Childcare: Key policy issues

Background briefing from the ***UK Women's Budget Group***

Key points

- The childcare system in England is not fit for purpose and is failing to meet the needs of parents, children and the economy.
- Affordability is a key issue. Childcare costs are around 30% of the income of dual earner couples on median incomes and around 20% for 1.5 earner couples.
- High-quality childcare has the greatest benefit for disadvantaged children. However, there are significant socio-economic gradients in access to high-quality education and care, with the result that those children who would benefit most not having access to such care.
- Supply is not keeping pace with demand. Fewer than half of local authorities in England (45 per cent) have enough childcare for parents who work full-time.
- Recent policy changes do not address the fundamental supply, affordability and quality issues in the sector.
- Increasing the free entitlement to 30 hours for working parents and the introduction of 'tax-free' childcare excludes children from the most disadvantaged households. These regressive changes, with increased support going to better off households, are likely to result in the widening of the achievement gap.
- Urgent action is required to overhaul the childcare system. This requires adequate funding for providers, as well as better training for the workforce and increased support for second earners.

The childcare system in England is not fit for purpose, failing to meet the needs of parents, children and the economy. This briefing summarises the key issues – from supply to access, quality and affordability – and assesses recent policy interventions in the sector.

What are the key issues relating to childcare in the U.K.?

Affordability: Childcare in the U.K. is expensive and prices continue to rise often above inflation. This can block parents access to work, with more than half of non-working mothers in England preferring to work if they could arrange the right childcare.[1]

The role of affordable childcare in supporting equal access to the labour market is clear when assessed internationally: comparison across western countries indicates that childcare costs of approximately 10 per cent of net family income is optimal for supporting high levels of maternal employment. But the UK's cost to income ratios far exceed this optimal level, at around 30 per cent for full-time dual earner couples and 20 per cent for 1.5 earner couples on median incomes.[2]

Equity: High-quality childcare supports children's cognitive and social development. It is particularly effective in improving the life chances of the most disadvantaged children.[3] It is therefore crucial that children – particularly those from disadvantaged families – are able to access high quality childcare. Yet at present there are significant socio-economic gradients in access to high-quality education and care, with the result that

[1] Huskinson T, et al. (2016) Childcare and early years survey of parents 2014 to 2015. Department for Education (http://bit.ly/2eWgkhn)

[2] Thompson S and Ben-Galim D (2014) Childmind the gap: Reforming childcare to support mothers into work: IPPR (http://bit.ly/2numflQ)

[3] Cattan S, Crawford C and Dearden L (2014) The economic effects of pre-school education and quality: IFS (http://bit.ly/2ngboeF)

those children who would benefit the most from such care not being able to access it.

The positive impact of childcare means that government investment in high quality care makes good fiscal sense. The expected return on investing in interventions in the early years is estimated at 6-10 per cent per year.[4]

Lack of information: Information about what support is available to parents plays a key role in access to and take-up of childcare. Yet many parents lack the right information about what is available.[5] As a result, just under half of parents are either confused or have 'no idea' what is on offer.[6]

Under-supply: Fewer than half of local authorities in England (45 per cent) have enough childcare for parents who work full-time, and less than one in ten (9 per cent) have sufficient after-school childcare for 5-11 year old children. Children with special educational needs or disability are particularly under-served, with only 15 per cent of local authorities having enough childcare for them. Moreover, these gaps in provision are getting worse.[7]

Underlying these issues is the core problem of under-funding, which is discussed below.

What childcare support is available?

Childcare support for parents is a mix of in-kind support and cash transfers.

Under the current system of **tax credits**, means-tested cash transfers are available to low and middle income families to cover part or all of the cost of childcare, depending on the family's work situation and income, and the award does not increase after two children.

Cash transfers that act as a discount on the cost of childcare are available through the new **'tax-free childcare' scheme** to be launched April 2017. This entitles some families (all parents need to be in employment) to 20p of support for every 80p they spend on childcare. Despite the name, this is independent of the tax system. Parents pay into an online childcare account, which is then topped by the government with 20p for every 80p deposited. This scheme replaces the similar but much less widely-available employer-supported childcare vouchers (employer vouchers will remain active for those already registered and any new applicants until April 2018).

Parents can access in-kind support through the '**free entitlement**' to early education. This is available for three and four year olds and the most disadvantaged two year olds. Eligible families can access 15 hours per week for 38 weeks per year. In 2017, this entitlement will rise to 30 hours for some families.

Another form of in-kind support is directly provided services via Local Authorities, such as Sure Start Children's Centres and free or subsidised nursery schools.

Note that this discussion refers to childcare support in England. As childcare policy is devolved, policy in other nations vary.

Recent policy changes

Over recent and current parliaments, the main policy changes have been the extension of the free entitlement, the introduction of tax-free childcare and of cuts to Childcare Tax Credit, being rolled out into a supposedly more generous Universal Credit.

Free entitlement

The free entitlement to childcare is being extended for some families with three and four year olds. These families will be entitled to 30 hours of childcare for 38 weeks a year, in comparison to 15 hours at present. Eligible families are those in which all adults work more than the equivalent of 16 hours a week at the national minimum wage and where no parent is earning more than £100,000 per year. The stricter eligibility requirements for the additional 15 hours per week are expected to exclude around half of the families that currently access the 15 hours free.[8]

Tax-free childcare

Tax free childcare, as discussed above, will be introduced from early 2017, coinciding with the withdrawal of employer-supported childcare vouchers.

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[4] Heckman J (2006) Skill formation and the economics of investing in disadvantaged children. Science 312.5782: 1900-1902 (http://bit.ly/2nut0En)
[5] Huskinson T, et al. (2016) Childcare and early years survey of parents 2014 to 2015. Department for Education (http://bit.ly/2eWgkhn)
[6] Gulc B and Silversides K (2016) Parents' experiences of services and information in the early years: Social Mobility and Child Poverty Commission (http://bit.ly/2n5goCn)
[7] Rutter J (2016) 2016 Childcare costs survey: Family and Childcare Trust (http://bit.ly/2n5lFKq)
[8] http://bit.ly/2lbdPhc

Universal credit

The current system of tax credits is being replaced with a new welfare system, Universal Credit (UC). UC is being introduced gradually with full roll-out expected in 2022. The maximum eligible childcare cost (£300 for two children) was never raised despite a 35% increase in childcare costs since 2009, doubling inflation.[9] Childcare support in Universal Credit (UC) at 85% will be higher than in current tax credits (70% since 2011) although, given the frozen nominal maximum, the 21% nominal increase by 2020 equates to a 17% real-term cut since 2011.[10]

Other changes

Alongside these changes, there are changes relating to the requirements for those seeking to become qualified childcare workers. The qualification now requires GCSE passes in English and maths. The early years foundation stage (EYFS), which sets out learning and development targets for 0-5 year olds, has also undergone changes over the current and previous parliaments. Finally, the early years funding formula (EYFF) is being overhauled. Incoming reforms to the EYFF include the use of a single base rate by 2019-20, with most funds (90 per cent) distributed using this base rate rather than more responsive supplements.

What are the key issues relating to recent policy changes?

We have four key concerns relating to current trends in childcare policy and funding that should be addressed in future budgets or financial statements.

Firstly, though the extension to the free entitlement is a welcome move, there are significant concerns about both the low rate at which the policy is being funded as well as the impact of restricting the policy to working families.[11] [12] Under-funding is likely to undermine the sector's ability to provide this care, and may also compromise the quality of care. Moreover the regressive nature of this policy – with increased support going to better off households – is likely to result in the widening of the achievement gap.[13]

Secondly, broader funding trends are heavily impacting on childcare. Local authorities have had large reductions in funding for early intervention. The Early Invention allocation – which includes intervention services for older children and those in care – fell from £3.2 billion in 2010-11 to £1.4 billion in 2015-16, a 55% decrease. This budget includes Sure Start Children's Centres, of which funding fell by over a third (37%) from £1.5 billion in 2010-11 to £0.9 billion in 2014-15.[14] The impact on these centres (and other maintained provision and LA-provided services) has been and will continue to be severe across England. Moreover, in general the more deprived the local authority the greater the financial retrenchment, leaving those with the highest levels of need the most limited resources.[15] Other policy and funding changes will also affect the market as local funding formula are overhauled. The Government's proposal to stop the use of quality supplements will have a negative impact on LAs ability to drive up the quality of local childcare.[16]

Thirdly, the combined impact of funding changes and policy decisions is making the system more regressive. Higher income families will receive a larger amount of childcare support than lower income families, targeting support away from those who need it most.[17] This is particularly concerning given other trends in earnings and welfare support, leaving poorer families in considerable need.

Lastly, the change in the welfare system from tax credits to Universal Credit may undermine low-earning parents' ability to work. Though the impact of Universal Credit

[9] 35% between 2009 and 2016 compared to 17% CPI increase (Rutter, J. Childcare Costs surveys 2014 and 2016 http://bit.ly/2n5lFKq and ONS)
[10] At 2020 prices (using childcare cost inflation of 4.4% a year), the maximum set at £210 in 2011 (70% of £300) is £308 compared to £255 under UC (85% of £300), which is 17% less.
[11] Cory G (2015) Extending the early years entitlement - Costings, concerns and alternatives: Institute of Public Policy Research (http://bit.ly/1KTD10I)
[12] House of Commons Committee of Public Accounts (HoC PAC) (2016) Entitlement to free early years education and childcare, Fourth Report of Session 2016–17 (http://bit.ly/2mC0KLN)
[13] Johnes B and Hutchinson J (2016) Widening the gap? The impact of the 30-hour entitlement on early years education and childcare: Education Policy Institute (http://bit.ly/2bkfttz)
[14] National Children's Bureau and The Children's Society (2015) Cuts that cost: trends in funding for early intervention services (http://bit.ly/2mWjyrI)
[15] Innes D and Tetlow G (2015) Central Cuts, Local Decision-Making: Changes in Local Government Spending and Revenues in England, 2009-10 to 2014-15, IFS Briefing Note BN166 (http://bit.ly/2l6Pi9v)
[16] Noden P and West A (2016) The Early Years Single Funding Formula: National policy and local implementation (http://bit.ly/2mWoddv)
[17] Johnes B and Hutchinson J (2016) Widening the gap? The impact of the 30-hour entitlement on early years education and childcare: Education Policy Institute (http://bit.ly/2bkfttz)

will depend on each individual family's situation, on average the impact will be positive for primary earners (the person earning the most in a household), but will reduce the work incentives for second earners with childcare costs. In the case of households with children, these second earners are overwhelmingly women.

What action could be taken to address the key issues?

- **Resolve funding issues:** provide adequate funding for childcare providers to deliver the free entitlement, ensuring there is enough provision, that it is of a high quality, and that workers are paid a fair wage.
- **Target quality through the workforce:** In addition to providing funding rates that ensure a decent wage for workers, the government should also improve childcare qualifications so that they better enable workers to provide high-quality education and care and better reflect the care setting (e.g. appropriate for group settings or home care).
- **Fill the gaps:** Marketised provision can leave poorer neighbourhoods underserved. The government should map gaps in provision and work to fill those gaps. This would include getting a better understanding of how funding falls are affecting provision, including Sure Start, and targeting funds at those children and families that are most in need.
- **Support second earners:** The government should rectify the work disincentives under the incoming system of Universal Credit by creating a 'second earner allowance'. This would improve work incentives for low-earning second earners with childcare costs, who are predominantly women.

Given these challenges, the WBG advocates a universal, free childcare system with well paid and highly qualified staff in the medium term. Modelling of the employment and fiscal impacts of such system shows that while the upfront investment is significant, almost all of it is recouped through higher tax revenue and reduced spending on means-tested benefits.[18]

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[18] See WBG briefing on universal childcare: (http://bit.ly/2lHHGeH)