Surplus and Profits: ICMEC seminar 3rd Dec 2007

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I would like to make a few general points, then try and pick up on the two outstanding and enlightening presentations we have heard this morning.

Private for-profit sector nursery care is seen as positive in that in can capitalize rapidly, it is flexible to market demand, it is part of a spectrum of choice that consumers expect, and it is deeply embedded in our services.

But it is also seen as problematic and serious questions have been raised about its operation. There are moral objections by critics who say that childcare is not a proper area for business speculation and risk; that dealing with vulnerability, of the very old, the very young, or the sick, requires a particular, reliable sustained care and attention, and stringent accountability measures. This argument is accepted by social democracies countries who have attempted to provide universal services, most notably Nordic countries. This argument is also partially accepted for mainstream primary and secondary education, which is provided free at the point of use, although it too increasingly dominated by private sector investment, in this country at least.

There are other general arguments about the nature and balance of public and private funding, offered for example by Allyson Pollock in relation to PFIs in the Health Service. She argues that PFI initiatives undermine local planning – that is the business plans of corporate companies are necessarily conceived in terms of parameters of shareholder profit and business development of the company, whereas local planning operates within rather different parameters of need, coherence and locality. In terms of nurseries, for example, collective parental decision making and control has long been regarded as an important aspect of quality, but within a large corporate enterprise, parents are necessarily regarded as individual consumers for whom a product must be adequately targeted and marketed; but whose opinions may only very indirectly bear on company policy.

The OECD (2006) study of Early Childhood Education and Care makes the point that private sector childcare, and compensatory targeted care for the poorest families increases social stratification; a point that seems to be borne out in the UK by the work of Carol Vincent (2006/7) and her colleagues in London, who have explored the childcare options of middleclass and working class families. Middleclass parents exercise choice; but on the whole working class families regard themselves as having limited childcare options.

If we just focus on quality for a moment, the emerging evidence from Canada, for instance the studies by Krashinsky and Cleveland (2007) from the University of Toronto; and the reanalysis of the NICDH data, that is the USA version of the Millenium Cohort Study, by Sosinsky,Lord and Zigler (2007) from Yale University, seem to suggest that the quality of nurseries provided by the corporate sector is weak compared with the public sector. The tight regulatory framework in the UK requires more compliance about standards, and guarantees a minimum baseline of quality, but also may drive prices up, although this is a complicated issue. We do need more evidence about what is happening on the ground. We know from Ofsted that nearly

50% of all childcare provision is minimally satisfactory. Although there is some general evidence that for-profit care is of poorer quality than non-profit care, from studies like the Neighbourhood Nurseries evaluation (2007) none of our existing surveys of childcare facilities or parental choice explore these differences in auspices or control in any detail. Quality in any case is multi-faceted and rather hard to measure; and Ofsted surveys do not give us very refined information

We also need to know more about the operation of the market and the costs of regulation. Childcare is a volatile and fluid market, with many different kinds of provider, and these relationships are hard to chart. I have claimed that regulation has driven prices up, and it is the case that city analysts making international comparisons, have suggested that the costs of *corporate* childcare are significantly higher in the UK than anywhere else in the world, certainly higher than in the USA and Australia, although this may also reflect property prices. Regulation is a considerable operation in England, compared with many other countries, but regulation is also regarded as essential in guaranteeing quality in vulnerable populations in market economies. It would be very interesting to compare the situation of the UK with the Netherlands, as my colleague Eva Lloyd is hoping to do, since in the Netherlands provision has been dramatically deregularized, and costs have fallen. However the pattern of service delivery for slightly older children is rather different in the Netherlands from the UK, so comparisons are not straightforward. Regulation and compliance and their impact on providers are issues which need further exploration.

These are the general points I wanted to raise, but in relation to each of the presentations I would like to make the following brief points.

Denise Burke gave us a very comprehensive view of the LDA top up scheme for childcare in London. The scheme encourages for profit and non-profit providers alike to offer more flexible care, especially to disadvantaged groups, by offering additional money on top of already existing benefits. What is striking to me, and indeed something Denise brings up herself, is the fragmentary nature of provision across the capital, indeed across the country, and of the need to use local authorities as intermediaries in introducing any scheme. This is a market that needs intermediaries to be able to work for there is no simple consumer/producer relationship! This fragmentary nature of provision is taken by all concerned as a sine qua non, that is as an essential and unavoidable aspect of the market. The challenge then is to tame the market, to find a way around its difficulties, to adjust and tweak it until it more fully serves the policy aims of the government. Denise suggests that as well as local authority support, this requires reform from other aspects of the system, including facilitating the format of payments from the government to providers, for example in the form of oyster cards. But I think there are more critical questions to ask about the very nature of demand led funding, and whether supply led funding might not be a more effective and efficient strategy in realising so far unmet Government objectives of improved child outcomes and more mothers in work. However, this is not currently on the policy agenda.

I would add that sophisticated monitoring is essential to find out if and how such complex schemes actually work, especially given the relatively low take-up of childcare places in London. There is some monitoring in the form of monitoring take-up of places, and of continuity of employment of vulnerable groups of mothers, but it would be useful to know if the payments system worked better with some kinds of provider rather than others; and to know more about the role of local authorities as intermediaries in matching supply and demand. I know there have been a series of studies which have been tracking local authority performance as market managers, and indeed Denise mentioned the exhortatory letters which have been necessary to jog some local authorities into action, but it may be a lot of effort for relatively small returns – mothers of young children are unwilling to work for a variety of reasons, not just because inadequate childcare is a barrier. Again it raises the question about Government policy objectives, especially improved child outcomes. It might be better to do as other European countries do, to regard childcare as much a service to children as to mothers seeking work. If this were the case, we would be thinking about it very differently, and consider access, continuity and quality for children, whatever their mother's circumstances, as the key aspect of service provision. This indeed is the OECD's prescription. Again, this would presuppose a less fragmentary market, and other ways of funding.

William Laing presented an extremely lucid and comprehensive account of the market performance of the for-profit nursery sector, and compared it with other similar sectors in the care and health fields. His essential argument was that in any market, competition and knowledgeable consumers exercising choice make for more efficient and responsive services. His insights into market performance were very interesting, particularly the role of private equity companies, currently awash with investment money, for whom investment in childcare is a relatively attractive proposition, because it offers a reliable income – government subsidies and high property prices. He argues that although the corporate sector only currently command 5% of the UK market, and the biggest operator, ABC only has a 1.8% share, further consolidation is inevitable, although he predicted this would take some time.

I would like to question his argument about knowledgeable consumers and competitive structures. There is certainly a question to be asked about knowledgeable consumers. The evidence seems to suggest that parents necessarily judge the quality of nursery provision by the outside – by the appearance of the vestibules, by the spiel of managers and the bumph handed out – rather than by the inside, what happens on a day to day basis with their children, to which they are not party. Parents use word of mouth accounts as a substitute for insider knowledge. Professionals are more likely to have insider knowledge, and more likely to be critical. In the absence of other criteria, Ofsted inspections, which, as I have said before, are fairly limited, are the only guide. The now almost vanished community nurseries involved parents in management and curricula decisions. This is also the regular, institutionalized practice in some other European countries. But it does not sit well in for-profit enterprises, especially not corporate enterprises. So the notion of discerning consumer is problematic, and is perhaps a part of the explanation of the failure to attract women back into work. When in doubt, stay at home!

I also want to question the notion of a free and competitive market. Cleveland et al (2007) argued that there were thick and thin markets; in thick markets, for instance in the wealthier areas of big cities, where there was high demand, there were competing nurseries, and parents were able to exercise choice. In thin markets, for example in poor areas, or rural areas, the market can only sustain a very limited number of nurseries, if indeed more than one, and there is no choice. The Sure Start Children's Centres in poor areas were set up precisely to overcome this disparity between thin and thick markets, and the childcare element of these children's centres, farmed out to for-profit centres, offer parents no choice – except not to work! The National Audit Office report (2006) suggests that there is a crisis going on in take-up of places in the childcare element of the Children's Centres – many of the childcare centres operating under these conditions are simply not sustainable.

The current crisis of sustainability, which inevitably will produce more and more lobbying on behalf of a desperate for-profit sector, and more and more schemes like the LDA top-up scheme, I would argue, are indications of market failure.

William also said that there was a trend towards consolidation of the market. I would not disagree with this, except to question the time-scale. William regarded it as long-term. In Australia, the consolidation of the market was very rapid. In a matter of a couple of years, 60% of the Australian childcare market was owned by one company. If the subsidy system and other conditions are right, if, as William pointed out, companies are paid to deliver Government policy, they will respond. Some consolidation – more big companies – is inevitable.

I would also agree with William that we need more stringent evidence about what is happening.

We need to find ways of categorizing the for-profit market. The Sosinsky study used the criteria of corporate; for profit non-church; and for-profit church based. This categorization wouldn't work in England, but we need to do something a little more sophisticated than the binary distinction "third sector" or "pvi" and maintained sector. The UK situation is fragmentary, and categories overlap and blur into one another, but without greater conceptual clarity in the many evaluations that are taking place, we are working in the dark.

We also need more stringent evidence on the crucial question of quality. The EPPE study is frequently cited, but as a longitudinal study, it has suffered the fate of most longitudinal studies, that conditions change rapidly, and what was investigated 10 years ago, or 20 years ago, no longer holds true. Early childhood education and care conditions have changed dramatically since the EPPE study was set up. We also need more contemporary evidence which pays attention to the remarkable growth of the private sector, especially the corporate sector

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