours a week

has been similar in London and the UK over the period 2002 to 2016, and so will not have had a bearing on the relative affordability of childcare.

6.4 Summary on childcare costs and earnings

The use of any, formal, or informal childcare is higher where family income is higher or where all adults work in a household both in London and nationally.

The cost of paid formal childcare has more than doubled in London over the period 2002 to 2016, which has been a faster rise than nationally. Prices, generally, are higher in London than elsewhere, and 30-40% higher in early years settings. In contrast earnings have been rising less slowly in London than nationally, which reinforces the impression that childcare has become more difficult to fund in London than elsewhere.

The growth in part-time jobs in London has been faster for men than for women, and a significantly lower proportion of women in London have a part-time job. It is pertinent that part-time hourly pay is markedly lower than full-time hourly pay, and that mothers who work part-time see little wage progression in real terms.

7 Changes in household structure and characteristics over time

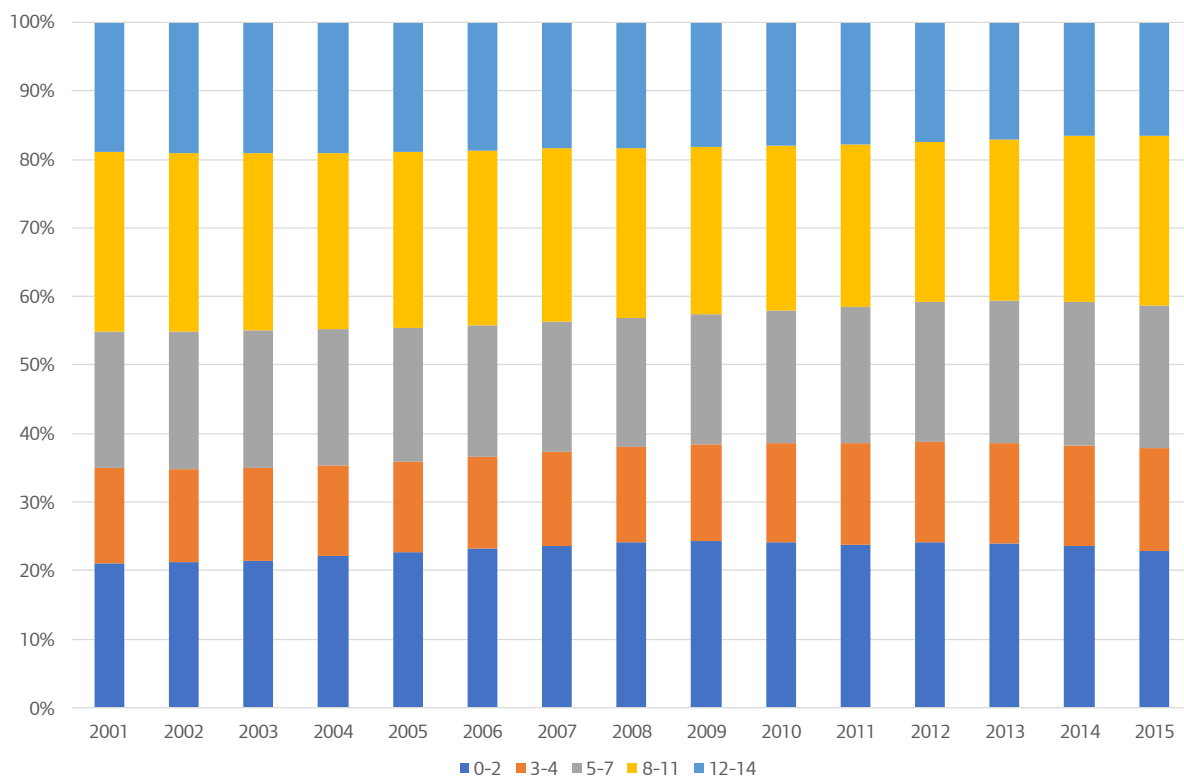
7.1 Overview

Chapter 3 reported that the use of childcare varies with the age and ethnicity of a child. The previous chapter provided evidence that the use of childcare varies by household type, and contact with the labour market. This chapter compares household characteristics for London and nationally. It considers trends in labour market participation by family type for London and the UK, and considers this with other household characteristics which influence labour market participation such as age of youngest child, ethnicity, and qualifications⁹⁶. This helps to inform an assessment of the extent to which differences in household characteristics explain variations in the demand for childcare between London and nationally, both directly, and indirectly through labour market participation.

7.2 Household Characteristics - children

The comparative aggregate demand for childcare between London and nationally will depend on the age structure and ethnic mix of children. While the use of childcare is highest for 3-4 years old this age group accounts for around 15% of 0-14 years old children living in London. 0-2 year olds, and 8-11 year olds each account for around a quarter of the population, and 5-7 year olds another fifth. There has been relatively little shift in shares over the period 2001-15, see Figure 11.

Figure 11: Age breakdown of 0-14 years old children in London, 2001-2015

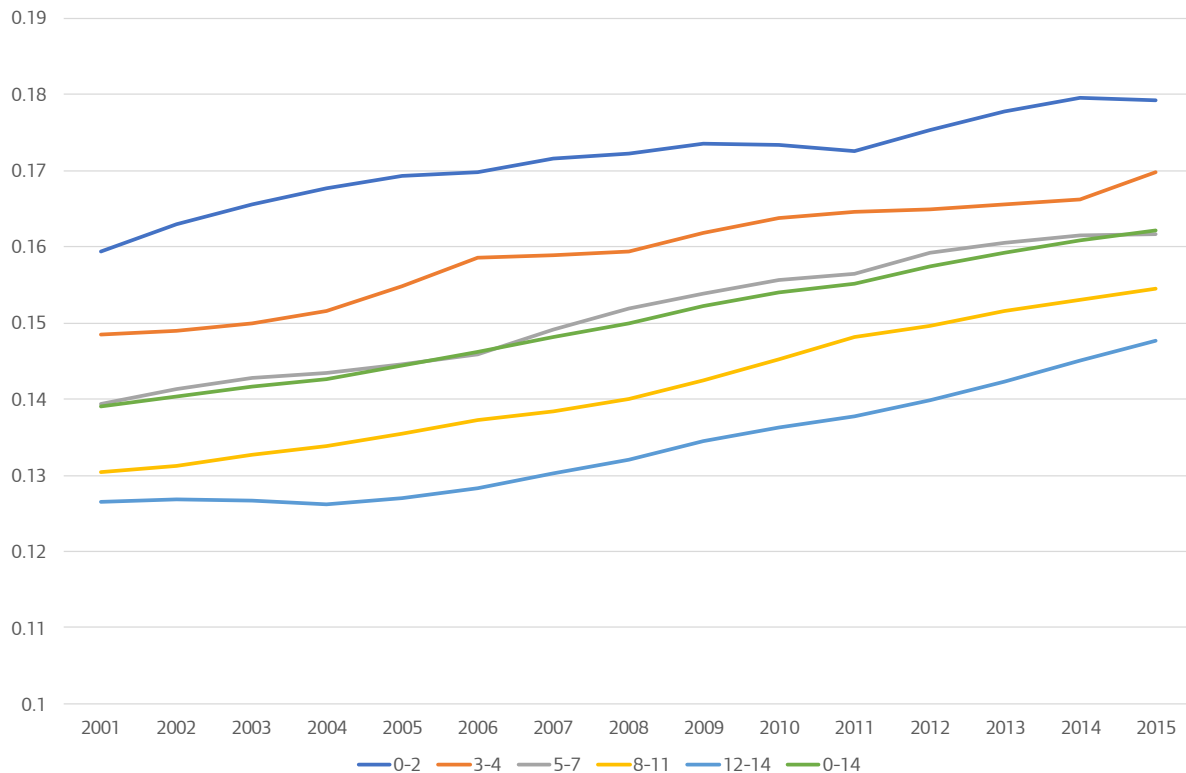


Source: ONS mid-year population estimates

⁹⁶ For more background on how the London and UK labour markets compare, see Chapter 9 of [Economic Evidence Base for London 2016 | London City Hall](#)

London shares of the national population of children varies by age band. Across 0-14 year olds it was 16% in 2015. The share is higher for younger age groups, being lowest for 12-14 year olds at a little under 15% in 2015, and nearly 18% for 0-2 year olds. London's share of children has risen for each age group over the period 2001-2015, Figure 12. The shares, though, for each age band are similar for London and nationally, although there are slightly more 0-2 year olds in relative terms in London, 23% of 0-14 year olds compared to 21% for England and Wales in 2015.

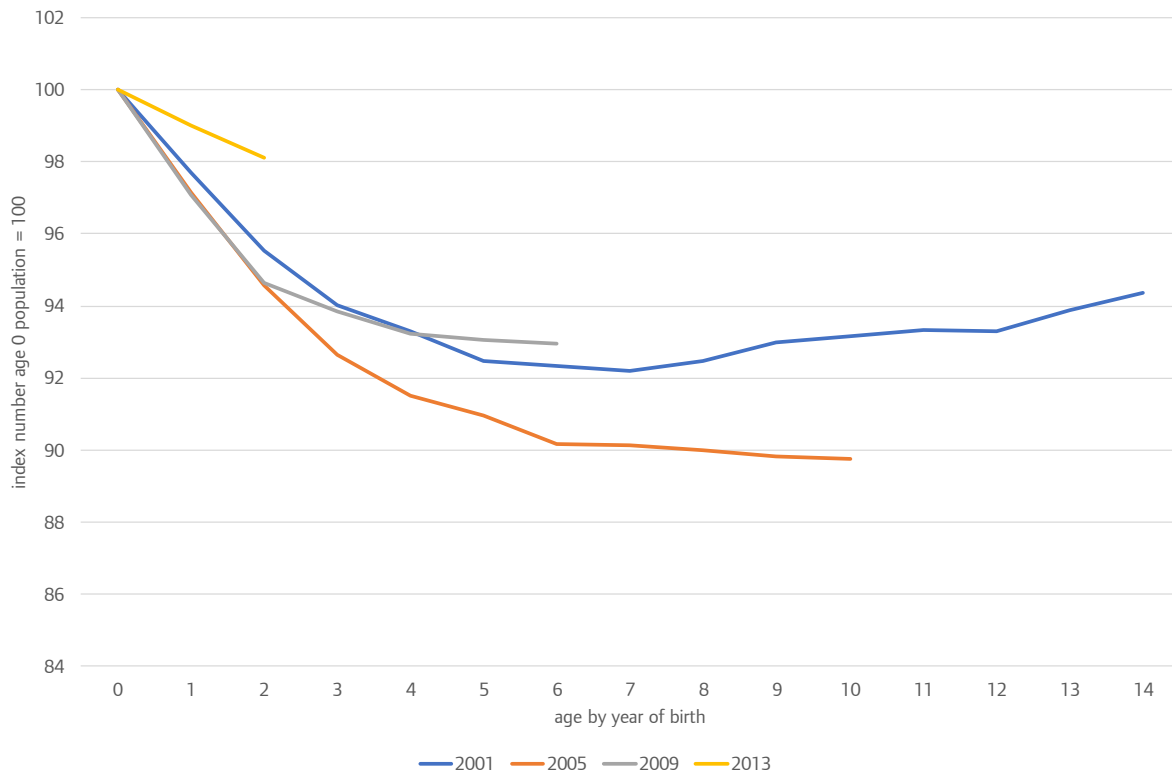
Figure 12: Ratio of 0-14 years old children in London to England & Wales, various age bands, 2001-2015



Source: ONS mid-year population estimates

Part of the difference in London share of children across age bands reflects migration patterns. That is, the group of 1 year olds living in London in 2002 is not the same cohort as 0 year olds living in London in 2001 because of domestic and international migration. The year-on-year population of children born in a certain year in London tends to fall, see Figure 13, and at a faster rate than might be expected from mortality. This is consistent with families moving out of London. In contrast, for children born in 2001 families moved into the city once their children reached 7 or over, as London child populations of these ages increased.

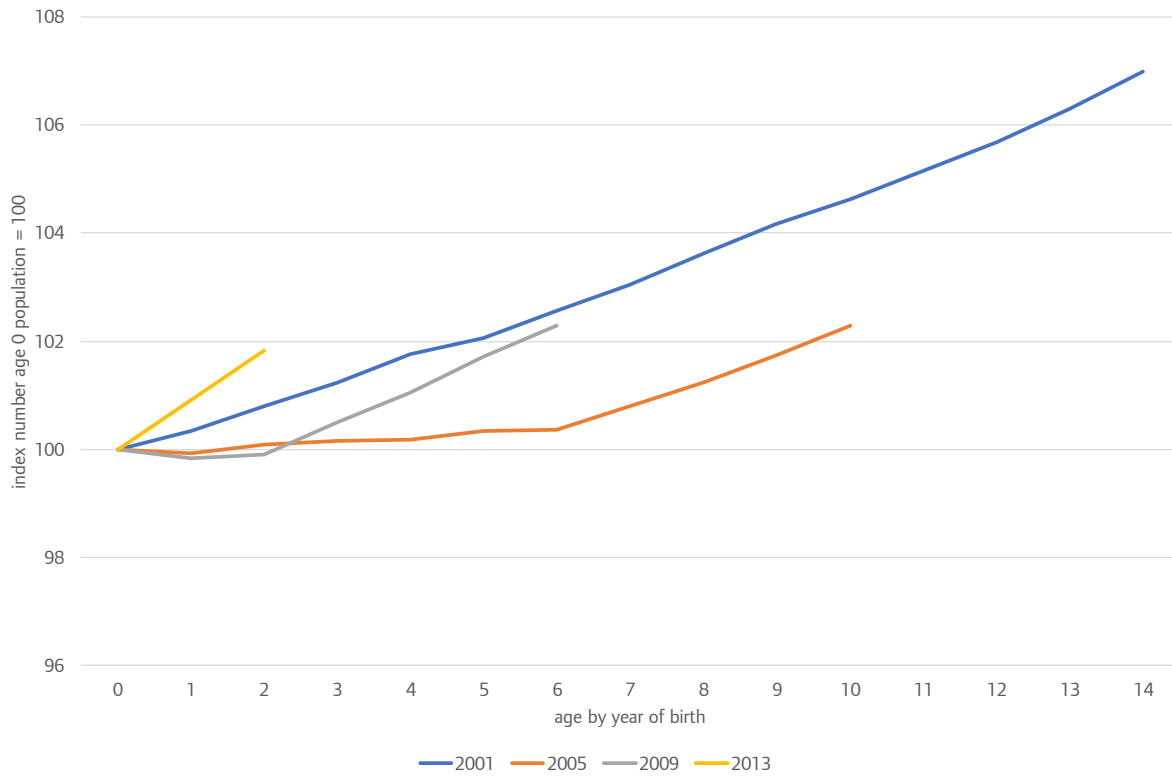
Figure 13: Trends in London child population by age after various years of birth



Source: ONS mid-year population estimates

In contrast, at a national level the numbers of children born in a certain year is rising year-on-year, see Figure 14. As these figures include London these are families moving into England & Wales.

Figure 14: Trends in England & Wales child population by age after various years of birth



Source: ONS mid-year population estimates

London also has a different ethnic distribution of children to the national picture. While for both geographies the proportion of white children has fallen between 2004/5 and 2017, this has been from 87% to 80% nationally, and from 56% to 50% in London. There has been little, if any, change over this time period in the shares of other ethnic groups.

Table 20: Ethnic distribution of 0-14 years old children, London and England, 2004/5, 2007, 2014/15 and 2017

	London				England			
	2004/5	2007	2014/15	2017	2004/5	2007	2014/15	2017
white	55.7%	60.1%	48.3%	50.3%	87.2%	86.3%	77.2%	80.0%
black Caribbean	6.5%	4.3%	7.2%	3.0%	1.2%	0.8%	1.4%	1.0%
black African	8.4%	10.1%	12.8%	11.5%	1.4%	1.8%	4.0%	3.4%
Indian	4.8%	3.6%	4.8%	5.4%	2.0%	1.8%	3.0%	2.9%
Pakistani	1.7%	2.0%	3.3%	4.5%	1.4%	2.1%	3.7%	3.2%
Bangladeshi	2.5%	1.4%	3.3%	2.8%	0.6%	0.4%	1.4%	0.8%
other ethnic groups	20.5%	18.6%	20.3%	22.6%	6.3%	6.8%	9.3%	8.7%

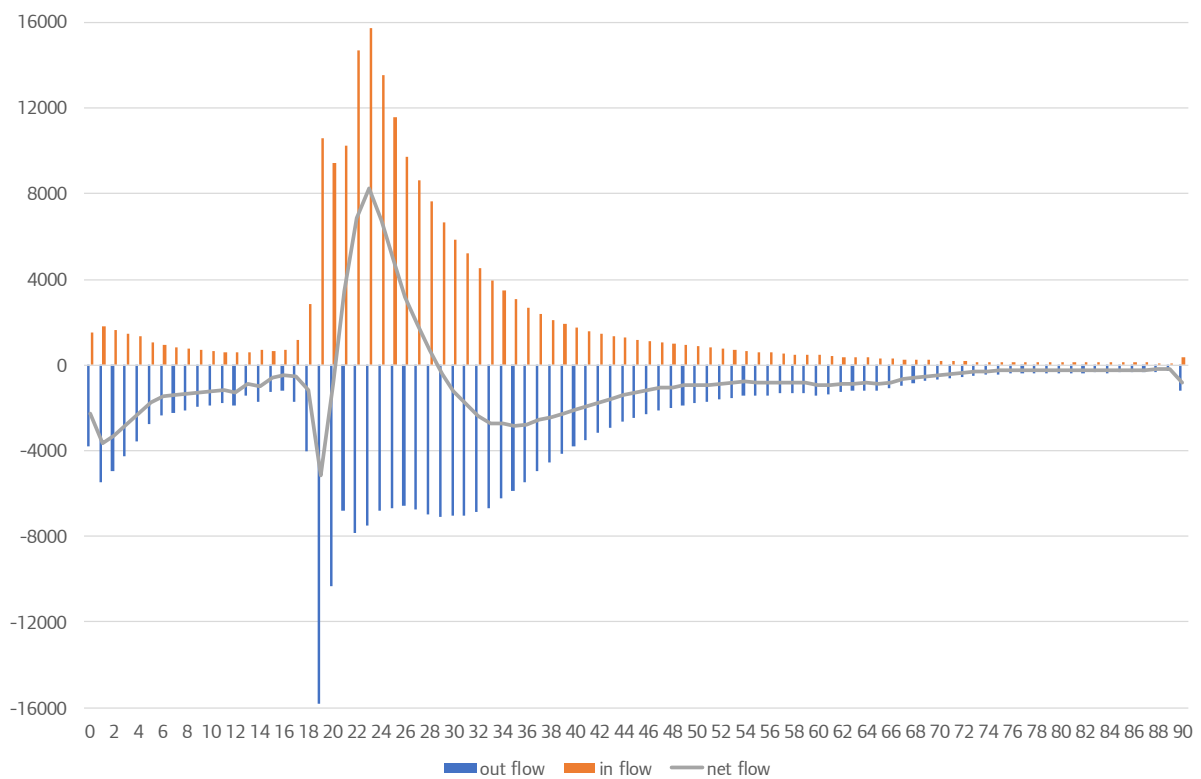
Source: Children and Early Years Survey of Parents

7.3 Household characteristics - migration

London is a city with a large migrant population both from within and outside the UK. This section provides a sense of the scale of the movements. Chapter 3 reported that the use of informal childcare was markedly lower in London than nationally.

Domestic migration in and out of London is most significant for people aged 18 and over, Figure 15. There is a net migration out of London for 18–21 year olds, a net in migration for adults up to 30, and a net out migration of older people. This series does not record the nationality of migrants, there may be some individuals who leave then return, and there will be others who move within London. There are around 90,000 16 or 17 year olds in London at any given time. For ages 18 to mid-twenties there are around 8,000 migrants a year from other parts of the UK. This provides an indication that a large part of the London population of child rearing age might have been born outside the city, and not have family members who might provide informal care.

Figure 15: Domestic migration flows to and from London by age



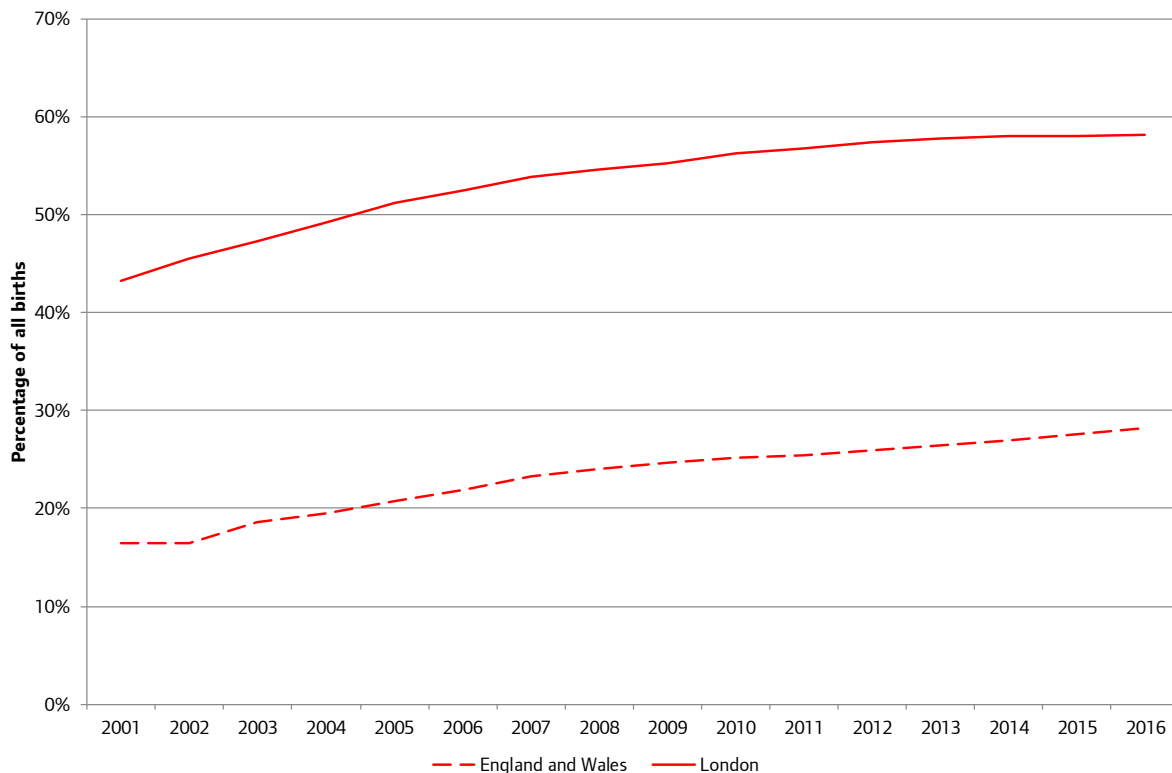
Source: ONS internal migration series, average of years 2007–16

Previous GLA Economics research has considered population trends in London⁹⁷. London’s population has been growing since 1987. International migration has provided an important contribution to the recovery of the population, and as a result the proportion of new mothers born outside the UK has been rising. In 2016 in London a little under 60% of births were to foreign-born mothers while nationally it was half this rate. In 2001 in London over 40% of births were to foreign-born mothers while nationally it was under 20%, Figure 16.

⁹⁷ See Chapter 8 of [Economic Evidence Base for London 2016 | London City Hall](#)

This reduces the opportunities for informal childcare to be available. While some of these women will have partners born in London, there will be other British women not born in London having children in London. There will also be foreign-born fathers, and due to the size of London parents of young children who come from London whose parents live some way distance away in a different part of the city. Parents in London will have fewer near by relatives than nationally who can provide informal childcare.

Figure 16: Births by foreign-born mothers as a percentage of all births in London and England and Wales, 2001 to 2016



Source: ONS Parents' Country of Birth

7.4 Household characteristics - families⁹⁸

Households for this analysis are families with dependent children. Dependent children may be up to 18 years of age, if they continue to attend school, where the analysis of childcare demand in the rest of this paper is for children up to 14 years of age⁹⁹. The demand for childcare varies with household characteristics, see Table 17. While labour market participation also depends on individual characteristics, household characteristics continue to matter. Curiously, the lone parent obligation meant that there was more stringent labour market conditionality on lone parents, and it is only with the introduction of Universal Credit that it would apply to both

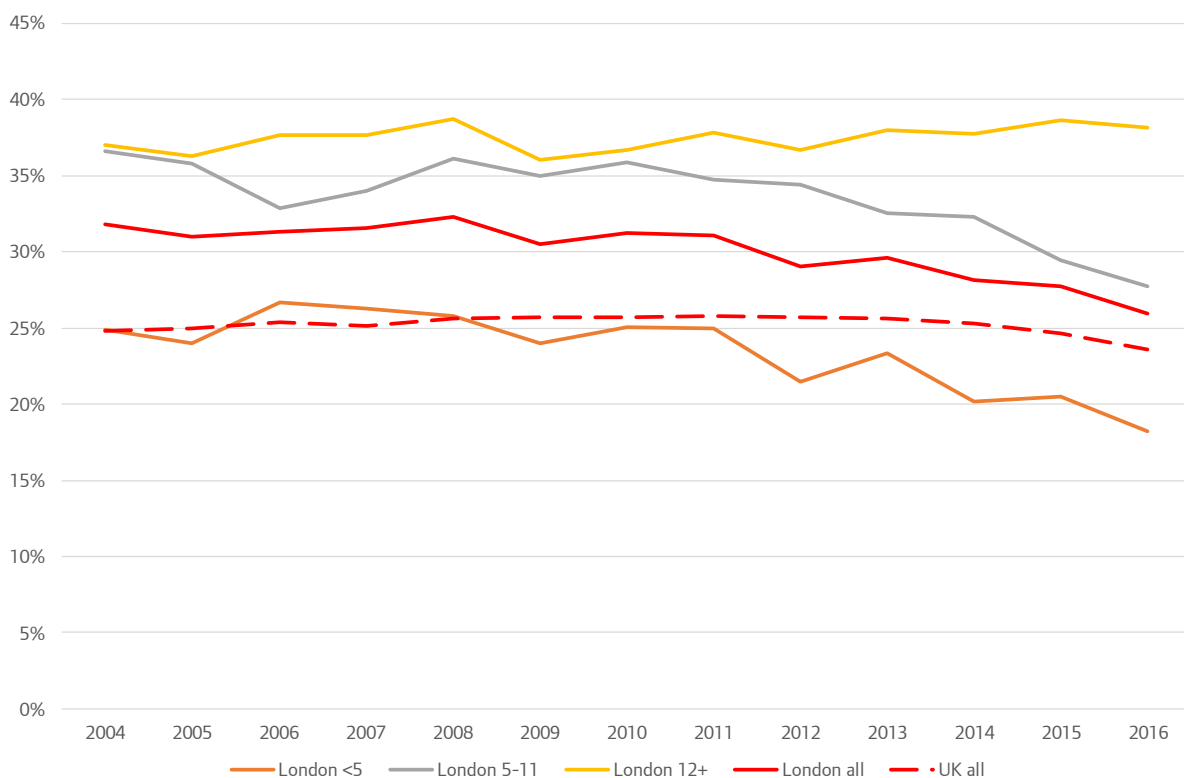
⁹⁸ The figures in this sections 7.4 and 7.5 contain statistical data from the ONS Household Labour Force Survey which is Crown Copyright. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates. In a number of places question wordings have changed year-on-year, and so there may be slight discontinuities in some of the series. Footnotes to the relevant figures mention where this has occurred, but no attempt has been made to put the series on a consistent basis. For this reason, the text reports trends.

⁹⁹ Labour market analysis of families tends to consider all dependent children. The analysis of this section indicates that the labour market characteristics of families with older children are more like households with no children than families with younger children.

adults in a couple. Further, in a couple it is possible to divide work and caring responsibilities between adults.

Amongst households there is a relatively higher proportion of lone parents in London than the UK, although the difference narrowed slightly between 2004 and 2016, see Figure 17. The proportion for London fell from 32% to 26% while for the UK it fell from 25% to 24%. The proportion of lone parent households rises with age of child, so in London in 2016, for households whose youngest child was under 5 it was 18%, and where the youngest child was 5-11 it was 28%, and where the youngest child was 12 or over it was 38%. These proportions have declined between 2004 and 2016 except for households whose youngest child is 12 or over¹⁰⁰.

Figure 17: Proportion of households which are lone parents London and UK, and by age of youngest child for London, 2004 to 2016



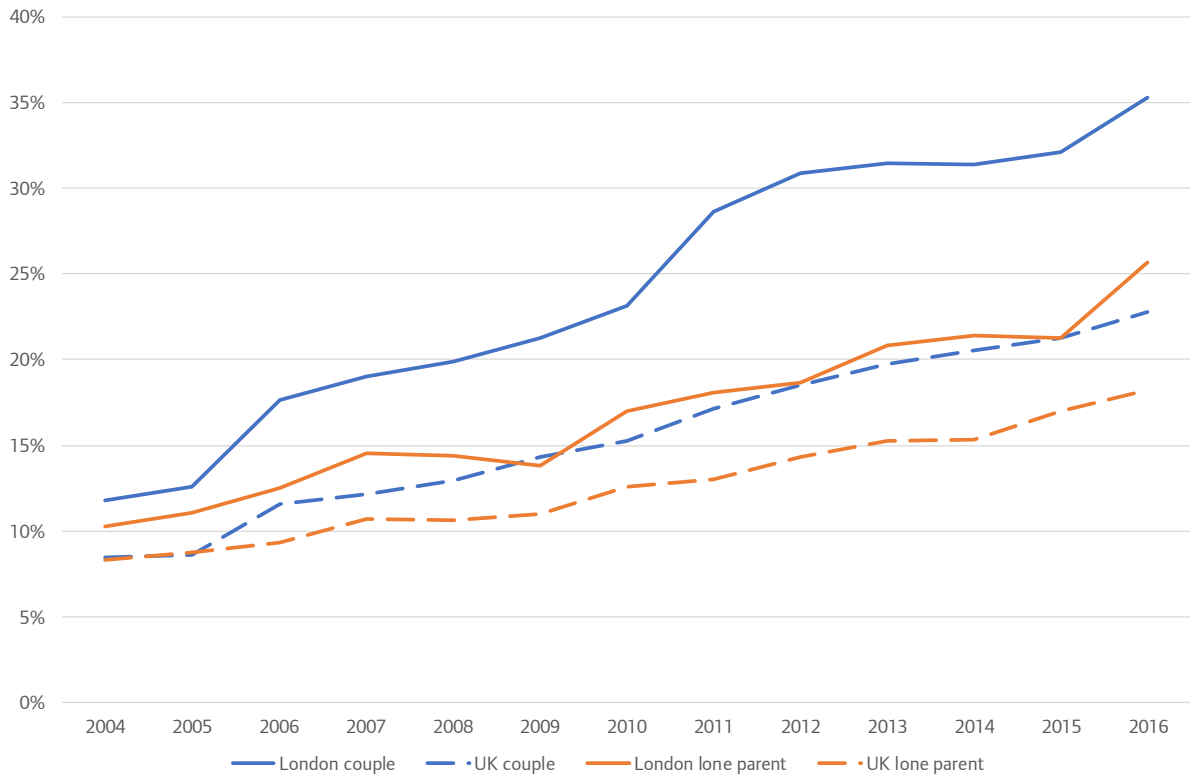
Source: ONS Household Labour Force Survey

Note: lone parent analysis has not been produced by gender, as there is a small number of observations on the dataset for male lone parents

Over the period 2004 to 2016 there has been a rapid expansion of the higher education system. The proportion of couples in London where both are graduates has risen from 12% to 35%, while the increase in the UK has been less from 8% to 23%. Similarly, the increase in the proportion of graduate lone parents in London has been from 10% to 26%, and for the UK it has been from 8% to 18%, see Figure 18. Although not presented in the figure the proportions for households whose youngest child is under 5 are slightly higher which suggests that the aggregate figures for all households may rise further as children age, but at a slower rate than over the twelve years to 2016.

¹⁰⁰ A similar pattern can be observed for households by age of youngest child at the UK level.

Figure 18: Proportions of household types where all adults are graduates, London and UK, 2004 to 2016

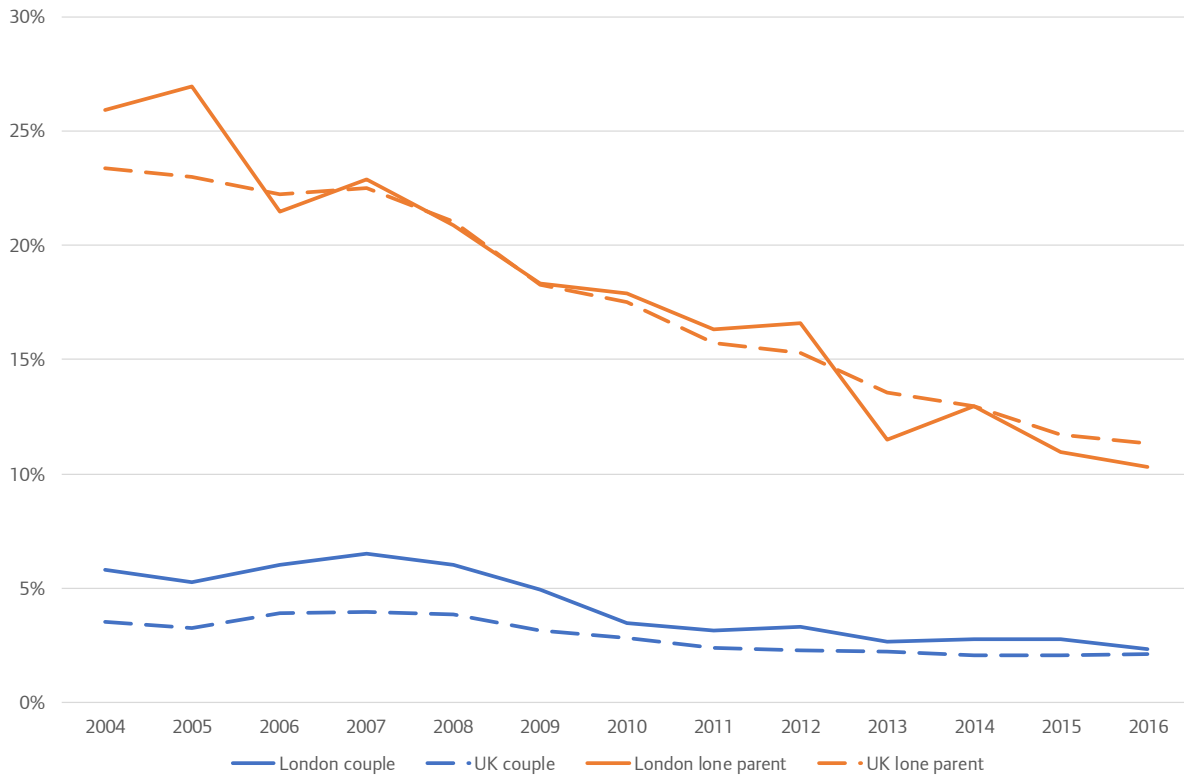


Source: ONS Household Labour Force Survey

Note: the qualifications question on the LFS changed in 2004, 2005, 2008 and 2011, and there might be slight discontinuities in the series

Figure 19 is a counterpart to Figure 18, and reports on households with no qualifications. The proportion of no qualifications couple households with children has remained low both for London and the UK over the period 2004 to 2016 falling from 6% to 2% for London, and from 4% to 2% for the UK. There have been steeper declines for lone parents with no qualifications from 24% to 10% for London, and from 22% to 10% for the UK.

Figure 19: Proportions of household types where no adult has qualifications, London and UK, 2004 to 2016

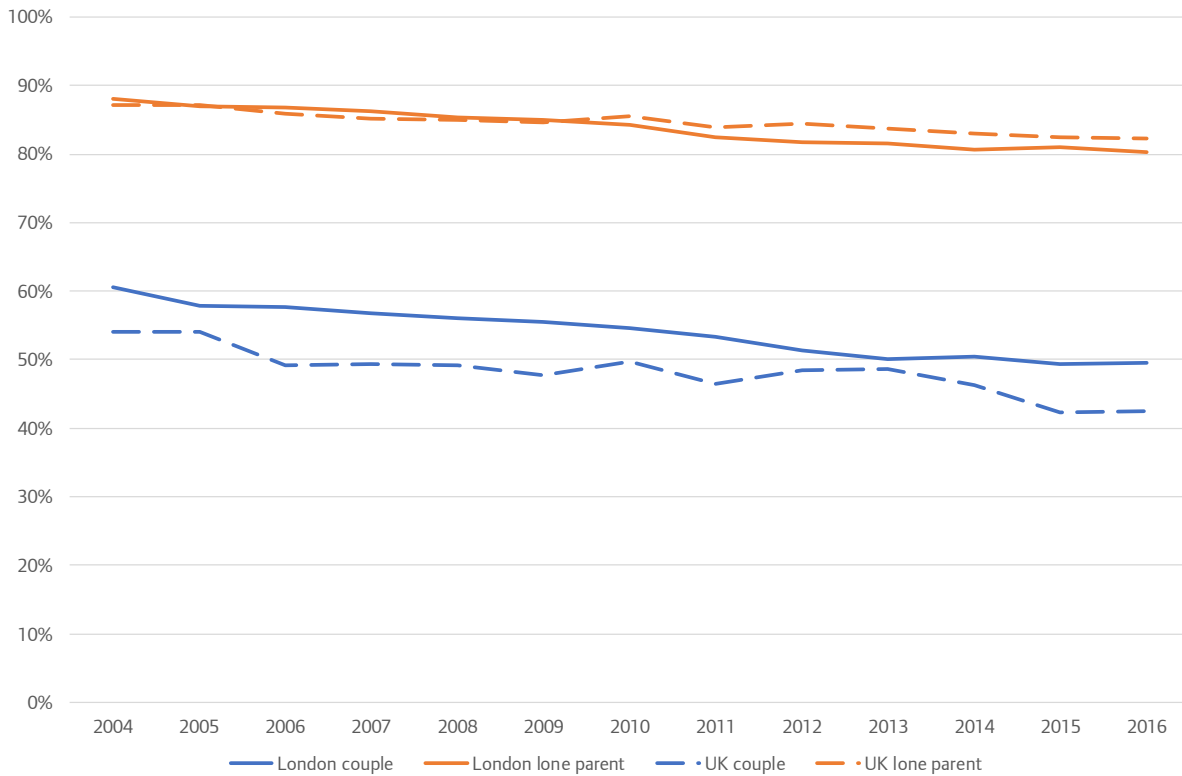


Source: ONS Household Labour Force Survey

Note: the qualifications question on the LFS changed in 2004, 2005, 2008 and 2011, and there might be slight discontinuities in the series

As with children, see Table 20, the proportions in households where all adults are of white ethnic origin has been declining, see Figure 20. There are also significant differences between the UK and London. For both lone parents and couples in the UK the proportion has fallen from a little under 90% to a little over 80% between 2004 and 2016. For couples in London the proportion where both are of white ethnic origin has fallen from 61% in 2004 to 50% in 2016, while for lone parents it has fallen from 54% to 42%.

Figure 20: Proportions in household types where all adults are of white ethnic origin, London and UK, 2004 to 2016



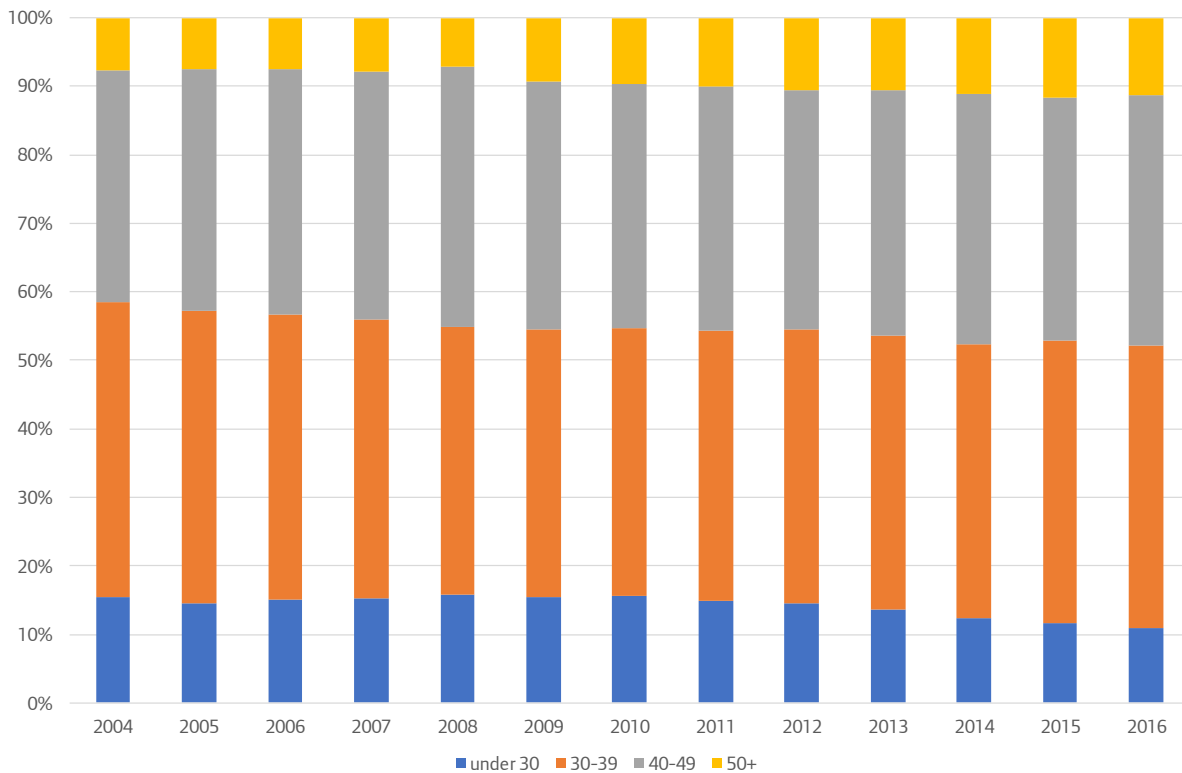
Source: ONS Household Labour Force Survey

Note: the ethnicity question on the LFS changed in 2011, and there might be slight discontinuity in the series. Variables used are eth01 and ethuk11, and only individuals for whom a response is recorded are included in the figure

The age distribution of mothers in London has changed little over the period 2004 to 2016. The proportion under 30 has declined from 15% to 11%, and the proportion over 50 has risen from 8% to 11%, while 41% were 30-39 in 2016, and 36% were 40-49, see Figure 21¹⁰¹. The corresponding figures for the UK are not included in the Figure because the proportions are very similar, and again the population of mothers has become older on average.

¹⁰¹ It has not been possible to produce a corresponding analysis by household type as there are too few observations of male lone parents in the household Labour Force Survey to produce analysis both for lone parents and female lone parents for disclosure reasons.

Figure 21: Age distribution of mothers, London, 2004 to 2016



Source: ONS Household Labour Force Survey

7.5 Household – labour market characteristics

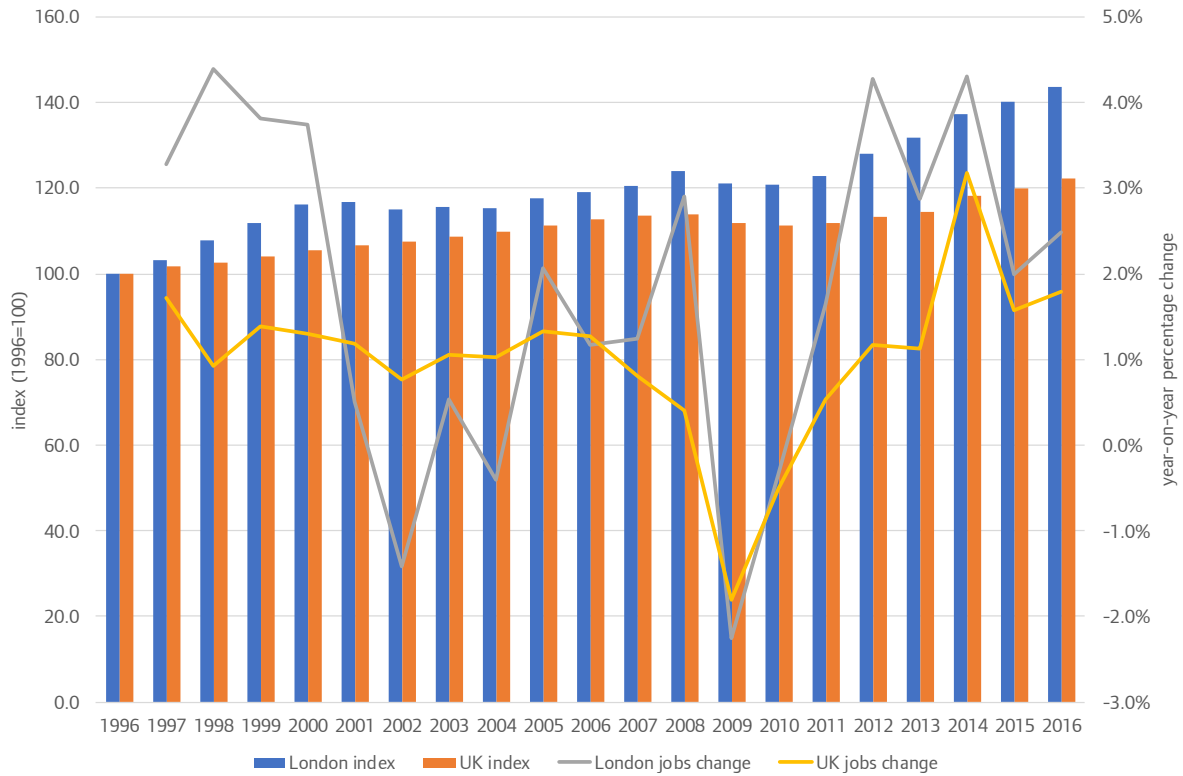
The number of jobs in the economy reflects a balance of demand and supply. While at a national level the long-run trend in number of jobs is likely to be driven by labour supply this may not be the case sub-nationally because of migration and commuter patterns. Specifically, the demand for jobs in London in central areas reflects agglomeration economies from clustering of jobs, especially from specialisation in internationally traded service, and around Heathrow developments at the airport, and supporting infrastructure in the nearby area¹⁰². Indeed, in the period since 2010 jobs growth has been faster in London than nationally. While across the period from 1996 jobs growth in London has been faster than nationally there have also been years when it has been slower (Figure 22).

For the period 2010-15 jobs growth has exceeded 16-64 population growth both for London and nationally, but by a larger amount for London. For London jobs grew by 16% and population by 6%, while nationally¹⁰³ jobs grew by 8% and population by 1%. There have been more job opportunities for the London population, and the remainder of this section reviews the evidence on labour supply.

¹⁰² See, for example, [London's boroughs - Borough by sector jobs, data and methodology | London City Hall](#)

¹⁰³ These figures are for England and Wales

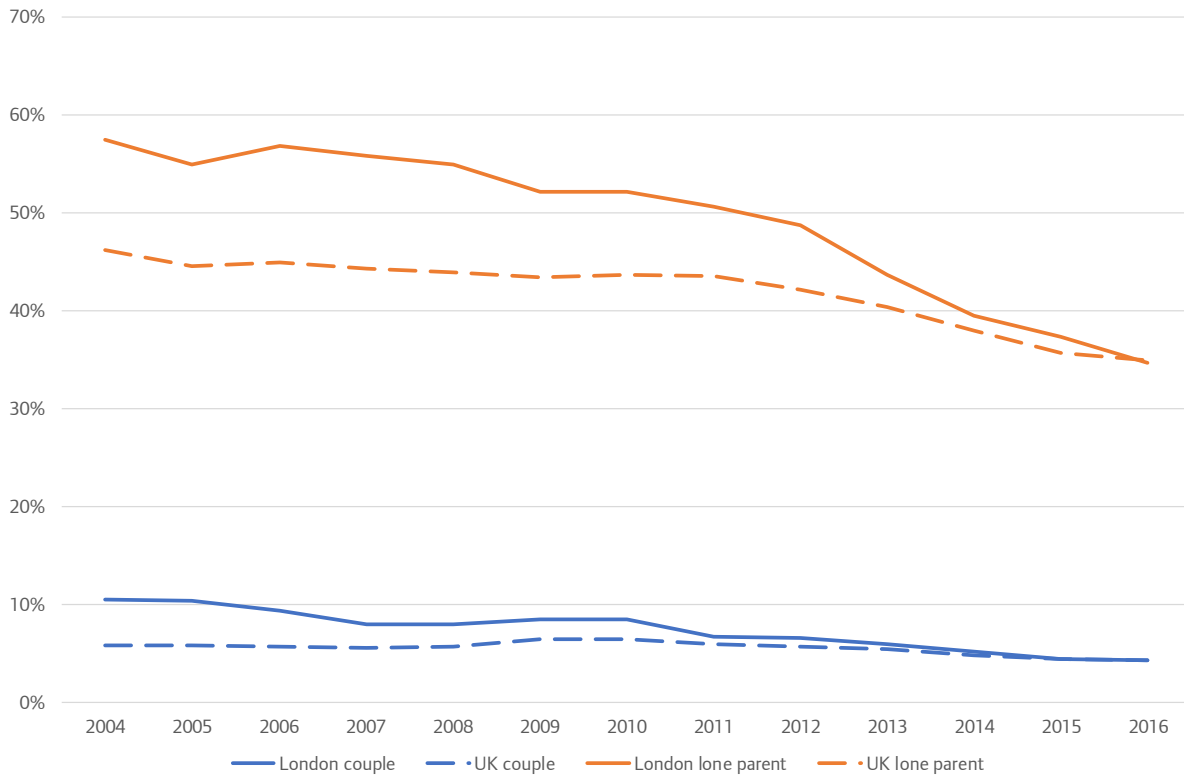
Figure 22: London and UK jobs growth 1996-2006, index numbers and year-on-year percentage changes



Source: ONS Workforce Jobs

By 2016 worklessness by household type with children for London and the UK was almost identical, see Figure 23. Since 2004, for couples in London the decline had been from 11% to 4%, while for UK it had fallen from 6% to 4%. The reduction in worklessness has been more significant for lone parents, falling from 58% to 35% for London, and 46% to 35% for the UK.

Figure 23: Worklessness by household type with children, London and UK, 2004 to 2016



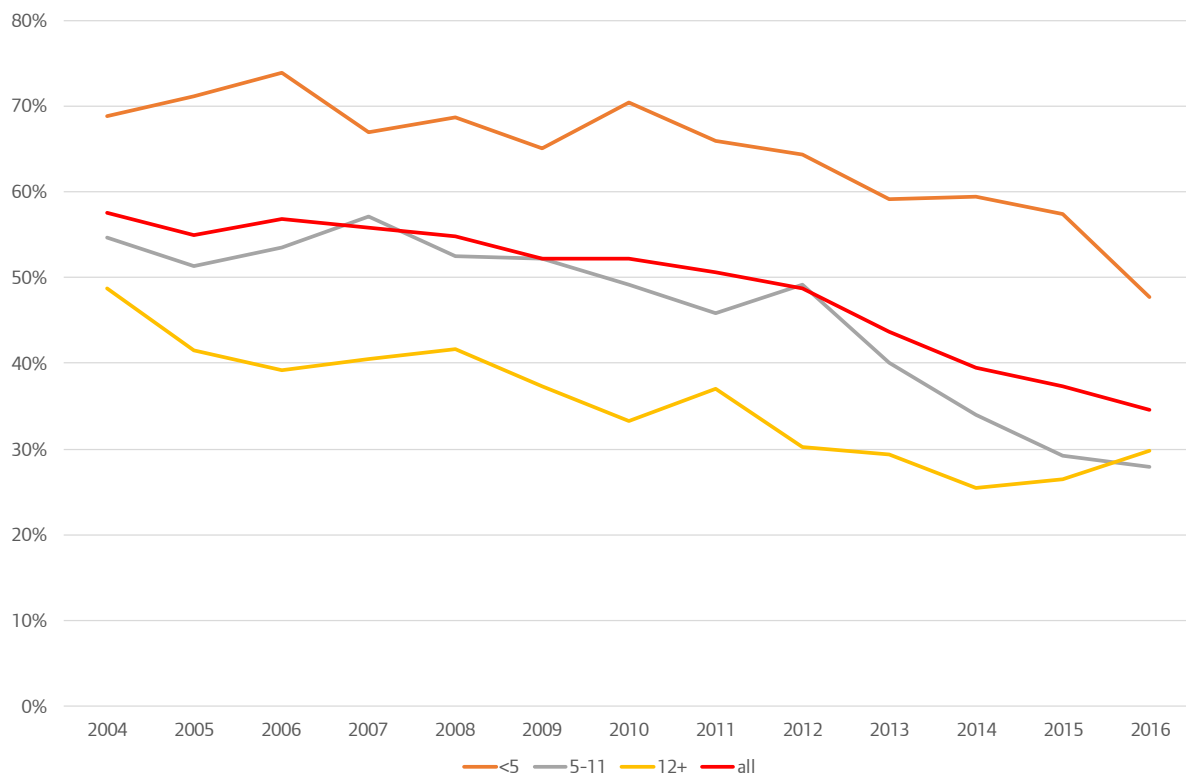
Source: ONS Household Labour Force Survey

Note: between 2006 and 2009 the LFS classified same sex couples as being in different families. As there is a small number of observations of such couples with children this analysis has not sought to correct this misclassification as it would not noticeably affect the reported trends

Figure 24 considers the trend in London lone parent worklessness by age of youngest child. Worklessness tends to be higher the younger is a child¹⁰⁴. For lone parents whose youngest child is under 5 the rate of workless has declined from 69% in 2004 to 48% in 2016, and there have been large percentage point declines for lone parents whose youngest child is older. Although not included in the figure here, but consistent with Figure 24, there have been declines at the UK level for lone parents for all categories of age of youngest child, although these have been much less marked than for London.

¹⁰⁴ The one exception is that worklessness for a lone parent with youngest child 12 or over was slightly higher than for a lone parent with youngest child 5-11 in 2016. Although not presented here this is more generally the case across years for couples both at London and UK level.

Figure 24: London lone parent worklessness by age of youngest child, 2004 to 2016



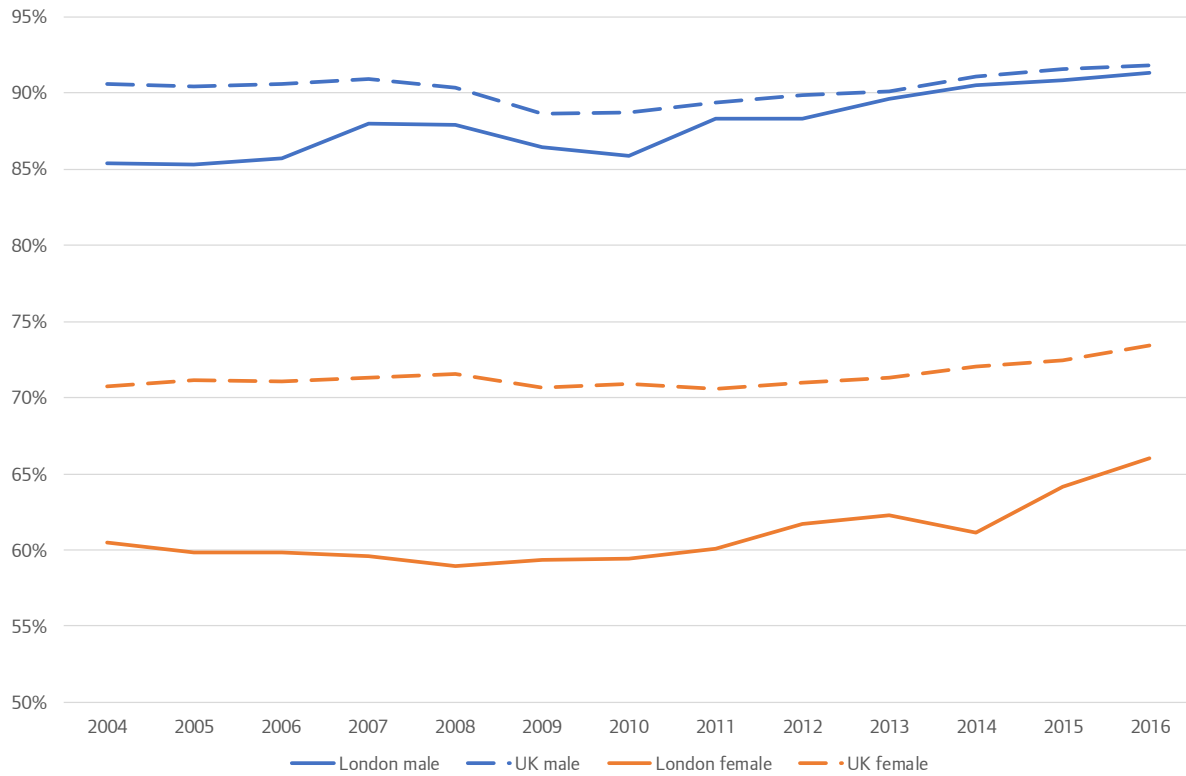
Source: ONS Household Labour Force Survey

Note: lone parent analysis has not been produced by gender, as there is a small number of observations on the dataset for male lone parents

This is curious in a number of respects. The smallest decline at a UK level has been for lone parents whose youngest child is under 5, for whom the worklessness rate was 54% in 2016, and higher than the corresponding London rate. These comparative trends at a UK level are consistent with the implementation of the lone parent obligation in Income Support only for lone parents whose youngest child was 5 or over, and so there must be other dynamics at work in London.

A very low rate of couple worklessness reflects that the male employment rate in a couple for both London and the UK is over 90% in 2016. The female employment rate is somewhat lower, and has been persistently lower for London than the UK even if the gap has narrowed. For London it has risen from 61% in 2004 to 66% in 2016, while for the UK the rise has been smaller from 71% to 73%, see Figure 25.

Figure 25: Employment rate by gender for couples with children, London and UK, 2004 to 2016

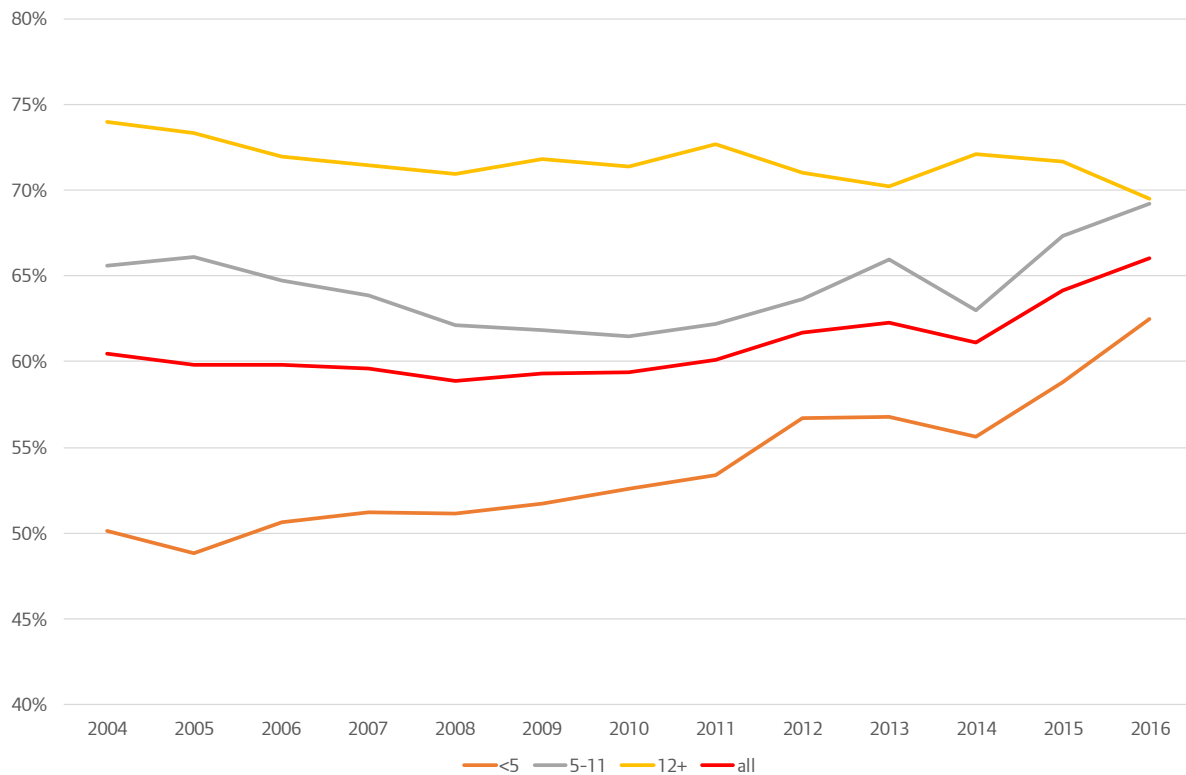


Source: ONS Household Labour Force Survey

Note: between 2006 and 2009 the LFS classified same sex couples as being in different families. As there is a small number of observations of such couples with children this analysis has not sought to correct this misclassification as it would not noticeably affect the reported trends

Figure 26 looks more closely at trends in the employment rate for females in couples in London by age of youngest child. Between 2004 and 2016 where the youngest child is under 5 it has risen from 50% to 63%, and there has been a more modest rise where the youngest child is 5-11 from 66% to 69%, while where the youngest child is over 12 the rate has fallen from 74% to 70%. Although not included in the Figure, the UK trends have similarities where the employment rate has risen where the youngest child is under 5, and remained fairly static for other age groups. Employment rates for mothers of each youngest child age group are higher for the UK.

Figure 26: Employment rate for mothers in couples by age of youngest child, London, 2004 to 2016

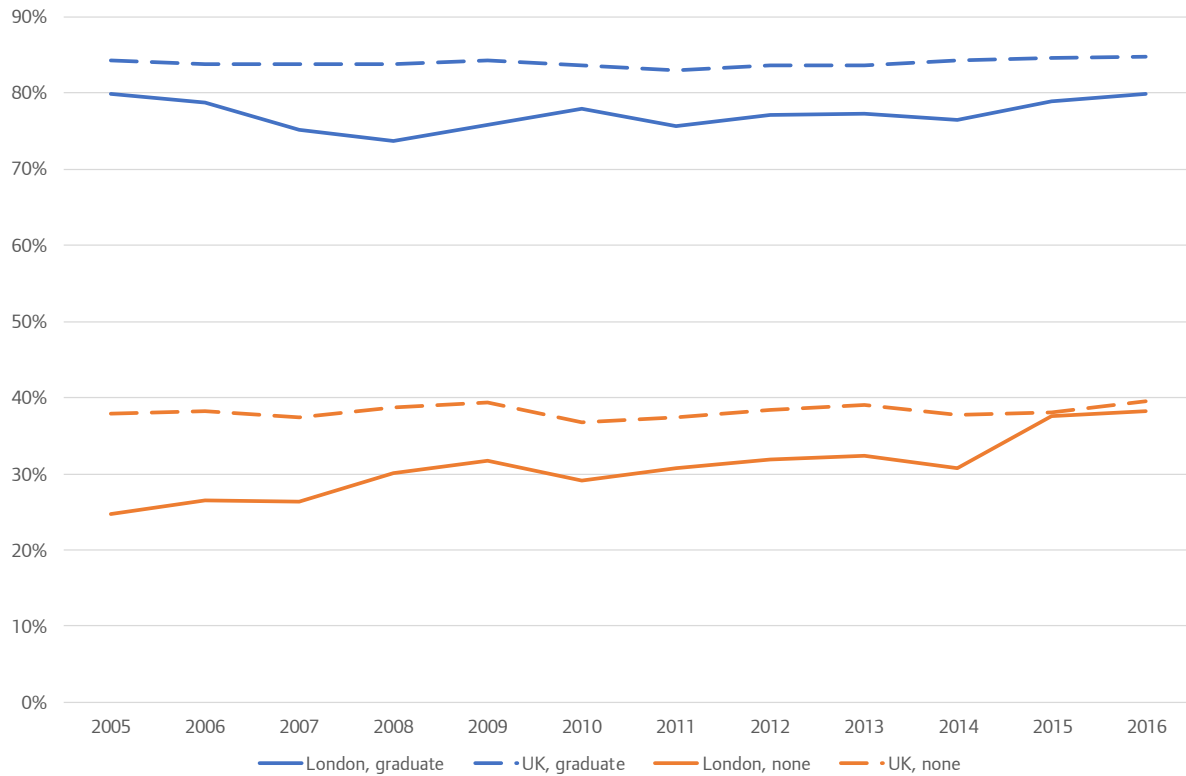


Source: ONS Household Labour Force Survey

Note: between 2006 and 2009 the LFS classified same sex couples as being in different families. As there is a small number of observations of such couples with children this analysis has not sought to correct this misclassification as it would not noticeably affect the reported trends

While mothers in London may be more highly qualified their activity rate is lower – an individual is active in the labour market if they are employed or unemployed. For graduates in London it was 80% both at the beginning and end of the period 2004 to 2016, while for the UK the graduate activity rate also remained unchanged over the period at 85%, see Figure 27. Although not included in the figure there has been an improvement in the activity rate for mothers whose youngest child is under 5 from 74% to 77% in London, and 78% to 80% for the UK. In contrast, the activity rate for mothers in London with no qualifications has increased from 25% to 38%, and for the UK from 38% to 39%. Although not included in the figure the increase has been more marked for mothers whose youngest child is under 5, from 15% to 33% in London, and from 24% to 30% for the UK.

Figure 27: Maternal activity rate by level of qualifications, London and UK, 2005 to 2016

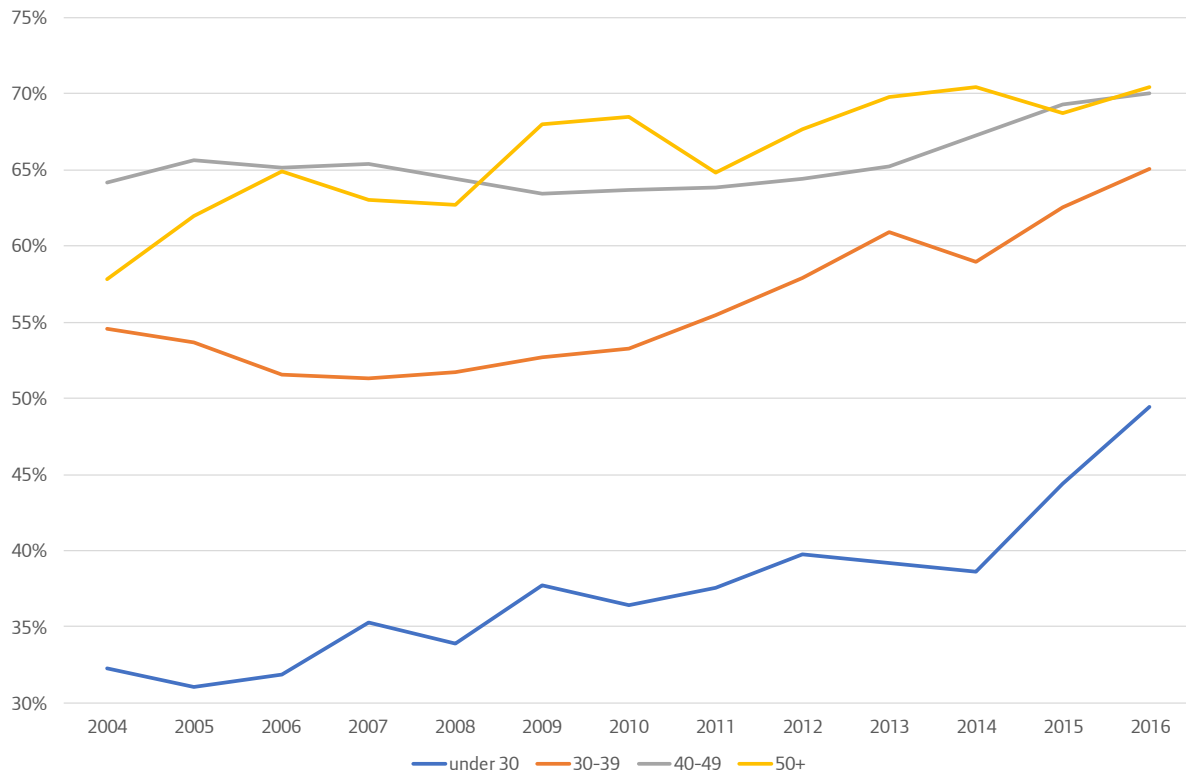


Source: ONS Household Labour Force Survey

Note: the qualifications question on the LFS changed in 2004, 2005, 2008 and 2011, and there might be slight discontinuities in the series

Across age bands there has been steady improvement in the employment rates of mothers in London over the period 2004 to 2016, see Figure 28. Broadly, employment rates are higher for older mothers, while similar for women 40-49 and 50+. Although not included in the figure there is a similar pattern for mothers across the UK. For comparison, in 2016 the UK employment rate of mothers under 30 was 55%, for mothers 30-39 it was 71%, and for mothers 40-49 or 50+ it was 77%. Over time the UK rate has been higher than the London rate for each age group, although the gap has been narrowing, and in 2016 it was around 5 percentage points lower in London for each age group.

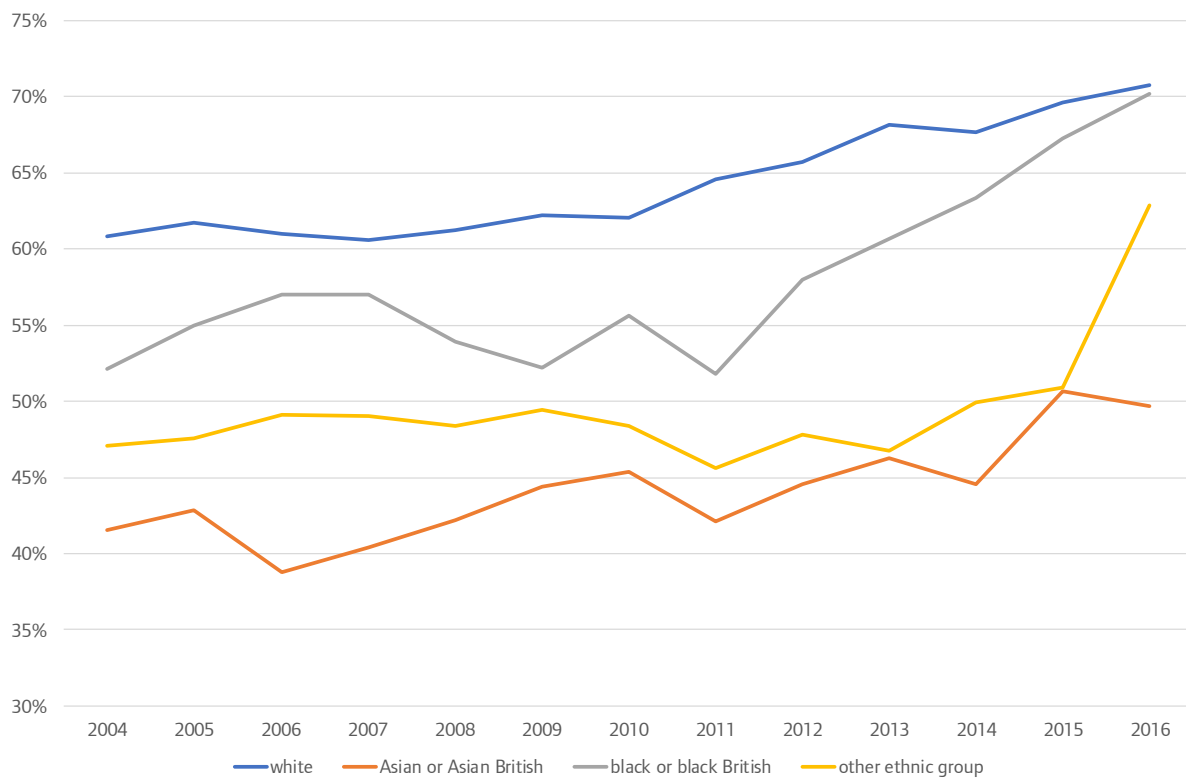
Figure 28: Maternal employment rate by age, London, 2004 to 2016



Source: ONS Household Labour Force Survey

There is also a ranking of maternal employment rates in London by ethnicity, from highest to lowest, white mothers to black or black British, other ethnic groups, and Asian or Asian British, see Figure 29. In 2016 the employment rates are for white women, 71%, black or black British 70%, other ethnic groups 63%, and Asian or Asian British 50%. Although not included in this figure the 2016 UK maternal employment rates by ethnicity are comparable: 75% for white women; 66% for black or black British; 58% for other ethnic groups; and 49% for Asian or Asian British.

Figure 29: Maternal employment rate by ethnicity, London, 2004 to 2016



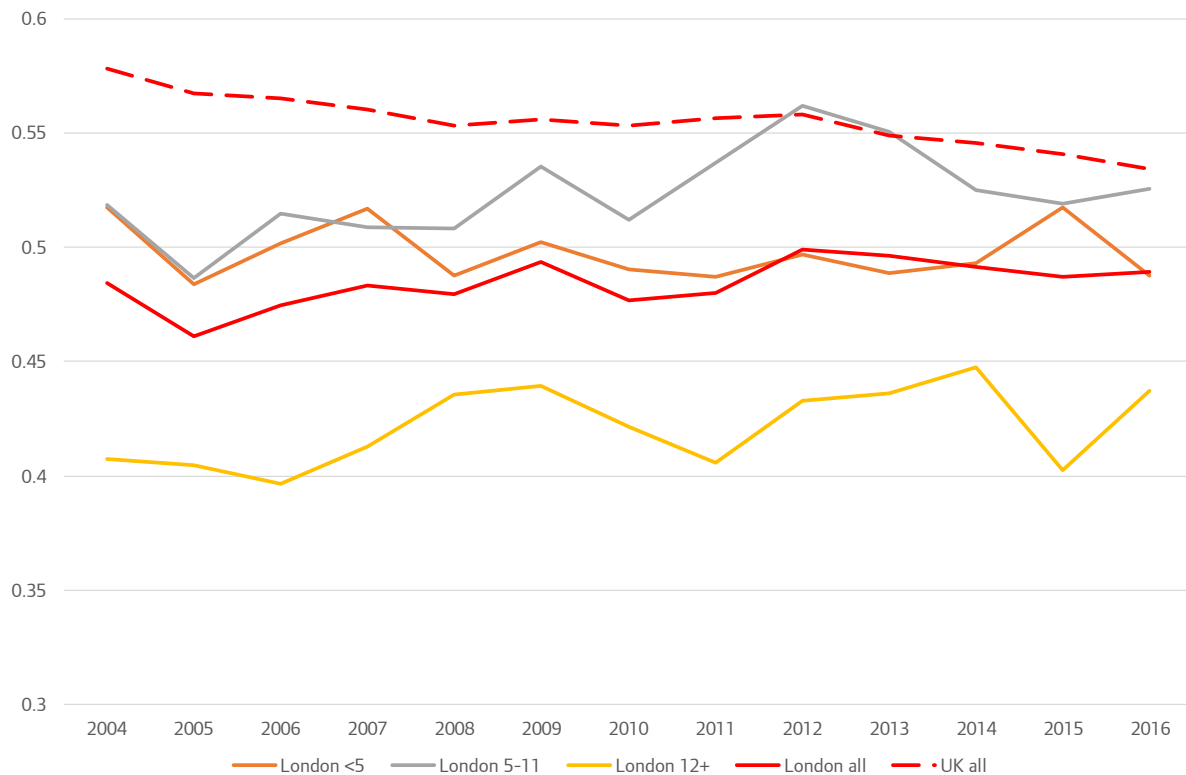
Source: ONS Household Labour Force Survey

Note: the ethnicity question on the LFS changed in 2011, and there might be slight discontinuity in the series. Variables used are eth01 and ethuk11, and only individuals for whom a response is recorded are included in the figure

There is not a simple relationship between maternal employment rate and demand for childcare by ethnicity. Tables 2 to 7 earlier in this paper provide evidence on trends in the demand for types of childcare by ethnicity of the child for London and nationally, and Table 20 considers changes in the distribution of ethnicity across children. While the demand for childcare and maternal employment rates are highest for families with white children there is not a similar comparative ranking for other ethnic groups such as black or black British, and Asian or Asian British. This analysis has not been able to delineate the effects of cultural and demographic factors, from other possible explanatory factors such as income or household composition.

The chapter on childcare costs and earnings concluded that women in London were relatively less likely to work part-time than in the UK. It is also the case that working mothers in London are less likely to work part-time than their national counterparts, see Figure 30. The proportion in London has remained stable over the period 2004-2016 at just under half, while for the UK it has declined slightly from 58% to 53%. The proportions of working mothers living in London with their youngest child being under 5, or 5-11, and who work part-time has also remained steady over the period at around half. The corresponding proportion for women with older dependent children has been lower at between 40% and 45% over the period. In contrast, and not included in this figure, the proportions of UK working mothers who are part-time has declined slightly from a couple of percentage points over 60% to a couple of percentage points over 55% where the youngest child was of the younger age groups, and from 48% to 45% where the youngest dependent child was 12 or over. That is, it is the working mothers with younger children who will be the most likely to need to organise childcare who are relatively more likely to be working part-time in London and nationally.

Figure 30: Share of working mothers in part-time work London and UK, and by age of youngest child in London, 2004-2016



Source: ONS Household Labour Force Survey

Note: Part-time working is self-classified

7.6 Summary

There are similarities in the composition of households at a London and national level:

- Such as the age distribution of mothers, although 15% are under 30 across the UK, compared to 11% in London in 2016
- And, the composition of households between lone parents and couples, where in 2016, 26% in London are lone parents while 23% are in the UK. However, there is a significant difference for families where the youngest child is over 12 where 38% are lone parents in London, and 29% are in the UK, in 2016

Important differences are that:

- Nearly 60% of children born in London in 2016 have foreign-born mothers, compared to less than 30% nationally, and there is significant migration in and out of London amongst young adults under 30 with the consequence that many parents in London don't have family nearby to provide informal care
- Around 50% of children under 15 in London are white compared to 80% nationally
- There are relatively more children under 5 in London compared to the national picture because parents with older children tend to move out of the city
- **Adult in families in London are more ethnically diverse.** In 2016 in London 50% of adults in couples were both white, and 42% of lone parents were white. The comparable figures for the UK were 80% and 82% respectively

- **Adults in families in London are more highly qualified.** In 2016 in London both adults in couples in 35% of families were graduates compared to 23% in the UK, while the corresponding figures for graduate lone parents are 26% in London and 18% in the UK. While in couple families neither adult has any qualification in 2% of families in both London and UK, while for lone parents it is 10% for both geographies

There are common features at a London and national level in terms of labour market participation:

- Worklessness in couples and for lone parents in London has fallen so that it is comparable with UK levels in 2016 at 4% for couples, and 35% for lone parents. Lone parent worklessness where the youngest child is:
 - under 5 is lower in London in 2016 at 48% compared to 54% for the UK
 - 12 or over is higher in London in 2016 at 30% compared 23% for the UK
- Male employment rates in couples are similar at around 90% for both geographies
- Maternal employment rates rise as the age of the youngest child rise. In London in 2016 for mothers in couples the rates are by age of youngest child from under 5, to 5-11 to 12+ from 63% to 69%, and 70% respectively, and at 66% for all mothers with dependent children. The corresponding rates for mothers in couples in the UK are 68%, 76%, 80% and 73% respectively

So, while maternal employment rates might be lower in London, there is a shared ranking by other characteristics for London and the UK:

- **qualifications** – the London maternal graduate activity rate (which includes the unemployed as well) in 2016 was 80%, compared to 85% in the UK
- **ethnicity** – white mothers in London in 2016 had a slightly lower employment rate than all UK mothers at 71% compared with 75%, while the reverse was true for other ethnic groups. For Asian or Asian British it was 50% in London compared to 49% in the UK, for black or black British the comparable figures are 70% and 66%, and for other ethnic groups the figures are 63% and 58%.

This is consistent with the findings reported earlier that the use of formal childcare is higher where family income is higher (which is more likely to be the case for graduates), and lower for ethnic minorities, although in the case of ethnic minority groups there is not a simple relationship with formal childcare use.

It is also less common for women in employment in London to work **part-time** than in the UK, 49% to 53% in 2016. For women whose youngest child is under 5 the difference is more striking at a 49% of workers being part-time in London, and 57% in the UK.

Employment rates have improved across all household types over the period 2004-2016¹⁰⁵. The London economy, though, has been more effective at creating jobs than the national economy both in absolute terms, and relative to population growth. This has created more employment opportunities for London residents, and attracted immigration.

¹⁰⁵ With the exception of graduates where economic activity rates have remained unchanged.

It is more common for women to work part-time nationally than those working in London. Mothers whose youngest child requires caring are more likely to work part-time in London than nationally, and part-time hourly earnings are lower than full-time rates. That is, it may well be that mothers in couples may only want part-time work, and that at the available pay it is not affordable because of childcare costs. Almost all of their male partners will be bringing in an income from work.

8 Conclusion

This paper has considered trends in the demand for childcare, and the drivers of them. At one level, there is a simple story. Families in London, regardless of a child's age or ethnicity, make less use of childcare, whether it is formal or informal childcare. Formal childcare is less affordable in London than nationally because costs have been rising faster relatively, and median earnings growth has been slower relatively. Londoners are also less likely to make use of informal childcare, which is largely explained by the large migrant population, especially from overseas, and the size of the city which may mean family members are not nearby.

There are two marked differences between the population in London and nationally. It is relatively well qualified, and more ethnically diverse. The first factor is associated with higher employment rates, with a potential consequent demand for childcare, while the second factor is associated with lower employment rates.

There is evidence that female second earners in couples face a particular disadvantage in the London labour market, which in part can be attributed to the higher costs of childcare in London, and that part-time hourly earnings are typically lower than full-time hourly earnings.

It is likely that policy changes have had a positive impact on the use of formal childcare, and have contributed to strong growth in demand. Recently announced initiatives are unlikely to have had a similar impact because they are tightly targeted, replace existing provision, or concentrate on 3-4 year olds for whom formal childcare use is already high.

As past trends in formal childcare use are not likely to continue because policy changes will have a diminished impact, and there is a complex interplay of other factors driving trends GLA Economics has adopted a relatively simple methodology to produce childcare demand projections.

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