

LEAVE THEM KIDS ALONE!

The Next Steps on Childcare Reform

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POLICY BRIEFING

INTRODUCTION

No matter where you turn on the political spectrum, childcare remains an ever-present concern for policy makers, activists, and most importantly, families. The cost of childcare in the UK is the joint-highest in the OECD, pushing parents out of work or depriving them of much needed income.¹ This is despite the additional £4 billion a year provided by the government to subsidise childcare.² This briefing note summarises arguments in favour of reforming childcare to bring down costs, increase quality, and give parents choice. It is imperative that we liberate childcare from too much interference from the state.

POLICY PROPOSALS

- Ending £100,000 cliff edge;
- Easing informal childcare arrangements;
- Tax credits for work-based creches;
- Frontloading Universal Credit payments;
- Restructure the Free Early Education Entitlement Scheme;
- Increased training and qualifications subsidisation.

THE CURRENT STATE OF CHILDCARE

Britain has a primarily private system, with 60,000 separate facilities for children, providing 1,568,500 places³. There is also a great deal of choice in what form of childcare parents opt for, with many choosing informal childcare options or voluntary organisations whether out of convenience, preference, or higher costs of paid options. Most parents select informal childcare within the statutory paid parental leave period of 39 weeks, with some extending to a year, before moving over to other familial arrangements.

1 OECD, “Net Childcare Costs”, 2023: <https://data.oecd.org/benwage/net-childcare-costs.htm>

2 Guardian, “Budget 2023: Hunt to announce £4bn boost for childcare in England”, <https://www.theguardian.com/uk-news/2023/mar/14/budget-2023-hunt-to-announce-4bn-boost-for-childcare-in-england>

3 Department for Education, “Childcare and early years provider survey”, 2022: <https://explore-education-statistics.service.gov.uk/find-statistics/childcare-and-early-years-provider-survey/2022>

Universal Credit offers up to 85% reimbursement for the average cost of Ofsted-registered childcare. Changes made in the Budget mean that from July 2023, families can receive up to £951 for one child (up from £646) or £1,630 for two or more children (up from £1,108).⁴ This only applies if the claimants are in work or starting a new job, or if one partner is too ill to work and cannot look after the children. This system generally functions well, with a House of Lords report concluding that the system did indeed fulfil its intended objectives.⁵

For non-UC claimants, the government offers a number of schemes to subsidise demand for childcare:

- For the ages of 0 to 11, and for families earning up to £100,000, the government offers up to £2,000 a year (or £4,000 for disabled children) in support of ‘tax-free childcare’.⁶ This scheme tops up every £8 of childcare spending with £2, and costs £2.4 billion annually.⁷ Whilst an effective scheme, it is underutilised by parents⁸, prompting marketing campaigns from the government.
- For 2 year olds, the government offers 15-hours a week of free childcare (or 570 hours per year), covering just under half of the average work week. This is likewise the case for 3 and 4 year olds, as well as 30-hours for working families.⁹
- The Care to Learn scheme for under 20s in education provides £160 per child per week for those outside London or £175 per child per week for those inside of London.¹⁰

Despite this expensive patchwork of support, childcare remains a costly concern to parents and families. So where is the problem originating?

THE CHILDCARE CRISIS

Through a combination of poor fiscal incentives, rotten planning laws, perverse and confusing regulations, and a failure to understand what parents and businesses need, childcare has been pushed to the forefront of policy discussions about productivity and the family unit.

With the introduction of shared parental leave, which allows parents to share up to 50 weeks of leave and up to 37 weeks of pay between them, there have been signifi-

⁴ HM Treasury, “Spring Budget 2023”, 2023: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1142824/Costing_Document_-_Spring_Budget_2023.pdf

⁵ House of Lords Economic Affairs Committee, “Universal Credit isn’t working: proposals for reform”, 2020: <https://committees.parliament.uk/publications/2224/documents/20325/default/>

⁶ HM Government, “Help paying for your childcare”, 2023: <https://www.childcarechoices.gov.uk>

⁷ Katy Morton, 2023: <https://www.nurseryworld.co.uk/news/article/government-reveals-2-4-billion-underspend-on-tax-free-childcare>

⁸ Rebecca Russell, “HMRC warns thousands of families missing out on up to £1,000 for childcare - check if you’re eligible”, 2023: <https://www.mylondon.news/news/cost-of-living/hmrc-childcare-eligible-your-money-26223183>

⁹ HM Government, “Help paying for your childcare”, 2023: <https://www.childcarechoices.gov.uk>

¹⁰ HM Government, “Care to Learn”, 2023: <https://www.gov.uk/care-to-learn/what-youll-get>

cant changes made in postpartum policy. However, for the past two years, the UK has fallen behind in women returning to work, with 1.47 million not returning to, quitting, or reducing hours at work to care for their children or homes.¹¹

Clearly, the funding of childcare remains a pervasive issue, with complaints from experts and practitioners mounting.¹² This is despite billions spent every year subsidising demand and creating settlements for nursery schools. Likewise, funding is delivered for childcare qualifications, which could help secure higher quality early years education.¹³ There is a lack of empowerment for both parents and practitioners, which results in higher costs for all parties and a fundamentally dysfunctional system.

POLICY CHANGES MADE IN THE 2023 SPRING BUDGET

RELAXED CHILD TO STAFF RATIO

We commend the Chancellor for relaxing child to staff ratios to 5:1 for 2-3 year olds. The change can reduce childcare costs by up to £40 per week for a family paying £265 per week.¹⁴ This is a step in the right direction to bring down the cost of childcare.

It is our suggestion that HM Treasury go further in relaxing the ratio. Even after the change made in the Budget, with a child to staff ratio of 5:1 for early childhood education, the UK still has one of the most stringent in Europe. This restrictive regulatory requirement is contributing to the high cost of childcare. In 2018, it was estimated that 78 percent of childcare fees are directed at employee wages.¹⁵ By relaxing child to staff ratios further, staff wages can be distributed over more children, reducing the cost of childcare.

As of January 2023, the average workweek is 36.4 hours, which leaves a single parent earning the highest band of the minimum wage receiving just £345.80 a week.¹⁶ With one child, after the 5:1 child to staff ratio change, parents pay at least £225 on childcare, leaving these parents with only £120.80 to spend on food, travel, rent and any other necessary living expenses. This shows that costs of childcare need to

¹¹ House of Commons Library, "Women and the UK economy", 2023: <https://researchbriefings.files.parliament.uk/documents/SN06838/SN06838.pdf>

¹² Katy Morton, "Chancellor urged to boost childcare funding by estimated shortfall", 2023: <https://www.nurseryworld.co.uk/news/article/chancellor-urged-to-boost-childcare-funding-by-estimated-shortfall>

¹³ Nicole Weinstein, "Government funds Level 3 qualifications in early years for free from 1 April for over-24s", 2021: <https://www.nurseryworld.co.uk/news/article/government-funds-level-3-qualifications-in-early-years-for-free-from-1-april-for-over-24s>

¹⁴ House of Commons Library, "Staff to child ratios in early years childcare", 2022: <https://commonslibrary.parliament.uk/research-briefings/cdp-2022-0195/>

¹⁵ Department for Education, "Early years providers cost study 2018", 2019: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/913076/Frontier_-_Childcare_Cost_Study2.pdf

¹⁶ Prettys Solicitors LLP, "A Four Day Working Week - the future?", 2023: <https://prettys.co.uk/articles/four-day-working-week-future#:~:text=The%20UK's%20six%2Dmonth%20pilot,was%2036.4%20hours%5B1%5D.>

keep on decreasing. The Chancellor has made a good step forward with the ratio, but it needs to be relaxed further for these parents to have the disposable income they need to live their lives and provide for their children.

While we recommend relaxing the UK's child to staff ratio to levels closer to other European countries like Germany, we recognise that other countries can enjoy more lenient ratios as they have a workforce which is better qualified in childcare. We therefore suggest that when relaxing the child to staff ratio further, the UK should have a more energised campaign of advertising qualifications and careers in childcare. This would allow a safer usage of lenient ratios. Despite calls by industry and some parents to maintain the ratio, families should have the choice to pick different providers who utilise different ratios.

UPFRONT UNIVERSAL CREDIT PAYMENTS

The restructuring of Universal Credit childcare payments to allow childcare costs to be paid upfront to parents moving into work or increasing their hours, rather than in arrears was welcome. Upfront payments alleviate the problem of immediate costs for the lowest income families, who may not have the disposable income to pay for a month of childcare upfront before being reimbursed by the Department for Work and Pensions. This was particularly difficult for parents whose reimbursement dates did not align with the date they were invoiced by childcare providers. This solution gives such parents the financial stability they need to return to work. We are also in favour of the Chancellor's decision to increase the Universal Credit childcare cap. Families are now able to claim £951 for 1 child and £1,630 for 2 children.¹⁷ This enables parents to keep up with the increasing costs of childcare.

FURTHER POLICY SUGGESTIONS

The UK's childcare crisis needs combatting and while the Spring Budget took a step in the right direction, it focused too much on adding more funding into present subsidy schemes that don't work. These subsidy schemes are so tangled in regulatory rules that they have done little to deflate the ever growing costs of childcare. Rather than continuing to pursue these dysfunctional demand-side schemes in their current form, efforts should instead be focused on the supply-side factors that contribute to childcare being unaffordable in the first place.

ENDING THE £100,000 CLIFF EDGE

Within the Budget, the qualification for 30 hours free childcare payments - together with tax-free childcare - stops arbitrarily at £99,999. As a result, breaching this threshold will cause a fall in disposable income of up to £20,000 according to the Institute for Fiscal Studies.¹⁸ These regressive marginal tax rates leave parents

¹⁷ HM Treasury, "Spring Budget 2023", 2023: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1142824/Costing_Document_-_Spring_Budget_2023.pdf

¹⁸ Institute for Fiscal Studies, "Childcare reforms create a new branch of the welfare state - but also huge risks to the market", 2023: <https://ifs.org.uk/news/childcare-reforms-create-new-branch-welfare-state-also-huge-risks-market>

earning just over £100,000 with less take home income than those earning under the £100,000 threshold.¹⁹

The consequences of this are varied: households will be incentivised to lower their own salary demands through means such as increasing their pension contributions or avoiding pay rises, all of which create a dysfunction within the organisational structure of companies. This loss of income is exacerbated by the gradual loss of the personal allowance for earners over £100,000 which adds an extra 20% tax on income earned between £100,000 and £125,140.²⁰

This will further damage the labour market and the overall economy's prospects for dynamic growth. *The Times* wrote that "a couple could each be earning £99,000 (a combined household total of £198,000) and they keep the benefit; but if one earns £100,000, even if the other earns nothing at all, they lose it".²¹ This disincentive will also have repercussions for the Treasury.

The existence of this cliff edge will also affect family planning for these households, reducing their fertility rate considerably when compared to households which are in-scope for the benefit.²² As Britain has been described as requiring higher levels of fertility, such a hurdle runs contrary to long-term prospects of the economy.²³

EASING INFORMAL CHILDCARE ARRANGEMENTS

The Entrepreneurs Network has argued that informal childcare arrangements offer the most flexibility and lowest cost for parents.²⁴ Current legislation allows for a total regulatory exemption for babysitters between 6pm and 2am. However, this should be expanded to childminding during the day if it is being conducted by a person trusted by the household.

Should Ofsted require enhanced Disclosure and Barring Service checks for any of these childminders, the process should be expedited from 14 days to 7 days in order to grant greater flexibility to families. Likewise, reforms should be forthcoming in the registration with the Food Standards Agency if serving anything beyond tap water to children, as well as the registration process with the Information Commissioner to comply with GDPR.

¹⁹ Harriet Line, "Parents who earn more than £100,000 face 'absurd' £20,000 tax-trap on childcare costs", 2023: <https://www.dailymail.co.uk/news/article-11870615/Parents-earn-100-000-face-absurd-20-000-tax-trap-childcare-costs.html>

²⁰ TaxScouts, "What are the tax implications of earning over £100k?", 2023: <https://taxscouts.com/high-earner-tax-returns/what-are-the-tax-implications-of-earning-over-100k/>

²¹ Dan Neidle, "Five big ways to fix Britain's broken tax system", 2023: <https://www.thetimes.co.uk/article/five-big-ways-to-fix-britains-broken-tax-system-d218wkrxl>

²² Iza, "Cheaper Child Care, More Children", 2009: <https://docs.iza.org/dp3942.pdf>

²³ Social Market Foundation, "Baby shortage could spell economic stagnation for UK", 2021: <https://www.smf.co.uk/baby-shortage-could-spell-economic-stagnation-for-uk/>

²⁴ The Entrepreneurs Network, "What I said about childcare at the Work and Pensions Select Committee", 2022: <https://www.tenentrepreneurs.org/blog/what-i-said-about-childcare-at-the-work-and-pensions-select-committee>

TAX CREDITS FOR WORK-RUN CRECHES

Employers who set up and operate a creche service, with either child-minders or early years practitioners, should be able to claim back tax credits for the costs of operation. This should be on-top of the Workplace Nursery Scheme.²⁵ Such facilities should be Ofsted-inspected regularly (i.e. more than once a year) to ensure quality and safety.

Such creches and nurseries save parents considerable money in fees and travel, as well as being convenient for families. For businesses with the space and facilities to host such services, they should be encouraged by HM Treasury and the Department for Education.

FRONTLOADING UNIVERSAL CREDIT PAYMENTS

The provision of childcare costs as a key feature of the UC system gives low-income families the flexibility to return to work by providing them with financial assistance to afford necessary childcare services.

Frontloading UC payments would give parents the choice to get more of their financial aid when their child is young and less when they are older, rather than equal payments through the first 16 years of their life. The total amount parents would receive from Universal Credit payments would stay the same. The only difference would be how it is distributed to recipients.

Not only do parents have to pay for childcare (which is typically more expensive when a child is younger), they also have to buy clothes at a more rapid rate as their child grows, as well as equipment and food. A study by Moneyfarm found that in the first three years of a child's life, an average UK family spends around £44,000, in comparison to £24,656 for children aged 12-14.²⁶

Frontloading UC better reflects the amount of money needed to fund a child at the different stages of their life. For low income families, the choice to frontload their payments allows them to spend more money on their child when they need it the most.

RESTRUCTURE THE FREE EARLY EDUCATION ENTITLEMENT SCHEME

The Free Early Education Entitlement scheme provides up to 15 or 30 hours a week to children who meet certain criteria but is highly dysfunctional. The scheme can only be used with an approved childcare provider and is only valid for 38 weeks a year (equivalent to school term time). Besides not working for parents, the scheme also is a contributing factor to the decreasing supply of childcare providers. This is because each child in this scheme costs an average of £7.49 an hour for the childcare provider.

²⁵ Enjoy Benefits, "How Workplace Benefit can help nursery providers", 2023: <https://www.workplace-nursery.net/workplace-nurseries-benefits-for-nursery-providers/>

²⁶ The Times, "Starting a family: how much does it cost to raise a child?", 2023: <https://www.thetimes.co.uk/money-mentor/article/starting-family-baby-costs/>

However, the average payment the government gives these providers is a mere £4.89 per hour, leaving childcare providers with a gap in their earnings.²⁷

As the government is the biggest purchaser of childcare, underfunding childcare services is significant enough to force many providers to leave the market.²⁸ A solution to this is to abandon the scheme and instead provide parents with cash payments with which they can choose their provision.

In the Spring Budget 2023, the Chancellor announced a £4.1 billion spend by 2027-28 to extend the 30 free hour childcare scheme to children aged 9 months to 3 years in England. Unfortunately this is money spent in the wrong area and as highlighted above, the Free Early Education Entitlement scheme is riddled in problems. Rather than extending the scheme to younger children, we should provide cash payments to parents of children eligible for the ‘free’ childcare. This would include children from 9 months to 3 years.

TRAINING AND QUALIFICATIONS

British childcare has been criticised for its excessive churn, leaving qualified practitioners out of the market. Britain also has less stringent qualificatory requirements than in France, Germany, and some Nordic countries, leaving suppliers concerned about the welfare of children under their care.²⁹ The government’s recent incentive of £600 for new caring career entrants, and £1,600 for agency workers will go some way to fixing this issue, especially by encouraging new entrants into the labour market and thus encouraging further training.³⁰ However, whether it will fix the broken access to the Skills Fund, by providing an initial step-ladder towards the initiative, is yet to be seen.

Ofsted should continue to roll-out the privatisation of early years inspections, drastically removing friction and waiting times for to-be practitioners. Costs of such inspections should also be tax-deductible from future profits, to ensure that there is financial security for the future supply of qualifications. The government is right to acknowledge National Academic Recognition Information Centre (NARIC) and European Network of Information Centres (ENIC) assured qualifications from abroad: these should not impede the qualification of UK-based child caring facilities.

²⁷ Action for Children, “All worked out? The limits of work as a route out of poverty and hardship”, 2023: <https://www.actionforchildren.org.uk/our-work-and-impact/policy-work-campaigns-and-research/policy-reports/all-worked-out-the-limits-of-work-as-a-route-out-of-poverty-and-hardship/>

²⁸ Education & Skills Funding Agency, “Early years funded entitlement cost changes forecasts, England: spending round 2021 to 2022”, 2021: <https://www.gov.uk/government/publications/early-years-funding-2021-2022/early-years-funded-entitlement-cost-changes-forecasts-england-spending-round-2021-to-2022>

²⁹ Institute for Fiscal Studies, “The changing cost of childcare”, 2022: https://ifs.org.uk/sites/default/files/output_url_files/R210-The-changing-cost-of-childcare.pdf

³⁰ Zoe Adams, “Spring Budget 2023 childcare: What did Jeremy Hunt say about childcare?”, 2023: <https://www.lbc.co.uk/news/explained/spring-budget-2023-childcare-universal-credit-30-free-hours/>