



Ipsos MORI
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Families' and childcare providers' perceptions of the impact of Tax-Free Childcare

Qualitative research report for HM Revenue & Customs

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Ipsos MORI



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Glossary and abbreviations

Term	Definition
Employer Supported Childcare (ESC)	<p>ESC schemes¹ are offered at employers' discretion and take three forms: workplace nurseries; directly contracted childcare (employers arrange childcare on their employees' behalf); or childcare vouchers (that can be exchanged for childcare, either in addition to their salary or via salary sacrifice). Only parents who are employed can use the scheme; they are not available for those who are self-employed.</p> <p>The childcare voucher's value depends on the employer. Vouchers are a form of tax relief, meaning that the value of the voucher is deducted from parents' salaries before tax and national insurance contributions, up to certain amounts. These amounts are²:</p> <ul style="list-style-type: none"> Basic rate income tax payer £55 per week (£243 per month); Higher rate income tax payer £28 per week (£124 per month); and Additional rate income tax payer £25 per week (£110 per month). <p>Tax-Free Childcare was introduced to replace directly contracted childcare and childcare voucher schemes in April 2017.</p>
Funded hours	<p>Funded hours is the umbrella term used throughout the report for the different government funded/free childcare entitlements across the UK. For more detail, please see Appendix A. Each offer is briefly summarised below:</p> <ul style="list-style-type: none"> England: '30 hours free childcare' available for 38 weeks of the year for three- and four-year olds with working parents, 15 hours available for three- and four-year olds universally, and 15 hours available for disadvantaged two-year olds³; Northern Ireland: 'Pre-School Education' available for 12.5 hours per week for 38 weeks of the year for all three- and four-year olds⁴; Scotland: 'Funded early learning and childcare' available for 16 hours per week for 38 weeks of the year for all three- and four-year olds and vulnerable two-year olds, with 30 hours being trialled at the time of fieldwork⁵ Wales: 'Foundation Phase' education available for 10 hours per week for three to seven-year olds, with 30 hours for 48 weeks of the year being trialled at the time of fieldwork⁶
Household income	<p>The total, gross (before tax) salary of adults in the household. For ease, three categories are used throughout the report: low (£49,999 or less), medium (£50,000-£99,999), and high income (£100,000 and above).</p>
Provider	<p>A childcare provider registered to provide funded hours and/or signed up to TFC. Providers include nannies, childminders, private nurseries, schools-based nurseries, before/after school and holiday clubs. Referred to as 'childcare provider' or 'provider' throughout the report.</p>
Tax-Free Childcare (TFC)	<p>TFC is a UK-wide policy introduced in April 2017 to gradually replace ESC. The offer comprises 20% support towards qualifying childcare costs, up to an annual limit of £2,000 per child, or £4,000 for children with a disability, subject to eligibility criteria⁷.</p>

¹ Please see: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/367098/employee-ga2.pdf

² Please see: <https://www.gov.uk/expenses-and-benefits-childcare/whats-exempt>

³ Please see: <https://www.childcarechoices.gov.uk/>

⁴ Please see: <https://www.nidirect.gov.uk/articles/pre-school-education-places-september-2019#toc-6>

⁵ Please see: <https://www.mygov.scot/childcare-costs-help/funded-early-learning-and-childcare/>

⁶ Please see: <https://gov.wales/topics/people-and-communities/people/children-and-young-people/childcare/?lang=en>

⁷ Please see: <https://www.childcarechoices.gov.uk/> and refer to the introduction of this report for more detail.

Summary

Background and method

The government's commitment to supporting childcare provision is reflected in cross-government policies to subsidise childcare costs. Whilst this offer encompasses a range of policies⁸, this piece of research focused only on Tax-Free Childcare and funded hours policies offered across the UK.

Tax-Free Childcare is a UK-wide policy that was rolled out between April 2017 and February 2018. The offer comprises 20% support towards qualifying childcare costs, up to an annual limit of £2,000 per child, or £4,000 for children with a disability. To be eligible for TFC, children must be under the age of 12 (or 17 if they have a disability), both parents (where applicable) must be in paid work or self-employed, and each must earn between the equivalent of 16 hours per week at the National Minimum Wage and £100,000 per year.

Throughout the report, the term 'funded hours' encompasses the following offers:

- **England:** 15 hours free childcare for 38 weeks of the year for all three- and four-year olds; and 30 hours free childcare for 38 weeks of the year for working families of three- and four-year olds.
- **Northern Ireland:** 12.5 hours free childcare for 38 weeks of the year for all three- and four-year olds.
- **Scotland:** 16 hours free childcare for 38 weeks of the year for all three- and four-year olds. Extending this to 30 hours for 38 weeks of the year was being trialled at the time of fieldwork.
- **Wales:** 10 hours free childcare for 48 weeks of the year for all three- and four-year olds. Extending this to 30 hours for 48 weeks of the year was being trialled at the time of fieldwork.

HM Revenue and Customs (HMRC) commissioned Ipsos MORI to conduct research to understand the perceived impact of Tax-Free Childcare on **parents** (their working decisions, childcare choices and household finances) and **providers** (running their business, and pricing strategies). The research also explores the perceived impact of funded hours, and how this interacts with Tax-Free Childcare. Between September 2018 and January 2019, Ipsos MORI conducted 60 in-depth interviews with parents and 40 with providers to understand their perceived impacts of both policies. The research primarily sought to understand the experiences of parents and providers in receipt of TFC, therefore parents who *only* used TFC were prioritised over those using both TFC and funded hours. Parents or providers who were *only* using or delivering funded hours were not included in the research. It should also be noted that some parents had previously used childcare voucher schemes provided by their employers, however they had already consciously made the switch to TFC.

Though relatively large for a qualitative study, this is a small-scale study when compared to quantitative survey designs. By its nature, qualitative research is not designed to be statistically representative. This report is intended to be illustrative, providing insight into the decision-making and experiences of a sample of parents and providers who have used TFC and funded hours. **The findings presented in this report reflect only the perspectives of those interviewed** and cannot be generalised to a wider sample of parents and childcare providers.

⁸ Including: 15- and 30-hours free childcare for three and four year olds in England; free education and childcare for two year olds in England (subject to eligibility criteria); funded hours policies across the UK; Tax-Free Childcare; Child Tax Credit and the childcare element of Working Tax Credit; the childcare element of Universal Credit; childcare vouchers; and support for parents currently studying. For more information, visit GOV.UK

Parents' perceptions of TFC and funded hours



Overall, parents were very positive about TFC, but wished they had discovered it sooner. Those who were not already connected to the childcare system, either through older children already in formal childcare, employers who offered childcare vouchers, or friends with young children only found out about the scheme when they were applying for funded hours. These parents wished they had found out about TFC sooner, and there was a call for better publicising of the scheme to improve awareness. Parents found the account a bit unintuitive to use initially, but felt it became easier to use with practice.



Decisions around work were complex and unique to each family, though common across all was the need to balance work, childcare and affordability. Parents inputted different values into each of these aspects, balancing how much work they wanted to do, with how much they needed to earn, with how many hours they wanted their children to be in formal childcare versus being looked after by themselves or other family members. These decisions were also influenced by gender norms, workplace flexibility, the availability of informal help, and a range of other unpredictable factors linked to relationships and health.

TFC did not drive wholesale change in terms of parents' decisions around work, but it was sometimes the tipping point enabling some parents to find a practical balance between work, childcare and affordability. Parents who used TFC before their children became eligible for funded hours (but who later went on to use funded hours) felt that TFC had more of an impact. This was because the funded hours were not available at the point they were making decisions around the balance of work and childcare. This impact is likely to be specific to parents in this study, which did not include those only using funded hours. Funded hours did, however, make these decisions easier to manage financially when children became eligible for them.



TFC was used to help pay for wraparound care, holiday clubs, or childminders by parents of school-age children to make their work hours easier to manage. For example, using wraparound care to make early morning or late evening meetings or shifts, get to work on time, or not feel under pressure to leave work to make the school pick-up. Using TFC to pay for childcare in the form of holiday clubs enabled parents to better manage the additional financial costs often incurred outside of term time. However, the impact of TFC in these cases was dependent on the availability of wraparound care.



Availability, quality and flexibility were the most important factors in choosing a provider. Parents usually had a budget in mind but felt that quality ultimately exceeded cost, and affluent parents would make sacrifices elsewhere if the perfect provider was slightly beyond budget. Parents felt that formal childcare had numerous benefits for their children's development; as such, many would still want to use some formal care even if they were not working. Whether parents felt that either policy had an impact on their choices of childcare provider depended on the age of their child or children and how long they had been in childcare.



Childcare costs were often parents' largest expense (or second to housing costs) and consequently they were appreciative of the government support. Parents felt the financial impact of the policies in different ways, depending on their affluence. The research identified four parent typologies: the policies made childcare affordable for those who were **just about managing**, took away some of the pressures of managing their finances for those for whom the policies offered **enhanced living**, enabled some to **save for the future**, and made **affluent families** feel valued by government as working parents.



Overall, parents were positive and receptive towards the support offered by government in helping with the cost of childcare. Parents who used both TFC and funded hours did not think of the policies as separate entities and saw them instead as a complimentary support package. Decisions around work were complex and unique to each family, however TFC did have clear impacts on specific groups of parents. Work, childcare and affordability were the primary factors considered when making decisions around work.



There were clear cases where TFC impacted on employment:

- A greater range of parents were entitled to the scheme than the previous voucher scheme, and parents could still benefit from the support of TFC if they wanted or needed to change jobs.
- TFC made working overtime (and the subsequent need to pay for extra childcare) feel financially worthwhile to shift workers, or relieved the pressure some shift workers felt on always needing to take extra shifts.
- TFC opened discussions between parents about changing their working patterns, for example working part-time in order to spend more time with their children; or taking on extra hours through ad hoc overtime; or increasing hours of work in general.
- TFC was the reason that some women gave for feeling that going back to work after having children was financially worthwhile.
- Funded hours had less of an impact than TFC to employment as parents generally had already made decisions around childcare by the time they were eligible for funded hours.



The impact of TFC on household finances varied depending on income, expenditure and wealth. For less affluent families, TFC and funded hours made childcare affordable. For others, the policies gave them more breathing space with their bills allowing for greater savings or money to spend with their family. The more affluent families felt supported, recognised and valued by government.

What we know from existing research conducted on behalf of the Department for Education on the increase in funded hours from 15 to 30 hours, in England

Existing data gathered through research and evaluations conducted by, or on behalf of, the Department for Education shows notable, positive impacts of 30 hours (or the 'extended entitlement', referring to the increase in funded hours from 15 to 30 in England) on parents' working decisions, their views of their children's development, and on their household finances.

Please note that these findings only cover parents from England. It should also be noted that the findings from the Evaluation of the first year of the national rollout of 30 hours free childcare covered only 12 local authorities and took place just four months after the rollout of 30 hours.

- Most of the parents surveyed in England using 30 hours felt they would be working the same number of hours in the absence of the policy (55%), but one third (34%) felt they would be working fewer hours if the policy were not available to them^a.
- Whilst only a small proportion of women surveyed in England said they entered work as a direct result of the funded hours (2%), over a quarter said they had increased their hours (26%) and almost one in six (15%) said they would not be working at all without the funded hours^b.
- Two-thirds of parents surveyed in England (66%) felt that the funded hours had given them more flexibility in terms of the number of hours they could work, and half of parents felt they had more flexibility in terms of the jobs they could do (50%)^a.
- A large majority of parents surveyed in England felt that their children were better prepared for school (86%) and that their quality of life had been improved (79%) as a result of the extended hours (extended from 15 to 30 free hours)^b.
- Three quarters of parents surveyed in England (74%) felt they had more money to spend as a result of the increase to 30 hours, and four in five parents (80%) felt the overall quality of their family life was better, when compared to how it was before they took up the 30 hours^a.

References

^a Ipsos MORI (2018) Childcare and Early Years Survey of Parents 2018, available at: <https://www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2018>

^b Paull and La Valle (2018) Evaluation of the first year of the national rollout of 30 hours free childcare, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free_childcare.pdf

Providers' perceptions of TFC and funded hours



Most providers recalled receiving a letter from HMRC about TFC, or they found out about the scheme through their local authorities, other providers, or from parents. Providers were satisfied with the level of information available and felt they could understand the scheme well enough to assess whether to sign up to it, and to explain it to parents. They felt they were well placed to promote TFC more widely and welcomed materials to enable them to do this.



Most providers were operating at full capacity, meaning their ability to see impact on demand as a result of TFC or funded hours was limited. However, there were examples of providers extending their opening hours and hiring more staff to respond to increased demand, though it was not always clear whether this was due to the policies or other factors. Providers were committed to ensuring quality and would not compromise this when responding to increased demand (often choosing to maintain capacity as a result).



Providers reviewed their fees annually and considered the National Minimum Wage, automatic enrolment contributions, utilities, tax, equipment costs, and their competitors' prices when setting their fee structures. TFC had minimal impact on providers' fee structures, and as such was viewed simply as an alternative way that parents could pay, akin to cash or bank transfer. A number of providers, generally those with a greater reliance on funded hours, were concerned with the rate they received for the funded hours they offered, particularly where the difference between this rate and the rate they needed to cover their costs differed.

Some providers responded by restricting the sessions where funded hours could be used, and charging additional fees for supplies, and activities. Restrictions were more common in providers with a greater reliance on funded hours compared to those with a more diverse or mixed source of income, such as those using TFC, privately-funded places and funded hours. However, it should be noted that the childcare market is a mixed economy, and different providers have different business models. Those who choose to offer funded hours to parents of three and four-year olds are free to provide it in a manner that best meets their business needs.



Generally, providers were already operating near to or at full capacity with their main focus being to maintain rather than grow their businesses, although there were a few instances where providers were considering purchasing additional facilities to expand their provision. While there were only a few cases where providers experienced increases in demand, where demand did increase providers: hired additional staff; offered extended opening hours and; increased capacity through better use of space. Providers felt strongly about the payoff of meeting demand and not compromising on quality. Funded hours and, to a lesser extent, TFC were cited as contributing factors to increases in demand, however, there were also a number of other contextual factors contributing to increased demand. It should be noted that providers generally felt that it was too early to realise the true impact of TFC on their business but felt that the policy would have a positive impact.



Providers had a good understanding of TFC, speaking positively about the information they received from HMRC, local authorities and the Childcare Choices website. Signing up to TFC was seen as a straightforward process, and once they had signed up they felt they had little need to use the account and found that by checking bank statements it was easy to see whether parents had processed their payment. Providers without dedicated administrative staff and/or a large number of children using TFC experienced an increased time burden as a result of reconciling the TFC payment codes, initially. Late payments were generally a result of parents not understanding the systems and the implications of not making payments on time as opposed to the system failing. Larger providers voiced concerns over cash flow in the event of the system failing.



Reviewing fee policies took place annually and were based on staffing, equipment, overheads and reviewing local competition. Rising costs were noted by all providers, however, only one provider of the 40 interviewed had put their prices up by 20% and explicitly stated that TFC had, in effect, enabled them to do this. Providers were, in general, motivated to offer TFC and funded hours in order to support parents with the cost of childcare, and took great care to ensure fee increases were sufficient to cover their costs, without affecting parents' ability to pay for childcare.

Providers noted that funding rates set by local authorities could be lower than their at cost hourly rate. There was clear evidence of providers making changes to their fee structures as a result of the funded hours rate, but it is also important to note that rising costs played an equally important role.

What we know from existing research conducted on behalf of the Department for Education on the increase in funded hours from 15 to 30 hours, in England

Existing data shows that parent-paid fees are higher than the funding rate for the majority of providers surveyed in England (62%), and that providers have adapted their operating models in various ways as a result of 30 hours. **Please note that these findings only cover parents from England. It should also be noted that the research covered only 12 local authorities, and took place just four months after the rollout of 30 hours^b:**

- One third of the providers surveyed (33%) had increased their occupancy levels, more than half (51%) had increased their staffing levels, and one in five (20%) had extended their opening hours.
- Just under half of the providers surveyed (46%) reported no impact on their profit or surplus, two in five (39%) reported a reduction in their profit or surplus, and one in six (16%) reported an increase in their profits.
- Private providers were most likely to report a fall in their profits (47%), whilst voluntary and maintained providers were most likely to have reported an increase in their surplus (20% for both types). Additional analysis on the survey data (regression analysis) indicated that the difference between the parent-paid fee and the funding rate was the key driver of the impact on profit or surplus, though the report authors note that changes in occupancy levels also played an important role.
- Three quarters of the providers surveyed (74%) did not increase their fees or introduce additional charges. One in six had introduced new charges (17%), 6% had increased their charges, and 1% had both increased their existing charges, and introduced new charges.
- Three in five of the providers surveyed (63%) offered free choice over when hours could be used, a quarter (25%) had some restrictions in place, and one in ten (12%) offered the hours at specified times only.

Some providers indicated that they might need to reassess their delivery models and review which types of funded provision could best support their financial viability, once they were in a position to better assess the longer term financial impact of the extended hours.

References

^b Paull and La Valle (2018) Evaluation of the first year of the national rollout of 30 hours free childcare, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free_childcare.pdf

1 Introduction

This report covers findings from qualitative research with parents and childcare providers that took place over three waves of fieldwork between September 2018 and January 2019. The findings explore parents' and childcare providers' experiences of using Tax-Free Childcare (TFC) and funded hours, and their perceptions of the impact of the two schemes. It should be noted that this research did not include parents or providers who received only funded hours, and not TFC.

1.1 Background to the project

The government's commitment to supporting childcare provision is reflected in cross-government policies to subsidise childcare costs. The government's offer encompasses a range of policies, of which only the first two noted below were the focus of this research:

- **Tax-Free Childcare**, whereby parents receive a government contribution towards their childcare costs (discussed in detail in Section 1.1.1). Parents' and providers' experiences with these policies were covered in the interviews.
- **A range of free childcare options for parents of two, three, and four-year olds across the UK** (discussed in detail in Section 1.1.2). Parents' and providers' experiences with these policies were covered in the interviews. Throughout the report, we refer to these policies collectively as 'funded hours'.
- **Child Tax Credit** can be claimed if someone is responsible for children aged 16 or under (or if they are under 20 and in eligible education or training). The amount of support parents are entitled to depends on a range of factors⁹. Child Tax Credit has now been replaced by Universal Credit.
- **The childcare element of Working Tax Credit** can be claimed by parents who work a certain amount of hours per week and have an income below a certain level. Working Tax Credits are designed to support working people on lower incomes, and act as a 'top up' for their wages. Parents who claim Working Tax Credit can apply for the childcare element if they are using an approved childcare provider¹⁰. Working Tax Credit is now being replaced by Universal Credit.
- **The childcare element of Universal Credit** can be claimed by parents who are doing some paid work or have a job offer, and are using formal childcare. They can claim back up to 85% of their childcare costs¹¹.
- **Support while you study** includes weekly payments through Care to Learn¹² for parents under 20 at the start of a publicly-funded course (e.g. school of sixth form); Discretionary Learner Support¹³ for parents aged over 19 and in further education; and a Childcare Grant¹⁴ for parents in full-time higher education.

⁹ For more information, please see: <https://www.gov.uk/child-tax-credit>

¹⁰ For more information, please see: <https://www.gov.uk/working-tax-credit>

¹¹ For more information, please see: <https://www.gov.uk/universal-credit>

¹² For more information, please see: https://www.gov.uk/care-to-learn?utm_source=childcarechoices&utm_medium=microsite

¹³ For more information, please see: https://www.gov.uk/learner-support?utm_source=childcarechoices&utm_medium=microsite

¹⁴ For more information, please see: https://www.gov.uk/childcare-grant?utm_source=childcarechoices&utm_medium=microsite

1.1.1 Tax-Free Childcare

Tax-Free Childcare (TFC) is a UK-wide policy that was rolled out between April 2017 and February 2018. The offer comprises 20% support towards childcare costs, up to an annual limit of £2,000 per child, or £4,000 for children with a disability. To be eligible for TFC, children must be under the age of 12 (or 17 if they have a disability), both parents (where applicable) must be in paid work or self-employed, and each must earn between the equivalent of 16 hours per week at the National Minimum Wage and £100,000 per year. Parents cannot claim TFC at the same time as tax credits, Universal Credit or Employer Supported Childcare (ESC, also referred to as 'childcare vouchers'), but are able to claim both TFC and funded hours at the same time¹⁵.

Ipsos MORI conducted a series of stakeholder interviews as part of the development phase of the project (see Section 1.3 for more detail). The interviews identified three main aims of both TFC and the funded hours policies:

- **Subsidise the cost of childcare**, boosting household finances in the face of rising childcare costs;
- **Increase employment rates**, by helping parents go out to work, back to work, or work more (if they wish to). In particular, it was hoped the policy would disproportionately affect women, who tend to be primary caregivers; and
- **Support working families**, and those who have moved off benefits. TFC was also designed to replace ESC, which excluded self-employed parents, and the availability of the scheme was subject to employers' discretion.

1.1.2 Funded hours

There are different offers of funded childcare and early years education in place across the UK, referred to throughout this report under the umbrella term of 'funded hours'. Table 1.1 below summarises what childcare support is currently available to parents in each of the countries across the UK (correct at time of fieldwork).

Table 1.1: Overview of funded hours offers across the UK

	England	Northern Ireland	Scotland	Wales
Current offer	15 hours for 38 weeks of the year, for all three- and four-year olds, as well as disadvantaged two-year olds	12.5 hours per week for 38 weeks of the year for all three- and four-year olds	600 hours (16 hours per week, for 38 weeks of the year) for all three- and four-year olds, as well as vulnerable two-year olds	10 hours part-time Foundation Phase education for three to seven-year olds
Expansion (planned or actual)	Extended to 30 hours for 38 weeks of the year from September 2017, for working parents of three- and four-year olds ¹⁶	None planned at the time of writing	1,140 hours (30 hours for 38 weeks of the year) committed by 2020. Currently being trialled	30 hours for 48 weeks of the year, currently being trialled ¹⁷

¹⁵ For more information, please see: https://www.gov.uk/childcare-grant?utm_source=childcarechoices&utm_medium=microsite

¹⁶ Please note that this applied at the point at which the research report was written.

¹⁷ N.B. This expansion is not 30 hours but adding 20 hours under a different offer.

The Government introduced the Early Years National Funding Formula (EYNFF) for England in 2017. The EYNFF sets the hourly funding rates that each local authority in England is paid to deliver the early education entitlements for three- and four-year olds¹⁸.

Each national offer is described in more detail in Appendix A.

1.2 Aims and objectives

The overall aim of the research was to understand families' and providers' perceptions of the impact of TFC. The research also explored their perceptions of the impact of funded hours, and how this interacted with TFC. Specifically, the project aimed to explore the perceived impact of the policies on:

- **Parents'**: working decisions, childcare choices, childcare costs, and finances and household budgets.
- **Providers'**: running of their business, financial management and fee structures, and profitability and financial health.

1.3 Methodology

The research was required to explore, in depth, parents' and providers' perceptions of the policies' impact to date. As such, a qualitative methodology was deemed most appropriate. Ipsos MORI first undertook a development phase of research comprising: 11 interviews with stakeholders across UK government departments and devolved departments, and a small-scale literature review. The development phase was undertaken to gain a greater understanding of the policies and their delivery to date, including how they were designed to work in practice, the types of decisions made at key points by both parents and childcare providers, and any barriers to successful implementation, or unintended consequences of the policies. Learnings from the development phase were used to inform the design of the research in terms of sampling considerations, and materials.

Fieldwork consisted of 100 in-depth interviews: 60 with parents (half conducted face-to-face and half over the telephone) and 40 with childcare providers (all telephone), lasting between 45 minutes and one hour. Fieldwork was carried out in three waves between September 2018 and January 2019. HMRC provided contact details for parents and providers who were signed up to use TFC.

A wide range of criteria were taken into consideration to ensure a diverse spread of parents and providers were captured by the research. For parents, characteristics included their children's age, the type of childcare they were using, and household income. For providers, characteristics included provider type, and number of employees. For a full sample breakdown, please see Appendix B.

For both groups, quotas were also set on whether they used or delivered funded hours as well as TFC, or TFC only, and on geographic area (devolved nation, rural England, urban England, and London). Some parents had previously used childcare voucher schemes provided by their employers and had already consciously made the switch to TFC. The findings focus on parents who used TFC, though a substantial number (21 out of 60) also used funded hours. As such, these findings are applicable to a specific sub-set of the parent and provider population: TFC-users.

¹⁸ For more information, please see: <https://www.gov.uk/government/publications/early-years-national-funding-formula-allocations-and-guidance>

1.4 Structure of the report

The following report is split into two halves; the first focuses on the experiences of parents, and the second on childcare providers. Each sub-section has its own conclusion.

1.5 Interpretation and representation of qualitative data

Qualitative approaches are used to explore the nuances and diversity of views, the factors which shape or underlie them, and the ideas and situations in which views can change.

Though relatively large for a qualitative study, this is a small-scale study when compared to quantitative survey designs. By its nature, qualitative research is not designed to be statistically representative. This report is intended to be illustrative, providing insight into the decision-making and experiences of a sample of parents and providers who have used TFC and funded hours. **The findings presented in this report reflect only the perspectives of those interviewed** and cannot be generalised to a wider sample of parents and childcare providers.

The research primarily sought to understand the experiences of parents and providers in receipt of TFC, and therefore those who only used TFC were prioritised over those who used both TFC and funded hours. There were no parents or providers in the study who were only using/delivering funded hours. This is of note as both awareness and take-up of 30 hours is higher than that of TFC in England. For example, recent research carried out on behalf of the Department for Education (DfE) showed that whilst 78% of parents with a child aged 0-4 years were aware of 30 hours, just 27% of parents with a child under 12 were aware of TFC¹⁹. DfE estimates also suggest that 76% of eligible parents in England have taken up their 30 hours entitlement²⁰.

Furthermore, these findings reflect participants' experiences and perceptions; the information provided has not been verified through other means.

1.5.1 Use of quotes

Verbatim comments have been included in this report to illustrate and highlight key points and common themes. Where verbatim quotes are used, they have been anonymised and attributed as follows:

- **Parents:** two or lone parent household, number of children using the scheme(s), using TFC only or TFC and funded childcare, combined household income, and area. Throughout the report, we have simplified combined household income to: 'low' (less than £49,999), 'medium' (£50,000-£99,999), and 'high' (£100,000 or more).
- **Providers:** provider type, size of provider, and geographical area.

¹⁹ For more information, please see:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766498/Childcare_and_Early_Years_Survey_of_Parents_in_England_2018.pdf

²⁰ For more information, please see:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766498/Childcare_and_Early_Years_Survey_of_Parents_in_England_2018.pdf

Findings from the parent interviews

Parents' perceptions of Tax-Free Childcare and funded hours



2 Getting started with TFC (parents)

This chapter explores how parents first found out about the introduction of TFC, and their ongoing experiences of using their TFC account. The experiences of previous Employer Supported Childcare (ESC) or 'voucher' users are also highlighted, and the chapter covers how parents felt TFC compare to the previous voucher scheme.

2.1 Finding out about the scheme

Parents felt that TFC had not been widely promoted since its introduction in April 2017. Parents who were better connected to childcare networks found out about the scheme sooner, and therefore benefited from the government contribution earlier than other parents. Better connected parents were those who had older children in formal childcare, had friends with children who were using TFC, or who had employers that offered Employer Supported Childcare, or 'vouchers'. Employers who offered vouchers explained to both existing voucher users and new parents that TFC was due to replace the voucher scheme. There were examples of employers advising parents that they would be better off moving to TFC, as well as parents using online calculators to make the decision themselves. Other parents chose to move to TFC as they knew that the voucher scheme would be coming to an end anyway (see Section 2.1.1 for parents' views on the voucher scheme compared to TFC).

Parents who did not have these connections found out about TFC when they applied for funded hours for their three-year olds. As a result, these parents had been paying for their formal childcare costs without any government support, despite being entitled to it. Consequently, parents described feeling frustrated that they had not found out about the scheme at the earliest point from which they could have benefitted.

"I was really unhappy, because I was paying £400-500 a month. TFC could've really helped, but I didn't know anything about it. They should send out an email or letter to people who have got kids and are going to nursery. None of my colleagues or friends knew about TFC until they applied for 30 hours either."

Two parent, one child, TFC and funded hours, low income, rural England

There was only one example of a parent proactively searching for government support for childcare costs. Overall, those on higher incomes described feeling (pleasantly) surprised that they were entitled to TFC, which in part may explain why so few parents proactively searched online for information. Overall, parents largely relied on hearing about the scheme from other parents, childcare providers, or their employers.

2.1.1 Employer Supported Childcare versus TFC

Where parents had experience of both vouchers and TFC, they felt that TFC was the better scheme – though it should be stressed that *only* parents who were using TFC (and had therefore consciously made the switch) were included in the research. These parents preferred TFC because:

- **Both parents could pay into the account**, fostering a sense of joint ownership, whereas under the voucher scheme only one parent may have been eligible;
- **The TFC account felt more flexible**, and parents used it much like a bank account. As such, they were able to easily change the amount they paid in each month, as needed;

- **TFC felt like a more straightforward scheme**, both to understand how it worked, and to set up. These parents preferred an account they were in control of, rather than a scheme implemented by HR, and found it easier to understand than a scheme based on salary sacrifice; and
- **They felt they would be better off financially**, where parents had done the calculations and consciously moved to TFC. It is worth noting that few parents had done these calculations.

“There’s something nice about the cleanness of it [TFC]. You put the money in, and they just add the extra on. It just seems really simple to me ... Childcare vouchers, you had to think in advance of how much of your salary you wanted to go out. It probably works best for people who have a really fixed childcare amount going out every month, whereas we weren’t really sure, so it was a bit of a juggling act. With TFC, we’re in more control.”

Two parent, two children, TFC only, medium income, London

“What I really like about TFC is that we put £400 into our account and £500 appears straightaway...you can see you’ve got £100 extra. You can see money and benefit straightaway.”

Two parent, two children, TFC and funded hours, Scotland

2.2 Using the TFC account

Parents found that the TFC account became easier to use with practice, describing it as fairly unintuitive on first use. Parents identified a series of specific points and suggested how they might be improved; these are summarised briefly in Table 2.1 below. These points for improvement were not sufficient to deter these parents, who were willing to persevere in order to benefit from TFC’s financial incentive.

“It was a complete pain to get on but now it is working fine and is great.”

Two parent, one child, TFC and funded hours, high income Scotland

Table 2.1: Summary of parents’ experiences using the TFC account and suggestions for improvement

Point	Improvement
Communications about the scheme or payments going via the TFC account, rather than direct to parents. Parents did not always check messages on the account.	Email or text parents directly, or improve notifications to them of a new message to read on the TFC account. Use this to inform parents of new features or improvements/bug fixes ²¹ .
Where others pay for or contribute to childcare costs (e.g. grandparents), some parents were unaware that anyone can pay in directly to the site.	Suggests there is a need to promote this feature (the information is already available) so that others know they can pay into the account (currently, grandparents would transfer money into parents’ bank accounts, for them to upload).
Whilst understanding of the government contribution was good overall, some parents whose childcare costs fluctuated struggled to work out how much they needed to pay into the account each month (minus the HMRC contribution).	Possible new feature that allows parents to input the total childcare bill for the month, and the system calculating automatically how much parents need to pay ²² .

²² HMRC have this listed as a possible future enhancement.

"I'm still not 100% sure I'm using it in a way that gets me 100% of what I'm entitled to. It's not easy to work out how much you pay in, and how often, to exactly cover your childcare bill once the contribution has been added."

Two parent, one child, TFC only, high income, urban England

One parent mentioned that he was not always sure how long remained in the 'payment period'. He understood that he could deposit £2,000 every three months to gain the maximum government top-up per month, but was unclear from when the three months began and ended.

In addition to highlighting the maximum amount parents could deposit to receive the maximum government top-up, clearly state on the account how long remains in the current payment period²³.

Across the interviews, there were examples of late payments made to providers, due to a lack of awareness of the payment process, including:

- Being unaware that payment was a three-step process (parents pay in money, government top-up comes through, parents authorise total payment to leave the account);
- Being unaware that payments needed a few days to clear before they were authorised to leave the account²⁴; and
- Being unaware that payments into the account, and the government top-up can take a few days to come through.

Make guidance very clear on how each step of the payment process works and how long it should take (parents expected it to be like online banking, i.e. instant), perhaps in the form of a flowchart or timeline. Parents also felt that automatic notifications of successful payments to providers would be helpful²⁵.

"It is a bit painful. After I transfer money into the account, it takes some time for the 20% to be added and for it to be paid to the provider, say a week in total from when I start until they get the money. But even then, I can't see that they have it, so I have to call and check that the provider has the money."

Two parent, two children, TFC only, medium income, rural England

²³ At the time of writing, this addition was already being considered by HMRC.

²⁴ Please note that payments to providers, and into accounts by bank transfer, have become more efficient in terms of speed of transfer since the research was conducted.

²⁵ At the time of writing, HMRC were working on a quicker system and simpler guidance for payments.

3 Making decisions around work

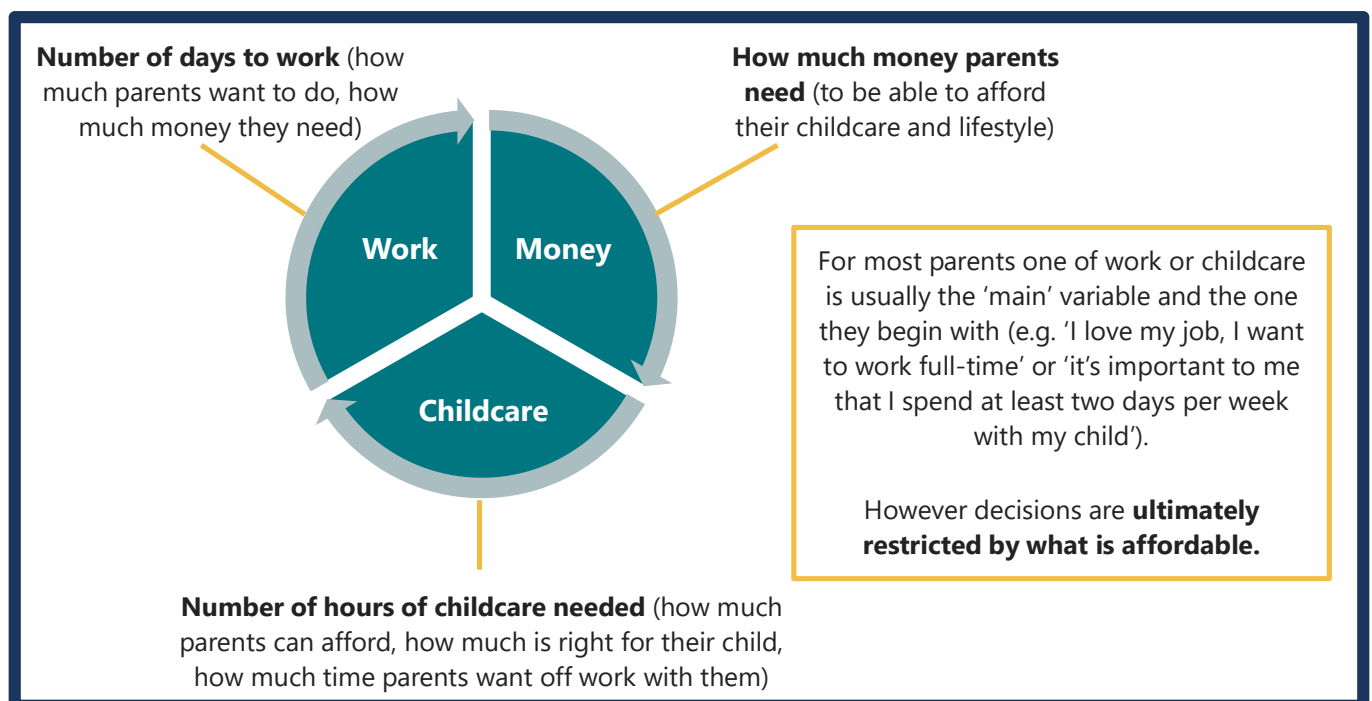
This chapter explores the factors involved in parents' decisions around work, and how they weigh up these factors, with a particular focus on balancing work, childcare arrangements and affordability. The chapter also explores how and where TFC and funded hours have an impact on the decisions made around work by the parents involved in this research, as well as the relative influence of each.

3.1 How parents make decisions around work

To understand where parents felt TFC had had an impact on their working decisions, it is important to recognise the range of factors they considered when deciding on their working arrangements after having children. This is because these factors are complex, interrelated, and unique to individual parents' circumstances. As covered later (Section 3.2) neither TFC nor funded hours had a *major* impact on decision making around work for the parents involved in this research. However, TFC was sometimes the 'tipping point' when parents were weighing up competing factors to try and find a workable balance between their finances, careers, and childcare arrangements.

We refer to this balance as the 'work, childcare, affordability equation'. To make decisions around their working arrangements after having children, parents weighed up each variable, effectively inputting different values into the equation until they found a lifestyle that was the best fit in terms of being both affordable, and what they would like. The equation and how it works is summarised in Figure 3.1 below.

Figure 3.1: The work, childcare, affordability equation



Work, childcare and affordability were the main drivers that influenced parents' decisions around the balance of work and childcare. However, these decisions were complex and involved numerous factors that parents had to weigh up in order to find this balance. These additional factors are discussed in turn, below.

3.1.2 Gender roles

How parents make decisions around work is an area where perceptions about gender roles are highly influential but challenging to unpick. Whilst it was beyond the scope of this study to explore the impact of gender, we have summarised how gender appeared to feed into decision-making around work, given the importance of the issue.

Flexibility towards parents going part-time or adjusting hours around childcare varied across workplaces. There were also examples of participants feeling that this was *particularly* difficult for men, explaining that whilst there were mothers who had adjusted their working patterns, it was not 'part of the culture' for fathers to do the same.

The interviews explored how parents discussed their working decisions after having children. In some cases, active discussions between parents took place, regarding one parent reducing their hours or stopping work altogether to be the primary caregiver. Where discussions did occur, some saw childcare costs as equivalent to, or a significant proportion of, the mother's salary, rather than as a proportion of their combined household income.

"My wife used to work four days a week before the twins were born. I can't remember what conversations we had about it at the time, but I know that she really wanted to go back to work. Financially, working didn't make much sense as she didn't earn as much as the nursery cost us for those two days a week [and so she reduced her hours to two days per week]."

Two parent, two children, TFC only, medium income, rural England

These parents logically concluded that there was no financial benefit to both working full-time. In these instances, it was generally assumed that mothers who had previously worked full-time would reduce their hours of work, or not return to work at all²⁶ following maternity leave. In some cases, this was because the father's income was higher than the mothers and this therefore made sense financially. While, in other cases it was just assumed or '*seemed natural*' that the mother would be better placed to reduce or adapt her working hours even if she was the higher earner.

"I'd been off 4 or 5 months by this point and so I said, 'right, that's enough I'm going back to work'. He said, 'but she's really little'. I said we could share the maternity leave, you can take half of it and you can stay at home with her and he was like, 'no'! He knew that he could move on into his career at work and he didn't want to stop it at this point."

Two parent, one child, TFC and funded hours, low income, rural England

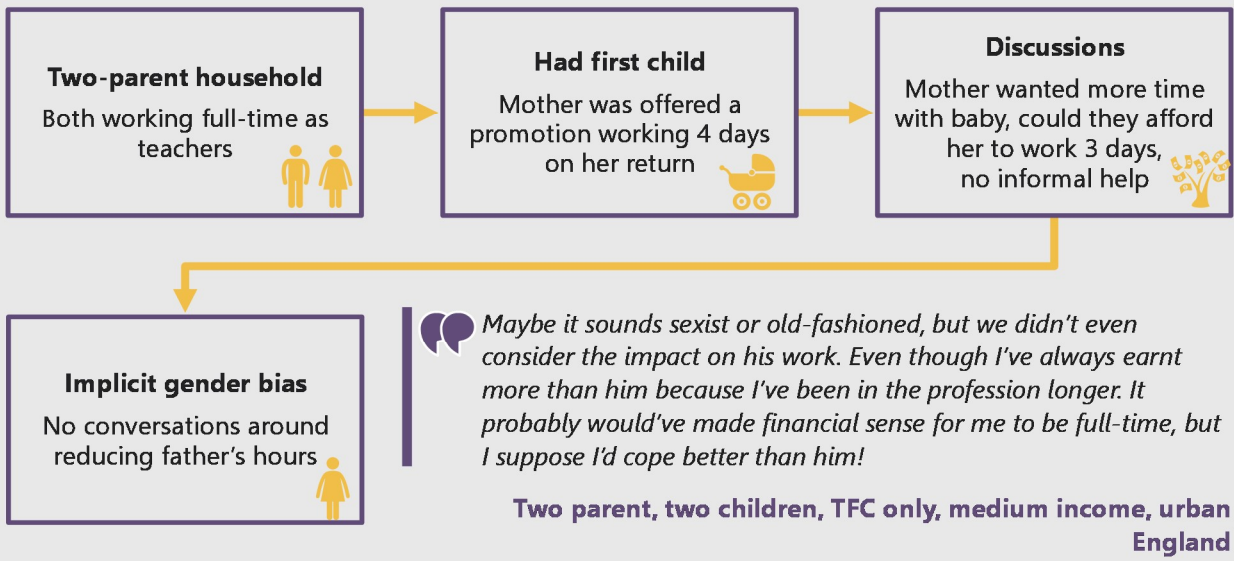
"After our first child my wife and I discussed reducing her hours, but childcare was too expensive for her to go fully part-time so we couldn't really afford for her to do that. But with our second child we heard about TFC. So she's now gone part-time but can pick up extra hours if needed around Christmas and holidays, and now we've just signed our eldest up to 30 hours too, which will help."

Two parent, two children, TFC and funded hours, medium income, urban England

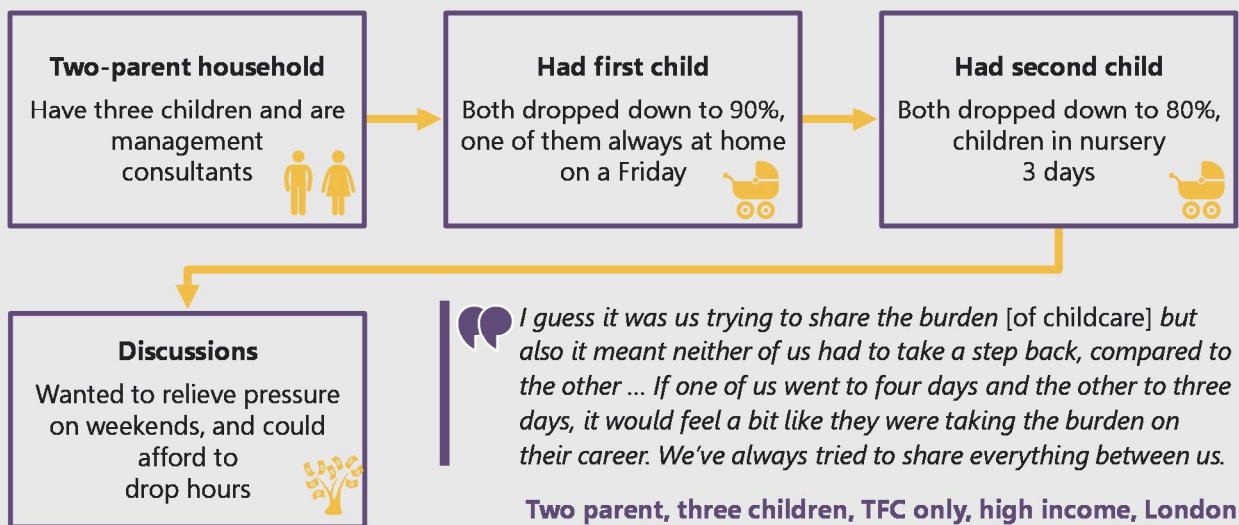
However, some families involved in the research did not discuss decisions around work, both parents (in two-parent households) had assumed that *mothers* rather than fathers would reduce their hours following maternity leave, if needed. Below, are two case studies that demonstrate different approaches to working decisions, and gender roles.

²⁶ Parents must be in work to claim TFC. However, there were examples of parents (all mothers) who had taken extended time off work to look after their children. These parents had started using TFC as their children were a bit older, usually in preparation for school.

Case study: Implicit gender bias in decision-making



Case study: Splitting equally so no-one was left behind



3.1.3 Affordability

Parents' ideal balance between work and childcare was limited by what they could afford. If they had decided that one parent needed to work part-time, some chose to prioritise the higher salary. Across the interviews, the men in two parent families generally had the higher salary. Other families prioritised the more stable income. This tended to be salaried jobs as opposed to being self-employed or on a zero-hours contract. There were counter-examples, where self-employed parents were trying to build a new business. In these cases, the salaried parent would reduce their hours. In some cases (discussed in Section 3.1.2) this conversation did not take place at all as it was assumed that the mother would work part-time, if needed.

"It's never been a 'this is what we're going to do, so let's do it' type plan. It's been more of a 'this is what is the best decision financially for us, so let's do that' type plan. Having TFC has allowed my partner to pick up extra shifts and work longer if he can. It allows that flexibility of doing extra work. Before TFC, with overtime, we would think 'well, with the overtime pay, the tax and the childcare, is it really worth it?' Whereas now, with TFC, it is definitely worth it."

Two parent, two children, TFC and funded hours, medium income, Wales

Not all parents had decided that they wanted or needed to reduce their working hours after having children. Ultimately, this decision was determined by individual circumstances, though **less affluent families** who did not have informal childcare to support them and **lone parents** had less choice in their working arrangements, as they explained that they could not afford any loss of income.

"TFC means I can put more hours into my business and into my work because I know that my childcare is covered, and it isn't costing me as much as it would be without that. It gives me a bigger working day to get things done."

Two parent, three children, TFC and funded hours, low income, urban England

3.1.4 Wanting to spend time with their children

The 'childcare' element of the work, childcare, affordability equation was relatively simple; a key driver in parents' decision-making was simply wanting to spend time with their children when they were young.

3.1.5 Parents' views on working and workplace flexibility

Aside from the financial aspects of needing to work, parents explained their decisions were based on:

- the fact that they liked their jobs and/or had invested substantial time, effort and resource into their careers, and felt like they might be 'sacrificing' their hard work in some way if they went part-time;
- a sense that working parents were important role models for children, to show them the importance of working for its own sake, and so they could see where money for necessities and treats came from; and
- having their own dedicated time/space away from their children.

"I was a partner in a big global company and had worked hard to get to that point. To go from that to having a baby – this baby is the most wonderful thing in the world – but you are not being challenged in the way you were before. I needed to continue to have that for my own sanity and I wanted to show my daughters that to get somewhere, you have to work hard. We could definitely afford to send the girls to the summer camp for 3 days a week so it meant that I could carry on working at roughly the same level as when they are at school, but it [TFC] just made it that little bit easier to pay for really."

Two parent, two children, TFC only, high income, rural England

There were also instances where mothers (in particular) had taken a career break following the birth of their older children, and with their most recent children wanted to focus more on their careers.

Parents with more flexible employers found it easier to balance the often-competing demands of work and childcare arrangements, for example through going part-time, or working half days, compressed hours, or from home. Parents' ability to change their working arrangements also depended on the nature of their work. Parents

who had very specific or niche roles explained that they could not adjust their hours, even if they wanted to, as there was no-one to cover them. One example of this included a university lecturer who supervised PhD students' theses in a highly-specialised field.

3.1.6 The importance of informal childcare

Informal childcare referred to help from grandparents, siblings, neighbours or friends that was not paid for. Informal childcare arrangements could be ad hoc, supporting with pick-up and drop-off or be more regular (e.g. looking after children for one day per week). Informal childcare was particularly important to help parents plug any gaps in the work, childcare, affordability equation, helping them to achieve the balance they wanted if they could not afford it on their own.

However, parents felt that regularly relying on their own parents for support was not always fair, or a feasible long-term solution. Where grandparents were still working, additional childcare responsibilities could be strenuous, and problems arose when working grandparents' hours or shifts changed at short notice. Some parents were also concerned that regular childcare responsibilities had an adverse impact on the quality of the child-grandparent relationship. Furthermore, some participants whose parents had retired explained that they wanted to enjoy their retirement without additional childcare responsibilities.

3.1.7 Interpersonal and health reasons

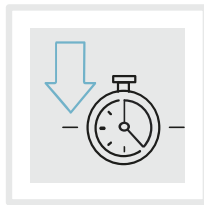
Finally, there were a range of wider factors that affected decisions around work and childcare, outlined below. While these factors were specific to individual circumstances, having an insight into how they directly or indirectly influence the use of childcare is key to understanding the broader reasons why parents access TFC (or not) and the wider impact of the policy. For example, where there was an increase in the need for nursery hours, TFC allowed parents to make the increased household expenditure more manageable and affordable. In addition, parents who changed jobs to spend more time with their families, for example caring for another adult in the family, often incurred a reduction in household income but required the same or a similar amount of childcare. In these instances, TFC enabled parents to better manage the reduction in income with the demands of childcare costs.

Baby unable to bottle feed



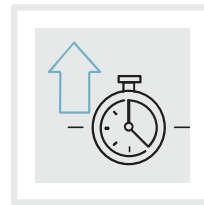
Father planned to take time off, but mother had to instead

Child not suited to full-time hours



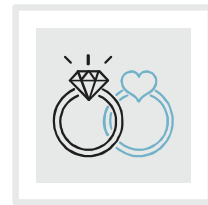
Decrease in nursery hours, and parents went part-time to cover

Child overly dependent



Increased nursery hours to promote greater independence

Family never together



Parents changed jobs so they could spend time together as a family

3.2 Making decisions around work: The impact of the policies

Whilst TFC reduced the cost of childcare, it was not a driver of wholesale change to parents' working patterns. However, it did influence the tipping point when parents were trying to make the work, childcare, affordability equation work in practice. The impacts were as follows:

- **TFC gave parents more flexibility than the previous vouchers scheme**

Many parents involved in this research who had experience of voucher schemes indicated that, unlike vouchers, TFC reduced their reliance on their employer for childcare. In effect, TFC gave them the flexibility to change jobs, should they want or need to, and not have to consider losing support with their childcare costs when these making decisions.

- **TFC had a particular impact on shift workers**

Most of the parents involved in this research who worked shifts could take on or refuse extra hours as needed. They outlined two opposing benefits of TFC. On the one hand, they felt that having the 20% top-up made taking on extra shifts more financially worthwhile. The contribution helped to cover the costs of additional childcare and made them feel like they were bringing home more money as a result. Conversely, shift workers who were less affluent felt that the top-up relieved some of the pressure they felt to continually take on extra shifts for additional income.

“TFC has allowed extra cash to spend together as a family and also it means there is less stress about my partner taking over time and extra shifts because it is always worth it financially now.”

Two parent, one child, TFC only, medium income, Wales

- **TFC often facilitated discussions between parents**

Whilst TFC may not have had an impact on working decisions across parents as a whole (due to the greater relative importance of other drivers) TFC did appear to open the door to discussions around working patterns for many of the parents involved in this research. Having additional income as a result of TFC meant that for the most part parents *could* discuss the possibility of changing their hours, because of the financial saving.

“It’s given us more options now we’re using TFC. We’re discussing being able to cut down on hours, because we’re saving 20% on childcare.”

Two parent, two children, TFC only, medium income, Northern Ireland

- **TFC could help to reduce reliance on informal childcare**

There were examples of parents reducing their reliance on informal help, as a result of being able to afford more formal childcare with TFC. Most examples involved parents making relatively small changes to their arrangements, for example putting their children in formal childcare for an afternoon session every few weeks or so, to give grandparents a break from childcare responsibilities.

- **TFC was the tipping point in some women’s decisions to go back to work or not**

Where women saw their salary as equivalent to their childcare costs, TFC had incentivised them to go back to work in some cases. These women felt that TFC made their working financially worthwhile.

“£500 a quarter is not to be sniffed at; £2,000 a year, it’s brilliant! It’s certainly the difference between me going back to work at all, and not.”

Two parent, one child, TFC only, medium income, London

- **TFC may make high earners think twice about their hours**

One participant and his wife both worked four days a week. The participant explained that if he was promoted in the future and went back to full-time hours, he would earn too much to be eligible to receive TFC. He explained that he would strongly consider remaining part-time in order to continue to receive TFC.

"I think that would probably dis-incentivise me from going back to work five days a week, as that would knock me over that threshold and we'd lose that benefit."

Two parent, three children, TFC only, high income, London

For the parents involved in this research, TFC appeared to be more influential than funded hours in relation to parents' work decisions. However, it is important to stress that this finding is likely particular to the audience of this research – which only included parents who used TFC. Parents had access to TFC from the point at which they were making decisions around work and were able to use it for their children until the age of 12. Parents of school-age children used wraparound care, holiday clubs, or childminders to make their work hours easier to manage. For example, using wraparound care to make early morning or late evening meetings or shifts, get to work on time, or not feel under pressure to leave work to make the school pick-up. In addition, using TFC to pay for childcare in the form of holiday clubs enabled parents to better manage the additional financial costs often incurred outside of term time. However, the impact of TFC in these cases was dependent on the availability of wraparound care.

This research found that of the parents who took part, funded hours had a huge financial impact (Chapter 5) but, overall, this policy tended to make the decisions that parents had *already made* easier to manage financially, rather than shaping those decisions in the first place. This was because parents had either made their decisions around work before finding out about either policy, or they had signed up to TFC around the time they were making these decisions (before their children were eligible for funded hours).

Box 1: What we know from existing research conducted on behalf of the Department for Education on the increase in funded hours from 15 to 30 hours, in England

Existing data shows notable impacts of 30 hours (or the 'extended entitlement', which refers to the increase in funded hours from 15 to 30 in England) on parents' working decisions. The following data applies to **English parents and childcare providers only**. This includes:

- Most parents in England using 30 hours felt they would be working the same number of hours in the absence of the policy (55%), but one third (34%) felt they would be working fewer hours if the policy were not available to them. This was more commonly felt by parents on lower incomes – 52% of parents earning £20,000-£30,000 felt they would be working fewer hours in the absence of the policy (52%)^a.
- Clear impacts on mothers' work patterns as a result of using 30 hours. Whilst only a small proportion of women said they entered work as a direct result of the funded hours (2%), over a quarter said they had increased their hours (26%) and almost one in six (15%) said they would not be working at all without the funded hours^b.
- Improving parental choice and flexibility around work. Two-thirds of parents in England (66%) felt that the funded hours had given them more flexibility in terms of the number of hours they could work, and half of parents felt they had more flexibility in terms of the jobs they could do. These benefits were most keenly felt by parents in lower and middle earning families – for example, 82% of parents earning under £20,000 felt that 30 hours had given them more flexibility in terms of how many hours they worked^a.

Technical notes

The *Childcare and Early Years Survey of Parents in England, 2018* consisted of 5,922 face-to-face interviews with parents of children aged 0-14 between January and August 2018.

The *Evaluation of the first year of the national rollout of 30 hours free childcare* consisted of a mixture of primary and secondary data collection from 12 local authorities (LA) selected to have a balanced mix of local childcare provision, early years policy, and regional and socioeconomic context. The evaluation consisted of a mix of qualitative and quantitative interviews (please see the link below for a full description of the method). Please note that these findings only cover parents from England. It should also be noted that the research covered only 12 local authorities and took place just four months after the rollout of 30 hours. However, the Local Authorities (LAs) were selected to have a balanced mix of local childcare provision, early years policy (such as funding rates) and regional and socio-economic context and the sample sizes were relatively large.

References

^a Ipsos MORI (2018) *Childcare and Early Years Survey of Parents 2018*, available at: <https://www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2018>

^b Paull and La Valle (2018) *Evaluation of the first year of the national rollout of 30 hours free childcare*, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free-childcare.pdf

4 Making decisions around childcare

This chapter explores the factors involved in choosing a childcare provider, the benefits that parents attributed to formal childcare, and the impact they felt the policies had on their choices, both in the past and the future.

4.1 How parents chose their childcare providers

Availability, quality, and flexibility drove childcare choice. Parents explained that providers with the best reputations usually operated waiting lists, meaning that parents who did not join these lists early had their choices restricted. The availability of wraparound care, including earlier drop-offs and later pick-ups, was also important in enabling parents to fit childcare around their work commitments.

After availability, quality was the next most important factor. While waiting lists were believed to be one potential indicator of quality, parents also judged a provider's quality based on a combination of Ofsted results, word of mouth or recommendations and, ultimately, a visit to the setting. For parents, quality meant being impressed by the staff, the facilities, the general atmosphere, and a positive review from their children when they visited for the first time.

"We visited her and we really liked the setting. My son went for a trial day and he felt comfortable so that was the choice made, really."

Two parent, two children, TFC and funded hours, medium income, London

Childcare providers' hours had to fit around parents' working arrangements, though this decision was often taken in tandem, with parents adjusting their work patterns to accommodate childcare pick-up and drop-off. For example, if nurseries did not permit parents to drop their children off early or pick them up late on their way to/from work, then they were discounted by parents without flexible employers or informal help.

Cost featured in parents' decision-making insofar as they had a rough budget and would confine their search to providers within this. Parents in more densely populated urban areas, where there tended to be more competition, explained that most providers of the same type charged similar amounts anyway – thereby negating cost as a discriminating factor in choice. Ultimately, quality was much more important to parents than cost when it came to making decisions. For example, if parents found a provider who met the criteria of being available, flexible and high quality, those who were able to make financial sacrifices elsewhere did so to be able to afford to send their children to the best provider available.

"You can tell you're paying for quality when you see the expensive ones. We had a budget, but knew this would be one of our biggest costs, so we would have to bite the bullet if the right one was more pricey."

Two parent, one child, TFC only, low income, urban England

Parents had to choose between non-domestic or group providers and home-setting providers. **Non-domestic or group providers** (nurseries, before/after school clubs, and holiday clubs) afforded the benefits of interacting with other children; and **home-setting providers** (childminders and nannies) offered practical benefits, such as:

- Cost (nanny shares could be cheaper than nurseries in some instances, and childminders could be a more cost-effective option for parents with multiple pre-school age children);

- Availability (for some parents, home-setting providers were not their first choice, but the nurseries they wanted to use were at full capacity); and
- Flexibility (nannies and childminders could support parents with pick-up and drop-off where parents could not balance their work and childcare arrangements).

Whilst social interaction and convenience were the main attractions of each of these types of providers, they were not the only drivers. For example, there were parents who chose home-setting providers for their children as they wanted them to benefit from a more personal touch; parents also explained that their children interacted with others in their childminder's care. Likewise, parents with school-age children chose wraparound care or holiday clubs for a mixture of both practical (needing childcare in addition to school so that they could work) and social reasons (helping their children to make new friends, learning, and activities, for example).

"We live in a rural area, and there aren't other after school options, and we have no family nearby, so it had to be a childminder ... It's not a massive expense, but 20% makes a difference to it over a year."

Two parent, two children, TFC only, medium income, Wales

4.2 The benefits of formal childcare

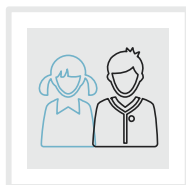
Formal childcare enabled parents to work and provided opportunities for their children's development (shown below). This meant that most indicated they would want to use formal childcare even if they were not working. TFC provided the financial support that enabled parents to access more formal hours. This not only increased the number of developmental opportunities for their children, but also reduced parental reliance on informal childcare options, such as using friends, grandparents and other family members.

School readiness



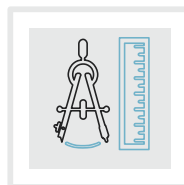
Learning, making friends, daily routine

Socialisation



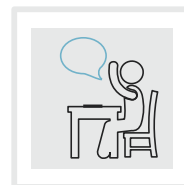
Making friends, sharing, communication

Education



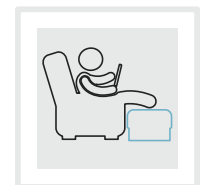
Educated by professionals, progress reports

Independence



Trying new things, less dependent on parents

Parental wellbeing



Giving parents time to themselves

In line with this research, evidence from the *Evaluation of the first year of the national rollout of 30 hours free childcare* showed that parents were highly positive about the benefits of formal childcare. The large majority of parents in England felt that their children were better prepared for school (86%) and that their quality of life had been improved (79%) as a result of the extended hours (extended from 15 to 30 free hours)²⁷. Please note that these findings only cover parents from England. It should also be noted that the research covered only 12 local authorities and took place just four months after the rollout of 30 hours. However, the Local Authorities (LAs) were selected to have a balanced mix of local childcare provision, early years policy (such as funding rates) and regional and socio-economic context and the sample sizes were relatively large.

²⁷ Paul and La Valle (2018) Evaluation of the first year of the national rollout of 30 hours free childcare, available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free_childcare.pdf

Other research has shown that parents of children using 30 hours feel their children get on better with other children (83%), have improved communication skills (62%), improved numeracy skills (53%) and improved literacy (49%), all as a result of spending more time in formal education, attributed to the extension from 15 to 30 hours. Again, it should be noted that these findings only cover parents from England²⁸.

4.3 Making decisions around childcare: The impact of the policies

Overall, neither TFC nor the funded hours policies had much impact on how parents selected their childcare providers. In general, this was because parents' awareness of the relatively new TFC policy at the point they were choosing a provider was fairly low, which meant that some parents had already made their childcare choices before using TFC. However, parents with multiple children tended to choose the same provider for convenience and only discovered later that they offered TFC. Therefore, at the point at which this research was conducted, TFC appeared to have minimal impact on parents' childcare choice of provider. However, there were a few cases where parents requested TFC if their providers were not already offering it. It is also worth noting that for parents already using TFC, funded hours had little impact on their choice of provider as they had already made this choice before they became entitled to funded hours. This finding is, again, likely particular to this research, which focused primarily on parents who used TFC and did not include those who were only using funded hours.

When prompted, parents said that if they needed to change their provider in the future, they would look for ones that offered TFC and funded hours. However, for more affluent parents, quality remained the more important factor; if the perfect provider did not use either policy, parents would forego government support.

“The nursery were signed up for 30 hours and knew about the vouchers, but they hadn't had anybody using TFC yet before we asked about it. If they had turned around and said, ‘we can't use TFC’, we probably would've looked more closely at the vouchers, as we really liked the nursery. Finding the right nursery is more important than TFC. That being said, if in the future we needed to move nursery, we definitely would look for a place that accepted it, as it's definitely worthwhile to save on childcare costs.”

Two parent, two children, TFC only, medium income, urban England

²⁸ Ipsos MORI (2018) Childcare and early years survey of parents 2018, available at: <https://www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2018>

5 Parents' finances and household budgets

This chapter explores the perceived impact of the policies on childcare costs and household finances. The chapter introduces four typologies which describe how parents felt TFC and funded hours impacted on their finances.

5.1 Childcare costs: The impact of the policies

Parents with pre-school age children explained that the cost of childcare was either their biggest monthly expense, or second only to housing costs. Childcare was particularly expensive for parents who used full-time childcare and those with multiple children below school-age. There were examples of childcare costs restricting parents' choices, in terms of:

- **Restricting the amount of formal childcare used:** these parents explained that they would have liked to use more formal childcare, but were unable to afford it. Instead, they relied on informal help;

"We felt we could only send her in for the minimum number of hours, which was 20hrs²⁹. We would have liked to have sent her in for more, but cost-wise it just wouldn't have worked."

Two parent, one child, TFC and funded hours, medium income, urban England

- **Restricting the number of hours they worked:** these parents were motivated to change to part-time hours after having children due to the cost of full-time childcare, rather than through personal choice; and
- **Restricting the number of children they had:** in some cases, parents explained that they could not afford to have any more children, due to the cost of formal childcare.

"It's not ideal, we pay more on nursery than we do on our mortgage. It's a massive bill, so expensive. We couldn't have any more kids right now, because we physically couldn't afford to."

Two parent, one child, TFC only, medium income, urban England

Both TFC and funded hours had a huge impact on parents' childcare costs and were warmly received by parents. TFC offered a marked reduction in childcare costs and funded hours meant that some parents could afford to send their children to formal childcare for more hours per week. This was particularly true for parents in Scotland and Wales where 30 hours were being trialled, and in England where the policy was already available. Having up to 30 hours free childcare per week meant that some parents' childcare costs were taken away completely.

Amongst parents who were using both policies in tandem, funded hours had the biggest, single impact on childcare costs. However, TFC added more flexibility in terms of how it could be used:

- to pay for multiple providers (whereas some parents' thought they could only use funded hours for one childcare provider);

²⁹ The family quoted lived in England and received 30hrs free childcare. The policy means that parents are entitled to 30 hours free childcare per week for 38 weeks of the year. This family used formal childcare all year round (excluding family holidays). Many childcare providers choose to allow parents to spread out their 30-hour allowance over the full year (52 weeks) which equates to approximately 22 hours per week. Please see Section 5.1.1 (parents' perspectives) and Chapter 8 (providers' perspectives) for more detail.

- to help manage the cost of childcare not covered by funded hours³⁰;

“The most helpful it’s [TFC] been is during the summer or Easter holidays when we have to pay the full amount. That’s been really helpful, really positive.”

Two parent, one child, TFC and funded hours, medium income, urban England

- towards the cost of childcare on children below the age of three (i.e. pre-funded hours);
- towards the cost of childcare for children over the age of four (i.e. post-funded hours). This included before or after school clubs, holiday clubs, and childminders. Those with school-age children reported relatively small childcare costs, but still reflected positively on the savings they made. They were also grateful that the scheme applied to what they felt were ‘extra-curricular’ childcare arrangements, such as holiday camps (run by providers who had signed up to the scheme).

“TFC didn’t really make any difference on our childcare choices as they were always going to go to the breakfast and after school clubs, and the holiday clubs. It does give me choice and flexibility by having it; it means that I can increase the days if I wanted to, if work was demanding it ... I asked the holiday club if they would register for TFC and they did. Having them registered with the scheme is massively significant – it makes their summer camp about £500 cheaper.”

Two parent, two children, TFC only, high income, rural England

Parents who used both policies did not always think of them as being two separate entities, as they had the same outcome of reducing their childcare costs. It became clear that the two policies complemented each other and, whilst funded hours appeared to have the single, greatest impact, and TFC had a wider range of smaller impacts, it was very much the case that the sum of what both policies provided for parents was greater than any individual parts.

5.1.1 How parents found funded hours worked in practice

At the time of writing, 30 hours free childcare is available for 38 weeks of the year in England and trial areas in Scotland, and for 48 weeks of the year in trial areas in Wales.

In England, if parents need childcare for the full year, then providers allow them to use their entitlement in different ways, for example:

- They are entitled to 30 hours of childcare per week for 38 weeks of the year, and then need to pay full price for the remaining weeks; or*
- Parents can spread the 30 hours of childcare over the course of a full year (52 weeks), which equates to around 22 hours of childcare per week. Parents then pay full-price for any additional hours they wish to use on top of this.*

Parents who were using both TFC and funded hours used TFC to supplement any additional hours of childcare they wanted that were not covered by their funded hours entitlement. This also included wraparound care and holiday clubs.

³⁰ See Section 5.1.1 for more information.

As discussed, parents who used funded hours felt that the policy saved them a huge amount on their childcare costs. However, several parents in England said that they found the policy misleading, feeling there was a mismatch between how it was advertised and how it was delivered in practice. These parents explained that they had initially interpreted the policy as providing 30 hours of free childcare per week, for the whole year, and subsequently were disappointed when they went to use their entitlement with their chosen provider.

“30 hours is a bit of a con, really. It’s only over 38 weeks and the nursery stretches it out across the whole year, so you only get 22 hours free a week. And then you’re only allowed to use it between 8-12pm or 1-5pm. Anything outside of that is extra on top.”

Lone parent, two children, TFC only, medium income, urban England

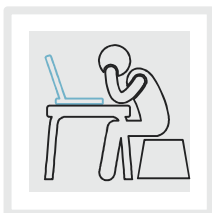
As shown in the example above, parents explained that sometimes providers restricted the sessions for which funded hours could be used. There were also examples of providers charging additional fees for meals, nappies, milk and activities³¹. It should be noted that the early years entitlements operational guidance for local authorities and providers indicates that providers can charge extra to cover the costs of meals, trips, additional activities and other consumables, the policy was not intended to cover these costs. In addition, parents can only take up free hours between 6am and 8pm and cannot use more than 10 free hours per day. However, parents were generally unaware of the fact that providers could shape the offer to best meet the needs of their business.

5.2 Finances and household budgets: The impact of the policies

Parents managed their finances in a range of different ways. It was often the case that one parent took main responsibility for monitoring the day-to-day finances, making sure bills were paid and paying for childcare (this included managing the TFC account). This was either the parent who was deemed to be ‘better’ with money, or parents who worked part-time and had taken on a greater share of the household responsibilities as a result.

Both TFC and funded hours had an impact on parents’ finances and household budgets. Both policies saved parents money on their childcare costs, which meant they had more money to cover the cost of living, to use as disposable income or to put towards savings. Analysis of the data uncovered different typologies of parents in terms of the extent of the impact of both policies on their finances and household budgets.

These typologies are not intended to be a comprehensive segmentation of parents. Instead, they are sub-groups of parents emerging from the interviews who had similar characteristics that determined the type of impact that the policies had on their finances. It is also important to note that these typologies exist within the study population, which is not representative of all working parents, given the specific focus on users of TFC.



TFC and funded hours were a lifeline for parents who were just about managing

These were parents on lower incomes, or with multiple children under school-age, using full-time care, or living in areas with a high cost of living (particularly London). Parents who were **just about managing** met one, several or all of these criteria, which meant that their childcare costs were a large proportion of their household income.

³¹ These findings are discussed in more detail in Chapter 7, which summarises providers’ perspectives on the impact of funded hours on how they ran their businesses

For these parents, TFC and funded hours made childcare affordable. These were parents who had either already made substantial changes to their arrangements or would have to make changes if they did not have access to government support. These changes included:

- changing their working hours, looking for other jobs or stopping work altogether;
- using less formal childcare than they would like to; or
- making significant sacrifices elsewhere that would affect/had affected their standard of living (e.g. downsized, moved to be closer to grandparents, or deciding not to have any more children).

"[TFC] has had a big impact. I don't know how we would've afforded the childcare for the two of them if we didn't have it. And because we've had to pay the nursery fees and we've managed because of TFC, it makes me look forward to the future – to when we don't have to pay it anymore. It's going to be great!"

Two parent, two children, TFC only, medium income, urban England

"I don't think I would've been able to come back to work and put them in childcare without [TFC]. I think I would've had to have asked for more help from my parents, which I don't think would've been fair, because they're older. [Without TFC] I would've used savings. At the moment, I manage to do it every month – just about paying for it out of my salary – without having to dip into savings."

Lone parent, two children, TFC only, medium income, urban England



TFC and funded hours offered enhanced living to parents who could just about manage without the policies

Parents whose **living was enhanced** by using the policies were slightly more affluent, had cheaper childcare costs, or lived in less expensive areas of the UK than those who were just about managing (above). These were parents who felt they probably would have used the same amount of childcare with or without TFC and/or funded hours.

Having TFC and funded hours gave these parents breathing space, and meant that they did not need to scrutinise their finances so closely, or always be conscious of reducing their spending where they could. As such, they felt that the support from TFC and/or funded hours had taken away some of the stress they felt at managing their finances and household budgets.

"TFC does give us a bit extra each month, which relieves the pressure on our finances a bit. It covers the gas and electric, but it also means that we can go out for tea a few times a month, too. Which is really nice!"

Two parent, one child, TFC only, low income, urban England



TFC and funded hours helps some parents to save for the future

Parents who were able to **save for the future** as a result of using TFC and/or funded hours were similar to those with enhanced living, in that they had more disposable income as a result of the policies. Again, these parents thought they probably would be using the same amount of childcare in absence of the policies, but were able to have more family

experiences, pay for their children to do more extra-curricular activities and, crucially, to build up their savings as a result of the government support.

“At one point, we were paying the full whack on childcare, and I was working part-time. We were literally living pay cheque to pay cheque, and now [with TFC and funded hours], it is just so good not having to do that! It really does mean that our savings are beginning to go up again.”

Two parent, two children, TFC and funded hours, medium income, urban England



TFC and funded hours made affluent parents feel valued by government

More **affluent parents** were those on higher incomes, or with lower childcare costs (either due to having fewer children, school-age children, or more informal help). These parents felt that the policies really made little difference to their quality of living and explained that they were initially surprised that they were eligible for government support with childcare costs, given their income.

For those parents involved in this research that were more **affluent**, TFC and funded hours had a significant psychological impact, helping these parents to feel valued and supported by government. As a group that often had never been in receipt of any government support, they appreciated being recognised by the government as working parents.

“Whilst we could afford childcare without TFC, we’re really grateful to have the support from government. If they’re trying to aim towards more equality in terms of parental work and childcare, then I think it’s a positive step. We’re a household that don’t need the money, but it has certainly helped.”

Two parent, one child, TFC only, high income, urban England

“It’s definitely made a difference ... I’m very thankful for it, all I do is pay tax, and tax, and tax, and it’s really nice to get something back. It makes paying all that tax easier! And it’s nice to get that little bit back now, and then a lot back when he turns three.”

Two parent, one child, TFC only, medium income, urban England



Whether parents were previously using vouchers affected how much of an impact they felt TFC had on them

Previous voucher users were grateful for the financial support of TFC but felt the impact of this support to a lesser extent than parents who were previously paying for 100% of their childcare costs. Parents who had previously used vouchers had been feeling the benefit of a reduction in their childcare costs anyway, and therefore the move from vouchers to TFC was minimal from a financial perspective. However, as highlighted in Section 2.1.1, parents who had experienced both schemes noted that TFC had several advantages over the previous voucher scheme.

Box 2: What we know from existing research conducted on behalf of the Department for Education on the increase in funded hours from 15 to 30 hours, in England

Existing research shows how parents feel 30 hours had improved both their family finances and their family life. The following data applies to **English parents only**:

- Three quarters of parents (74%) felt they had more money to spend as a result of the increase to 30 hours. The survey found that higher-income families were more likely to say they had more money to spend since taking up the 30 hours (85% of those earning £45,000 or more per year, compared to 49% among those earning under £20,000 per year)^a.
- Four in five parents (80%) felt the overall quality of their family life was better, when compared to how it was before they took up the 30 hours^a.

Refer to box 1 for technical notes.

References

^a Ipsos MORI (2018) Childcare and Early Years Survey of Parents 2018, available at: <https://www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2018>

6 Conclusions from the parent research

TFC was introduced between April 2017 and February 2018 in order to help with the cost of childcare, increase employment rates, and support a wider range of working families than the previous voucher scheme that it replaced. The parents in the study were very positive about TFC. Those who had only discovered TFC while applying for funded hours wished they had found out about it sooner.

Childcare was parents largest, single outlay across the interviews, or second only to their housing costs. Consequently, parents were grateful of the support from government to help pay for their childcare. Parents who used both TFC and the funded hours policies did not think of them as separate entities and saw them instead as a complementary package of government support. Funded hours significantly reduced childcare costs for three- and four-year olds (and disadvantaged two-year olds where available), and TFC supported parents with younger children and school-age children, as well as contributing towards childcare costs outside of the funded hours.

It is beyond the scope of this project to comment conclusively on the impact of the policies in terms of increasing employment rates. However, TFC had clear impacts on specific groups of parents' working decisions across the interviews. In particular, for parents who had previously used voucher schemes, TFC gave more flexibility in terms of employment options as opposed to being restricted to employees who support childcare. Shift-workers and part-time workers could pick up or refuse additional hours as needed. For some women TFC was the 'tipping point' that made returning to work more worthwhile. Parents' decision-making in terms of the balance of their work and childcare arrangements was complex and unique to each family. Parents considered a range of interrelated and, at times, conflicting factors to decide what was both the best and most feasible option. To do this, they considered the 'work, childcare, affordability' equation and usually discussed how to manage and shape each of these areas in order to achieve an outcome that was both desirable and practical. In addition, other factors fed into the eventual decision, either consciously or sub-consciously, including: gender roles, views on working, workplace flexibility, the availability of informal help, and a range of interpersonal and health-based reasons. Regardless of this, TFC had the following impacts on employment:

- A greater range of parents were entitled to the scheme than the previous voucher scheme, and parents could still benefit from the support of TFC if they wanted or needed to change jobs.
- TFC made working overtime (and the subsequent need to pay for extra childcare) feel financially worthwhile to shift workers, or relieved the pressure some shift workers felt on always needing to take extra shifts.
- Amongst parents using both TFC and funded hours the policies provided the flexibility to manage overtime and additional hours more easily.
- TFC opened discussions between parents about changing their working patterns, for example working part-time in order to spend more time with their children, this was also true for funded hours, however TFC initiated these discussions earlier.
- TFC was the reason that some women gave for feeling that going back to work after having children was financially worthwhile, this was also the case where parents used TFC and funded hours in tandem.

Both TFC and funded hours supported working families with the cost of childcare, and as a result impacted on their finances to varying degrees (determined by their income, expenditure and wealth). TFC offered a marked reduction in childcare costs and funded hours meant that some parents could afford to send their children to formal childcare for more hours per week. For less affluent families, TFC and funded hours made childcare more affordable – without

the policies they would have needed to make drastic changes to either their work, where they lived, or their way of life. For others, the policies gave them more breathing space with their bills, meant they could put money aside in savings each month, or give them more disposable income to spend on family activities. Finally, the psychological impact of the policy should not be understated. Parents who used TFC, particularly the more affluent, felt supported, recognised and valued by government as working parents and felt that they were getting something back – particularly as a group that rarely felt they needed to benefit from government welfare or support.

Box 3: What we know from existing research conducted on behalf of the Department for Education on the increase in funded hours from 15 to 30 hours, in England

Existing data shows notable, positive impacts of 30 hours on parents' working decisions, their views of their children's development, and on their household finances. **These findings only cover parents from England.**

- Most of the parents surveyed in England felt they would be working the same number of hours in the absence of the policy (55%), but one third (34%) felt they would be working fewer hours if the policy were not available to them. This was more commonly felt by parents on lower incomes – 52% of parents earning £20,000-£30,000 felt they would be working fewer hours in the absence of the policy (52%)^a.
- Whilst only a small proportion of women surveyed in England said they entered work as a direct result of the funded hours (2%), over a quarter said they had increased their hours (26%) and almost one in six (15%) said they would not be working at all without the funded hours^b.
- Two-thirds of parents surveyed in England (66%) felt that the funded hours had given them more flexibility in terms of the number of hours they could work, and half of parents felt they had more flexibility in terms of the jobs they could do. These benefits were most keenly felt by parents in lower and middle earning families – for example, 82% of parents earning under £20,000 felt that 30 hours had given them more flexibility in terms of how many hours they worked^a.
- The large majority of parents surveyed in England felt that their children were better prepared for school (86%) and that their quality of life had been improved (79%) as a result of the extended hours (extended from 15 to 30 free hours)^b.
- Three quarters of parents surveyed in England (74%) felt they had more money to spend as a result of the increase to 30 hours, and four in five parents (80%) felt the overall quality of their family life was better, when compared to how it was before they took up the 30 hours^a.

Refer to Box 1 for technical notes

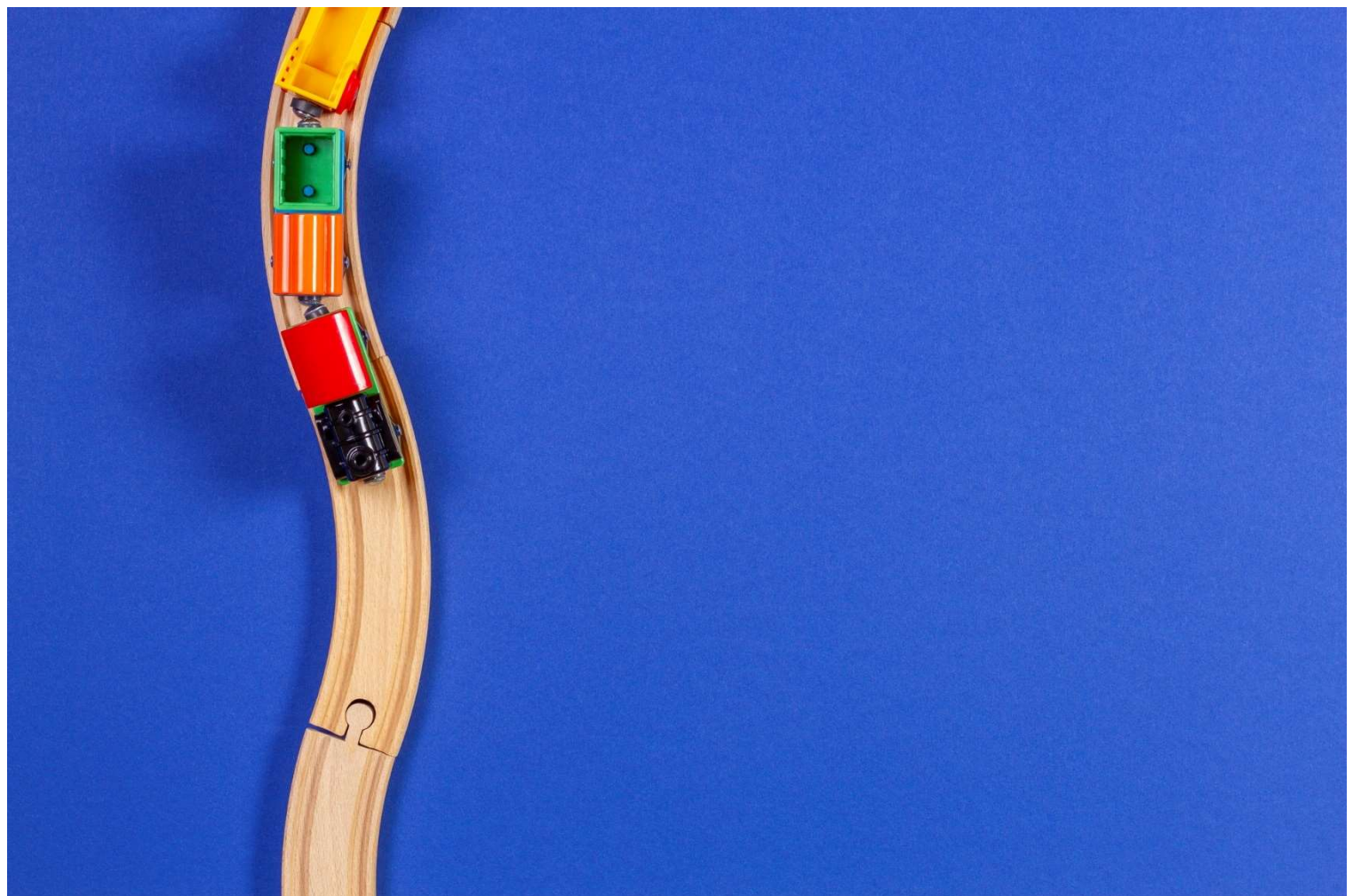
References

^a Ipsos MORI (2018) Childcare and Early Years Survey of Parents 2018, available at: <https://www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2018>

^b Paull and La Valle (2018) Evaluation of the first year of the national rollout of 30 hours free childcare, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free_childcare.pdf

Findings from the provider interviews

Providers' perceptions of Tax-Free Childcare and government funded free childcare



7 Getting started with TFC (providers)

This chapter explores providers' initial awareness and understanding of TFC, why they decided to offer both TFC and funded hours, and their ongoing experiences of using the TFC account.

7.1 How providers first found out about TFC

Providers found out about TFC through a range of official and unofficial channels of communication:

- **Official channels:** local authorities (via newsletters, emails and training), HMRC communications (via letter); and
- **Unofficial channels:** word of mouth (from other providers), requests from parents and online searches (providers looked for official sources such as the government's 'Childcare Choices' website³² for information they trusted).

Most providers recalled receiving a letter of information about the TFC policy from HMRC in late 2017 or early 2018. Recollection of this letter was consistent across different types of providers and their location. Providers who had pre-existing relationships with local authorities or Ofsted also received information about TFC through their associated communication networks.

Word of mouth and/or conversations with parents and other providers also increased awareness of TFC, and this was a particularly important source of information for smaller providers such as childminders, independent nurseries and nannies. For some of these smaller providers, the main reason they decided to offer TFC was based on parental request³³. Being part of face-to-face networks, online forums or social media groups were also important channels that helped to increase provider awareness of TFC, again, particularly for smaller organisations and individuals.

7.1.1 Providers' understanding of TFC

Providers found TFC easy to understand when they first heard about the scheme. They felt confident that they understood how the payments would work and that they did not anticipate any financial impact on their business as a result of offering TFC. Those who had received a letter from HMRC felt that the information it included was sufficient to understand how the scheme would work and how it might impact them as providers. This was equally true for those who communicated with local authorities or Ofsted. Where parents had requested TFC, or awareness of TFC was a result of word of mouth, face to face groups or online forums, providers would go online to gov.uk or Childcare Choices to find out more information. Generally, providers were satisfied with the accessibility and content of both websites.

Providers tended to feel that once they had signed up to TFC and relayed the relevant information to parents, it was the parents' responsibility to manage the account. Providers' main concern was being paid on time, so as long as parents understood how to make payments and were able to do so, providers took a hands-off approach.

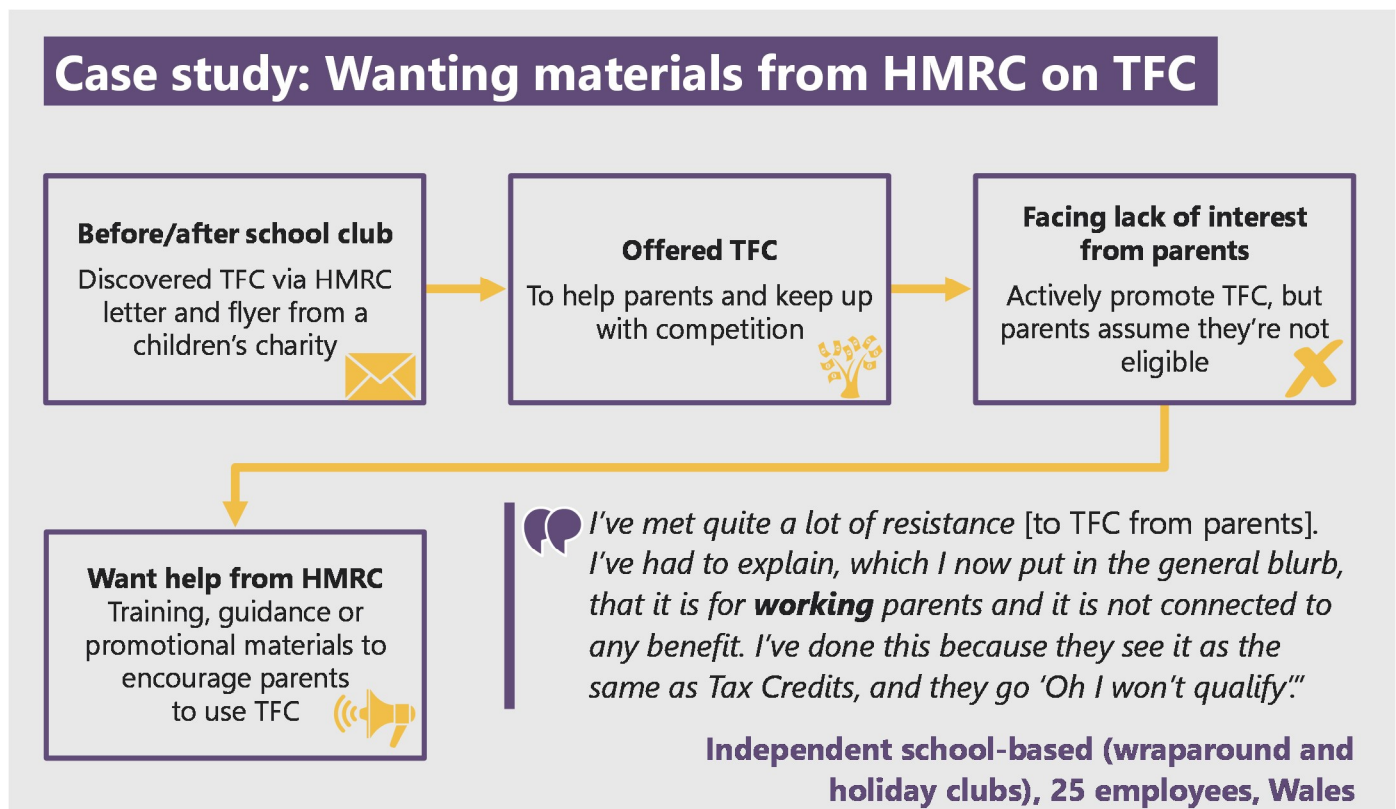
³² For more information, please see: <https://www.childcarechoices.gov.uk/>

³³ See Section 2.1 for detail on how parents found out about the scheme.

Overall, providers felt that parents did not need support understanding how TFC worked. Where providers had needed to explain how TFC worked in practice, or how parents could register for the scheme, they reported finding this relatively easy to do. For the most part, providers directed parents to the Childcare Choices website for additional information, though there were examples of nurseries helping parents with the application process and/or having face-to-face conversations about how the scheme worked. These were usually cases where parents struggled with IT literacy or internet access. These providers explained that they were well-versed in supporting parents to access childcare schemes or policies, having previously explained how funded hours worked in practice.

Providers explained that parents generally found TFC easier to understand than funded hours, as they had received fewer requests from parents to sit down and explain how the scheme worked. This was due to the different ways in which providers could offer the funded hours. For example, some providers in England allowed parents to spread their 30 hours over 52 weeks of the year (equating to approximately 22 hours per week), and to pay for any hours they needed above this level privately³⁴.

Providers explained that certain local authorities offered training on funded hours and supplied providers with a PDF or similar material to pass onto parents. Providers generally felt that they were well-placed to explain and even promote both schemes to parents and thought that materials to distribute to parents explaining TFC would be useful in the future.



³⁴ Please see Section 5.1.1 for a discussion of parents' views on how funded hours could be delivered in practice, and Section 9.2 for a discussion of the different ways providers implemented the scheme.

7.2 Why providers decided to offer TFC and funded hours

Providers ultimately signed up to TFC because they could not identify a negative impact of the scheme on their business. As far as providers were concerned, TFC was another means of paying for childcare, akin to cash or bank transfer. They also saw it as another version of the employer voucher scheme that it was due to replace.

Providers also considered the impact of offering funded hours on their business. A number of providers explained that the funding rate provided by government for these hours was below what they would charge parents paying privately. These tended to be providers who were more reliant on or had a higher proportion of their children using funded hours, compared to providers with a mixed business model consisting of funded hours, TFC and privately paid places. Previous research conducted on behalf of the Department for Education, *The Evaluation of the first year of the national rollout of 30 hours free childcare*, also indicated that parent-paid fees were higher than the funding rate for the majority of providers in England (62%). Please note that these findings only cover parents from England^{35,36}.

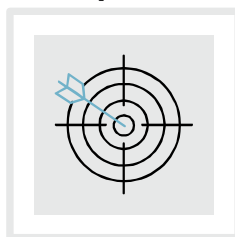
Providers with larger variations between parent-paid fees and the funding rate explained that they would consider stopping delivering funded hours in the future if it ever reached the point where delivering the hours was no longer financially viable. These providers explained that this would be the point where they were unable to cover their overheads (including – but not limited to – staff costs, costs associated with maintaining their premises, and food) with their current balance of funded and private places, meaning they might need to consider taking on more private fee-paying children and fewer funded children in the future in order to be financially viable. It should be noted that the early years entitlements operational guidance for local authorities and providers indicates that providers can charge extra to cover the costs of meals, trips, additional activities and other consumables as the policy was not intended to cover these costs. The impact of TFC and funded hours on how providers ran their businesses is discussed in more detail in Sections 7.1 and 8.1.

Once providers had determined that offering the schemes was viable for their business, providers were motivated to offer both schemes for three main reasons:

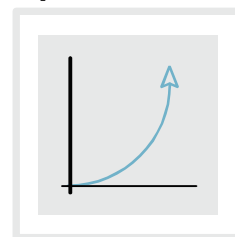
To support parents with childcare costs



To keep up with competition



To boost financial performance



³⁵ Paull and La Valle (2018) Evaluation of the first year of the national rollout of 30 hours free childcare, available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free_childcare.pdf

³⁶ It should also be noted that the research covered only 12 local authorities and took place just four months after the rollout of 30 hours.

However, local authority areas were selected to represent a range of factors thought to be impacting the delivery of the policy and the study sample was large.

7.2.1 Reasons for offering TFC and funded hours: To support parents

Wanting to help parents with the cost of childcare was the main reason that providers registered/signed up to use both schemes. This was a particularly important driver for providers who had worked out that funded hours, but not TFC, could have an adverse impact on the financial health of their organisation. These providers explained how they couldn't *not offer* funded hours and TFC, as they recognised how expensive childcare costs were for many of their parents. As discussed in Section 5.1, childcare was either parents' biggest or second biggest household expense.

"I'm a parent, if someone offered me 20% off my childcare costs, I'd have bitten their hand off. Anything we can do to make it easier for parents, we will do."

Private pre-school, four employees, urban England

Offering TFC and funded hours in order to support parents was mentioned as a particularly strong motivator for independent providers – including independent nurseries, childminders and nannies. These providers explained that they had forged close ties with their parents, and the children in their care, and felt a sense of moral responsibility to try and help them with their childcare costs where they could.

In addition, providers in more deprived areas explained that many of their lower income families would not be able to afford their childcare costs without TFC and/or funded hours. These providers explained that their decision to offer the schemes was therefore both a moral and a practical, business decision (to generate more income from a wider pool of families).

Finally, government-maintained nursery schools and school-based providers (where the childcare was delivered by the school, rather than a private organisation using the school's facilities) explained that they offered funded hours and TFC in order to provide local childcare that was accessible and affordable. These providers explained that by offering TFC and funded hours, they were supporting their local authorities' commitment to providing high quality, but affordable childcare.

7.2.2 Reasons for offering TFC and funded hours: To keep up with competition

Providers also explained that they decided to register or sign up to both schemes in order to move ahead of, or stay level with, the competition from other providers in their area. Providers in densely populated urban areas, where there was more demand for childcare, explained that there was a lot of competition from other providers. Providers in these areas who described themselves as being 'early adopters' of TFC explained that they signed up for the scheme to be able to set themselves apart from the competition. These providers felt that offering TFC would attract parents to their business, and away from competitors with more expensive fees as a result of not offering TFC. Equally, other providers explained that they offered the scheme as they knew other providers in the local area had also signed up for it.

"I use it as a sales pitch, really. TFC means I can say to parents, 'my fees are £60/day but you can get them for £48' but it doesn't affect my business at all. I can't see why you wouldn't offer it, to be honest."

Childminder, no employees, London

There were also examples of collaborative approaches to offering TFC. Several individuals (childminders and nannies), explained that they set their fees by consulting with other nannies or childminders in the local area, for example discussing their rates during school pick-up. In one case, a nanny explained that she and the other local nannies had agreed to all set the same rates and to offer TFC so that no-one was at a competitive disadvantage.

7.2.3 Reasons for offering TFC: To boost financial performance

As discussed, providers who operated in disadvantaged areas offered the schemes for both moral and commercial reasons – to ensure that their lower income families could afford some form of childcare. In one example, a nursery in a highly-deprived area explained that parents on lower incomes often paid late due to lack of consistent income. This nursery felt that TFC would help these parents to pay their childcare on time, as they would benefit from the 20% government support.

A second commercially-motivated reason for offering TFC was that providers recognised that it would soon entirely replace vouchers, and as a result, they expected parents' awareness of the scheme to improve, and more parents to sign up to use it. These providers effectively offered TFC in order to pre-empt parental demand, as well as to continue to support and retain parents who had been previous voucher users.

"It's a payment option that we have to accept, because parents will try and use what is tax-efficient. Going forwards, TFC is the one that more and more parents will be using, because it's the only tax-efficient scheme they will be able to use. That's why we need to be prepared for it, because parents will use it."

Group of four independent nurseries, 70 employees, rural England

Finally, providers saw offering TFC as a means of indirectly counterbalancing rising fees. Larger providers who employed multiple staff, for example private, voluntary and independent nurseries, and government-maintained nursery schools, explained that they faced rising business costs as a result of increases to wages (such as the National Minimum Wage or the teacher's pay agreement) and automatic enrolment (workplace pensions). Of the 40 providers interviewed, only one admitted to putting their fees up as a direct result of introducing TFC (thereby effectively nullifying the 20% saving). However, providers explained that they saw offering TFC as a way of encouraging more parents to their business, therefore generating more revenue to cover their rising costs.

"We needed to increase our fees to pay for pensions and the increase to the National Minimum Wage. We increased it by £2 per hour which would have been impossible before TFC but having that extra 20% means that parents are better able to cover the higher cost that we have to charge just to keep the business going"

Group of private nurseries, 50 employees, rural England

7.3 Signing up to TFC and ongoing management of the scheme

Providers described signing up to TFC as a straightforward and user-friendly process. Where providers had encountered difficulties initially, they felt these were minor and involved parents struggling to find them on the account when they first signed up to TFC. Once providers had initially signed up to TFC, they tended not to use their account on an ongoing basis; the main ongoing activity was to check payments against their bank statements.

In terms of the ongoing management of the scheme, providers identified two main challenges: late or missing payments and tracking payments. Providers of all sizes explained that late or missing payments were a common occurrence and part of running a childcare business, and were not particular to TFC. What was particular to TFC was when parents used the TFC account and did not fully understand the process of making a payment³⁷ (see Section 2.2 for more detail) and this had occasionally resulted in providers receiving payments later than the scheduled

³⁷ Please note that payments to providers, and into accounts by bank transfer, have become more efficient in terms of speed of transfer since the research was conducted.

date. The extent to which this affected providers depended on the scale of the number of late payments, and the size of the organisation.

For example, larger organisations were more easily able to absorb small numbers of late payments due to their greater income and reserve funds, compared to smaller and less financially resilient providers. However, larger providers with more staff, rent to pay, multiple sites, and therefore higher overheads explained that a greater number of late payments could have a significant impact on their cash flow, and ability to cover these overheads. Conversely, smaller providers (particularly childminders or nannies) explained that if they had certain parents who were more prone to paying late, they knew to anticipate this and budgeted their personal finances accordingly.

When parents pay providers using TFC, the payment appears in the provider's account with an automatically generated payment reference, or code. Providers with large numbers of children using TFC felt that reconciling payments each month presented an administrative burden, as they had to check each code on their bank statements and chase any that were missing. Providers explained that initially having to chase parents for codes was time-consuming, but that once they had a list this process was more straightforward (though still required time to reconcile each month).

Some providers made comparisons to funded hours, in terms of the support and guidance they had access to from official channels. Providers who had found training from their local authorities in how to implement and manage funded hours very useful in the past, welcomed a similar training process from HMRC on TFC. They felt it would be useful to have access to guidance or webinars on how to use the account to best effect, and to share examples of best practice that would make the overall experience easier.

8 The impact on demand for places

This chapter explores the perceived impacts of TFC and funded hours on providers in terms of parental demand for places, and how providers responded to this demand where it occurred.

8.1 Demand for places: The impact of the policies

Across the interviews, most providers explained that they were operating at full capacity and this was consistent regardless of provider type or location. In the most extreme circumstances, the most popular providers had up to two-year waiting lists for their services. Consequently, providers felt that TFC and funded hours had limited impact on parental demand for their services, as current demand was already so high. This was particularly the case for individuals such as nannies or childminders who only worked with one family, or a small number of families, at any given time. These providers explained that they went from job-to-job based on recommendations from previous clients (particularly for those working in more affluent areas), and acknowledged that this had been the case long before they decided to offer TFC.

"There's been no real difference in demand for me, as I've been at full capacity for a number of years now. I'm lucky that I've never really needed to look for work – mostly as my clients have all had second children, who they also send to me."

Childminder, no employees, London

As discussed above (Section 7.2), one of the reasons providers offered TFC was to keep up with other providers in their local area who also offered the scheme, or to stay ahead of the curve. In areas where many providers had chosen to sign up to TFC, providers necessarily felt that the scheme's effect in increasing demand had been nullified, though they explained that had they *not* offered it, they may have failed to attract parents in the future.

In addition to these views, other providers explained that they had only been offering TFC for a relatively short time, and it was therefore difficult to associate any changes in demand to the policy per se. These providers were fairly optimistic that future demand for childcare would increase, driven by both parents wanting and needing to work longer hours, and that TFC and funded hours would make childcare much more affordable (thereby increasing demand). In fact, providers who had signed up to TFC in order to capitalise on increased demand reported feeling surprised at the limited take-up of the policy to date, but remained hopeful that this would increase once vouchers were phased out and parents as a whole became more aware of TFC. One provider, shown below, felt that they would start to see the impact of TFC on demand as parents had more children and put them in formal childcare.

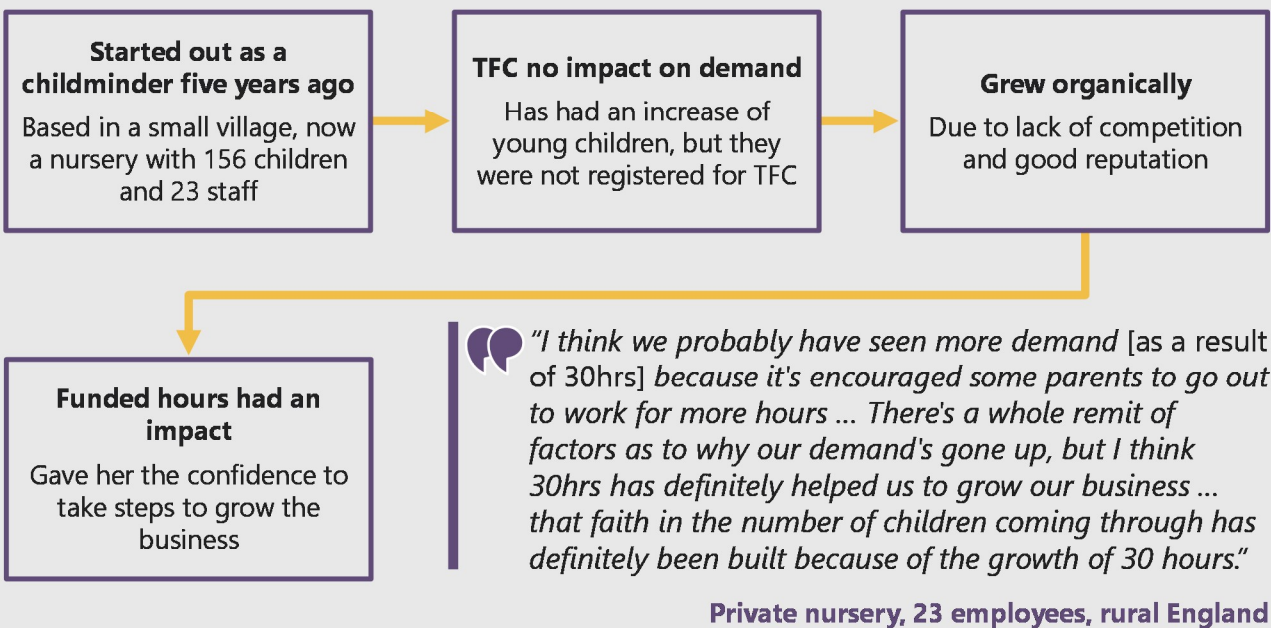
"I don't think we've seen the real demand impact of TFC yet. I think the demand will come from an increase in use of childcare for larger families. At the moment, most families just had vouchers before and the difference with TFC wasn't that much. It will be the larger families of 3 or 4 children who didn't get a good deal with vouchers who might start thinking about using childcare for the first time."

Group of private nurseries, 50 employees, rural England

Whilst most providers failed to associate the policies with increased demand spontaneously, when prompted about funded hours and TFC and how demand might manifest itself, there was evidence of the following impacts on demand:

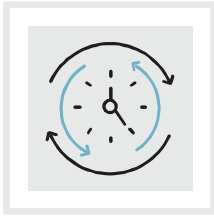
- In England, the increase from 15 hours free childcare to 30 hours saw parents increasing their childcare use accordingly, in order to maximise their free entitlement;
- Some providers speculated that they might be seeing children coming to them earlier than they would have done in the absence of TFC, but did not comment on this with certainty;
- In one case, a nanny in an affluent area explained that she was being approached by lower income families who she felt would previously not have been able to afford her services, before the introduction of TFC. In this example, she eventually offered lower fees to the family when she realised that they could not afford her services (even with TFC). However, it must be stressed that this was the only instance of this occurring and is therefore a very niche rather than widespread finding; and
- One childminder in London explained that they had seen a decrease in demand as a result of the increase from 15 to 30 funded hours. Funded hours had enabled pre-schools, private nurseries attached to schools, and government-maintained nursery schools to provide a more competitive offer. Given the very limited evidence gained from just one provider there is nothing to indicate that this is wider issue.

Case study: Funded hours leading to increased demand

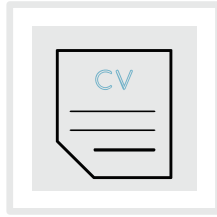


8.1.1 Responding to increased demand

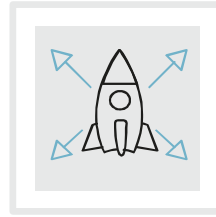
While there was limited impact on demand amongst the providers we spoke to, where increases were evident, funded hours and to some extent TFC were thought to contribute to these increases alongside other contextual factors. Providers generally felt that the true impact of TFC on demand was yet to be fully realised, but they felt that policy could have a positive impact. Providers who did experience increases in demand responded to this in various ways:

Offering more hours

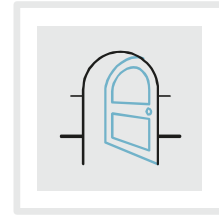
Opening earlier and closing later (additional fees for wraparound hours), open during holidays

Employing more staff

Both administrative and teaching staff. Important to ensure correct ratios and maintain quality of care provided

Expanding space

Looked for larger premises to actively grow the business, or repurposing outdoor space for classrooms

Turning away business

Most decided not to expand their business, choosing to turn away new parents and maintain current capacity

There was a strong sense amongst providers who had seen increased demand that this should be managed in a way that did not impact the quality of care and services provided.

"I don't see it being an issue in the future, so long as we are able to maintain our Ofsted rating and our high level of service. It [increased demand] hasn't impacted on this so far, and it's not something we'd ever compromise on"

Government-maintained nursery school, 20 employees, rural England

Box 4: What we know from existing research conducted on behalf of the Department for Education on the increase in funded hours from 15 to 30 hours, in England

Existing data shows that providers have changed their operating models since the introduction of 30 hours, to respond to increased demand. The following data applies to **English providers in the study only**. Since registering to deliver 30 hours^a:

- One third of providers in the selected local authorities (33%) had increased their occupancy levels.
- More than half of providers in the selected local authorities (51%) had increased their staffing levels.
- One in five providers in the selected local authorities (20%) had extended their opening hours.

Refer to Box 1 for technical notes

References

^a Paull and La Valle (2018) Evaluation of the first year of the national rollout of 30 hours free childcare, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free_childcare.pdf

9 Fee structures and financial health

This chapter discusses the factors that providers take into account when setting their fees, and that ultimately affect their profitability and financial performance.

9.1 Factors that affect profitability and fee structures

Providers, regardless of type or location, reviewed their fees in line with rising costs and their competition, though larger providers in more competitive areas appeared to do this more regularly and more rigorously than individuals such as nannies and childminders. Providers considered the following when setting their fees:



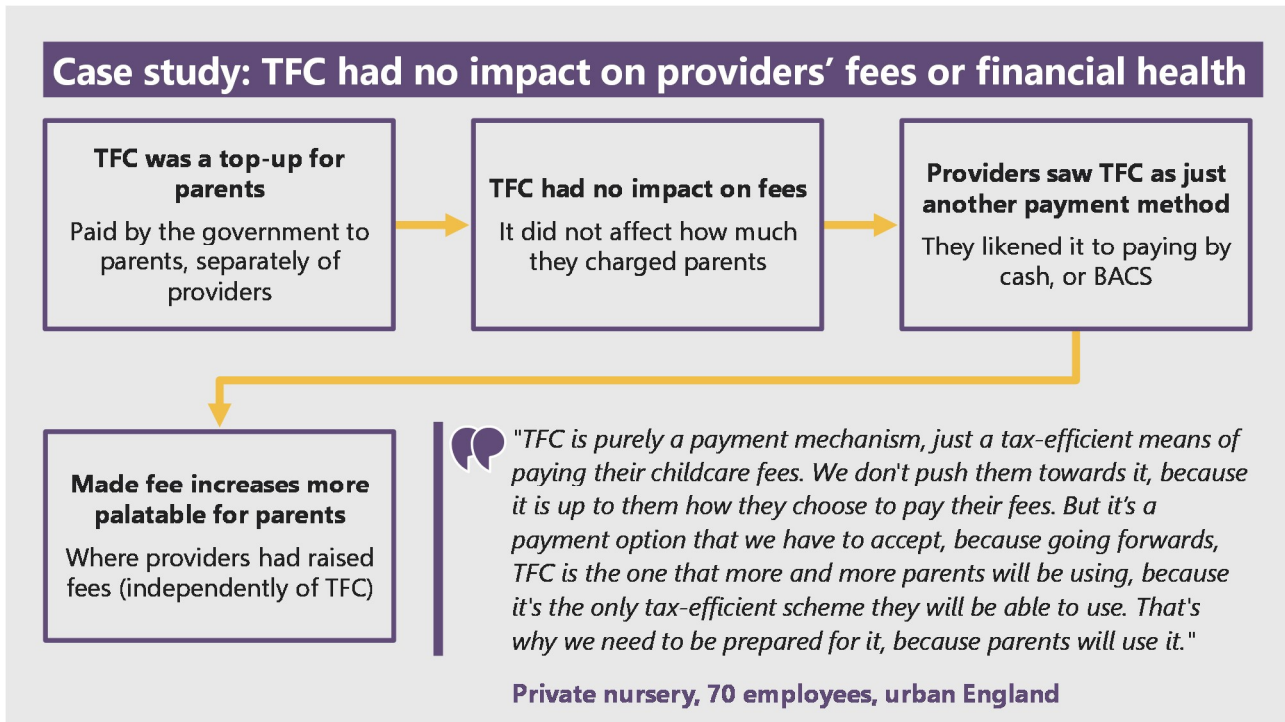
The exception to this were government-maintained nursery schools. Government-maintained nursery schools provide educational development opportunities in the same way as all early years providers, but overall they take greater proportions of disadvantaged children and children with special educational needs and disabilities than other providers. This requires them to have highly skilled staff, including qualified teachers and Special Educational Needs Coordinators (SENCOs). Staff are usually on local authority terms and conditions, and salaries also reflect expertise. In recognition of all of this, local authorities are provided with supplementary funding³⁸ for their maintained nursery schools. However, rising costs, higher wage bills, the impact of funded hours and uncertainty about the future of supplementary funding after September 2020 meant that maintained nurseries were particularly uncertain about their sustainability. Providing affordable childcare through funded hours was very important to government-maintained nursery schools, but the perceived misalignment between funding received and actual costs was cause for concern.

Providers all offered their own perspectives on their financial health to date. Those who had been relatively stable or growing at a steady rate over the past few years tended to operate in areas of high or consistent demand. In addition, stable and/or growing providers in England had been able to manage the introduction of 30 hours in a way that did not adversely impact their business.

³⁸ Supplementary funding was introduced for 2017-18, so as to preserve pre-EYNFF funding rates for MNS. The Government is providing around £60 million a year of supplementary funding to local authorities to enable them to preserve MNS funding rates. On 28 February 2019 and extension was announced to supplementary funding from March 2020 to at least September 2020 – worth c.£24m.

9.2 Fee structures and financial health: The impact of TFC and funded hours

Providers felt that TFC had no impact on their fees or financial health, as it did not affect the amount they charged parents, as shown in the case study below.



Providers explained that funded hours, particularly in England, did have an impact on their fee structures and profitability. Across the interviews, the hourly rate at which local authorities reimbursed providers for the 30 funded hours was sometimes lower than the rate at which providers would charge to private, fee-paying parents and, in some instances, lower than their at cost rates. This aligns with research conducted on behalf of the Department for Education which showed that for more than three in five English providers (62%), their parent-paid fees were higher than the funding rate. Please note that these findings only cover parents from England.^{39,40}

Across the Ipsos MORI research, providers explained that the difference between parent-paid fees and the funding rate varied by location (as rates overall vary depending on different local authorities), and those where the hourly discrepancy was greatest felt the greatest impact on the financial health of their business. However, providers with a mixed business model (those with a mix of children accessing places through funded hours, TFC, both schemes, or paying privately) tended to be more financially stable. In these cases, providers indicated that while they were managing financially, funded hours rates did reduce their profitability and charging for consumables and additional activities did go some way to mitigate the impact on their profit margins.

The funded hours policy was not intended to cover the costs of consumables and other activities, with the operational guidance document for local authorities and providers highlighting that providers can charge for extras

³⁹ Paull and La Valle (2018) Evaluation of the first year of the national rollout of 30 hours free child care, available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free_childcare.pdf

⁴⁰ It should also be noted that the research covered only 12 local authorities and took place just four months after the rollout of 30 hours.

However, local authority areas were selected to represent a range of factors thought to be impacting the delivery of the policy and the study sample was large.

such as meals, trips and other activities. It should be noted that these findings were specific to England, the providers in Scotland and Wales involved in this research, where the equivalent policies are currently being piloted, did not raise the same concerns or issues related to fees and funding.

"We are more fortunate than nurseries elsewhere, particularly down South I imagine, because there is not too much of a difference between the government rate and our own. However, it still reduces our profitability as we are, in effect, subsidising sessions."

Private nursery chain, 70 employees, rural England

"The rate that the government pay, is really quite poor. However, you either have to decide you're going to offer 30 hours and it is what it is, because none of us can magically make it any more money - unless they take a realistic look at childcare and acknowledge that what they are asking us to provide for a low price is really very challenging. That's why some providers are charging top-up fees."

Private nursery, 22 employees, urban England

Box 5: What we know from existing research conducted on behalf of the Department for Education on the increase in funded hours from 15 to 30 hours, in England

Research conducted on behalf of the Department for Education showed that most providers did not report a reduction in their profits as a result of delivering the extended hours. The following data applies to **English providers in the study only** and shows that as a result of offering extended hours^a:

- Just under half of providers (46%) reported no impact on their profit or surplus.
- Two in five providers (39%) reported a reduction in their profit or surplus.
- One in six providers (16%) reported an increase in their profits.

Private providers were most likely to report a fall in their profits (47%), whilst voluntary and maintained providers were most likely to have reported an increase in their surplus (20% for both types). Additional analysis on the survey data (regression analysis) indicated that the difference between the parent-paid fee and the funding rate was the key driver of the impact on profit or surplus, though the report authors note that changes in occupancy levels also played an important role.

Refer to Box 1 for technical notes

References

^a Paull and La Valle (2018) Evaluation of the first year of the national rollout of 30 hours free childcare, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free-childcare.pdf

Providers who felt the funding rate did not entirely cover their overheads explained that it was important to maintain a balance between funded places and private fee-paying children, in order to offset any losses they faced as a result of the funding discrepancy. In addition, these providers adapted their fee structures in different ways across the interviews in order to mitigate the impact of the funding: charging additional fees, placing restrictions on the times the funded hours were available, and implementing staffing changes.

9.2.1 Additional fees

Providers who faced the biggest discrepancy between their costs and the funding rate explained that additional fees were subsumed within the total hourly rate charged to parents. However, to accommodate the funded hours policies, they had started to explicitly charge for anything outside of the education covered (additional activities, food, wraparound hours, nappies, wipes, and milk). Providers set prices for these items in order to make up the difference between the government funding rate and their private fees.

It should be noted that the childcare market is a mixed economy, and different providers have different business models. Those who choose to offer funded hours to parents of three and four-year olds are free to provide it in a manner that best meets their business needs. This includes charging additional fees for supplies and activities beyond the core childcare offer

Box 6: What we know from existing research conducted on behalf of Department for Education on the increase in funded hours from 15 to 30 hours, in England

Research conducted on behalf of the Department for Education showed that most providers did not change their fee structures as a result of offering 30 hours, in the immediate period after the rollout. The following data applies to **English providers in the study only** and shows that, as a result of 30 hours^a:

- Three quarters of providers did not increase their fees or introduce additional charges (74%).
- One in six providers had introduced new charges (17%).
- Six percent of providers had increased their charges.
- Just one percent of providers had both increased their existing charges, and introduced new charges.

In the qualitative interviews from the same report, some providers indicated that they might need to reassess their delivery models and review which types of funded provision could best support their financial viability, once they were in a position to better assess the longer term financial impact of the extended hours.

Refer to Box 1 for technical notes

References

^a Paull and La Valle (2018) Evaluation of the first year of the national rollout of 30 hours free childcare, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free-childcare.pdf

9.2.2 Restrictions on time

In some settings, providers placed restrictions on when the funded hours could be used, for example, only permitting funded hours to be used during core hours, or for particular sessions. This meant that parents would need to pay the private fee rate for hours they used outside of these times.

Box 7: What we know from existing research conducted on behalf of the Department for Education on the increase in funded hours from 15 to 30 hours, in England

Research conducted on behalf of the Department for Education showed that most providers allowed parents to use their hours when they liked. The following data applies to **English providers in the study only** and shows^a:

- Three in five providers (63%) offered free choice to parents on when they could use their funded hours
- A quarter of providers (25%) had some restrictions in place.
- One in ten providers (12%) offered the hours at specified times only.

Refer to Box 1 for technical notes

References

^a Paull and La Valle (2018) Evaluation of the first year of the national rollout of 30 hours free childcare, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free-childcare.pdf

9.2.3 Staffing changes

There was limited evidence of providers making staffing changes as a result of offering funded hours, with one government-maintained nursery explaining that to try and make themselves sustainable, they had made staffing changes. This included swapping more senior and qualified staff for junior or less qualified staff, and they had reduced the pay grades of teaching assistants. In addition, they had reviewed their employees' hours in an attempt to save on staff costs, and several employees had looked for new jobs as a result.

"We hope it will be sustainable, but it's just at what cost, you know? We want to maintain our Ofsted outstanding award, and our good quality staff, but we don't know what the future holds – it's uncertain."

Government-maintained nursery school, 25 employees, urban England

Adapting fees was an iterative process and providers would try different ways of accommodating the policy. Alternatively, they would seek advice from other providers or the Local Authority.

"The Local Authority was great, they gave us a few different models to think about and I found that really helpful. It's pretty much left to the provider, I know a lot charge top-up fees although they can't call them that. I decided not to charge extra and not have any restriction on when they can use their hours, we try to be as flexible for parents as possible, but the funding should be higher, we get £1.05 less than our standard rate and that has a massive impact on us."

Independent nursery, 4 employees, urban England

Some providers, often those with a mix of places that were privately-funded and government-funded, did not change their fees to accommodate funded hours. Either the business cost of accepting funded hours was made up elsewhere, their profits suffered, or they were not at a liberty to change the fee structures as it was control by a higher body.

10 Conclusions from the provider research

TFC was introduced in April 2017 to benefit parents, primarily, in terms of subsidising the cost of childcare, increasing employment, and supporting a wider range of working families than the voucher scheme it replaced. Whilst neither TFC nor the funded hours policies were aimed at childcare providers per se, the development phase for this project identified several ways the policies might affect individual providers and the overall market.

Both TFC and funded hours aimed to increase the uptake of formal childcare, by expanding who is eligible for government support (TFC) and increasing the funded hours entitlement from 15 to 30 hours (in England and in trial areas throughout the UK). The development phase showed that this had the potential to lead to providers:

- expanding in terms of place and/or hours to respond to increased parental demand; and
- offering more flexible and/or work-facilitating childcare to respond to increased demand (as a result of increased employment); thereby
- increasing the supply of higher quality childcare (as funded hours has a specific educational remit).

It is outside the scope of this project to comment on the overall effect on the childcare market since the introduction of TFC and funded hours. Most providers in the study were operating at full capacity and felt they did not want to actively grow their businesses, despite feeling that the demand was there to do so. Where providers had responded to increased demand specifically relating to funded hours, they had done so by hiring additional staff (either administrative or teaching) and there were examples of providers offering additional hours to accommodate parents' working patterns (early mornings, late evening, and school holidays). The clear and consistent message from providers of all types was that they were unwilling to compromise on quality in the face of rising demand and business costs.

The development phase of the research conducted by Ipsos MORI, identified potential risks and unintended consequences for exploration during the research. These included:

- Low provider awareness of TFC might mean they do not fully understand its potential benefits;
- The burden of administering TFC might discourage them from participating in the scheme; and
- Providers may raise their prices by 20%, thereby offsetting any potential positive effects of TFC on childcare use, work participation and additional household income.

Providers' understanding of TFC when they first found out was good, and they spoke positively of information from HMRC, local authorities and the Childcare Choices website. Providers felt they had access to sufficient information to be able to decide whether to offer TFC initially, and also to explain the scheme to parents. Despite this, there were examples from both the parent and provider interviews of parents asking their providers to sign up to TFC, suggesting that there could be a pool of providers who are still unaware of the scheme and its benefits.

Overall, providers found signing up to TFC straightforward, and once they had signed up felt they had little need to use the account; providers main ongoing activity was to check they had received payments from parents by looking at their bank statements. Reconciling payments each month using the automatically generated code assigned to parents by the system presented an initial administrative burden for providers, as they had to ask parents for their

codes, and then check each one against their bank account. This was a burden restricted to providers with a high proportion of children using TFC, or low staff capacity for administrative duties.

Providers indicated that late or missing payments were a common occurrence and part of running a childcare business and were not particular to TFC. What was particular to TFC, however, were late payments as a result of parents not fully understanding the timescales⁴¹ involved in paying for childcare via the TFC account. The extent of the impact this had on providers depended on the number of late payments and the size of the childcare provider. Although, it should be noted that since this research was conducted, HMRC have indicated that payments to providers, and into accounts by bank transfer, have become more efficient in terms of speed of transfer.

Providers generally reviewed their fees on an annual basis, by considering staff, equipment, and competitors' costs. Rising costs were a concern for all of the providers in the study, and most had put up their fees in the face of this. However, only one provider of the 40 interviewed had put their prices up by 20% and explicitly stated that TFC had, in effect, enabled them to do this. It must be stressed that this only occurred in one instance and is therefore a very niche rather than a widespread finding. Providers were, in general, motivated to offer TFC and funded hours in order to support parents with the cost of childcare, and took great care to ensure fee increases were sufficient to cover their costs, without affecting parents' ability to pay for childcare.

The development phase also identified potential risks and unintended consequences of the funded hours policy. These centred on the fact that the funding rates set by local authorities could be lower than the rates providers themselves would charge to privately-paying parents. The development phase indicated that providers might:

- Offer funded hours for shorter days or less busy sessions, thereby limiting parental choice and flexibility;
- Respond by looking to cut their costs, including reducing staffing levels (potentially leading to a reduction in the quality of childcare they offered); and
- Respond by charging more for additional hours or extras such as food, milk, nappies and activities.

There was clear evidence of providers making changes to their fee structures as a direct result of the funded hours rate, but it is also important to note that rising costs played an equally important role. Some providers explained that the lower funding rate restricted their ability to respond to increases to the National Minimum Wage, automatic enrolment minimum contributions, utility bills, rent and (where applicable) business rates⁴².

As a result, providers had looked for ways to recoup some of the losses they faced due to funded hours and/or rising costs. This included restricting the sessions for which parents could use the hours, and charging for additional hours and extras. Though, it should be noted that the funded hours policy was intended to cover high quality flexible childcare and *not* the costs of meals, trips, additional activities and other consumables. The funded hours early years entitlements operational guidance for local authorities and providers indicates that providers can charge extra to cover these costs.

It was important for providers to maintain a balance between funded and privately-paying parents to ensure the sustainability of their business. Whilst some providers had responded by making efficiency savings, they were very

⁴¹ Please note that payments to providers, and into accounts by bank transfer, have become more efficient in terms of speed of transfer since the research was conducted.

⁴² DfE closely monitor the childcare market and have a range of regular and one-off research projects, which provide insight into the various aspects of the provider market, the impacts of the 30 hours policy, market size, workforce, pay and costs.

clear that they would not compromise on the quality of care they were able to provide to their children and were therefore reluctant to review their staffing ratios. That being said, there were examples of providers decreasing staff pay to cut costs, and losing staff members as a result, due to the funding rate and rising business costs.

Providers understood the benefits of both TFC and funded hours in terms of making formal childcare more accessible for a wider range of working parents. TFC had minimal impact – either positive or negative – on the providers in the study, and they tended to view it as an alternative payment method rather than a 'policy', per se. Funded hours however, did have an impact depending on the business model of the provider. For those dealing almost exclusively with funded children, where the difference between the rate at which providers were reimbursed for their funded hours differed greatly from the rate they charged to cover their costs, the impact on providers was substantial. These providers were not confident about the sustainability of their business, if the current discrepancy were to continue. Providers with a mixed business model in terms of private and government-funded children were less reliant on the funded hours and instead used extra costs to ensure they were financially stable. These providers were more confident in regard to the sustainability and future of their business.

Box 8: What we know from existing research conducted on behalf of the Department for Education on the increase in funded hours from 15 to 30 hours, in England

Existing data shows that parent-paid fees are higher than the funding rate for the majority of providers surveyed in England (62%), and that providers have adapted their operating models in various ways as a result of 30 hours.

- One third (33%) of providers had increased their occupancy levels, just over half (51%) had increased their staffing levels and one in five (20%) had extended their opening hours.
- Under half (46%) reported no impact on their profit.
- Private providers were most likely to report a fall in their profits (47%), whilst voluntary and maintained providers were most likely to have reported an increase in their surplus (20% for both types).
- Three quarters of the providers surveyed (74%) did not increase their fees or introduce additional charges.
- Three in five of the providers surveyed (63%) offered free choice over when hours could be used, a quarter (25%) had some restrictions in place, and one in ten (12%) offered the hours at specified times only

Refer to Box 1 for technical notes

References

^a Paull and La Valle (2018) Evaluation of the first year of the national rollout of 30 hours free childcare, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740168/Evaluation_of_national_rollout_of_30_hours_free-childcare.pdf

Appendices

Appendix A: Description of the government funded free childcare offers

England

All three and four-year olds in England are entitled to 15 hours of free early education or childcare for 38 weeks of the year, with an approved provider⁴³. This entitlement was extended in Sept 2013 to two year olds in families in receipt of specified benefits and looked after 2 year olds. It was further extended in Sept, 2014 to two year olds in low income families, two year olds with SEND and two year olds who have left care through adoption, special guardianship or a child arrangements order⁴⁴.

Interviews with stakeholders during the development phase interviews highlighted the below stated aims of the free entitlement and extension:

- **15 hours' free childcare:** primarily aims to promote child development, school readiness and outcomes, particularly for disadvantaged children⁴⁵. Childcare providers must comply with the requirements of the Early Years Foundation Stage (EYFS), and those aged five are assessed against the EYFS Profile to determine whether they have achieved a good level of emotional, cognitive and physical development⁴⁶.
- **30 hours' free childcare:** in addition to the above, the policy also focuses on parental employment outcomes. The extension aims to reduce *"the cost of childcare and will support parents into work or to work more hours should they wish to"*⁴⁴. Emphasis has therefore shifted from supporting child development to additionally providing *"a work incentive"*⁴⁷.

Northern Ireland

The Pre-School Education Programme funds education for children in the year immediately before they start school. The provision is available in nursery schools, primary schools with nursery units, or voluntary and private pre-school education settings with Government-funded places, and all providers follow the same curricular guidance. This offer can be taken as two and a half hours per day for five days a week (12 hours per week), during the 38-week term-time window (September to June)⁴⁸.

At the time of fieldwork, Northern Ireland had no plans to extend the provision.

Scotland

Government funded free childcare provision in Scotland is known as 'funded early learning and childcare' (ELC). Prior to 2014, three and four-year olds were entitled to 475 hours per year (equivalent to 12.5 hours per week) of free pre-school education, which was extended to 600 hours in 2014 (equivalent to 16 hours per week). The

⁴³ Approved providers are those registered with Ofsted (England), the Care and Social Services Inspectorate (Wales), the Scottish Care Inspectorate (Scotland), and on the local early years team register (Northern Ireland).

⁴⁴ Department for Education (2015) Childcare Bill: policy statement, December 2015. Available [here](#).

⁴⁵ Raised during the interviews; see also: Paull, G., et al (2017) Evaluation of Early Implementation of 30 Hours Free Childcare. Available [here](#).

⁴⁶ Department for Education (2017) Statutory framework for the early years foundation stage. Available [here](#).

⁴⁷ Johnes, R. et al (2016) Widening the gap? The impact of the 30-hour entitlement on early years education and childcare. Available [here](#).

⁴⁸ For more information, please see: <https://www.nidirect.gov.uk/articles/pre-school-education-places-september-2018>

extension was also made available to vulnerable two year olds who are Looked After or subject to a kinship care or guardianship order, or whose parents are in receipt of out-of-work benefits. In 2015, the provision for vulnerable two year olds was extended further to those eligible for free school meals (FSM).

Provision of 1,140 hours (equivalent to 30 hours per week) is currently being trialled in Scotland, with the intention to roll out the extension by August 2020 (correct at the time of fieldwork).

As with the government funded free childcare offer in England, the focus of funded childcare in Scotland is primarily on child outcomes, including the attainment gap and opportunities for disadvantaged children. The 30 hours policy in Scotland will be rolled out *universally*, with no eligibility requirements for parents to be in work, as with the English offer.

Wales

In Wales, parents of three and four-year olds are entitled to a minimum of 10 hours of free, part-time Foundation Phase education in a school or funded nursery in the term following their third birthday. The Foundation Phase is a developmental curriculum for three to seven year olds in Wales⁴⁹.

The Welsh offer also includes 'Flying Start' – available to disadvantaged children under the age of four. The programme offers childcare to parents of eligible children for two and a half hours per day, five days a week, for 39 weeks of the year.

As with the Government-funded free childcare offers in England and Scotland, the focus of Foundation Phase education and Flying Start is on child development and school readiness. The stakeholder interviews highlighted that attribution would be difficult for parents, given that both schemes aim to improve this in Wales. Further, whilst this study will not be focusing on Flying Start specifically, it may be possible that parents we speak to in Wales are making use of the scheme.

The Welsh Government intends to offer 30 hours of funded childcare for three and four-year olds for 48 weeks of the year (greater than the English and suggested Scottish offers). The extension is currently being piloted in seven local authorities. Please note that this expansion is not for 30 hours, but for 20 additional hours under a different offer.

Appendix B: Technical details

Parents and childcare providers were recruited from sample supplied by HMRC, of those who were registered/signed up to use the TFC scheme. Sample was also provided with a flag to indicate those who were using/delivering 30 hours free childcare in England. Quotas were set on a range of variables for parents and providers, including area of the UK and other key characteristics to ensure a diverse range of situations were captured. These are shown in the full sample tables below.

⁴⁹ For more information, please see: <http://gov.wales/topics/people-and-communities/people/children-and-young-people/childcare/?lang=en>

Overall area design

	Parents			Providers	Grand total
	F2F	TD	Total	Total	
London	9/9	6/6	15/15	10/10	25/25
England urban	9/9	6/6	15/15	11/10	26/25
England rural	6/6	9/9	15/15	10/10	25/25
Devolved	5/6 ⁵⁰	10/9	15/15	9/10 ⁵¹	24/25
Total	29/30	31/30	60/60	40/40	100/100

Parent design

Characteristics	Description	Overall quota	Completed
TFC + funded hours	Taken up funded hours as well as TFC	20-25	21
Ages of children that are using childcare and TFC	Under 2yrs	Min. 12, Max. 20	17
	2yrs	Min. 12, Max. 20	14
	3-4yrs	Min. 12, Max. 20	28
	5-11yrs	Min. 12, Max. 20	20
Number of children using TFC	One	Min. 15	32
	Two or more	Min. 15	28
Lone or two parent households	Lone parent	Min. 10	10
	Two parent	Min. 10	50
Type of childcare	Nursery/pre-school	Mix and monitor	44
	Childminder		11
	School-based		14
	Nanny		2
	Holiday play scheme		4
Volume of childcare	Up to 15 hours	Mix and monitor	8
	16-24 hours		13
	25-30 hours		8
	More than 30 hours		30
Change in childcare	Made a change in 0-3 months	Mix and monitor	23
	No change		35
Household income	Less than £25,000	Mix and monitor	1
	£25,000 to £49,999		11
	£50,000 to £74,999		26
	£75,000 to £99,999		13
	£100,000 to £124,999		3
	£125,000 to £149,999		5
	£150,000 to £174,999		-
	More than £175,000		-
Working pattern (participant)	Full-time (35hrs+ per week)	Min. 8	37
	Part-time (16-35hrs per week)	Min. 8	17
	Irregular hours and income (self-employed, shift work, zero hours)	Min. 8	7
	Full-time (35hrs+ per week)	Mix and monitor	35
	Part-time (16-35hrs per week)		10

⁵⁰ We had one 'no-show' on fieldwork in Wales and so have replaced this with a tele-depth in Wales.

⁵¹ We exhausted sample for the devolved regions, so increased the England urban quota.

Working pattern (partner, if applicable) Mix and monitor	Irregular hours and income (self-employed, shift work, zero hours)		5
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Provider design

Characteristics	Description	Overall quota	Completed
Offering TFC + funded hours	Offer funded hours as well as TFC	Min. 16	31
Type of childcare	Nursery/pre-school – maintained	Min. 4	8
	Nursery/pre-school – PVI	Min. 8	14
	Childminder	Min. 8	9
	School-based	Min. 8	7
	Nanny	Min. 4	4
	Holiday play scheme	Min. 4	10
Size of provider	0 employees	Mix and monitor	10
	1 to 5 employees		4
	6 to 10 employees		4
	11 to 20 employees		6
	20+ employees		16
Type of provider	Independent	Mix and monitor	32
	Part of larger group		7
Age of child covered	Under 2yrs	Mix and monitor	25
	2yrs		32
	3-4yrs		36
	5-11yrs		37

Appendix C: Topic guides

Both topic guides contained briefing notes for interviewers on how the policies (TFC and funded hours) worked in practice. These notes have not been included here as they are available in the Introduction of this report.

Parent topic guide

1. Introduction	2-3 mins
<p>Thank participant for taking part. Introduce self, Ipsos MORI – independent research organisation; gather all opinions; all opinions valid. Interviews should take between 45-60 minutes.</p> <p>Introduce research and topic – Her Majesty's Revenue and Customs (HMRC) has commissioned Ipsos MORI to conduct research with parents who have opened and used a Tax-Free Childcare account. The research will explore parents' choices around work and childcare, and their views on the TFC scheme.</p> <p>Role of Ipsos MORI – independent research organisation (i.e. independent of Government), we adhere to MRS code of conduct, we gather a range of opinions from a range of people: all opinions valid.</p> <p>Confidentiality - reassure all responses anonymous and that identifiable information about them will not be passed on to anyone, including back to HMRC or any other Government department.</p> <p>Ask for permission to digitally record – transcribe for quotes, no detailed attribution. Only non-identifiable information will be passed back to HMRC.</p> <p>Any questions before we begin?</p>	<p><i>Orientates interviewee, prepares them to take part in the interview.</i></p> <p><i>Outlines the 'rules' of the interview (including those we are required to tell them about under MRS and GDPR guidelines).</i></p>

2. Background and context	5-10 mins
<p><i>To start off with, I'm going to ask a few broad questions about work, childcare and your family's priorities.</i></p> <ul style="list-style-type: none"> • Can you just tell me a bit about you and your family? <ul style="list-style-type: none"> ○ Who else lives in the household? ○ How many children do you have? How old are they? ○ Which children do you use childcare for? ○ When did you start using TFC and/or funded hours. INTERVIEWER NOTE ON TIMELINE <p>How would you describe your circumstances at the moment? What's important to you as a family right now?</p> <ul style="list-style-type: none"> ○ How has this changed over time? (before and after having children) ○ Why has this changed? <ul style="list-style-type: none"> • Firstly, what do you do day-to-day? <ul style="list-style-type: none"> ○ Work? Full-time? Part-time? Childcare responsibilities? ○ What kind of work do you do? ○ Is your partner currently working? Full-time? Part-time? Childcare responsibilities? ○ What kind of work do they do? ○ Ascertain who the primary caregiver is (or if joint responsibilities) <p>What childcare are you using at the moment?</p> <ul style="list-style-type: none"> ○ What do you feel about this/these? <p>As you know, we're speaking to people who are using TFC. How did you first find out about it?</p> <ul style="list-style-type: none"> ○ How long have you been using it for? ○ How much have they used the account? E.g. regularly or one-off payment? ○ Are you aware of any other Government schemes to support the cost of childcare? ○ What other childcare support are you using? PROBE ON funded hours ○ Were you using anything before? PROBE ON EMPLOYER SUPPORTED CHILDCARE (VOUCHERS) 	<p><i>Provides contextual background information about the participant and their household.</i></p>
3. Impact on working decisions	10-15 mins
<p><i>Now we are going to move on and talk about decisions around work.</i></p> <p>I'd like to understand more about how your or your partner's work might have changed in at specific points over the last few years.</p> <p>INTERVIEWER: EXPLORE THE FOLLOWING MILESTONES AND NOTE ON THE TIMELINE:</p> <ol style="list-style-type: none"> i. After having your first child ii. After having other children (if relevant) iii. After claiming TFC iv. IF funded hours: When claiming funded hours <p>FOR EACH MILESTONE, EXPLORE:</p> <ul style="list-style-type: none"> • In what way did your/your partner's work change? (e.g. stopping work, reduced hours, changed job, increased hours) • What were the reasons for this change/for not changing? • Did this affect one of you more than the other? How? • How did you make this decision? <ul style="list-style-type: none"> ○ What conversations did you have? Who was involved? ○ What influenced your decisions around work? ○ What factors were you considering when you made these decisions? ○ When did you make these decisions? NOTE ON TIMELINE ○ How far ahead were you thinking in relation to your working plans? • How does childcare fit into the decisions you have made around work? <ul style="list-style-type: none"> ○ Were you thinking about the impact of childcare on both parents, or just one of you? Why? 	<p><i>This section explores decisions made around working (for both parents), including how and when these conversations took place.</i></p>

<ul style="list-style-type: none"> ○ What else impacted your decisions around work? <p>And how does childcare influence your decisions around work now?</p> <ul style="list-style-type: none"> ○ Are you looking for different things? <p>What impact would you say TFC has had on your decisions about work for both you and your partner?</p> <ul style="list-style-type: none"> ○ Did/does it enable you to work more hours? Why/not? ○ IF RELEVANT: Did/will it enable you to go back to work? ○ IF NO IMPACT: have you accessed the funding but not changed your circumstances? Why? ○ IF USE funded hours: What makes the biggest difference when it comes to decisions around work, TFC or funded hours? <p>SUMMARISE CURRENT WORKING SITUATION. How does working/not working make you feel?</p> <ul style="list-style-type: none"> ○ How does working/not working make your partner feel? ○ What are your aspirations for work? <p>If you could describe your ideal work and childcare arrangements – what would they be?</p> <ul style="list-style-type: none"> ○ Why? ○ How close/far away is this from your current situation? ○ What are the barriers preventing you from this? ○ What could help you reach the ideal? ○ If childcare wasn't an issue, would you work more/less/the same as you do now? Why? <p>Thinking about the future, how might TFC affect your choices regarding work?</p> <ul style="list-style-type: none"> ○ PROBE on helping them into work/change working patterns (e.g. hours of work, type of work, timings of returning to work) ○ PROBE on participant and partner ○ PROBE on why they think this ○ What else would drive a change in your working patterns in the future? ○ IF USE funded hours: What do you think is likely to make the bigger difference, TFC or funded hours? 	
<p>4. Impact on childcare choices</p>	<p>10-15 mins</p>
<p><i>Now I'd like to talk about what childcare you have in place.</i></p> <p>Could you talk me through your current childcare arrangements in more detail?</p> <ul style="list-style-type: none"> ○ What type of formal childcare do you use? How many hours? ○ Does this change throughout the year? E.g. with school holidays ○ What type of informal childcare do you use? E.g. friends or family ○ Describe the balance between formal and informal childcare <p>How do you feel about the childcare that you use?</p> <ul style="list-style-type: none"> ○ What does it enable you/your partner to do? ○ What does it mean for your child? ○ What benefits do your children get from their childcare? ○ Would you want to use this type of childcare, even if you weren't working? <p>Has your childcare always looked like this, or has it changed? INTERVIEWER NOTE ON TIMELINE</p> <ul style="list-style-type: none"> ○ USE TIMELINE TO PROMPT ON ANY CHANGES TO CHILDCARE WHEN MADE CHANGES TO WORK ARRANGEMENTS ○ Have they made any changes? Why/not? When? (e.g. changed provider to one that offered TFC/ funded hours, more/less hours, started formal childcare) ○ Have there been any changes to your or your partner's childcare responsibilities? What does this look like? ○ Are they planning to make any changes in the future? Why? When? <p>As we did with decisions around work, can you tell me how you made these decisions around childcare?</p> <ul style="list-style-type: none"> ○ When did they make these decisions? NOTE ON TIMELINE 	<p><i>Explore how participants made decisions around childcare choices, and the factors influencing this.</i></p>

<ul style="list-style-type: none"> ○ How did they make these decisions? PROBE: who was involved, what information did they need/seek ○ What factors were you thinking about when making these decisions? (e.g. finances, beliefs on parenting, thoughts on what's best for the child) <p>In your own words, what do you think the role of parents is when it comes to childcare?</p> <ul style="list-style-type: none"> ○ Should parents use formal childcare? Why/not? How much? ○ What barriers do parents face with this? ○ What can help parents achieve this? ○ Where do you think your views on childcare come from? What influences you? (e.g. can they remember what childcare was used for them?) <p>And when it came to choosing your childcare, what factors influenced your decision on which provider to go for?</p> <ul style="list-style-type: none"> ○ E.g. cost, flexibility, availability, location, quality ○ What is the most important factor when it comes to choosing childcare? Why? ○ Why might you need or want to make a change in your childcare choices in the future? <p>Has claiming TFC had any impact on your choice of childcare?</p> <ul style="list-style-type: none"> ○ Has it affected the type of childcare you use? E.g. formal/informal or single/multiple providers, number of hours, nature of provider? ○ PROBE: added bonus (other considerations more important) v. important that provider accepted TFC payments ○ IF MULTIPLE CHILDREN: Has TFC had any impact on your childcare choices for their siblings? How? Why? ○ IF USE funded hours: Which was more important when it came to choosing childcare, TFC or funded hours? Why? <p>What, if any, impact do you think TFC might have on your choice of childcare in the future?</p> <ul style="list-style-type: none"> ○ PROBE on reasons why ○ PROBE on future changes to participant or their partner's childcare responsibilities ○ IF USE funded hours: What impact do you think funded hours will have on your choice of childcare in the future? More or less than TFC? <p>If you needed to change provider – how important would it be that they accepted TFC?</p> <ul style="list-style-type: none"> ○ Why/not? ○ IF USE funded hours: Would it be more or less important that they accepted funded hours? 	
<p>5. Impact on the cost of childcare</p>	<p>5-10 mins</p>
<p><i>Now we are going to move on and talk about the cost of childcare.</i></p> <p>I'd like you to think about your childcare costs <u>before</u> you started using TFC.</p> <ul style="list-style-type: none"> ○ How much did you pay for childcare in the past? ○ How easy were the costs to understand? Were they transparent? ○ Were there any hidden or unexpected extra costs? What were these? ○ How manageable were these costs? ○ What impact did the cost of childcare have on you and your partner? <p>I'd now like you to think about your childcare costs <u>after</u> you started using TFC.</p> <ul style="list-style-type: none"> ○ How much do you pay for childcare now? ○ How manageable are these costs – more or less than before? ○ Were there any changes to the costs of childcare, or new charges introduced by the provider? E.g. different hours costed at different rates, charges for extras such as nappies/lunch <p>What impact would you say TFC has had on the cost of your childcare?</p> <ul style="list-style-type: none"> ○ Any other factors? <p>IF USE funded hours: Which has had more of an impact, TFC or funded hours?</p> <ul style="list-style-type: none"> ○ Do you pay different rates for different hours? 	<p><i>Explore the impact of TFC and funded hours on the cost of childcare and awareness of any changes to fee structures.</i></p>

<ul style="list-style-type: none"> ○ What impact does this have on you? 	
6. Impact on finances and household budgets	5-10 mins
<p><i>Finally, we're going to talk about the impact of childcare support on your finances and household budget.</i></p> <p>Can you briefly talk me through how money is managed in the household?</p> <ul style="list-style-type: none"> ○ Managed weekly? Monthly? How do you find this approach? ○ Do you have a budget where you track income and expense? ○ How far ahead do you think in terms of finances? Why? ○ IF LONE PARENT: Do you get any financial support from the child's mother/father? What arrangements do you have in place? Do they contribute towards childcare costs? ○ If COUPLE: Who in the household takes responsibility for making sure things get paid? ○ How did this arrangement come about? ○ Who makes the big 'financial' decisions? ○ Has it always been this way or has it changed? ○ When did it change? Was there a reason that it changed? ○ Does your salary and your partner's salary go into the same pot? <ul style="list-style-type: none"> ● IF NOT: Who pays for childcare? ● How do you pay your bills? (50/50, in proportion to how much you earn?) ● How did you reach this decision? <p>Before you started using TFC, how did you manage the cost of childcare?</p> <ul style="list-style-type: none"> ○ How easy or difficult was it to manage? ○ Who was responsible for this? <p>What, if any, impact has TFC had on your household finances?</p> <ul style="list-style-type: none"> ○ More/less money? The same? Why? ○ PROBE: reduced pressure on finances; generated more disposable income; made managing finances easier ○ What difference has this made to your family/circumstances? ○ How far have you noticed a change in your finances as a result? Examples? ○ IF USE funded hours: Which makes the biggest difference, TFC or funded hours? Why? <p>Before having children, were your and your partner's salaries roughly equal?</p> <ul style="list-style-type: none"> ○ Which parent earned more? Roughly how much more? ○ IF WAGE GAP: How has TFC had an impact on the difference in your salaries? ○ IF MOTHER EARNING LESS: Has TFC allowed the mother to work more and earn more? Why/not? ○ Do you feel TFC may help the mother to work more and earn more in the future? Why/not? 	<p><i>Explores the impact of funded hours and TFC on household budgets.</i></p>
7. Summing up	2-3 mins
<p><i>We are coming to the end of the interview, but I have a few final questions before we finish.</i></p> <p>Thinking about everything we've discussed, what has been the biggest impact of both TFC and funded hours on you and your partner?</p> <p>Is there anything else you would like to say about the scheme, that you haven't already had the opportunity to mention, before we finish?</p> <p>Thank and reiterate confidentiality. Incentives = a "thank you" from Ipsos MORI for their time and contribution</p> <ul style="list-style-type: none"> ○ £30 – parent telephone ○ £40 – parent F2F <p>Explain next steps for the research and close – report will be published summer 2019.</p>	<p><i>Brings the conversation to a close, and allows participant time to mention anything that has not already been covered.</i></p>

Provider topic guide

<p>1. Introduction</p> <p>Thank participant for taking part. Introduce self, Ipsos MORI – independent research organisation; gather all opinions; all opinions valid. Interviews should take between 45-60 minutes.</p> <p>Introduce research and topic – Her Majesty's Revenue and Customs (HMRC) has commissioned Ipsos MORI to conduct research with providers who are signed up to receive payments through the Tax-Free Childcare account. The research will explore providers' decision to take up Tax-Free Childcare and the impact of the policy on the running of your business.</p> <p>Role of Ipsos MORI – independent research organisation (i.e. independent of Government), we adhere to MRS code of conduct, we gather a range of opinions from a range of people: all opinions valid.</p> <p>Confidentiality - reassure all responses anonymous and that identifiable information about them will not be passed on to anyone, including back to HMRC or any other Government department.</p> <p>Ask for permission to digitally record – transcribe for quotes, no detailed attribution. Only non-identifiable information will be passed back to HMRC.</p> <p>Any questions before we begin?</p>	<p>2-3 mins</p> <p><i>Orientates interviewee, prepares them to take part in the interview.</i></p> <p><i>Outlines the 'rules' of the interview (including those we are required to tell them about under MRS and GDPR guidelines).</i></p>
<p>2. Background and context</p> <p><i>To start off with, I'm going to ask a few broad questions about your business/what you do day-to-day.</i></p> <p>IF NURSERY/SCHOOL-BASED/PLAY SCHEME: Can you tell me a bit about your business/the nursery/the childcare scheme?</p> <ul style="list-style-type: none"> ○ Can you talk me through how the business is run? PROBE: both front (child-facing) and backroom? ○ Multiple sites? ○ Operates year round? ○ Number of staff? Type of staff? (e.g. childcare provider, payroll/admin) ○ How long operating for? ○ What is your capacity, and how many children do you currently have? <p>Can you tell me a little bit about your role and what you do?</p> <ul style="list-style-type: none"> ○ IF CHILDMINDER/NANNY: Anyone else involved? (e.g. other carer(s), help with admin/finance?) ○ How long have you been doing this for? ○ What is your capacity, and how many children do you currently have? ○ What do you like best about your job? ○ What's the most challenging aspect of your job? <p>Can you describe what the local area is like?</p> <ul style="list-style-type: none"> ○ Where are you based? ○ What does the local area look like in terms of ethnicity? ○ What does the local area look like in terms of deprivation? ○ What do your competitors look like? (e.g. is the area competitive? Are there many different types of providers – nanny/childminder, school based, maintained, private) 	<p>5 mins</p> <p><i>Provides contextual background information about the participant and their business.</i></p>
<p>3. Awareness and understanding of Government offers</p> <p><i>Now we are going to move on and talk about the different Government childcare policies.</i></p> <p>Could you tell me what you know about the different Government policies to support childcare costs?</p> <ul style="list-style-type: none"> ○ PROBE ON: TFC, funded hours, Employer Supported Childcare ○ How were they made aware of these? 	<p>10 mins</p> <p><i>This section explores providers' awareness of TFC and funded hours and their decisions to offer them to parents.</i></p>

<p>Could you talk me through your decision to offer TFC to parents?</p> <ul style="list-style-type: none"> ○ What drove this decision? (e.g. parents requesting TFC, to keep up with competition, improve offer, like the idea of the scheme) ○ Who was involved in the decision? ○ Did you look for any information or guidance before signing up? Where? ○ How did you feel about the level of information available? How useful was it? Did it answer all your questions? <p>Do you offer funded hours as well?</p> <ul style="list-style-type: none"> ○ What drove this decision? (e.g. parents requesting it, to keep up with competition, improve offer, like the idea of the scheme) ○ Who was involved in the decision? ○ Did you look for any information or guidance before signing up? Where? ○ How did you feel about the level of information available? How useful was it? Did it answer all your questions? <p>Did you promote the offer of TFC to parents?</p> <ul style="list-style-type: none"> ○ How did you promote the offer to parents? (PROBE newsletters, in person, direct parents to Childcare Choices) ○ How easy or difficult was the scheme to explain? Any problems? ○ What was the awareness of parents like? ○ Were you able to answer their questions? ○ IF funded hours: Was funded hours easier to explain than TFC? Were parents more/less aware? 	
<p>4. Impact on running the business</p>	<p>15 mins</p>
<p>INTERVIEWER NOTE: THERE ARE SEPARATE SECTIONS FOR INDIVIDUALS (NANNIES, CHILDMINDERS) AND BUSINESSES/ORGANISATIONS</p> <p><u>Businesses/organisations</u></p> <p><i>Now I'd like to talk about the impact of TFC on how you run your business.</i></p> <p>How easy or difficult do you find the TFC service to use and manage? INTERVIEWER: This is about providers' experiences <u>not</u> their views of parents' experiences using the service</p> <ul style="list-style-type: none"> ○ PROBE ON specific pain points and helpful features ○ How could the account be improved? <p>Have you seen any changes in demand for places since you started offering TFC?</p> <ul style="list-style-type: none"> ○ More demand? Less? The same? Children starting earlier than they might otherwise have done? ○ What are the reasons for this? ○ In your view, is this a good or a bad outcome? ○ Any other factors influencing demand? ○ IF funded hours: Which do you think has had the most impact, TFC or funded hours? ○ IF funded hours: Do you think you would have seen this changed in demand without the introduction of funded hours? Why/not? <p>IF DEMAND HAS INCREASED: How have you responded to this?</p> <ul style="list-style-type: none"> ○ Increased number of places available? ○ Offered more hours to parents? ○ Maintained the same capacity? ○ Turning new parents away ○ IF MADE NO CHANGES: Have you thought about making any changes? <ul style="list-style-type: none"> ▪ Do you plan to make changes in the future? ▪ IF SO, what would you need to make these changes? ▪ IF NOT, how did you reach this decision? <p>IF DEMAND HAS INCREASED: What impact has this had on the organisation?</p>	<p><i>This section explores how participants feel TFC and funded hours have impacted on how they run their business (including whether demand has increased/decreased /stayed the same)</i></p>

- How are you managing this?
- What are your thoughts on this increased demand? PROBE ON them individually and the sector as a whole
- PROBE ON: Need to hire more staff. Are you able to hire more staff? Why/not?
- PROBE ON: Any changes to services provided, e.g. during holidays or out of hours?
- PROBE ON: Are new childcare providers opening in your area? Are they taking on the parents you have to turn away?

IF TAKEN ON MORE CHILDREN AND/OR OFFERED MORE HOURS: What impact has this had on the quality of childcare you can provide?

- Why?
- What steps have you taken to manage this? E.g. staffing changes, staffing qualifications, recruitment, pay, services offered to parents
- Why have you taken these steps?
- What impact has this had on you/the organisation?

IF TAKEN ON MORE CHILDREN AND/OR OFFERED MORE HOURS: Can you talk me through how you made these decisions to change?

- Who was involved in the discussions?
- Where did you go for more information and guidance?
- When did you start thinking about these changes? (e.g. proactively/reactively)

IF TAKEN ON MORE CHILDREN AND/OR OFFERED MORE HOURS: How do you feel these changes have impacted the business/the organisation?

- Positively/negatively – provide examples
- How have parents reacted to these changes?

IF DEMAND HAS REMAINED CONSTANT OR DECREASED: Why do you think demand has remained constant/decreased since you started offering TFC?

- What factors are at play?
- How do you think this will change in the future? (e.g. next year, 5 years)
- How do you feel about demand remaining constant/decreasing?
- What is the impact of demand staying the same/decreasing on the business/organisation?

Individuals

Now I'd like to talk about the impact of TFC on how you run your business.

How easy or difficult do you find the TFC service to use and manage? INTERVIEWER: This is about providers' experiences not their views of parents' experiences using the service

- PROBE ON specific pain points and helpful features
- How could the account be improved?

Have you seen any changes in demand for places since you started offering TFC?

- More demand? Less? The same? Children starting earlier than they might otherwise have done?
- What are the reasons for this?
- In your view, is this a good or a bad outcome?
- Any other factors influencing demand?
- IF funded hours: Which do you think has had the most impact, TFC or funded hours?
- IF funded hours: Do you think you would have seen this changed in demand without the introduction of funded hours? Why/not?

IF DEMAND HAS INCREASED: How have you responded to this?

- Increased number of children you can look after?
- Offered more hours to parents?
- Maintained the same capacity?
- Turning new parents away
- IF MADE NO CHANGES: Have you thought about making any changes?

<ul style="list-style-type: none"> ▪ Do you plan to make changes in the future? ▪ IF SO, what would you need to make these changes? ▪ IF NOT, how did you reach this decision? <p>IF DEMAND HAS INCREASED: What impact has this had on you?</p> <ul style="list-style-type: none"> ○ How are you managing this? ○ What are your thoughts on this increased demand? ○ PROBE ON: Any changes to services provided, e.g. during holidays or out of hours? ○ PROBE ON: Are parents looking elsewhere? (e.g. to premises-based childcare?) <p>IF TAKEN ON MORE CHILDREN AND/OR OFFERED MORE HOURS: How do you feel these changes have impacted you?</p> <ul style="list-style-type: none"> ○ Positively/negatively – provide examples ○ How have parents reacted to these changes? <p>IF DEMAND HAS REMAINED CONSTANT OR DECREASED: Why do you think demand has remained constant/decreased since you started offering TFC?</p> <ul style="list-style-type: none"> ○ What factors are at play? ○ How do you think this will change in the future? (e.g. next year, 5 years) ○ How do you feel about demand remaining constant/decreasing? ○ What is the impact of demand staying the same/decreasing on you? 	
<p>5. Impact on financial management</p>	<p>10 mins</p>
<p><i>Now we are going to move on and talk about the impact of TFC on your financial management and fees.</i></p> <p>Can you start by describing your fee structure to me?</p> <ul style="list-style-type: none"> ○ How do you decide on these? ○ What factors do you take into consideration? (e.g. overheads, profit margins, other competitors, not looking 'too cheap') ○ How often do you review your fees? <p>Have you made any changes to your fee structures since starting TFC? INTERVIEWER: Focus on TFC only – cover the impact of funded hours on fee structures separately, below.</p> <ul style="list-style-type: none"> ○ Can you give me some examples (e.g. funded v. unfunded payment of additional goods/services – lunch, nappies, activities, etc.?) ○ Reasons for these changes/reasons why not ○ When did you make these changes? ○ Were the changes due to TFC or something else? What other factors were at play? ○ Have you made any efficiency savings? (e.g. sharing resources). Provide examples ○ How did you communicate these changes to parents? INTERVIEWER: How open were they about the reason for the increase? <p>IF funded hours + ENGLAND/SCOTLAND/WALES: Is there any difference in the fees for different hours? INTERVIEWER NOTE: SCOTLAND/WALES CURRENTLY TRIALLING EXTENDED HOURS</p> <ul style="list-style-type: none"> ○ Can you explain how they differ? ○ Why do they differ in this way? Why don't they differ? ○ Which is the biggest driver of these changes, TFC or funded hours? Why? 	<p><i>This section explores the impact of TFC and funded hours on providers' fee structures</i></p>
<p>6. Impact on business profitability</p>	<p>10 mins</p>
<p><i>Finally, we're going to talk about the impact of TFC on your profitability.</i></p> <p>Can you talk me through how your business/organisation has been doing financially over the last 3-5 years?</p> <ul style="list-style-type: none"> ○ Stable or peaks and troughs? Reasons for the peaks/troughs? ○ PROBE ON: Profitability throughout this period ○ What affects how well the business/organisation is doing financially? ○ PROBE ON: National Minimum Wage, automatic enrolment, business rates, demand, cost of supplies ○ Which is the biggest financial pressure? 	<p><i>This section explores whether participants feel TFC has had a positive or negative impact on their business, overall</i></p>

<ul style="list-style-type: none"> ○ How able do you feel to respond to these issues? ○ What is the impact of these issues? <p>And do you have any financial targets or plans for the future?</p> <ul style="list-style-type: none"> ○ What are your targets? When do you hope to achieve these? ○ How will you reach this target? ○ If not profitable – when do you expect to be in the future? At what point can you become profitable? ○ How sustainable do you feel your business is? <p>Overall, has TFC had a positive, negative or no impact on your business/organisation?</p> <ul style="list-style-type: none"> ○ Why? ○ IF funded hours: Overall, has funded hours had a positive or negative impact on your business/organisation? Why? 	
<p>7. Summing up</p>	<p>2-3 mins</p>
<p><i>We are coming to the end of the interview, but I have a few final questions before we finish.</i></p> <p>Thinking about everything we've discussed, what has been the biggest impact of both TFC and funded hours on you/your organisation?</p> <p>Is there anything else you would like to say about the scheme, that you haven't already had the opportunity to mention, before we finish?</p> <p>Thank and reiterate confidentiality. Incentives = a "thank you" from Ipsos MORI for their time and contribution</p> <ul style="list-style-type: none"> ○ £40 – providers <p>Explain next steps for the research and close – report will be published summer 2019.</p>	<p><i>Brings the conversation to a close, and allows participant time to mention anything that has not already been covered.</i></p>

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The Social Research Institute works closely with national governments, local public services and the not-for-profit sector. Its c.200 research staff focus on public service and policy issues. Each has expertise in a particular part of the public sector, ensuring we have a detailed understanding of specific sectors and policy challenges. This, combined with our methods and communications expertise, helps ensure that our research makes a difference for decision makers and communities.