

The 10 year strategy for childcare

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What are the key reforms?

- Extension of paid maternity leave
- Extension of free nursery provision
- Reforms to the childcare element of WTC
- More Children's Centres and wrap-around care
- Improvements in the quality of childcare and early years provision

Extension of Paid Maternity leave – what are the reforms?

- From April 2007 paid maternity leave will be extended from 6 to 9 months
 - Cost £285m per year
- By end of next parliament paid maternity for 12 months and part of this transferable to fathers

Are they sensible?

- Strong empirical evidence that one-to-one care in first year of child's life improves later outcomes
 - E.g. work by Alakeson(2004), Chatterji and Markowitz (2004) and Tanaka (2004)
- Reform will not benefit families where mother does not qualify for SMP e.g. if gave up work after birth of first child
- Means that ability to transfer SMP to father will be contingent on *mother's* qualification for SMP
 - But transferability could reduce incentives for employers to discriminate against women

Extension of free nursery provision

- Currently all 3 and 4 year olds are entitled to 12.5 hours of free nursery education for 33 weeks of the year
 - If care takes place in school or nursery school generally this provision is for 38 weeks (school term time)
 - If parents use private provision (e.g childminder/private nursery) they get a fixed cash payment from the LEA each term
- From 2006 free provision will be extended to 38 weeks
- Between 2007 & 2010 it will be extended to 15 hours per week for 38 weeks
- Goal is for free provision to be extended to 20 hours per week

Are these reforms sensible?

- These reforms apply to all families regardless of income
 - Not targeted at most disadvantaged families
 - High take up of provision so will help a lot of families across the whole income distribution

What are the costs of these reforms?

- Not clear from the PBR papers
 - Improving childcare quality/sustainability £240m in 06/07 and £155m in 07/08
- Our estimates of the likely costs
 - Simple back of the envelope calculations by the IFS suggest these reforms would cost at least £180m per year but likely more (38% increase in generosity)
 - It is not clear that there is adequate existing supply to extend this type of care to 20 hours per week and cost again will be large (84% increase in generosity)
 - Proposed transformation fund (£125m per year) unlikely to go anywhere near meeting the costs of the expansion needed to cater for this ultimate goal

Reform of Childcare element of WTC

- From April 2005 limits of the childcare element of the WTC increased from £135 to £175 (1 child) and from £200 to £300 (2 or more children)
 - Cost £30m per year
- From April 2006 increase the subsidy rate from 70% to 80%
 - Cost £130m per year

What will be effects of these reforms?

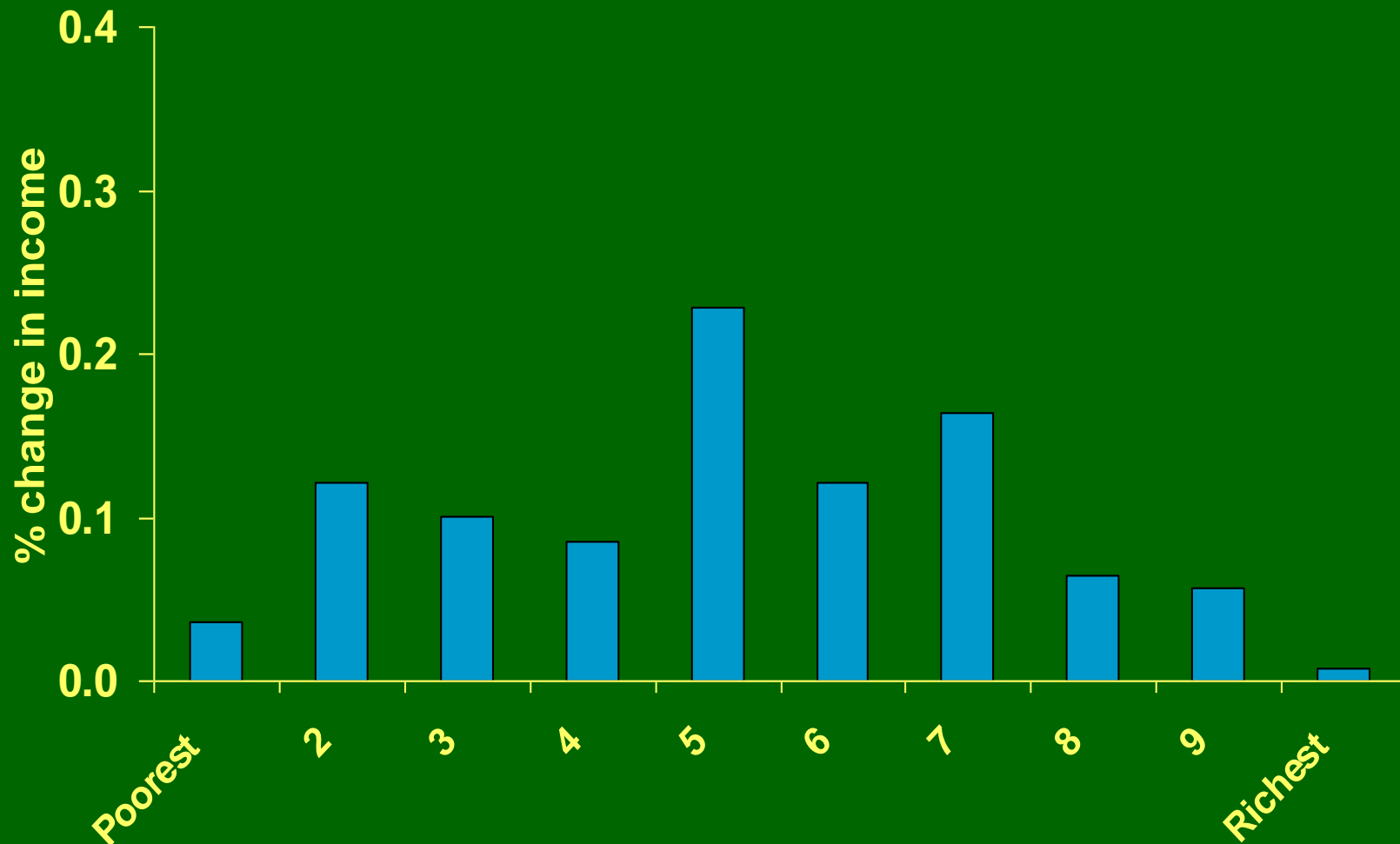
- Increasing the limits will have modest impact, as so few people currently receiving WTC spend the maximum amounts on childcare
 - Increasing limits and subsidy will mean that much richer families will now benefit from system and these families much more likely to have more expensive childcare
- Increasing the subsidy rate from 70% to 80% will increase subsidy rate for those currently benefiting and will widen the incomes over which the taper operates allowing more families to benefit

How will it change operation

- If income is below the amounts below, then you will get full value childcare tax credit (80% of your spending, subject to cap).
 - 1 kid: £19,600
 - 2 kids: £23,900
 - 3 kids: £28,400
 - 4 or more kids: add £4,400 per child
- Absolute maximum incomes where get benefit now increased from (where spend maximum amount):
 - 1 kid: £32,900 to £39,300
 - 2 kids: £43,600 to £57,600
 - 3 kids: £48,100 to £62,100

Childcare credit reforms

Distributional impact within families with children



Improving quality of provision

- Improving quality of provision through having staff with better qualifications
 - For provision for under 3 years need to review child/staff ratios to make this affordable and to attract the type of staff looking for
 - Should pilot changing these ratios (conditional on having highly qualified staff) as part of the London pilots