



# PRESS RELEASE

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For immediate release:  
Thursday 2<sup>nd</sup> December 2004  
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## The PBR Announcements on the 10-Year Strategy for Childcare

The Government today published its 10 year strategy for childcare.

Lorraine Dearden, Director of the Centre for Early Years and Education Research at IFS, comments on the main proposals:

### Extension of Paid Maternity Leave

From April 2007 paid maternity leave will be extended from 6 to 9 months at a cost of £285m per year. The government also announced a goal of extending paid maternity leave to 12 months by the end of the next Parliament. The government also plans to allow a mother to transfer a proportion of her maternity pay and leave to the father by the end of the next Parliament.

“This is a welcome reform, as consistent one-to-one care in the first year of a child’s life appears to enhance subsequent child outcomes. The cost of this reform is limited as it is only available to mothers who qualify for statutory maternity pay before the birth of their child: it will not benefit mothers who were not in qualifying work before the birth of their child, nor mothers having a 2<sup>nd</sup> or subsequent children who gave up work after the birth of their first child. In time the cost of this reform may increase if the extension of maternity pay to 9 months - and eventually 12 months - results in an increase in the proportion of mothers staying in the labour market.”

### Extension of the Nursery Education Grant (NEG)

Currently all 3 and 4 year olds are entitled to a free nursery place for 12.5 hours a week for 33 weeks a year. From 2006 this will be extended to 38 weeks a year and between 2007 and 2010 this will be extended to 15 hours a week for 38 weeks a year. The government has an ultimate goal of extending free provision to 20 hours a week for 38 weeks a year.

“The proposed extension of free nursery provision is not targeted on those most in need and will become expensive if it extends to the government’s eventual goal of 20 hours a week. There is also the question of how long it will take to create an adequate supply of nurseries to provide this care. The government is going to impose, through legislation, a new duty on local authorities to ensure sufficient supply to meet the needs of families by 2008 and will create from April 2006 a transformation fund of £125m per year to help finance this extra provision.”

“For parents currently using nursery for less than 15 hours a week, the new measure will make increasing their nursery use cheaper (indeed free up to 15 hours), and may therefore encourage them to use more. By contrast, for parents who would use private nursery provision for 15 hours a week or more even without the reforms, the new measures will mean a straight cash transfer from the government to parents and would only increase their nursery use because it would increase their disposable incomes.”

## **Reforms to the Childcare element of the working tax credit**

The PBR announced an increase from April 2005 on the limits of the childcare element of the Working Tax Credit from £135 to £175 for families with one child and from £200 to £300 for families with 2 or more children. It will also increase the subsidy from 70% to 80% of formal childcare costs up to these limits from April 2006.

“Earlier work carried out by the IFS (Green Budget 2003) suggests that increasing the limits will have almost no impact, as so few people receiving WTC spend the maximum amounts on childcare. So the cost of this reform is very modest (£30m per year). It is the increase in the subsidy rate from 70% to 80% that is the more significant part of this reform. It will cost the government £130m per year as it both increases the subsidy for those currently benefiting, and also increases the range of incomes over which the taper operates and means that more families will now be entitled to this element of the WTC. The cost remains limited, however, because the childcare element of the WTC is conditional on all parents working and does not help families using informal childcare.”

## **Other reforms**

The PBR also announced more children’s centres and wrap-around care for 3 to 14 year olds, and other reforms aimed at improving the quality of childcare and early years provision. A further analysis of the announcements will be provided by the IFS in its PBR presentation on Friday 3<sup>rd</sup> December.

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### Notes to editors:

1. This article can be used in its entirety or quoted in part. Please credit the author as Lorraine Dearden, Institute for Fiscal Studies.
  2. A briefing outlining our analysis of the Chancellor’s PBR statement will be held at IFS on Friday 3<sup>rd</sup> December at 1pm. If you would like to attend or have any queries, contact the IFS press office on 020 7291 4800.
  3. Our 2005 Green Budget, which will examine the Chancellor's options for the 2005 Budget, will be published in January next year. We are pleased to announce that, for the first time, it will be produced in collaboration with Morgan Stanley. The launch will take place on the morning of Wednesday 26<sup>th</sup> January. Further details will be circulated nearer the time, but please contact Emma Hyman or Bonnie Brimstone in the IFS press office if you would like to attend.
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