Childcare

Briefing from the UK Women's Budget Group on the key policy issues

October 2019

WOMEN'S BUDGET GROUP

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.* ***Only just over half (57%) of local authorities in England have enough childcare for parents who work full-time*** *and just a* ***fifth (22%) have enough for parents working atypical hours****.*
- *Policy under successive governments has not addressed the fundamental supply, affordability and quality issues in the sector.*
- *The recent increase in* ***the free entitlement to 30 hours for working parents*** *and* ***the introduction of 'tax-free' childcare (both in 2017) 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. Planned increased support in Universal Credit will benefit only some parents, leaving many with poor work incentives. Moreover,* ***any support under UC does not compensate for increasing childcare costs and a lack of adequate supply****.*
- *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 UK?

Affordability: Childcare in the UK is expensive and prices continue to rise often above inflation. Research by the TUC found that for parents with a one-year old child, the cost of their child's nursery provision has grown four times faster than their wages, and more than seven times faster in London (from 2008 to 2016).[1] The problem is further exacerbated by policy changes, such as freezes in in-work support. Even those families where both adults earn the National Living Wage, high childcare costs are likely to leave families in deficit.[2]

High childcare costs can block parents' access to employment, with more than half (52%) of non-working mothers in England preferring to be in paid

[1] TUC (2017) Press release: Cost of childcare has risen four times faster than wages since 2008, says TUC (http://bit.ly/2ioIyrS)

[2] Child Poverty Action Group (2019) The cost of a child in 2019 (http://bit.ly/2WrdCal)

work if they could arrange the right childcare.[3]

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% 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% for full-time dual earner couples and 20% for 1.5 earner couples on median incomes.[4]

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.[5] 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 those children who would benefit the most from such care not being able to access it. Moreover, recent policy changes will exacerbate these inequalities.

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 year.[6]

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.[7] As a result, just under half of parents are either 'confused' or have 'no idea' what is on offer.[8]

Under-supply: Only just over half of local authorities in England (57%) report that they have enough childcare for parents who work full-time, and only fifth (22%) have sufficient childcare for parents who work atypical hours. Children with special educational needs or disability are particularly under-served, with only 23% of local authorities having enough childcare for them.[9]

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. The award does not increase after two children. Moreover, maximum eligible costs have not changed since they were introduced in 2003 despite the cost of childcare rising by 80% over the period.[10] Tax credits are being replaced by **Universal Credit**. The rollout has begun, and is expected to be completed by March 2023.[11]

Cash transfers that act as a discount on the cost of childcare are available through the recently introduced **'tax-free childcare' scheme**. 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).

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. All eligible families can access 15 hours per week for 38 weeks per year. This policy has recently been extended for working families. Those families in which all adults are in employment are entitled to a further 15 hours per week as of September 2017.

Another important form of in-kind support is directly provided services via local authorities, such as Sure Start Children's Centres and free or subsidised nursery

[3] Department for Education (2018) *Childcare and Early Years Survey of Parents in England, 2018* (http://bit.ly/331ebKm) p. 15
[4] IPPR (2014) *Childmind the gap: Reforming childcare to support mothers into work* (http://bit.ly/2numflQ)
[5] IFS (2014) *The economic effects of pre-school education and quality* (http://bit.ly/2ngboeF)
[6] See various studies by J. Heckman and team (http://bit.ly/2qgyiEk)
[7] Department for Education (2016) *Childcare and early years survey of parents 2014 to 2015* (http://bit.ly/2eWgkhn)
[8] Social Mobility and Child Poverty Commission (2016) *Parents' experiences of services and information in the early years* (http://bit.ly/2n5goCn)
[9] Family and Childcare Trust (2019) *Childcare Survey 2019* (http://bit.ly/2Ieguk6)
[10] The Guardian (16 Feb 2016) 'Cost of raising children in UK higher than ever' (http://bit.ly/2fOzxS4)
[11] House of Commons Library (14 Jun 2018) Universal Credit roll-out: 2018-19. Number 8299 (http://bit.ly/31Xx3ZI)

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 has now been extended for some families with three- and four-year-olds. Eligible families are entitled to 30 hours of childcare for 38 weeks a year, in comparison to 15 hours available previously. 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 exclude around half of the families that access the free 15 hours.[12]

Tax-free childcare

Tax free childcare, as discussed above, was rolled out from April 2017, and coincided with the withdrawal of employer-supported childcare vouchers. The rollout was marred with technical problems,[13] and as a result the Government delayed the full roll-out to March 2018.[14] The level of take-up is not yet known.

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 2023.[15] Though on first glance, childcare support in Universal Credit (UC) appears to be more generous than under the current tax credit system (85% of costs covered compared to 70% under tax credits), the incoming system will equate to a cut for many of the poorest working families.[16]

Other changes

Alongside these changes, there are minor revisions to the early years foundation stage (EYFS), which sets out learning and development targets for 0-5 year-olds, after more significant changes were abandoned by the government. Similarly, attempts to increase qualification requirements for new childcare staff were abandoned following recruitment concerns from the sector.[17]

Finally, the early years funding formula (EYFF) has been overhauled. The formula now includes the use of a single base rate by 2019-20, with most funds (90%) distributed using this base rate rather than more responsive supplements.

Smaller-scale initiatives are also underway, such as the twelve 'Social mobility and opportunity areas'[18] some of which will focus on enhancing early years provision in order to increase social mobility, and the Mayor of London's 'Early Years Hubs'.[19]

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, and early evidence suggests a positive impact in working hours for parents,[20] there are significant concerns about quality and equity. There are issues both with the low rate at which the policy is being funded as well as the impact of restricting the policy to working families.[21] Under-funding is likely to undermine the sector's ability to provide this care, and may also compromise the

[12] The Guardian (12 Feb 2017) "Parents on zero-hour contracts 'could miss out on free childcare'" (http://bit.ly/2lbdPhc)
[13] NurseryWorld (2017) Tax-Free Childcare runs into problems, 14 May 2017 (http://bit.ly/2iYH7gt)
[14] UK Parliament Childcare Service Update: Written statement - HCWS247, Made on: 15 November 2017 (http://bit.ly/2z7cZXd)
[15] Kennedy, S. and Keen, R. (2018) Universal Credit roll-out: 2018-19 House of Commons Library. Number 8299, 14 June 2018 (https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8299)
[16] See IFS (2016) Green Budget 2016 (http://bit.ly/2j9Hnta) and (http://bit.ly/2zVeafY)
[17] Department for Education (2017) Early Years Workforce Strategy (http://bit.ly/2msw587)
[18] Department for Education (2017) Social mobility and opportunity areas (http://bit.ly/2y4vawJ)
[19] Greater London Authority (2017) Press release: Mayor unveils plans for London's first Early Years Hubs (http://bit.ly/2ywpTx2)
[20] Department for Education (2018) Evaluation of the first year of the national rollout of 30 hours free childcare Research report (http://bit.ly/36egJa5)
[21] IPPR (2015) Extending the early years entitlement - Costings, concerns and alternatives (http://bit.ly/1KTD10I)

quality of care, [22] a concern echoed by the House of Commons Treasury Committee.[23]

As of 2017, there were over 1,000 fewer childcare providers on the Early Years Register than in 2015. This decline is likely to be partly as a result of the extension in the free entitlement coupled with under-funding.[24]

Of those providers that are still operating, a minority have already declined to offer the additional hours with half citing funding challenges. Of those who offer the extension, two-fifths (39%) of private providers reported a fall in profits due to the extended hours.[25]

Moreover, the regressive nature of this policy – with the poorest families excluded from additional hours is likely to widen the achievement gap.[26] [27]

There also appear to be some issues relating to access to the extension to the entitlement. To access the free hours, parents must have a validated code. Yet one month after the start of the autumn term 2018, more than 30,000 codes were yet to be validated.[28] There are a range of potential reasons for this, including problems with the verification system, local authorities, providers or parents being slow to respond or a lack of places available for the additional hours. There is also a high level of geographical variation in access to the 30 hours, as indicated by variation in the proportion of codes that have been validated across local authorities.[29]

Secondly, broader funding trends are heavily impacting childcare. Local authorities have had large reductions in funding for early intervention. The Early Intervention 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.[30] The impact on these centres (and other maintained provision and LA-provided services) has been and will continue to be severe across England. Over 1,000 children's centres closed between 2009 and 2017.[31] 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.[32]

Other policy and funding changes will also affect the market as local funding formulae are overhauled. The Government's removal of statutory quality supplements will have a negative impact on LAs ability to drive up the quality of local childcare.[33]

Thirdly, the combined impact of funding changes and policy decisions is creating a more regressive system. Higher income families receive a larger amount of childcare support than lower income families, targeting support away from those who need it most.[34] 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. The amount of UC reduces as earnings rise, which means that many families will receive less than 85% of their childcare costs once they increase their hours. This significantly reduces incentives to enter employment or increase the number of hours worked, since families will be faced with higher childcare costs not covered by UC. The disincentives are particularly strong for 'second earners' – mostly women – who also face

[22] House of Commons Committee of Public Accounts (2016) *Entitlement to free early years education and childcare, Fourth Report of Session 2016–17* (http://bit.ly/2mC0KLN)
[23] House of Commons Treasury Committee (2018) *Childcare: Ninth Report of Session 2017–19* (http://bit.ly/2oto98o)
[24] The Observer (18 Nov 2017) 'A thousand nurseries close as free childcare scheme falters' (http://bit.ly/2B1H1gc)
[25] Department for Education (2018) *Evaluation of the first year of the national rollout of 30 hours free childcare Research report* (http://bit.ly/36egJa5)
[26] Education Policy Institute (2016) *Widening the gap? The impact of the 30-hour entitlement on early years education and childcare* (http://bit.ly/2bkfttz)
[27] Stewart, K. and Waldfogel, J. (2017) *Closing Gaps Early: The role of early years policy in promoting social mobility in England* (http://bit.ly/2z4ztfi)
[28] Department for Education (2018) *Management information on the number of 30 hours free childcare codes issued and validated for the autumn term 2018* (http://bit.ly/2JvYnaU)
[29] Department for Education written question answered on 3 November 2017 (http://bit.ly/2AP32i7) analysed by Children and Young People Now: Article 'DfE figures reveal 30 hours childcare "postcode lottery"'(http://bit.ly/2ijiTOy)
[30] National Children's Bureau and The Children's Society (2015) *Cuts that cost: trends in funding for early intervention services* (http://bit.ly/2mWjyrI)
[31] The Sutton Trust (2018) *Stop Start: Survival, decline or closure? Children's centres in England, 2018* (http://bit.ly/34dMFK0)
[32] IFS (2015) 'Central Cuts, Local Decision-Making: Changes in Local Government Spending and Revenues in England, 2009-10 to 2014-15' (http://bit.ly/2l6Pi9v)
[33] Noden, P. and West, A. (2016) *The Early Years Single Funding Formula: National policy and local implementation* (http://bit.ly/2mWoddv)
[34] Education Policy Institute (2016) *Widening the gap? The impact of the 30-hour entitlement on early years education and childcare* (http://bit.ly/2bkfttz)

employment disincentives due to the tapering related to earnings, but often receive no work allowance.[35]

In addition, under UC, parents are reimbursed for childcare costs a month in arrears. These costs very often include a deposit, registration fees and other fees that can amount to several hundreds of pounds.

For low-income mothers, this is a huge challenge when considering returning to paid work. Families on the lowest incomes have an average of just £300 in savings and financial assets,[36]and half of low-income families have no savings at all.[37]

What short-term 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 disadvantage:** Recent policy changes shift childcare support away from those families whom it would benefit most. The government should work to reduce inequality in the childcare system by increasing the pupil premium, so that is effectively targets disadvantage.[38]
- **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). This includes provision for increased wages.
- **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 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.

In the medium to long-term, given these challenges, the WBG advocates a universal, free childcare system with well-paid and highly qualified staff. 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.[39]

Written by:

Giselle Cory, Policy Analyst specialising in Family Policy

UK Women's Budget Group, October 2019.

WBG is an independent, voluntary organisation made up of individuals from Academia, NGOs and trade unions. See www.wbg.org.uk

Contact: Mary-Ann Stephenson (WBG Director):

maryann.stephenson@wbg.org.uk

[35] WBG (2018) Submission to the 'Childcare as Barrier to Work Enquiry' of the Work and Pensions Select Committee (https://bit.ly/2PTpldK)
[36] ONS (2018) Wealth in Great Britain Wave 5: 2014 to 2016 (http://bit.ly/2xMkjbS)
[37] DWP (2018) Family Resources Survey: financial year 2017/18 (http://bit.ly/2xJFIm1)
[38] As recommended by the Social Mobility Commission (2017) Time For Change: An Assessment of Government Policies on Social Mobility 1997-2017 (http://bit.ly/2shbXs1)
[39] See WBG briefing on universal childcare: (http://bit.ly/2lHHGeH)

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