



Families and Children

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Summary

Taxes, benefits and tax credits

- The government's last Budget announced a small rise in the child tax credit for poorer families with children aged 1 or 2, and the Labour Party has proposed a less generous tax treatment of childcare vouchers for higher-rate taxpayers. The Conservatives and Liberal Democrats have proposed cuts to child tax credit for richer families and the Child Trust Fund. In both cases, the Liberal Democrats' proposed cuts would be larger than the Conservative Party's. The Conservative Party has proposed a partially-transferable personal allowance for some married couples, restricted to basic-rate taxpayers, which would benefit around 4 million couples, around 1.5 million of whom would have children.
- These policies would have very small impacts on couple penalties and premiums in the tax and benefit system. The fraction of couples facing a couple penalty in the tax and benefit system would not change under Labour Party plans, and would fall very slightly under Conservative and Liberal Democrat plans (by 1 and 2 percentage points respectively). The average penalty would fall very slightly (by 0.2%) under the Conservative plans, rise very slightly (by 0.4%) under Labour's plans, and rise by a little more (by 3.1%) under the Liberal Democrats' plans.
- It is not clear what the Conservative Party means by its desire to "end the couple penalty for all couples in the tax credit system". A literal interpretation of this ambition would require assessing tax credits on an individual's own income, and cost at least £18 billion a year. It may be that the Conservative Party want to increase the working tax credit for couples with children. This would reduce couple penalties for couples with children, but would introduce new couple premiums, and would leave the vast majority of couples with children facing a couple penalty in the tax and benefit system.

Parental leave, pay and flexible working

- The Labour Party is proposing doubling paternity pay to 4 weeks, but has dropped its previous ambitions to extend maternity pay from 9 to 12 months. The Conservatives and the Liberal Democrats propose to make all 12 months of maternity leave transferable from mother to father, as opposed to the Government's plan to make only 6 months of it transferable. The Conservatives and the Liberal Democrats want to extend employees' right to request flexible working from families with children to other workers.

Childcare, Early Years and Education

- The Labour Party proposes a very modest expansion of the current pilot providing free nursery education to deprived two-year-olds, a considerably less expensive policy than that announced by Gordon Brown last autumn. The Conservative Party has proposed reforms to Sure Start to alter its focus and its priorities. The Liberal Democrats aspire to extend free nursery provision, but when the nation's finances allow.
- Overall, there is a conspicuous absence of policy pledges with large price tags attached, presumably because of the deep spending cuts that will have to be made over the next Parliaments.

1. Introduction¹

All three main UK political parties claim to have put the needs of families at the heart of their campaigns. On launching the Labour Party's manifesto for families Yvette Cooper, Secretary of State for Work and Pensions said that "We've always made helping families a central part of Labour's campaigns – and we are doing so again in this election".² For the Conservatives, David Cameron has stated that "Above all, we will be the most family-friendly Government you've ever seen in this country, because I believe that the family is the crucible of responsibility".³ The Liberal Democrat manifesto states that "Liberal Democrats believe every family should get the support it needs to thrive".⁴

This Election Briefing Note, drawing in part on past notes in this series, analyses the manifesto proposals of the three main political parties in the area of families with children. In particular, it discusses the following policies:

- Taxes, benefits and tax credits for families with children (section 2);
- Abolishing the couple penalty in the tax credit system (section 3);
- Parental leave, pay and flexible working (section 4);
- Childcare, early years education and education (section 5).

Other issues which are relevant to families with children, but not covered here, are welfare policy towards lone parents, and schools: these are also discussed in other notes in the series.⁵

2. Taxes, benefits and tax credits for families with children

All three parties' proposals for changes to taxes, benefits and tax credits would, in principle, affect some families with children. This section looks at those changes which only affect families with children, or which are being presented by the three main parties as particularly relevant to families with children. This note draws on a previous report which analysed all tax and benefit changes proposed by the parties.⁶ It also examines to what extent changes in taxes and benefits would alter the distribution of couple penalties and premiums in the tax and benefit system. This analysis builds on new work by IFS researchers which analyses the distribution of couple penalties and premiums in the tax and benefit

¹ This series of Election Briefing Notes has been funded by the Nuffield Foundation, grant OPD/36607. The Nuffield Foundation is an endowed charitable trust that aims to improve social well-being in the widest sense. It funds research and innovation in education and social policy and also works to build capacity in education, science and social science research. The Nuffield Foundation has funded this project, but the views expressed are those of the authors and not necessarily those of the Foundation. More information is available at <http://www.nuffieldfoundation.org>. Some material in this note has been taken from other notes in the same series. Any errors and omissions are the responsibility of the authors. The Family Resources Survey was made available by the Department for Work and Pensions, which bears no responsibility for the interpretation of the data in this Briefing Note.

² Labour Party manifesto: <http://www2.labour.org.uk/families-manifesto>

³ http://www.conservatives.com/News/Speeches/2010/04/David_Cameron_Lets_mend_our_broken_society.aspx

⁴ Liberal Democrat manifesto: http://www.libdems.org.uk/our_manifesto.aspx

⁵ M. Brewer and R. Joyce, 'Welfare reform and the minimum wage', IFS Election Briefing Note, <http://www.ifs.org.uk/publications/4830>, and H. Chowdry, A. Muriel, L. Sibietta 'Education Policy', IFS Election Briefing Note, 2010: <http://www.ifs.org.uk/publications/4844>

⁶ S. Adam, M. Brewer, J. Browne and D. Phillips, 'Taxes and benefits: the parties' plans', IFS Election Briefing Note, 2010, <http://www.ifs.org.uk/publications/4849>.

system, discusses how they arise and what steps could be taken should one want a system with fewer penalties or premiums.⁷

The amount of support directed to families with children has changed dramatically since 1997. Child benefit rates have changed only slightly in real terms, but spending on tax credits in 2010–11 is forecast to be over £29 billion, compared with around £7 billion on the equivalent benefits in 1997–98 (in today's prices). A past note in this series showed how tax and benefit reforms since 1997–98 have favoured families with children, especially those with a low income⁸, and another describes how relative child poverty fell in each year from 1998–99 to 2004–05 (although it has risen subsequently), something which would not have happened without the increased generosity.⁹

The government has announced that it would introduce a 'toddler tax credit', a higher level of the child element of child tax credit for families with children aged 1 or 2, which will be worth an additional £4 a week (it is currently about £44 per week), to complement the higher award already in place during the first year of a child's life. This costs £0.2 billion per year from 2012–13 onwards. The child element of child tax credit is received by the poorest half of families with children. This is a small change, but may help to make tax credits more focused on the poorest children.

Manifesto announcements

In addition to the Government plans, the parties' manifestos contain the following:

Labour Party:

- Restrict tax relief on employer-provided childcare vouchers to the basic-rate of income tax.

Conservative Party:

- Stop paying tax credits to families with incomes over £50,000 (estimated by them to save £0.4 billion a year, but see Box 2.1);
- Introduce a partially transferable income tax personal allowance to some adults who are married or in a civil partnership (estimated by them to cost around £0.5 billion);
- Stop government contributions to child trust funds for children whose parents have incomes above £16,040. Saves £225 million.

Liberal Democrats:

- The family element of the child tax credit would be tapered immediately after the child element has been completely withdrawn (estimated by them to save £1.3 billion a year, but see Box 2.1);
- Move tax credits to a system of fixed 6-monthly awards, rather than adjusting payments on a regular basis as income and circumstances change (no estimate of cost given);
- End all government contributions to child trust funds (estimated by them to save £0.5 billion a year).

⁷ S. Adam and M. Brewer, 'Couple Penalties and Premiums in the UK Tax and Benefit System', IFS Briefing Note, 2010, <http://www.ifs.org.uk/projects/320>.

⁸ J. Browne and D. Phillips 'Tax and benefit reforms under Labour', IFS Briefing Note, <http://www.ifs.org.uk/publications/4807>.

⁹ A. Muriel, D. Phillips and L. Sibieta, 'Living standards, inequality and poverty: Labour's record', IFS Briefing Note, <http://www.ifs.org.uk/publications/4808>.

Tax credits

Information made available to us by the Conservative Party is clear that its intended policy is to reduce the threshold at which the family element of the child tax credit starts to be withdrawn from £50,000 to £40,000. The family element of the child tax credit is currently worth £545 per year to all families with dependent children with incomes below £50,000 a year.¹⁰ It is withdrawn at a rate of £1 for every £15 of income above this level, meaning that families with incomes above £58,175 do not benefit at all. Families whose joint incomes are below £40,000 would be unaffected by the Conservatives' policy, those with incomes between £40,000 and £48,175 would lose some of their tax credits, and those with incomes above this level would lose all their tax credits. The maximum loss in cash terms would be £545 a year for those families with incomes between £48,175 and £50,000. The description of the policy in the Conservative manifesto does not contain any suggestion that those with incomes below £50,000 would lose out, and therefore seems incomplete at best and misleading at worst. Box 2.1 discusses how much the measure would save.

Box 2.1. How much can be saved from proposed changes to tax credits?¹¹

The Conservative Party has said that its cuts to the family element of child tax credit would save £0.4 billion, and the Liberal Democrats have said that their cuts to the family element would save £1.3 billion. Both estimates are too high, as they are both based on calculations (made by IFS researchers) which assumed that all individuals entitled to tax credits received them. Our best guess is that the Conservative Party policy would save between £45 million and £400 million, and the Liberal Democrats' policy would save around £0.9 billion a year.

The Liberal Democrats also propose to move tax credits to a system of fixed 6-monthly awards, and do not say what impact this change might have on spending on tax credits. In principle, a system of tax credits in which awards depend on past circumstances should give very similar levels of entitlements, on average, as one in which awards depend on current circumstances, but there are good reasons to think the proposed change would reduce tax credit spending. First, the current system is asymmetric (and works in the favour of the tax credit recipient), because the first £25,000 of income rise in any year is ignored for the purpose of calculating entitlements, but any falls in income are counted in full; this asymmetry (and its resulting cost) would not be present under a system of backward-looking, fixed awards. Second, some over-payments of tax credits are currently written-off, a cost to government which could not occur under a system of fixed, backward-looking, awards which would not have over-payments. But it is not possible for us to estimate by how much spending on tax credits would fall, or which tax credit recipients would be affected.

The Liberal Democrats propose two reforms to the tax credit system. First, they propose that the family element of the child tax credit (described above) be tapered immediately after the child element has been completely withdrawn. This means that a family with one non-disabled child (aged 1 or over) would no longer be entitled to tax credits if their income exceeded about £25,000, with each additional child increasing the point at which entitlement ends by about £6,000. Tax credit recipients with incomes between this point and the existing family element threshold (£50,000) would be worse off; poorer

¹⁰ Families with a baby under 1 year old receive £1,090 through the family element of the child tax credit, and so it is not exhausted until the family's income is £66,350. This would fall to £56,350 under the Conservatives' proposal.

¹¹ This draws on S. Adam, M. Brewer, J. Browne and D. Phillips, 'Taxes and benefits: the parties' plans', IFS Election Briefing Note, 2010, <http://www.ifs.org.uk/publications/4849>.

families who are entitled to the child element would be unaffected, as would families with incomes over about £58,000, who are not entitled to any tax credits under the present system.

The second proposal of the Liberal Democrats is to move tax credits to a system of fixed 6-monthly awards, rather than adjusting payments on a regular basis as income and circumstances change. The advantages of such a system are that families would never have to face an under- or over-payment and that it should be considerably easier for families to work out what their awards might be if they moved into paid work. The disadvantage of such a system is that awards would necessarily be based on past, rather than current, circumstances. The key question is whether this slight loss of precision in the targeting of tax credit awards is a price worth paying for greater certainty and transparency. In past work, IFS researchers argued that it almost certainly would be.¹²

Transferable tax allowance for married couples

After years of decline, the married couple's allowance was finally scrapped in the Labour government's 1999 Budget for all except couples where one was born before 1935.¹³ The Government has no plans to reinstate a married couples allowance, stating that 'marriage is a personal and private decision for responsible adults, with which politicians should not interfere'.¹⁴

If the Conservatives form the next government, they would make up to £750 of the income tax personal allowance transferable between adults who are married or in a civil partnership, so long as the higher-income member of the couple is a basic-rate taxpayer.¹⁵ The cost of this policy would be £500 million if introduced in 2010–11.

How would the policy work? If one adult in a couple is not using all of their personal income tax allowance (because their income is less than the personal allowance, currently £6,475 per year), then they can transfer up to £750 of this unused allowance to their spouse. This transferred allowance would then lower the spouse's tax bill by up to £150 (the tax that would be paid on £750 of income at the basic rate of 20%). However, this transferred allowance would be tapered away from individuals whose income exceeds £42,375, at a rate of 50p for every £1 by which their income exceeds £42,375.¹⁶ This means that no-one with an income above the threshold of £43,875 at which the higher 40% income tax rate applies would benefit. A married individual with an income of less than £5,725 per year would therefore be able to transfer £750 of their personal allowance to their spouse, so long as their spouse's income is less than £42,375, increasing the couple's net income by up to £150 a year. Married individuals with incomes of between £5,725 and £6,475 would be able to transfer the unused portion of their personal allowance to their spouse, increasing the couple's net income by less than £150, but again subject to this being tapered away when their spouse's income exceeds £42,375.

The only families which can gain from this policy are married couples where only one partner has an income high enough to be paying income tax and the taxpaying spouse is a basic-rate taxpayer. This

¹² M. Brewer, E. Saez and A. Shephard, 'Means-testing and tax rates on earnings', in J. Mirrlees, S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba (eds), *Dimensions of Tax Design: The Mirrlees Review*, Oxford University Press for Institute for Fiscal Studies, Oxford, forthcoming; draft available at http://www.ifs.org.uk/mirrleesreview/press_docs/rates.pdf.

¹³ A. Seeley 'Married Couple's Allowance', House of Commons Standard Note, 2009: <http://www.parliament.uk/commons/lib/research/briefings/snbt-00870.pdf>

¹⁴ Support for All: the Families and Relationships Green Paper, 2010: <http://publications.dcsf.gov.uk/eOrderingDownload/CM-7787.pdf>

¹⁵ See IFS Press Release 9 April 2010, http://www.ifs.org.uk/pr/marriage_pr.pdf for more discussion.

¹⁶ Values calculated as if the policy were introduced into the current tax system – the Conservative Party has pledged to introduce this policy in the next parliament, but has not given a specific date for its introduction.

means that, out of 12.3 million married couples in the UK, 5.8 million would not benefit because they are both already taxpayers (so there is no unused tax allowance to transfer), 1.6 million would not benefit because neither are taxpayers (meaning that there is no benefit to either partner from a higher personal allowance) and 0.8 million would not benefit because, although only one partner is a taxpayer, they are a higher-rate taxpayer. Four million couples would benefit; a third of all married couples.

A policy that benefits only married couples would increase the financial benefits of being married compared with being an unmarried couple. However, the extent to which marriage decisions respond to financial incentives is not known with any confidence; many couples would not benefit from the policy even if they were married; and the incentives to marry (or not to divorce) provided by a policy whose maximum benefit is £150 a year must surely be weak relative to the other costs and benefits involved. The policy would also increase the financial benefits of being married compared with not having a partner at all. For some beneficiaries, the proposed policy would reduce the so-called 'couple penalty' that is said to exist in the tax and benefit system by up to £150 a year. For a small number of beneficiaries, the proposed policy would lead to a 'couple premium' in the tax and benefit system, where the state collects less tax from the couple when they are married than if they were not married.

What is the motivation for introducing incentives for couples to marry? The Conservative Party have stated that their policy would act as a signal of the value they place on commitment in relationships¹⁷, but previous motivation seems to have come from a belief in the beneficial impact of marriage on children's outcomes (which may stem from the commitment that marriage entails).¹⁸ Children with married parents do better on a wide range of outcomes than children born to cohabiting couples (and indeed to lone parents). These differences may not arise solely from their parents' marital status, however, but in part because of the characteristics of their parents. Recent analysis by IFS researchers suggests that the higher developmental outcomes associated with children of married couples can be explained by the fact that married parents tend to be more educated, have a higher household income, have a higher occupational status, and experience a higher relationship quality early in the child's life. Having taken account of these (largely pre-existing) characteristics of the parents, marital status appears to have little or no additional association with a child's development.¹⁹ In that case, providing incentives for marriage in the tax system is unlikely to lead to improvements in child outcomes. Even if marriage was beneficial for child outcomes and the change in policy led to more marriages, though, it is not clear whether the current Conservative proposals are well targeted; more than a third of the beneficiaries of the policy are pensioner families. In fact, only 35% of the families who gain from the policy have children, and only 17% have children aged under 5.

The Child Trust Fund

The Child Trust Fund (CTF) was launched in April 2005 (just prior to the May 2005 general election, having been announced in the run-up to the 2001 general election). CTF is available to all children²⁰, and involves a payment of £250 from the government when the child is born and when they are seven years

¹⁷ http://www.conservatives.com/News/News_stories/2010/04/Recognising_marriage_in_the_tax_system.aspx

¹⁸ <http://www.centreforsocialjustice.org.uk/default.asp?pageRef=413> While the Centre for Social Justice is not part of the Conservative party, it is well known to influence Conservative party thinking, and its Chairman is former Conservative party leader, Iain Duncan Smith MP.

¹⁹ A. Goodman and E. Greaves 'Cohabitation, marriage and child outcomes', IFS Commentary 113, 2010: <http://www.ifs.org.uk/comms/comm114.pdf>

²⁰ Children born after 1 September 2002 for whom Child Benefit had been claimed were eligible for a CTF account. As Child Benefit is a non-means tested benefit, the majority of families are eligible for the Child Trust Fund. In 2007–08 HMRC estimated that 97% of families took up Child Benefit. <http://www.hmrc.gov.uk/stats/personal-tax-credits/cwtc-take-up2007-08.pdf>

old. Children whose family are receiving certain means-tested benefits or have an income below £16,190 are eligible to an extra £250. From April 2010, children entitled to Disability Living Allowance (DLA) also receive additional annual payments of either £100 or £200 depending on the care component of their DLA award. Families and friends can put additional money into these accounts if they wish (up to an annual limit of £1,200). This money can be invested in savings accounts or shares and (in most circumstances) is only available to the child once they are aged 18.

Two arguments have been made in favour of Child Trust Funds.²¹ The first is that they relieve credit constraints for young adults with few assets of their own, potentially facilitating investment in their education and career. The second is that they may increase financial literacy and encourage a culture of saving. The first justification would seem to be less relevant as an argument for providing child trust funds to better-off families. And it is unclear whether payments into a child trust fund at young ages are really the best way for the government to alleviate credit constraints at age 18, as opposed to extending student loans, for example (or as a simple lump sum payment at age 18). Previous research from the IFS has also suggested that credit constraints at age 18 do not play a significant role in determining young adults' university participation²², but there may be other potential investments that are constrained, such as investments earlier in children's schooling careers, or in other skills or training. The second justification is less persuasive if there are other more cost-effective education-based approaches to improving financial literacy than the CTF.

The Labour Party is committed not to cut the CTF.

The Conservatives would like to scrap government contributions to these accounts for those who do not qualify for the additional £250 for lower-income families: children would therefore either get £500 if their parents' income was less than £16,190, or nothing. We estimate that this policy would save around 45% of the total cost of the policy, or around £225 million in 2010–11.²³ The Liberal Democrats propose to end all Government contributions to CTFs, saving about £500 million per year. As with the Conservative proposals, this would affect all children aged less than seven, and would affect those from poorer families most as they currently receive larger contributions from the Government.

Tax relief for employer-provided childcare vouchers

Since April 2005, employers have been able to pay employees childcare vouchers which are free of income tax and national insurance, with a current limit of £55 a week. The vouchers have to be spent on registered childcare. The scheme is intended to complement the childcare element of the working tax credit (which provides a subsidy of up to 80% on the cost of childcare for low- to middle-income working parents who are eligible); in general, parents cannot benefit from both.

In his 2009 Labour Party conference speech, Mr Brown announced that this tax relief would be withdrawn, but subsequent statements suggested the government favoured a less dramatic change. The Labour Party's manifesto confirms that it intends to restrict income tax relief to the basic-rate. That means that those paying the higher-rate of tax will have to pay income tax of 20% on their childcare vouchers, and those paying the 50% rate will have to pay income tax of 30%. With no change in

²¹ For a longer discussion, see C. Emmerson and M. Wakefield 'The Saving Gateway and the Child Trust Fund: Is asset-based welfare 'well fair'?', IFS Commentary 85, 2001: <http://eprints.ucl.ac.uk/14987/1/14987.pdf>

²² H. Chowdry, C. Crawford, L. Dearden, A. Goodman, A. Vignoles, 'Widening Participation in Higher Education: analysis using linked administrative data', IFS Report, 2008: <http://www.ifs.org.uk/comms/r69.pdf>

²³ See M. Brewer, J. Browne, A. Leicester and H. Miller 'Options for fiscal tightening: tax increases and benefit cuts' in R. Chote, C. Emmerson and J. Shaw (eds.) *The IFS Green Budget* :February 2010: <http://www.ifs.org.uk/budgets/gb2010/10chap7.pdf>

behaviour, the maximum loss will therefore be £11 a week for someone paying the higher-rate of tax, and £16.50 a week for someone paying the 50% rate of tax. It appears that National Insurance contributions will continue to not have to be paid on childcare vouchers, meaning that they will remain a tax-efficient way of receiving support. The government estimates that the existing policy cost it £605 million in 2009–10, £156m of which was in foregone employer NI. A rough estimate is that restricting tax relief to the basic-rate might save around £0.1 billion a year.²⁴ The Labour Party has suggested that it could use the savings from this reform to pay for additional nursery places for two year-olds.²⁵

This reform clearly makes formal childcare slightly more expensive for those paying income tax at the 40% and 50% rates. It is highly unlikely that such high income individuals would stop work as a result, but it is possible that some parents may decide to use informal childcare rather than formal childcare as a result.

3. Couple penalties and premiums in the tax and benefit system

Whether the tax and benefit system treats people differently, depending on whether they are in a couple or single, has been highlighted in past years by both the Conservative Party and the Liberal Democrats, and has become an increasingly important issue for debate. This section analyses the impact of the three main parties' manifestos on the distribution of couple penalties and premiums in the tax and benefit system, and discusses whether, and if so how, couple penalties in the tax credit system could be eliminated. It should be read in conjunction with a new report by IFS researchers on couple penalties and premiums in the UK tax and benefit system.²⁶ That report:

- Sets out a method for estimating couple penalties and premiums in the tax and benefit system both for existing couples and existing single adults
- Analyses the distribution of couple penalties and premiums in the 2010–11 UK tax and benefit system
- Explains which taxes and which benefits or tax credits cause couple penalties and premiums, and what would be required to eliminate them altogether
- Asks whether we should be concerned about couple penalties and premiums

We define “couple penalties and premiums” in the tax and benefit system as the change in entitlements to benefits and tax credits and in liability to taxes that occurs when two single people marry, or start to live together as husband and wife. This definition allows us to focus on how the tax and benefit system treats people, depending on their relationship status. Two adults can almost certainly save on living costs by living together, but this study does not measure the overall financial benefits or costs to living as a couple compared with living apart. This sort of analysis cannot tell us whether couples would be better off living alone than living as a couple: it simply measures how net state support varies by family situation.

We use the phrase “net state support” to refer to entitlements to benefits and tax credits less liability to taxes. If net state support rises when a couple splits up, then we will call this a couple penalty; if net state

²⁴ Assuming, for illustrative purposes, that half of existing beneficiaries pay income tax at 40%.

²⁵ This artificial hypothecation would, in practice, represent a rise in tax revenues and a rise in public spending.

²⁶ S. Adam and M. Brewer, ‘Couple Penalties and Premiums in the UK Tax and Benefit System’, IFS Briefing Note, 2010, <http://www.ifs.org.uk/projects/320>.

support falls, it seems natural to call this a “couple premium”. In some cases, net state support does not change when a couple splits up, and we say that the tax and benefit system is neutral towards relationship status in these cases. The words “penalty” and “premium” may suggest that couple penalties are undesirable, and couple premiums desirable. We make no such judgement here.

The impact of manifesto proposals on couple penalties and premiums in the tax and benefit system

A couple can face a couple penalty or premium as a result of those parts of the tax and benefit system in which entitlements and liabilities depend upon the circumstances of the family, and not just those of the claimant. In the current tax and benefit system, this applies to the benefit and tax credit system, and council tax. So, when assessing couple penalties and premiums, we need to consider only proposed changes to benefits, tax credits, plus the changes proposed by the Conservative Party for a partially transferable personal allowance (which would make income tax, in some circumstances, depend upon the circumstances of the family, and not just those of the individual taxpayer).²⁷ We consider the changes already listed in Section 2 plus the Liberal Democrats’ proposals to remove winter fuel payments from those aged 60 to 64 not receiving pension credit (the Liberal Democrats propose extending winter fuel payments to certain recipients of disability benefits, but we are not able to model this). Note that the Conservative Party and Liberal Democrats have not said whether or not they would go ahead with the ‘toddler tax credit’. As the government has announced this and built it into its (unpublished) forecast of tax credit spending, we assume the other parties would go ahead with it.

Some of these tax and benefit reforms have unambiguous impacts on couple penalties and premiums, but most entail a range of possible effects:

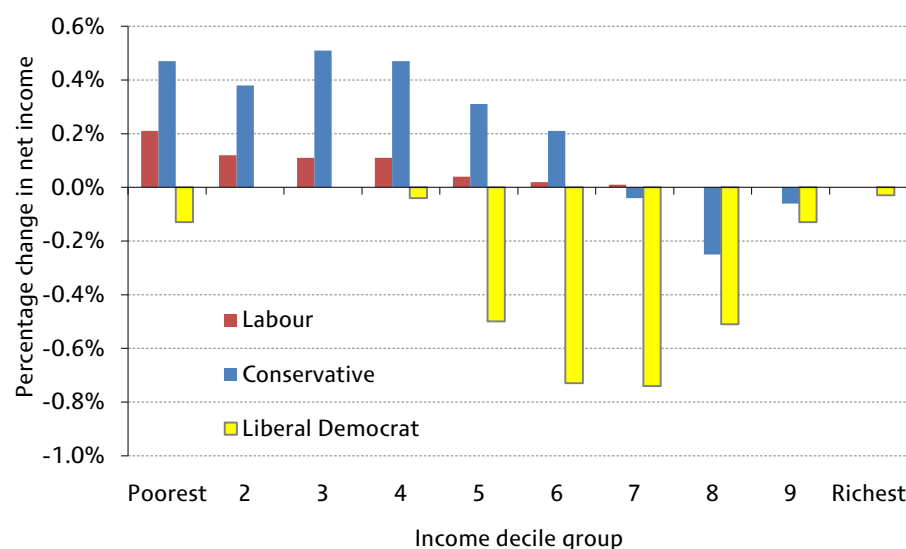
- The partially-transferable personal allowance for married couples (proposed by the Conservatives) would not benefit single people, and so must reduce couple penalties and increase couple premiums
- The toddler tax credit (already announced by the government) would increase the generosity of support which is means-tested against family income. This would increase couple penalties for some, but reduce them for those few couples who become newly-entitled to the child element of the tax credit because of this reform.
- The cuts to the family element of the child tax credit (proposed by the Conservatives and Liberal Democrats) would reduce the generosity of support which is means-tested against family income. They would increase couple penalties for those couples who would lose entitlement to child tax credit through the reforms. However, some very high-income couples not currently entitled to the child tax credit could see couple penalties fall through these reforms if they meant that the couple would be entitled to less child tax credit if assessed as single adults at their existing incomes.
- Winter fuel payments often act as couple penalties (since only one is paid per household). Those who lose entitlement to winter fuel payments (as proposed by the Liberal Democrats) would see a fall in a couple penalty, and those who gain entitlement to winter fuel payments would see a rise in a couple penalty.

But it is important to remember that these are three different sorts of reforms: the Labour Party’s reform is a very small give-away, the Conservative Party’s package of reforms represents a larger net give-away,

²⁷ Council tax does provide a tax incentive for single adults to live together, leading to a couple premium in some cases if we compare two adults living apart to living in the same household. The Conservative Party’s proposal to help local authorities freeze council tax bills will, therefore, lead to a small increase in the net couple penalty.

but with losers as well as winners, and the Liberal Democrat's package of reforms is a take-away. The distributional impact of these sets of reforms amongst couples is shown in Figure 3.1.

Figure 3.1. Distributional impact of the three main parties' proposals which affect couple penalties and premiums in the tax and benefit system amongst all couples.



Note: See text for details of policies. Income decile groups are derived by dividing all households into 10 equal-sized groups according to income adjusted for household size using the McClements equivalence scale. Decile group 1 contains the poorest tenth of the population, decile group 2 the second poorest, and so on up to decile group 10, which contains the richest tenth. Sources: Family Resources Survey, 2006–07 and authors' calculations using TAXBEN.

The toddler tax credit – here included within all the parties' sets of reforms – benefits the poorer half of couple families with children, but by small amounts, on average. The Conservative Party would also introduce a partially transferable personal allowance for some married couples, and this increases the gains at the bottom and middle of the income distribution relative to Labour's plans. At the upper-middle incomes, the cuts in the child tax credit proposed by the Conservatives and Liberal Democrats lead to losses overall. The Liberal Democrats are planning a larger cut in the child tax credit than the Conservative Party for upper-middle income families, and would not introduce a partially transferable personal allowance, and so losses are larger relative to Labour's and the Conservative's plans. The losses at the bottom of the income distribution reflect the removal of the winter fuel allowance for those aged 60 to 64.

The impact on couple penalties and premiums is shown in Table 3.1. Overall, the impacts are very small indeed, reflecting the fact that the parties' reforms alter entitlements to tax credits and liability to tax by very small amounts.²⁸ The Table shows that:

The Labour Party's plans (for a toddler tax credit) would have no effect (after rounding) on the proportion of couples facing a penalty, premium or neutrality in the tax and benefit system. Net penalties would increase, very slightly (by 15p a week, or 0.4%), under the Labour Party's reforms, but only for couples with children. The changes would be concentrated amongst those with low incomes who already face relatively high penalties (not shown in Tables).

The Conservative Party's plans would slightly (by 1 percentage point) reduce the proportion of couples facing a penalty in the tax and benefit system and slightly (by 2 percentage points) increase the proportion of couples facing a premium. The average net penalty would be 8p a week lower (a fall of

²⁸ We have assumed full take-up throughout. This may mean that we slightly over-state the extent to which cutting child tax credit for richer families alters couple penalties and premiums, as some may currently not be receiving support to which they are entitled.

0.2%). Although the proportion of couples with children facing a penalty in the tax and benefit system would fall, the average net penalty amongst couples with children would *rise* (by £1.02 a week). The transferable personal allowance does reduce penalties amongst those who are eligible for it, but the lowering of the threshold of the family element of the child tax credit would increase the couple penalty amongst those couples who would be affected by the change (the amount of support they receive as a couple would fall, but the amount they would receive as single adults would not change).

The Liberal Democrats' plans would slightly (by 2 percentage points) reduce the proportion of couples facing a penalty in the tax and benefit system, and slightly (by 2 percentage points) increase the proportion of couples facing neutrality. The average penalty would rise, though, by £1.39 a week (a rise of 3.1%). These changes are concentrated amongst couples with children. Like the Conservatives, the lowering of the threshold at which the family element is withdrawn leads to higher couple penalties amongst those couples directly affected by the change. However, the Liberal Democrats are lowering the threshold by considerably more than the Conservatives, and this means that some very high-income couples (about 6% of all couples with children, according to the Table) see their penalties fall to such an extent that the tax and benefit system becomes neutral: these will be couples where neither adult would be entitled to any child tax credit under the Liberal Democrats' proposals if assessed individually, but where one adult is currently entitled to the family element child tax credit (for example, a two-earner couple with two children, one earning between £35,000 and £50,000, and the other earning at least £35,000). Essentially, by means-testing the child tax credit more aggressively, the Liberal Democrats' reforms would concentrate couple penalties on fewer couples, but with a higher average penalty.

Table 3.1. Distribution of couple penalties and premiums for existing couples 2010–11

	Proportion with Penalty	Proportion with Bonus	Proportion with neither	Mean penalty/premium (£/wk)	Mean penalty of those with penalty (£/wk)	Mean premium of those with premium (£/wk)
2010–11 system						
Couples, no children	0.41	0.03	0.56	13.22	34.28	20.53
Couples, children	0.95	0.03	0.02	85.11	90.37	16.85
Pensioner couples	0.81	0.09	0.11	39.32	50.70	18.13
All	0.68	0.04	0.27	44.72	66.51	18.61
Labour plans						
Couples, no children	0.41	0.03	0.56	13.22	34.28	20.53
Couples, children	0.95	0.03	0.02	85.53	90.79	16.81
Pensioner couples	0.81	0.09	0.11	39.32	50.70	18.13
All	0.68	0.04	0.27	44.87	66.72	18.60
Conservative plans						
Couples, no children	0.39	0.07	0.54	12.66	34.51	11.41
Couples, children	0.94	0.03	0.02	86.13	91.93	16.55
Pensioner couples	0.8	0.1	0.1	38.29	50.10	16.51
All	0.67	0.06	0.26	44.64	67.52	14.04
Liberal Democrat plans						
Couples, no children	0.41	0.03	0.56	13.34	34.52	20.52
Couples, children	0.89	0.03	0.08	88.77	100.56	16.78
Pensioner couples	0.81	0.09	0.11	39.37	50.80	18.07
All	0.66	0.04	0.29	46.11	70.78	18.56

Source: authors calculations using methods described in Adam and Brewer (2010). See text for details of policies.

Ending the couple penalty in the tax credit system

The Conservative Party has also stated its intention to “end the couple penalty for all couples in the tax credit system as we make savings from our welfare plans”.²⁹ saying that “Labour’s tax and benefits system actually rewards couples who split up”.³⁰

²⁹ It is very hard for us to judge now what additional impact the Conservative Party’s plans for welfare-to-work would have compared with the current government’s plans, and so we are treating this not as a definite and explicit policy pledge, but more as an aspiration.

³⁰ <http://www.conservatives.com/families/>

It is not clear what might this aspiration mean in practice. Abolishing all couple penalties due to *all taxes and benefits* would require individualising entitlement to all benefits and tax credits, a dramatic reform to the tax and benefit system which would cost at least £34 billion a year at current benefit rates for single adults (and considerably more than this after the likely behavioural response).³¹ Adam and Brewer's report also reveals that:

- Abolishing all couple penalties due to all taxes and benefits just for couples with children would cost £24 billion a year.³²
- Abolishing all couple penalties due to tax credits for all couples would cost £18 billion a year.
- Abolishing all couple penalties due to tax credits for all couples with children would cost £17 billion a year.³³

All would require assessing tax credits (and benefits in some cases) on an individual's income. It would be absurd to imagine that the Conservative Party's proposed welfare reforms (discussed in another note in this series³⁴) would save this much. And it would be extremely surprising if the Conservative Party were genuinely proposing to individualise entitlement to tax credits, a reform which would dramatically increase spending on social security and tax credits, and the number of people entitled to means-tested benefits. This may well be another example where the Conservative Party manifesto is unenlightening at best.

The Centre for Social Justice (CSJ), when producing policy recommendations for the Conservative Party, recommended that entitlement to working tax credit for couples with children be increased by around 60% to bring it in line with all other means-tested benefits and tax credits, in which the basic entitlement of a couple is higher than that of a single adult.³⁵ The CSJ argue that this would reduce the couple penalty, but (correctly) do not claim that it will eliminate all couple penalties in the tax credit system.³⁶ Some past statements by Maria Miller, when Shadow Minister for the Family, suggest that she had this reform in mind when talking about 'ending the couple penalty'.³⁷

In this section, we model the following reforms:

1. Increasing entitlement to the working tax credit for couples with children by 57%³⁸
2. Increasing entitlement to the working tax credit for couples with children by 100%

³¹ See chapter 7 of S. Adam and M. Brewer, 'Couple Penalties and Premiums in the UK Tax and Benefit System', IFS Briefing Note, <http://www.ifs.org.uk/projects/320>.

³² This is estimated as the total value of net couple penalties for couples with children in the 2010–11 tax and benefit system. See Table 1 of Adam and Browne (2010).

³³ This is estimated as the total value of net couple penalties for couples with children from child tax credit and working tax credit in the 2010–11 tax and benefit system. See Table 3 of Adam and Browne (2010).

³⁴ M. Brewer and R. Joyce, 'Welfare reform and the minimum wage', IFS Election Briefing Note, <http://www.ifs.org.uk/publications/4830>.

³⁵ In the means-tested benefits, the rate for couples is 57% higher; in working tax credit for those without children, the rate is 98% higher. Centre for Social Justice, 'Breakthrough Britain: Ending the Cost of Social Breakdown', CSJ Report, p135, 2007: <http://www.centreforsocialjustice.org.uk/client/downloads/family%20breakdown.pdf>

³⁶ However, it is possible to take the view that it is the lone parent rate of working tax credit (rather than the rate for couples with children) which is out of line with all other means-tested benefits and tax credits: for lone parents, maximum entitlement of WTC exceeds maximum entitlement of IS/JSA, but, for couples with children and families without children, maximum entitlement of WTC is considerably lower than maximum entitlement of IS/JSA. This high rate might be warranted if the financial or non-financial costs of work were higher for lone parents than other groups, or if the government were more concerned about work incentives for lone parents than other groups. The CSJ state that they have no desire to lower WTC awards for lone parents, and consequently "level up" the rate for couples with children, but the couple penalty in tax credits could be reduced by cutting the rate of WTC for lone parents by 37%

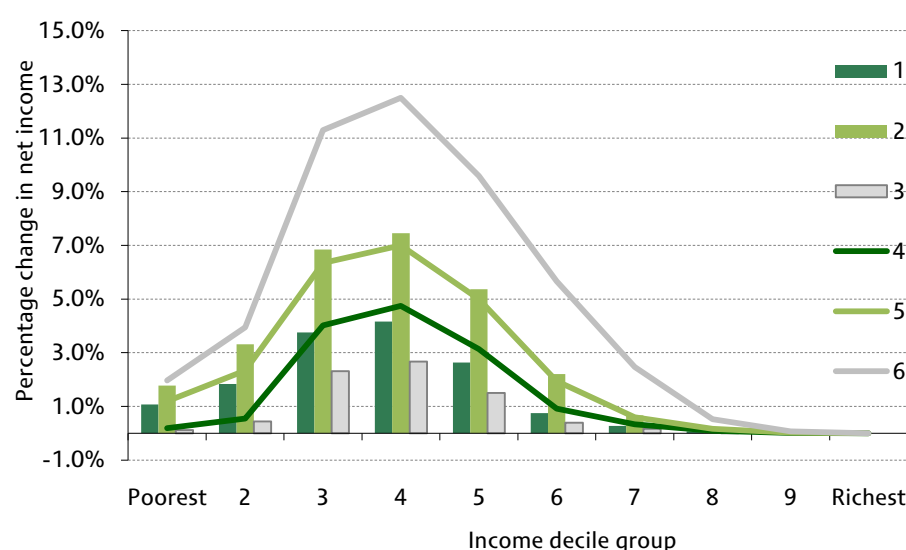
³⁷ <http://www.guardian.co.uk/society/2009/dec/09/political-parties-marriage-divide>

³⁸ This would mirror the relativities in income support.

3. Increasing the threshold for the working tax credit for couples with children by 57%
4. Increasing the threshold for the working tax credit for couples with children by 100%
5. Increasing entitlement to and the threshold for the working tax credit for couples with children by 57%
6. Increasing entitlement to and the threshold for the working tax credit for couples with children by 100%

The distributional impact of these six reforms amongst couples with children is shown in Figure 3.2. For all reforms, the gain as a share of net income peaks in decile group 4; poorer households are less likely to be in work (and therefore are not eligible for WTC), and richer households are less likely to be entitled to WTC because of the means-test.

Figure 3.2. Distributional impact of the six increases in WTC amongst couples with children



Note: See Figure 3.1

The impact of these six reforms on the distribution of couple penalties and premiums in the tax and benefit system is shown in Table 3.2, along with the total cost of the reform. For example, the table shows that the reform highlighted by the CSJ would reduce the fraction of couples with children facing a penalty from 95% to 91%, and increase the fraction of couples with children facing a premium by the same 4 percentage points, from 3% to 7%. The mean penalty overall would fall by £12 a week from £85 to £73.

Unsurprisingly, the more expensive the reform, the more the mean penalty falls (and so moves toward neutrality), the more the proportion of couples facing a penalty falls, and the more the proportion of couples facing a premium rises. For example, if all thresholds and entitlements for couples with children were doubled, then this would cost around £13 billion a year. It would reduce the fraction of couples facing a penalty (and increase the fraction of couples facing a premium) by 24 percentage points, and lead the mean net penalty to fall by £46 a week. But perhaps the striking thing about this reform is that, even after setting couples' entitlements to WTC and their relevant earnings thresholds at double their existing levels (and so double the rates for lone parents), the majority of couples would still face a couple penalty (and the aggregate value of all remaining couple penalties in the tax and benefit system amongst couples with children would be £14 billion a year, down from £24 billion under the current system). The majority of the remaining couple penalties would exist because benefits and tax credits are means-tested on a

couple's joint income, and not because a couple's basic entitlement is less than twice that of a single person's. Eliminating the remaining couple penalties in the tax and benefit system would therefore require a reduction in the amount of support that was means-tested against the joint income of a couple.

Table 3.2. Distribution of couple penalties and premiums for existing couples with children under various reforms (assumes reforms introduced in 2010/11)

	Proportion with Penalty	Proportion with Bonus	Proportion with neither	Mean penalty/premium (£/wk)	Mean penalty of those with penalty (£/wk)	Mean premium of those with premium (£/wk)	Cost (£bn/yr)
Memo: current system	0.95	0.03	0.02	85.11	90.37	16.85	
1	0.91	0.07	0.02	72.69	81.78	22.81	3.5
2	0.85	0.13	0.02	60.55	76.1	30.55	6.9
3	0.93	0.04	0.02	77.97	84.28	17.56	2.0
4	0.91	0.07	0.02	71.7	80.25	17.35	3.8
5	0.86	0.11	0.02	62.79	76.36	27.58	6.3
6	0.71	0.27	0.02	38.75	69.94	41.96	13.0

Notes: See Table 3.1.

If one was concerned about the average (or aggregate) net couple penalty, then all of these reforms would be seen as an improvement on the current system. But whether these reforms would make the system fairer is in the eye of the beholder. Also, this note has not examined their impact on other objectives which a government might have for the tax credit system, such as reducing poverty, or strengthening financial incentives to work.³⁹

4. Parental leave, pay and flexible working

This section discusses the parties' proposals in the area of parental leave, pay and flexible working. Unlike the 2005 election, the main parties all have relatively modest proposals to reform current policy.

Maternity leave and pay

Key policy developments under the current government

Since Labour came to power in 1997 the right to maternity leave for pregnant women and new mothers has been extended. New mothers that had been in employment prior to the birth have also become more generously compensated by the government for their loss of earnings during this time. Three pieces of legislation have contributed to this trend:

- 1) the Employment Relations Act (1999) in the first term of the Labour government;
- 2) the Employment Act (2002) in the second term;

³⁹ Adam and Browne (2010) shows the impact of a smaller rise in WTC on couple penalties and premiums, and refers to previous work which analysed the impact of the same report on incentives to work.

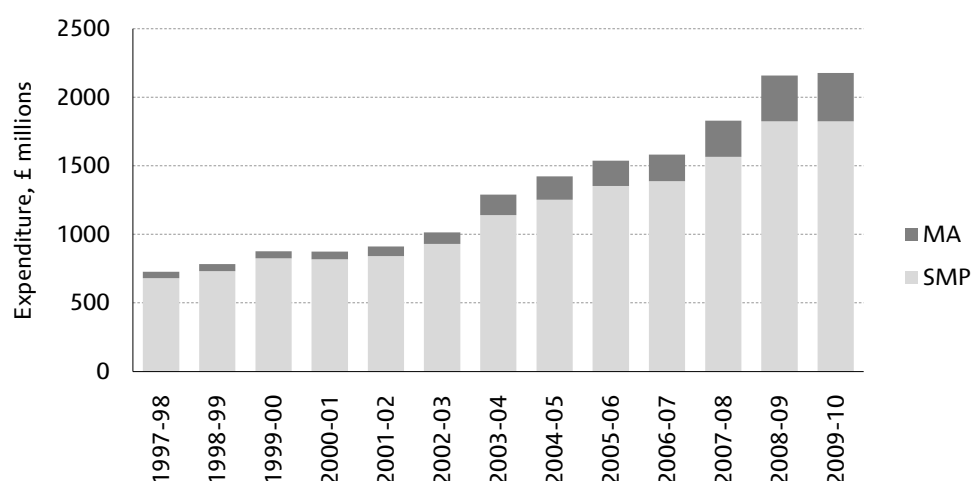
3) the Maternity and Parental Leave etc. and the Paternity and Adoption Leave (Amendment) Regulations (2006) in the third term.

Legislation in the first two terms increased the length of ordinary maternity leave available to all women and relaxed the employment conditions relating to additional maternity leave.⁴⁰ The length of time statutory maternity pay was paid by the government also increased from 18 to 26 weeks over the period. Legislation in the third term increased the length of statutory maternity pay from 26 to 33 weeks, although the length of ordinary and additional leave remained unchanged. Occupational maternity pay may also be provided by employers at their discretion, which “tops up” statutory maternity pay provided by the government.

Tables 4.1 and 4.2 summarise the changes.

Figure 4.1 shows that total spending on statutory maternity pay in 1997–98 was approximately £728 million (in 2010–11 prices). By 2003–04, this had risen to approximately £1.3 billion (in 2010–11 prices), mainly in response to the relaxation of eligibility criteria and extension of ordinary leave and the maternity pay period. Following the increase in the statutory maternity pay period in 2007–08, this rose to around £1.8 billion (in 2010–11 prices).

Figure 4.1. Expenditure on statutory maternity pay



Note: Expenditure in real terms at 2010–11 prices. MA = maternity allowance. SMP = statutory maternity pay.

Source: http://research.dwp.gov.uk/asd/asd4/Alltables_budget2010.xls

⁴⁰ Ordinary maternity leave refers to the first period of maternity leave in which employees are entitled to all contractual rights (such as pension or holidays) that they would have received had they not been on leave. Additional maternity leave refers to the second period of maternity leave which begins the day after the period of ordinary maternity leave ends, in which the employee's rights vary slightly.

Table 4.1. Maternity leave

Year	Ordinary leave	Additional leave	Conditions of entitlement (for additional leave)
<i>First term</i>			
1997–98	14 weeks	15 weeks	2 years' continuous employment
1998–99	14 weeks	15 weeks	2 years' continuous employment
1999–00	14 weeks	15 weeks	2 years' continuous employment
2000–01	18 weeks	11 weeks	1 year's continuous employment
<i>Second term</i>			
2001–02	18 weeks	11 weeks	1 year's continuous employment
2002–03	18 weeks	11 weeks	1 year's continuous employment
2003–04	26 weeks	26 weeks	26 weeks' continuous employment
2004–05	26 weeks	26 weeks	26 weeks' continuous employment
2005–06	26 weeks	26 weeks	26 weeks' continuous employment
<i>Third term</i>			
2006–07	26 weeks	26 weeks	26 weeks' continuous employment
2007–08	26 weeks	26 weeks	26 weeks' continuous employment
2008–09	26 weeks	26 weeks	26 weeks' continuous employment
2009–10	26 weeks	26 weeks	26 weeks' continuous employment

Table 4.2. Statutory Maternity Pay

Year	Total Entitlement	Rates of pay	
		90% of average earnings	Flat rate
<i>First term</i>			
1997–98	18 weeks	6 weeks	12 weeks at £55.70
1998–99	18 weeks	6 weeks	12 weeks at £57.50
1999–00	18 weeks	6 weeks	12 weeks at £59.55
2000–01	18 weeks	6 weeks	12 weeks at £60.20
<i>Second term</i>			
2001–02	18 weeks	6 weeks	12 weeks at £62.20
2002–03	18 weeks	6 weeks	12 weeks at £75.00
2003–04	26 weeks	6 weeks	20 weeks at £100.00
2004–05	26 weeks	6 weeks	20 weeks at £102.80
2005–06	26 weeks	6 weeks	20 weeks at £106.00
<i>Third term</i>			
2006–07	26 weeks	6 weeks	20 weeks at £108.85
2007–08	39 weeks	6 weeks	33 weeks at £112.75
2008–09	39 weeks	6 weeks	33 weeks at £117.18
2009–10	39 weeks	6 weeks	33 weeks at £123.06

There are no data available for the number of mothers that received statutory maternity pay (or extended their maternity leave) following the extension of the maternity pay period to 39 weeks. We do have some recent survey evidence, however.⁴¹ This survey specifically interviewed mothers that had worked in the year prior to their child's birth, and found that 88 per cent of mothers in 2006 that were employed before they gave birth had received some type of maternity pay, with 41 per cent receiving statutory maternity pay combined with an occupational maternity pay provided by the employer, 35 per cent receiving statutory maternity pay only and ten per cent receiving maternity allowance only. Among mothers who were entitled to additional maternity leave (having worked for their employers for over 26 weeks), just over half (52 per cent) took advantage of this.

Paternity and adoption leave and pay

In conjunction with the expansion in coverage of maternity leave and pay, in April 2003 Labour also introduced two weeks' paternity leave for fathers (both birth and adoptive), and time off similar to maternity leave for adoptive mothers. Pay for those on paternity and adoption leave also became available to all individuals meeting certain employment and earnings criteria. As with maternity pay, the employer may also provide occupational paternity pay in addition to the statutory paternity pay from the government, at their discretion. Survey evidence suggests that employers in higher occupational groups are more likely to compensate fully their employees with this additional occupational paternity pay if they decide to take paternity leave.⁴²

The government does not publish statistics on the proportion of new fathers that take up their right to statutory paternity pay and leave. However, a recent survey suggests that the majority of fathers take some time off work when their child is born, but around a third of fathers do not use their statutory paternity leave. Instead, around a quarter of fathers used other forms of leave (for example annual leave) exclusively.⁴³ This low take up could be due to a lack of information about father's rights to leave, pressure from employers, the father's preferences, or the loss in earnings that the majority of fathers would face.⁴⁴

Manifesto announcements

The Labour Party's manifesto mainly restates existing government plans, although the commitment to increase the length of time for which statutory maternity pay is paid to one year by 2010 previously made by Labour is notably absent from their manifesto.⁴⁵ The length of maternity leave and length of maternity pay will remain unchanged, and mothers will be allowed to transfer maternity leave to fathers in the second six months of a child's life from April 2011 (as announced in January 2010).⁴⁶ In addition to these policies, the Labour Party will increase paternity leave for new fathers.

⁴¹ I. La Valle, E. Clery, M. Carmen Huerta, 'Maternity rights and mother's employment decisions', Research Report No. 496, Department for Work and Pensions, 2008: <http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep496.pdf>

⁴² D. Smeaton, 'Dads and their babies: a household analysis', Equal Opportunities Commission Working Paper Series No. 44, 2006: <http://www.fatherhoodinstitute.org/download.php?plD=5060.1>

⁴³ D. Smeaton, 'Dads and their babies: a household analysis', Equal Opportunities Commission Working Paper Series No. 44, 2006: <http://www.fatherhoodinstitute.org/download.php?plD=5060.1>

⁴⁴ The current level of maternity and paternity pay is £124.88 per week, or 90% of the employee's income if this is greater. £124.88 per week is equivalent to the earnings of an adult over the age of 21 working 21.5 hours per week at the minimum wage (currently £5.80 per hour). For a large proportion of adults, maternity or paternity pay would represent a large drop in weekly income

⁴⁵ In an associated document to the pre-budget report of December 2004 the government announced a goal of extending maternity pay to twelve months by 2010. In September 2009 this commitment was put in doubt, however; a spokesman for Peter Mandelson's business department said it was now reviewing the proposals and the plans to introduce the rights this year were on hold. <http://www.parliament.uk/commons/lib/research/briefings/snbt-01429.pdf>

⁴⁶ <http://www.bis.gov.uk/policies/employment-matters/strategies/paternity-leave>

Additional announcements in the manifesto included:

Labour Party:

- Increase paternity leave from 2 weeks to 4 weeks. The length of ordinary and additional maternity leave would remain the same.

Conservative Party:

- Allow mothers and fathers to share all parental leave between them (with no restriction placed on when leave could begin to be shared). The length of ordinary and additional maternity leave would remain the same.

Liberal Democrats:

- Allow mothers and fathers to share all parental leave between them (with no restriction placed on when leave could begin to be shared). The length of ordinary and additional maternity leave would remain the same initially, but the length of maternity leave would be extended to 18 months when resources allow.

Changes to parental leave announced in the manifestos of each of the three main political parties will increase the potential involvement of the father with their new child. Labour plans to increase paid paternity leave from 2 weeks to 4 weeks, as well as confirming their existing policy to allow maternity leave to be shared between mothers and fathers after the child is 26 weeks old. This would allow more flexibility between parents in deciding early childcare arrangements. The length of the statutory maternity pay period (or statutory paternity pay period, if it were transferred to the father) would remain at 39 weeks, however, so the remaining 13 weeks of additional leave would receive no statutory pay. This may discourage some parents from using the full period of additional leave, independent of which parent chooses to take it. The Conservative and Liberal Democrat parties also state that the current length of maternity leave should be shared between the mother and father of the child as they wish, with no restriction on the period of time after which this can be done. The Liberal Democrats also aim to extend maternity leave up to 18 months (whether this refers to ordinary or additional leave is unclear), but this would be implemented when “resources and economic circumstances allow”.

All manifesto proposals allow fathers to be more involved in their child’s first months, although we referred above to recent survey data which suggested around a third of new fathers do not currently claim any paternity pay.

The Conservative and Liberal Democrat parties would allow mothers and fathers to share parental leave between them, with no restrictions, while the Labour Party would allow parental leave to be shared after the child is aged 26 weeks. All parties emphasise that mothers and fathers should be granted flexibility in this decision, and do what is best for their family. Flexibility may be valued as a principle by many families, but how many couples would take it up in practice? The decision whether or not to share parental leave will be partly determined by the mother and father’s preferences to stay at home, and partly determined by their relative wages. Where the earnings of one partner are much higher than the earnings of the other, it may be feasible only for the lower earner to take parental leave, as the opportunity cost of time away from work is lower.⁴⁷ In the majority of cases the father will have higher earnings than the mother, and this might make it less likely that the couple will share parental leave between them. Where the couple’s income is more balanced, however, they may be more inclined to share

⁴⁷Note that paternity pay is currently £124.88 per week, or 90% of earnings, whichever is larger. For high earners, this would represent a significant decrease in weekly income

parental leave. In the long run, if mothers and fathers decided to share parental leave between them, this could lead to more equalisation in relative wages; women would have less time out of the labour market, and so their wages may rise. Any discrimination that persists against female employees of childbearing age is also likely to be reduced if men as well as women begin to take significant time away from paid work for paternity leave.

Flexible working

Key policy developments under the current government

In March 2000, the government launched the Work-Life Balance Campaign, which sought to promote the benefits of flexible working to employers⁴⁸; however limited funds were made available to assist with the introduction of more flexible working practices. The Employment Act (2002) gave a legal right to request flexible working patterns for all employees with children less than 6 years of age (18 years of age if the child is disabled). Although this request is not an automatic entitlement to a flexible working pattern, employers have a legal duty to consider these requests seriously, and can only reject it on a number of specific grounds.

In November 2007 the government announced its intention to increase the number of parents eligible to request flexible working; since April 2009, all employees with children under 16 years of age (18 years of age if the child is disabled) have had the right to request flexible working.⁴⁹ To be eligible (as previously), the employee must have worked for their employer for at least 26 weeks on the date that they make the request, and only one request can be made in a 12 month period.

There are no estimates of the proportion of eligible employees that have requested the right to flexible working since the eligibility criteria was extended. In 2006, however, a survey commissioned by the Department of Trade and Industry found that approximately 17% of employees with children under the age of 6 (i.e. those covered by the legislation at that time) had requested flexible working in the past two years, of which 78% of requests had been accepted.⁵⁰ These figures conceal substantial variation between male and female employees, however, with 22% of women and 14% of men having requested to work more flexibly. A survey of employees in 2006 commissioned for DWP concluded that around a quarter of parents requested some form flexible working at some point, which suggests that flexible working was appreciated by many families. Unfortunately there is no information on the types of families that gain most from the policy, for example between those with children of different ages, or those in different professions.

Manifesto announcements

Labour Party:

- Extend the right to request flexible working for older employees;
- Promote more jobs that allow flexible working.

Conservative Party:

⁴⁸ The most common forms of flexible working practices include part-time working, flexi-time, staggered hours, compressed working, job sharing, shift swapping, and term-time working

⁴⁹ 'Extending the right to flexible working to parents of older children: Government response to consultation on implementing the recommendations of Imelda Walsh's independent review', 2009: <http://www.bis.gov.uk/files/file50447.pdf>

⁵⁰ H. Hooker, F. Neathey, J. Casebourne, M. Munro, 'The Third Work-Life Balance Employee Survey: Main findings'. Department for Trade and Industry, Employment Relations Research Series No. 58, 2007: <http://www.employment-studies.co.uk/pdf/library/errs58.pdf>

- Extend the right to request flexible working for all employees with a child less than 18 years old;
- Extend the right to request flexible working for all employees in the public sector, with the aim of extending the right to all employees in the longer term (after full consultation with business on how to do this in a way which is administratively simple);
- Require Jobcentre Plus offices to ask employers if their vacancies could be advertised on a part-time or flexible basis.

Liberal Democrats:

- Extend the right to request flexible working for all employees.

The manifestos of all three main political parties mention the benefits of flexible working; Labour plans to extend the right to request flexible working to older employees, the Conservative Party to public sector employees and those whose youngest child is 16 or 17 and not disabled, while the Liberal Democrats plan to extend the right to all employees. This aim is shared by the Conservative Party over the longer term.

What are the benefits to flexible working? The policy was initially introduced to help families with young children have a better work-life balance, in the belief that parents who are able to work flexibly are “more able to spend quality time with their children and give them the best start in life”.⁵¹

Given the initial motivation for the policy, what is the rationale for extending the right to request flexible working to more employees? The Labour Party manifesto motivates their extension by noting that many, including grandparents, want to vary their hours “to the benefit of their families and to accommodate changing lifestyles”. The Liberal Democrats also emphasise the role of grandparents, in the belief that flexible working makes it “easier for grandparents, for example, to take a caring role”. The Conservative Party manifesto states that extending the right to request flexible working to every parent with a child under the age of 18 helps “families spend more time together”, but gives no further rationale for their wish to extend the right to all employees in the public sector, and then all employees.

Although we observe that many families currently gain from the right to request flexible work arrangements (as they request them), we can’t conclude whether an extension of the right to request flexible working would bring additional benefits. For example, if parents of children above a certain age do not gain from flexible working, then no further families would request flexible working following the introduction of the policy, and the policy would therefore bring no additional benefit to families. For those without children aged under 16 (or 18 if disabled), the motivation to allow flexible working to all employees is unclear. Besides the benefits previously discussed that arise from other family members (particularly grandparents) to request flexible working, there may be potential benefits to reduction in traffic congestion at peak times (if employees choose their hours more flexibly), or the enticement of a broader range of employee into the labour market. These wider benefits have not been detailed by the parties wishing to extend the right to request flexible working, however.

There may also be some disadvantages to the extension of the right to request flexible working. Where flexible working is not practical for the employer, after an initial meeting with the employee, a letter must be sent to the employee explaining the business grounds against their request. Where this justification is disputed by the employee, the case may be taken to the employment tribunal. In 2007–08, 271 applications were registered by employment tribunals where flexible working hours was one of the main

⁵¹ P. Bowden, ‘Flexible working: benefits and barriers. Perceptions of working parents’, Government Equalities Office, 2009: http://www.equalities.gov.uk/PDF/294951_GEO_flexible_working_acc.pdf

jurisdictions cited.⁵² This suggests that flexible working is not feasible for some employers, and that the expansion of the right to request flexible working may impose some administrative costs. While some families clearly benefit from the right to request flexible working, the motivation for extending this right to all employees, as the Conservative Party and Liberal Democrats wish to do, should be made clear.

5. Education, early years and childcare policy

Early years

Key policy developments under the current government

Since Labour came to power in 1997 they have introduced a number of early years education and childcare initiatives in England, with a particular emphasis on offering free nursery places. In 1998, Labour launched a National Childcare Strategy⁵³, which included a commitment to offer all 4-year-olds free part-time nursery places, with the intention to extend this opportunity to 3-year-olds over time. From September 1998, all 4-year-olds were offered free nursery places for 12½ hours a week (to be taken in up to five 2½-hour sessions) and for 38 weeks of the year. This was extended to include all 3-year-olds in April 2004.

As part of its 10-year national childcare strategy launched in 2004⁵⁴, Labour proposed to extend this to 15 hours a week for all 3- and 4-year-olds from 2010 onwards – this is now due to take place from September 2010 (having been available to the most disadvantaged 25% of children from September 2009). Labour's commitment to this policy – which must, presumably, have been fully planned-for by local authorities – was confirmed in its 2010 general election manifesto.

Another major element of the government's early years strategy has been the Sure Start initiative, which the government began piloting in deprived areas in 1999 and subsequently rolled out nationally. The initiative involved the creation of a range of local programmes offering advice on education, health and child development to families with children under 5. These programmes were later brought together into Sure Start Children's Centres, designed to be 'hubs' where families could receive such information, plus employment advice and links to local Jobcentres, in one place. As part of the 10-year national childcare strategy, Labour pledged to expand the Sure Start Children's programme such that there would be 3,500 Sure Start Children's Centres across the country by 2010. Budget 2010 confirmed that this commitment had been met. Labour has committed to protect non-investment funding for Sure Start Children's Centre in real-terms up to 2012–13.

Manifesto announcements

Labour Party:

- Expand the number of free nursery places in England for disadvantaged 2-year-olds by 60,000 (to 80,000), with a long-term goal of expanding this to all 2-year-olds (though no timescale is given);
- Protect non-investment funding for Sure Start Children's Centre in England in real-terms up to 2012–13.

⁵² L. Smith, 'Flexible Working', House of Commons Standard Note, 2010, <http://www.parliament.uk/commons/lib/research/briefings/snbt-01086.pdf>

⁵³ Green Paper, 'Meeting the Childcare Challenge. A framework and consultation document', 1998: http://www.dcsf.gov.uk/everychildmatters/_download/?id=3644

⁵⁴ HM Treasury, 'Choice for parents, the best start for children', 2004: http://www.hm-treasury.gov.uk/d/pbr04childcare_480upd050105.pdf

Conservative Party:

- Take Sure Start back to its original purpose of early intervention, through more targeted provision for children in deprived areas;
- Involve the private and voluntary sector more in Sure Start, and pay in part by results;
- Provide a further 4,200 Sure Start Health Visitors.

Liberal Democrats:

- Increase the level of free nursery provision in England to 20 hours per week, and extend this to all children from the age of 18 months up until they start school (to be implemented when “the nation’s finances would allow”).

The provision of early years services has been justified as an investment; the early years of a child’s life are seen as crucial to their development, and the individual, society and government gain in the long term by improving early developmental outcomes. The manifestos of all three main political parties suggest that they adhere to this view, as they emphasise that all children have a “fair” chance in life.

Labour and the Liberal Democrats would like to extend the provision of nursery places in the long term, but this seems to be dependent on the public finances in both cases. In fact, the Labour Party’s manifesto does not go as far as past Government documents: in 2004, the Government’s ten year childcare strategy set an eventual goal (so presumably for 2014) for free nursery places to be available to all three and four year-olds for 20 hours a week, 38 weeks a year.⁵⁵ The absence of this goal in the Labour Party’s manifesto may well be due to the deep cuts to spending on public services which look likely to happen during the next Parliament regardless of who forms the next government. It has also scaled down its ambitions for free nursery education for two year-olds. In 2009, Mr Brown suggested that 250,000 two year olds would benefit by the end of the next Parliament – rather than the current 20,000 – but Labour’s manifesto for families claims only that 80,000 will benefit, although this may be because the Labour Party has also decided it now wants to make smaller cuts to the tax relief for childcare vouchers than Mr Brown first mooted.

The Conservatives offer the largest reform to Sure Start, which was piloted in disadvantaged areas by Labour in 1999, and was subsequently established in all areas nationally. The Conservative’s proposals would reflect Sure Start’s initial goal of improving the development of children in more deprived areas, who may arguably need more intervention in the early years. There may be more return on investment in Sure Start centres if they are more targeted in deprived areas. There may also be a benefit to non-means tested or less-targeted area based provision, however, through having a diverse social and cultural mix at the centres for example. The Conservatives also say that they would pay Sure Start providers in part by their results, though it is unclear what this would mean in practice.

The Conservatives would provide a further 4,200 Sure Start Health Visitors over and above existing government plans, which would be funded from redistribution of the initial Sure Start budget and an increase in health spending. This diversion presumably reflects the targeting of resources at more disadvantaged families, with a similar motivation discussed above. Early evidence from the introduction of the Family Nurse Partnership in 30 pilot sites in the UK (which was designed to improve very early parenting skills, and parent and child health) showed positive effects, but whether the extra Sure Start Health Visitors proposed by the Conservative Party would have a similar impact is unknown.

⁵⁵ HM Treasury, ‘Choice for parents, the best start for children’, 2004: http://www.hm-treasury.gov.uk/d/pbr04childcare_480upd050105.pdf

The Labour Party has accused the Conservative Party of intending to introduce top-up fees for nursery provision.⁵⁶ Such top-up fees – where private nurseries charge parents a supplement even when they are accessing a supposedly “free” entitlement – were allowed until 2006, when the Government required that they not be charged. The Conservative Party’s apparent desire to go back to the situation before 2006 is presumably motivated by a concern that, if the government is not compensating private nurseries sufficiently for these free places, then private nurseries may decide not to offer free places at all. But it is also worth noting that private nurseries would probably see the amount they receive for these free places rise under the so-called Single Funding Formula rule, which in principle requires local authorities to pay private nurseries the same per place as they pay state-run nursery classes or schools - but the Government has put off extending this nationwide until April 2011.

6. Conclusion

In the 2005 general election, the parties went to great efforts to appeal to working parents, and families with children more generally. This time round, presumably because of the deep cuts that will have to be made to spending on public services over the next Parliament (and therefore sensibly), there is a conspicuous absence of policy pledges with large price tags attached, and a rowing back from past aspirations.

In particular, the Labour Party’s manifesto does not mention a previous Government aspiration to extend the hours of nursery education available to three and four year olds by 2014, and confirms that it has dropped its previous goal of extending paid maternity leave from 9 to 12 months. It has also scaled down its ambitions for free nursery education for two year-olds. In 2009, Mr Brown suggested that 250,000 two year olds would benefit by the end of the next Parliament – rather than the current 20,000 – but Labour’s manifesto for families claims only that 80,000 will benefit, although this may be because the Labour Party has also decided it now wants to make smaller cuts to the tax relief for childcare vouchers than Mr Brown first mooted.

The Conservatives and Liberal Democrats are offering very little which is additional to current government plans (and indeed both propose to make savings by cutting tax credits and child trust funds for some families with children), and the Liberal Democrats’ previous commitment to more generous maternity pay and childcare provision is now subject to the now-familiar caveat “when the nation’s finances allow”.

What the parties are offering, then, are either policies with minimal cost to government or that shift priorities. The Labour Party proposes to be less generous with tax relief on childcare vouchers for higher-rate taxpayers to fund a small expansion in the number of two year-olds eligible for free nursery places. The Conservatives main proposal seems to be a refocusing of Sure Start on the most disadvantaged, together with a small increase in health spending and a reprioritisation of its budget to allow for 4,200 more Sure Start Health Visitors. The Liberal Democrats main policy exclusively for families with children is that maternity leave should be fully transferable from mothers to fathers (the Conservative Party agrees with this; the Government thinks no more than 6 months should be transferred).

This is not intended to be a criticism: even if the parties can’t bring themselves to spell out how they will make the deep cuts to public spending over the next few years that they all agree are necessary, the least we can expect is that they do not make prohibitively expensive new policy promises.

⁵⁶ <http://www2.labour.org.uk/uploads/8d917a31-6f1f-3ce4-21da-e88cd1b439d7.pdf>. It is based on <http://www.guardian.co.uk/politics/2010/apr/25/conservatives-charge-nursery-places>.

Whether the tax and benefit system treats people differently depending on whether they are in a couple or single has been highlighted in past years by both the Conservative Party and the Liberal Democrats, and has become an increasingly important issue for debate. Whether by accident or design, all parties' proposals for reforms to taxes and benefits would alter couple penalties and premiums in the tax and benefit system, but by very small amounts. The fraction of couples facing a couple penalty in the tax and benefit system would not change under government plans, and would fall very slightly under Conservative and Liberal Democrat plans (by 1 and 2 percentage points respectively). The average penalty would fall very slightly (by 0.2%) under the Conservative plans, rise very slightly (by 0.4%) under Labour's plans, and rise by a little more (by 3.1%) under the Liberal Democrats' plans.

Uniquely amongst the parties, the Conservative Party has an ambition to "end the couple penalty for all couples in the tax credit system". A perhaps unkind but literal interpretation of this ambition would require assessing tax credits on an individual's own income, and cost at least £18 billion a year, vastly extending the scope of means-tested tax credits. We cannot imagine that the Conservative Party has this in mind, and so we conclude that this must be another statement in the Conservative Party's manifesto whose description is at best incomplete. Increases in the working tax credit for couples with children would reduce couple penalties for couples with children, but would introduce new couple premiums, and would still leave the vast majority of couples with children facing a couple penalty in the tax and benefit system.