A childcare system fit for the future?

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Introduction

In the OECD, the UK appears a generous spender on childcare and early education: in 2011, government expenditure represented 1.1% of GDP (including pre-school), which was above the OECD average of 0.8%, but behind Denmark (2%), Iceland and Sweden (both 1.6%; OECD, 2014). In terms of child poverty and mothers' employment the UK lags behind countries such as Sweden, Finland and Slovenia, which spend more on services to families than cash benefits; the UK does the opposite. We argue that the UK's current demand-priming approach is too complex, inefficient and unsustainable and provides a low baseline of provision compared to other countries. This results in a shortage of supply, prohibitively high costs for parents, wide regional variation and negative impacts on women's employment. We argue that the next government's priority should be to move towards funding and developing a supply-led system with capped fees based on a sliding-fee scale.

Childcare reforms under Labour and the Coalition

Labour's introduction of the universal Early Years Entitlement marked a historically significant shift in UK childcare policy. This provides universal childcare for 3- and 4-year olds (equating to 15 hours of care per week for 38 weeks a year), intended to be gradually extended to the most disadvantaged 2-year olds from 2008, together with 'wrap-around' care for school-age children through Extended Schools and tax relief on employer-provided childcare vouchers.

The Coalition has committed to implementing Labour's proposed changes to the latter to ensure that higher rate tax payers do not disproportionately benefit and in 2013 announced its intention to double to 40% the number of 2-year olds qualifying for the Early Years Entitlement. Following the 2010 Comprehensive Spending Review, however, the maximum limit for childcare costs under Working Tax Credit was reduced from 80% to 70%, and from 2011 funding provided under the Extended Schools Programme was brought within overall schools funding, meaning no specific amount is earmarked for extended services, with schools deciding locally on what should be offered.

In 2013 the Coalition announced plans for a new tax-free replacement for the existing employer-provided voucher system from 2015. Families will receive 20% of yearly childcare costs, up to £10,000 per child; to be eligible both parents need to be in work, each earning less than £150,000 per year and not receiving support for childcare costs from tax credits or Universal Credit (HM Treasury, 2014). From 2016 the childcare costs covered under Universal Credit are planned to increase to cover 85% of eligible childcare (HM Treasury, 2014), going some way to addressing criticisms made. However, tax-free childcare is subject to the cap on social spending, and it is not clear how this will be financed over time.

Some of the effects of these changes are as yet unknown, although the impact of the reduction in the payment of childcare costs through Working Tax Credit has been negative. Increased subsidies may raise already prohibitively costly childcare, with the cuts made to the Sure Start Centres (with more closures planned) significantly affecting disadvantaged children.

Parental share of childcare costs amongst the highest in the OECD, with supply shortages and wide regional variation

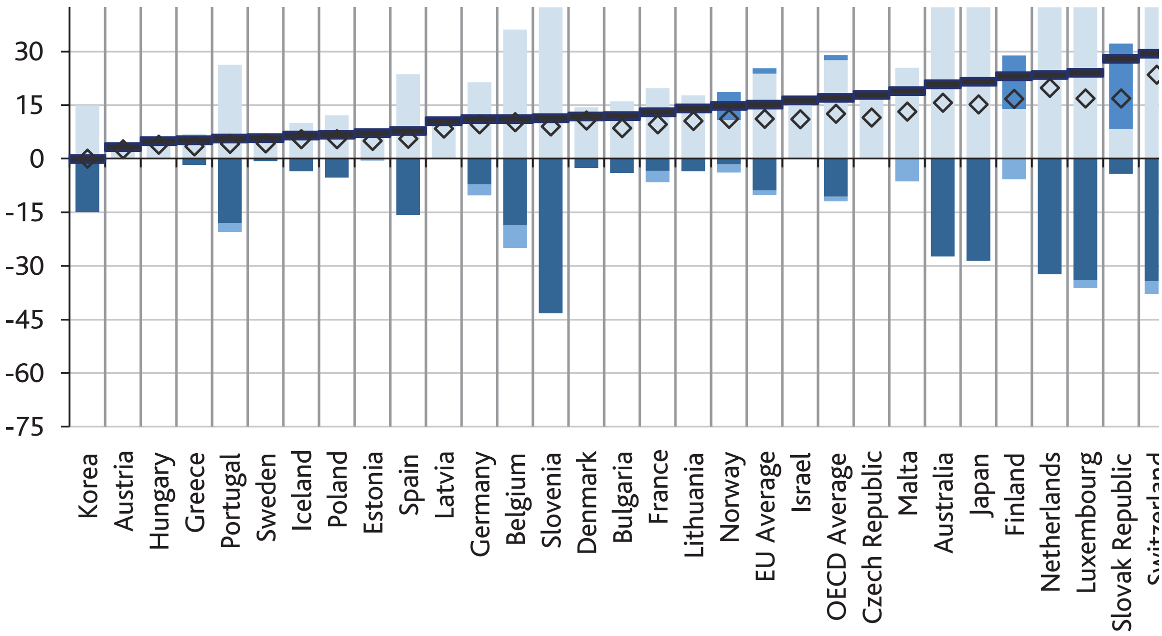
The Family and Childcare Trust's Annual Survey (2014) found that since 2009 average childcare costs have risen by 27%, while wages have remained static. Figure 1 shows that in a two-earner family earning 150% of the average wage after accounting for government support, net childcare costs represent 34% of average family incomes, compared to an OECD average of 13%. At 167% of average earnings the childcare fees paid by a dual earner household typically amount to approximately 43% of household income and 14% for low-income single parent households.

Unlike relatively standardised childcare arrangements in most EU countries, the UK combines part-time universal free places with demand-led funding through the tax and benefit systems for both pre-school and school-age children. Parents are reimbursed through the tax and benefit systems for childcare purchased in an open market, where fees are set by providers to maximise profitability. They can receive financial help directly; other subsidies go directly to childcare providers through the Free Entitlement. Retrospective reimbursement through the tax and benefits system is inefficient and a deterrent for many families and an array of actors operating across sectors and funding mechanisms add to high costs. Regional variations in childcare provision are significant, with London and the South East offering the most expensive under-5 childcare; additionally 30% of parents report insufficient childcare in their area (DfE, 2014a).

High costs negatively affect mothers' employment

Childcare costs operate in the same way as a reduction in female wages: the higher they are, the lower the probability of women working. High childcare costs, coupled with cuts in Working Tax Credits and Child Tax Credits, reduce income gain for many families; even well-paid professional women report that after paying childcare, tax and national insurance contributions, they see little of their after-tax earnings. Figure 2 compares employment rates for mothers by education (proxy for wage) and the pres-

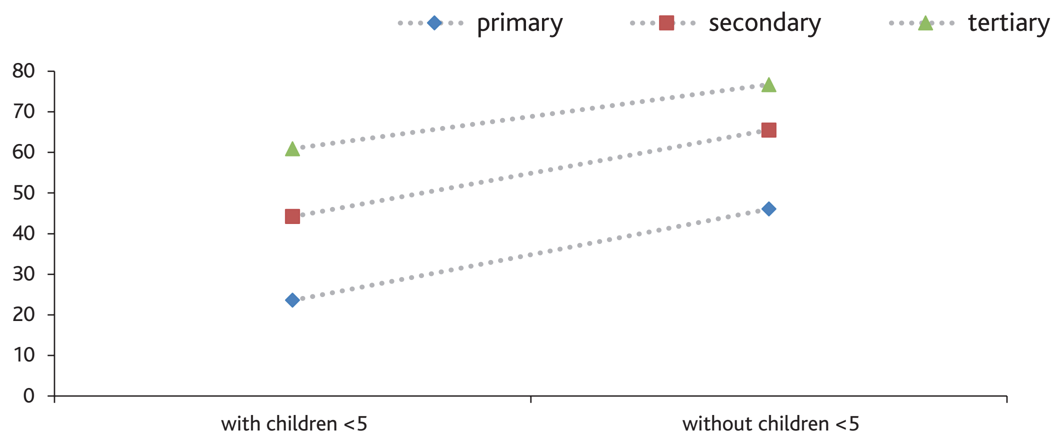
Figure 1: Net childcare costs for a dual-earner family with full-time earnings of 150% of the average wage, 2012



Note: The average wage reflects the earnings of an 'average worker' (see OECD, 2007: 186-7 for detail).

Source: OECD (2014), *OECD Family Database 2014*, OECD, Paris (www.oecd.org/social/family/database.htm).

Figure 2: Female employment rates (25-49 age cohort; FTE in %), by education and presence of children 0-5 years, UK, 2012



Data Source: Eurostat Labour Force Survey, 2012; own calculations.

ence of children aged 0-5 in the household in the UK.

A significant mismatch between service hours and working hours further creates tensions in a family's daily life and often leads to women reducing work hours, or leaving the labour force altogether. Once outside, women face difficulties getting back in; even a few years away has a significant impact on their lifetime earnings and pension rights.

The universal entitlement provides a low baseline compared to other countries, with subsidies tied to being in work

The extent to which childcare facilitates maternal work is increasingly recognised as an important component of service quality. But provision under both Labour and the Coalition has been piecemeal; the complexity of subsidies combined with inadequate high quality provision results in patchwork arrangements which are not suited to families' needs.

A very high (97%) take-up of the Early Years Entitlement (DfE, 2014b) is a clear indicator of high demand for quality childcare services. That it is limited to 15 hours a week, however, conflicts with the reality of their working life, as well as with the tax and benefits system which only recognise employment of 16 or more hours. This disparity is likely to become more pronounced with in-work conditionality under Universal Credit, which will compel recipients to take on extra working hours. The increase in casualised and zero hours contract work during the recession means that it is now even more difficult for families to plan care arrangements, with time required to travel between childcare and places of work being another, often hidden, factor.

Another key problem with current funding for childcare is that, aside from the Early Years Entitlement, the majority of funding is tied to being in work. For parents in education, training or seeking a job, or starting a business, childcare is essential. Time and again research on welfare to work programmes highlights that childcare is a barrier to work when parents are unable to find quality childcare *before* they move into work. The IFS (2014) finding that free places for 3-year olds helped only a small number of women into work is no surprise: entitlement to 15 free hours largely offers a discount on services families already are paying for, rather than helping more women into work.

Conclusion: Childcare cannot be an afterthought

Childcare policy reflects societal sharing of care responsibilities and obligations; who can access affordable quality childcare is an outcome of government decisions. The failings of current policy limit families' choice and force parents to craft their own solutions, leaving many disadvantaged. The forthcoming General Election is an opportunity to set out a vision for the future and decide whether care for children – the bedrock of our society – is indeed a shared social responsibility. Labour has stated that should it win the Election a key policy would be to increase the universal entitlement through an increase in the bank levy.

Regardless of the outcome of the Election, we would like to see a future government committing to a sustainable childcare strategy that will deliver for parents, and, crucially, for children. Priority needs to shift away from demand-priming through cash transfers and a focus on subsidies for parents in work towards funding and developing a supply-led system with means-tested and capped fees based on a sliding-fee scale. Direct funding and provision of quality childcare is a proven tool for poverty reduction and more equitable take-up.

The restructuring of childcare could pay for itself through reduced administration costs, jobs created and improved tax revenues. Increasing affordable and quality childcare raises the probability of women working as their reservation wage decreases. For example, a 10% increase raises the probability of working from 53% to 67% for less educated women and from 79% to 86% for more educated ones (Del Boca et al., 2008). Businesses retain female staff, government benefits from higher tax contributions, and adequate public childcare cuts down the price in commercial markets.

High quality public childcare ensures that parents are comfortable using the service. Quality will improve with nationally set standards and objectives (e.g. well-trained staff and staff:child ratios), while capacity planning and public oversight will reduce regional disparities. Childcare and early education frame the possibilities for later life, and hence strategically investing in quality childcare will yield significant returns for future generations.

References

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