

IFS

Helping Families

Childcare, early education and work–life balance

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Helping families: childcare, early education and work–life balance

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Summary

- Since 1997, the government has increased spending on early years services, nursery education for 3- and 4-year-olds and childcare subsidies for parents via tax credits.
- In 2004, the government announced a 10-year strategy for childcare and early years education. The government claims that its public spending forecasts are consistent with implementing all aspects of the strategy. But it is hard to verify this statement, given that the government has not said how much some aspects of this strategy would cost and has not yet set out detailed spending plans for the Sure Start unit beyond 2008–09. The Liberal Democrats would implement much of this strategy, and the Conservatives would match the government's commitments to 2008–09.
- The three main parties are all committed to increasing maternity pay to nine months in 2007. However, they have different ideas for further increasing the generosity of maternity pay. Labour would allow some leave to be transferred to the father and has set a goal of extending paid maternity leave to 12 months in total; the Conservatives would offer women the choice of receiving the same amount of pay over either six or nine months; and the Liberal Democrats would offer first-time mothers a minimum income guarantee for the first six months of paid leave.
- The Conservative Party proposes to introduce a flexible childcare payment into the working tax credit in 2008–09. This would build on the existing childcare tax credit, and would benefit around 250,000 working parents with children under 5 who either do not use formal childcare or use only a little, at a cost of around £460 million a year. The new payments would not be tied to using childcare: families could spend the extra payments on whatever they chose.

1. Overview

Since Labour came to power in May 1997, there have been substantial increases in spending aimed at helping families with formal childcare, early education and the work–life balance. Three major reforms in this area are:

- to increase the generosity of and entitlement to paid (and unpaid) maternity, paternity and adoption leave;

Table 1. Key features of Labour's, the Conservatives' and the Liberal Democrats' manifesto proposals on helping families^a

Proposals	Labour	Conservatives	Liberal Democrats
Maternity pay	<p>Increase paid maternity leave from six months to nine months in 2007 (£329m)^b</p> <p>Enable the transfer of some paid maternity leave to the father (uncosted)^c</p> <p>Has set a goal of increasing paid maternity leave from nine months to 12 months by 2010 (£195m)</p>	<p>Increase paid maternity leave from six months to nine months in 2007 (£329m)^b</p> <p>Give mothers the option of receiving the same amount of maternity pay over either six or nine months (£69m)</p>	<p>Increase paid maternity leave from six months to nine months in 2007 (£329m)^b</p> <p>Introduce a minimum income guarantee of £170 per week for the first six months after birth for first-time mothers as an alternative to maternity allowance or statutory maternity pay (£141m)^d</p>
Childcare element of the WTC	<p>Increase the proportion of formal childcare costs that can be claimed from 70% to 80% in 2006 (£130m)^e</p>	<p>Increase the proportion of formal childcare costs that can be claimed from 70% to 80% in 2006 (£130m)^e</p> <p>Introduce a flexible childcare scheme that gives all parents eligible for the working tax credit £50 per week for each child under 5 regardless of type of childcare used, if any (£460m)</p>	<p>Increase the proportion of formal childcare costs that can be claimed from 70% to 80% in 2006 (£130m)^e</p> <p>Will look to fix all childcare tax credit awards for at least six months, regardless of whether childcare costs change in the meantime</p>
Free nursery education	<p>Free nursery education for 3- and 4-year-olds for 12.5 hours a week, 38 weeks a year from 2007 (£200m^f) and 15 hours a week, 38 weeks a year by 2010 (£300m)</p>	<p>Free nursery education for 3- and 4-year-olds for 12.5 hours a week, 38 weeks a year from 2007 (£200m^f)^g</p>	<p>Free nursery education for 3- and 4-year-olds for 12.5 hours a week, 38 weeks a year from 2007 (£200m^f) and 15 hours a week, 38 weeks a year by 2010 (£300m)</p>

^a Throughout this table, parenthesised figures refer to party estimates of the costs of the measures. IFS estimates of the costs of each proposal are in italicised parentheses and are only shown if no party estimates have been tabled.

^b This cost is based on latest DTI estimates (source: Department of Trade and Industry, *Work and Families: Choice and Flexibility – Regulatory Impact Assessment*, 2005, available at www.dti.gov.uk/er/workandfamilies_ria.pdf). In the 2004 Pre-Budget Report, the estimated cost of this reform was lower, at £285 million (www.hm-treasury.gov.uk/media/98C/55/pbr04_maindoc1.76.pdf).

^c The Department of Trade and Industry is currently consulting on the length of paid leave that can be transferred, which would influence the total cost of this reform. Whichever option is implemented, however, relatively low take-up is likely to mean that costs will also remain relatively low.

^d IFS estimates suggest that the cost of this proposal may be slightly lower, as our estimate of the proportion of first-time mothers on maternity allowance (50% based on British Household Panel Survey data) is lower than that used by the Liberal Democrats (58%).

^e This estimate is taken from the 2004 Pre-Budget Report (www.hm-treasury.gov.uk/media/98C/55/pbr04_maindoc1.76.pdf).

^f This IFS estimate may overestimate the true cost, as some local education authorities are already providing this much free provision in the maintained sector.

^g The Conservatives are committed to matching the government's spending commitments to 2008 (which would cover the period of increase to 12.5 hours a week, 38 weeks a year).

- to entitle all 3- and 4-year-olds to free part-time nursery education for 12.5 hours per week, 33 weeks of the year;
- to increase the subsidies available to working parents for spending on formal childcare.

Other reforms are discussed in Section 2.

The key proposals in each of the parties' manifestos for the next five years are outlined in Table 1. Other proposals are discussed in Section 3.

All the main parties plan to extend paid maternity leave from six months to nine months from April 2007 at an estimated cost of £329 million.¹ Labour has set a goal of further increasing paid maternity leave from nine months to 12 months by 2010. IFS estimates that this will cost a minimum of £195 million per year, ignoring possible behavioural changes, which may increase take-up, and above-inflation earnings growth (both of which, if they happen, will increase the costs of the reform); these caveats also apply to our estimates of the Conservatives' and the Liberal Democrats' maternity pay proposals. The Conservatives plan to offer claimants of statutory maternity pay (SMP) the option of receiving the same amount of pay over either six or nine months, which IFS estimates will cost a minimum of £69 million per year. The Liberal Democrats plan to give first-time mothers the option of claiming SMP or maternity allowance (MA), or a new minimum income guarantee (MIG) of £170 per week for the first six months of maternity leave. The party has estimated that this proposal will cost in the region of £141 million per year, and allowed for this amount in its public spending forecasts. IFS has independently verified this figure, and found it to be sufficient to cover our estimated costs of the reform.

All the main parties are committed to increasing the proportion of formal childcare costs that can be claimed under the childcare element of the working tax credit from 70% to 80% in 2006, at a cost of £130 million a year (announced by the government in the 2004 Pre-Budget Report). In addition, the Conservatives would, if elected, introduce a payment of £50 per child per week for all families eligible for the working tax credit, regardless of the type of childcare used, if any. IFS estimates that this will cost approximately £460 million per year.

Both Labour and the Liberal Democrats are committed to increasing free nursery education for 3- and 4-year-olds to 12.5 hours a week, 38 weeks a year by 2007 (at an approximate cost of £200 million per year²) and to 15 hours a week, 38 weeks a year by 2010 (at an approximate cost of £300 million per year³). The Conservatives have said that they will match the government's spending commitments to 2008, but have not confirmed exactly which policies they will implement using this money. With this in mind, we have included the increase to 38 weeks a year but not the increase to 15 hours per week under the Conservatives' manifesto pledges, although it is not certain that they would definitely implement this policy if they were elected.

¹ This costing is based on DTI estimates (see Department of Trade and Industry, *Work and Families: Choice and Flexibility – Regulatory Impact Assessment*, 2005, available at www.dti.gov.uk/er/workandfamilies_ria.pdf) and has been independently verified by IFS.

² This is an IFS estimate that may overestimate the true cost, as some local education authorities are already providing this much free provision in the maintained sector.

³ IFS estimate.

2. Changes since 1997

Since Labour came to power in 1997, several significant changes have been made to family policy, affecting both parents and their children. These changes have been introduced with a variety of objectives in mind. In this section, we focus on government policy concerning:

- work–life balance;
- childcare and nursery education;
- the affordability of childcare.

Where policy is devolved – for example, in the provision of free nursery education – we focus only on the situation in England; most work–life balance and childcare affordability issues – for example, maternity pay and the childcare element of the working tax credit – are not devolved.

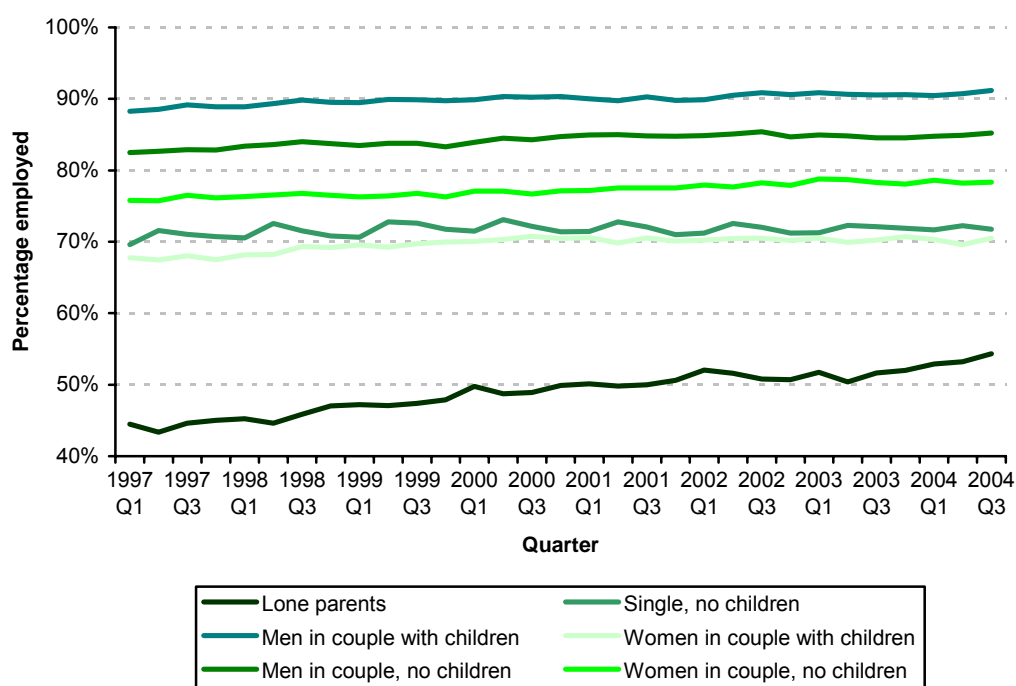
This section discusses key trends in parental employment and childcare use (although data on the latter are limited) and then reviews the main policy changes since 1997.

2.1 Parental employment and childcare use: key trends

As background to our discussion of family policy, we first document trends in parental employment, childcare use and parents’ expenditure on childcare over the last eight years.

Figure 1 shows employment rates for single people and for individuals in couples, both with and without children. More parents of dependent children are in paid employment now than in

Figure 1. Employment rates of parents

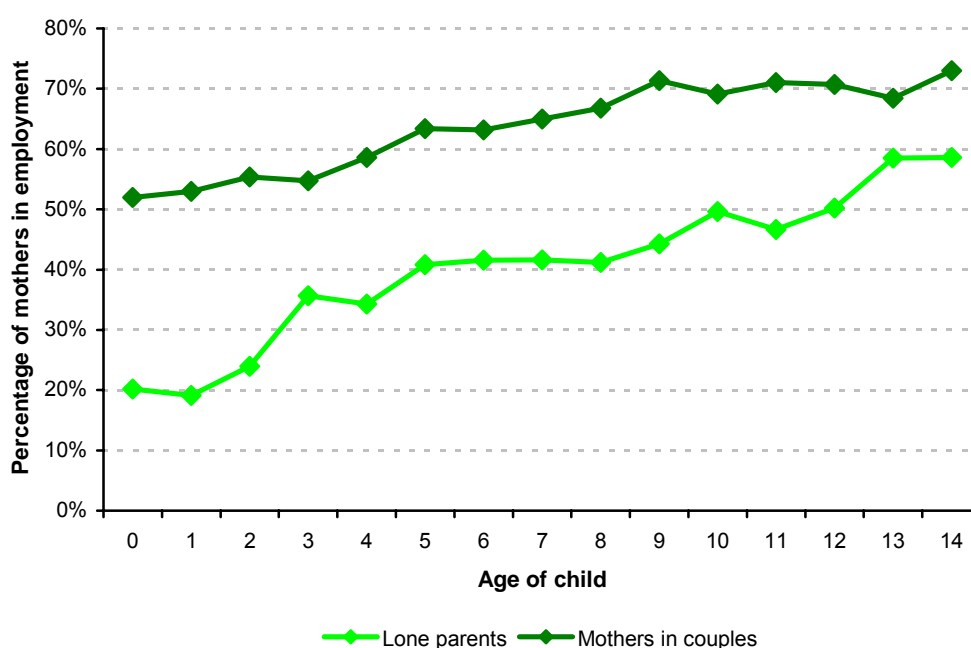


Source: Taken from M. Brewer and A. Shephard, *Has Labour Made Work Pay?*, Joseph Rowntree Foundation, York, 2004 (www.jrf.org.uk/bookshop/eBooks/1859352626.pdf).

1997, although lone parents are responsible for the majority of this increase, showing a rise of 10 percentage points, from 44% in the first quarter of 1997 to 54% in the third quarter of 2004. Employment rates for all other groups have grown only slowly, by no more than 3 percentage points over the same period.

Figure 2 shows the employment rate of mothers, by age of child, in 2001–02, i.e. at the start of Labour’s second term in office. The maternal employment rate is clearly higher for children in couple families than for children in lone-parent families right across the age range, but rises slightly more rapidly with age for children in lone-parent families (both in percentage and percentage-point terms).

Figure 2. Employment rates for mothers in 2001–02, by age of child



Note: Figure shows proportion of children whose mother works, by age of child.
 Source: Authors’ calculations based on data from the 2001–02 Family Resources Survey.

It is difficult to obtain an accurate picture of trends in the use of childcare over time; however, there are a number of stylised facts that can be used to gain insight into the use of different types of childcare amongst both working and non-working families:⁴

- Working mothers tend to use informal childcare rather than formal childcare. A minority of working mothers do not use any form of childcare.
- The most common type of childcare used by families with working mothers is close relatives, followed by centre-based care and other relatives and friends. Childminders are used by a small number of mothers, and nannies and au pairs by very few.

⁴ All figures in this section are from M. Brewer and J. Shaw, ‘Childcare use and mothers’ employment: a review of British data sources’, Department for Work and Pensions, Working Paper no. 16, 2004.

- Around half of non-working mothers use some form of childcare, compared with 70–80% for working lone-parent families and 60–70% for couple families with a working mother. Non-working mothers make much less use of informal care than working mothers.
- Childcare use amongst families with working mothers falls as age of child increases. For children in couple families, there is a pronounced drop at age 5. There is no such drop for children in lone-parent families, suggesting that it is easier for parents in couples to organise work around school hours. Formal childcare is used mainly by pre-school children, while informal childcare is used more broadly across the age range.
- A lot of families with working mothers use only a little childcare: for children using childcare, the most common amount used is roughly 10 hours per week for children in lone-parent families and five hours per week for children in couple families. Average hours are highest for centre-based care, somewhat lower for childminders and close relatives, lower still for other relatives and lowest for out-of-school or holiday clubs.
- Working lone parents are more likely than couples with a working mother to use free childcare.
- Nannies/au pairs are the most expensive form of childcare, followed by childminders and centre-based care. The least expensive type of formal childcare is out-of-school or holiday clubs. Not all informal care is free, but, on average, it is substantially cheaper than formal care.
- There has been a shift away from informal care towards formal care over time. The proportion of working mothers paying for care and the average amount spent has hardly changed since 1995.
- Average annual real growth in the hourly price of childcare has been around 5% per year for lone parents and 4% for couples since 1995.

2.2 Policies

Work–life balance

Maternity leave and pay

The trend since Labour came to power in 1997 has been to increase the right to time off for pregnant women and new mothers, and to compensate them more generously during that time. Two pieces of legislation were mainly responsible: the Employment Relations Act (1999) in the first term and the Employment Act (2002) in the second term, both of which increased the length of ordinary maternity leave available to all women and relaxed the employment conditions relating to additional maternity leave. The Employment Act (2002) also increased entitlement to both statutory maternity pay and maternity allowance for eligible women (see Appendix A for details) and increased the maximum flat rate of pay.

Tables 2 and 3 summarise the changes.

The government has announced that, if re-elected, it would increase the length of paid maternity leave (both SMP and MA) from six months to nine months in 2007, at a cost to the

exchequer of £329 million.⁵ This estimate has already been incorporated into the public finance forecasts. Both opposition parties are committed to implementing this proposal were they to be elected.

Figure 3 shows that total spending on statutory maternity pay in 1997–98 was approximately £610 million; by 2004–05, this had risen to around £1.2 billion (both figures in 2005–06 prices), with the biggest year-on-year increase occurring in the second term, between 2002–03 and 2003–04, when total paid entitlement was increased by eight weeks.⁶

Table 2. 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

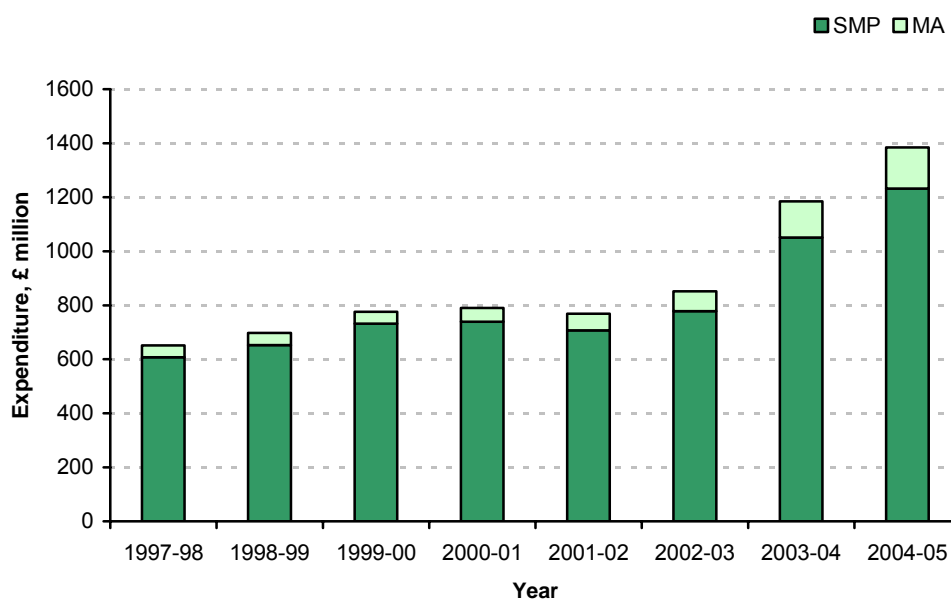
Table 3. Statutory maternity pay

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

⁵ Source: Department of Trade and Industry, *Work and Families: Choice and Flexibility – Regulatory Impact Assessment*, 2005 (www.dti.gov.uk/er/workandfamilies_ria.pdf).

⁶ Source: www.dwp.gov.uk/asd/asd4/Table3.xls.

Figure 3. Expenditure on maternity pay



Note: Expenditure in real terms at 2005-06 prices.

Source: www.dwp.gov.uk/asd/asd4/Table2.xls.

The number of women claiming MA has risen from 12,100 in November 1996 to 26,400 in November 2004.⁷ No time-series data on take-up of SMP are available; the most recent figure is from 2003–04, when approximately 300,000 women were claiming.⁸

A survey of maternity rights published in January 2003 found the UK to be amongst the most generous providers of statutory maternity leave in Europe, but amongst the least generous providers of statutory maternity pay, despite significant increases in generosity since Labour came to power.⁹

Paternity and adoption leave and pay

In conjunction with the expansion in coverage of maternity leave and pay, Labour also introduced (in April 2003) 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 is available to all individuals meeting certain employment and earnings criteria, details of which can be found in Appendix A.

The only available figures detailing take-up of statutory paternity pay (SPP) were released in response to a parliamentary question¹⁰ and are based on a sample of Inland Revenue returns for 2003–04. On these estimates, only around 79,000 fathers were claiming SPP at that time, at a cost of around £16 million.¹¹ When compared with the number of children born over the same

⁷ Figures courtesy of the Department for Work and Pensions' Information Centre, April 2005.

⁸ Response to PQ 169300 from Malcolm Bruce on 29 April 2004.

⁹ Source: www.mercerhr.co.uk/pressrelease/details.jhtml/dynamic/idContent/1079665.

¹⁰ Response to PQ 169299 from Malcolm Bruce on 29 April 2004.

¹¹ Source: www.dti.gov.uk/er/workingparents/info.htm.

period (approximately 620,000¹²), this means that only 13% of fathers were claiming SPP, compared with 52% of mothers claiming SMP or MA. This comparison does not take into account the fact that parents may not be eligible for SPP, SMP or MA; however, fathers are more likely to be eligible for SPP than mothers are to be eligible for SMP or MA.

Figures on take-up of statutory adoption pay (SAP) were released alongside those for SPP. On these estimates, only 2,200 individuals were claiming SAP in 2003–04, at a cost of approximately £4 million. When compared with the 6,200 children adopted in the UK in 2002¹³, this indicates that around 35% of adopters were claiming SAP, although it is unclear what proportion of adoptive parents are eligible for SAP.

Parental leave and time off for dependants

The Employment Relations Act (1999) introduced two policies designed to give working parents more flexibility in their approach to childcare responsibilities: the right to parental leave (following EU Directive 96/34)¹⁴ and the right to time off for dependants. Details of entitlement criteria can be found in Appendix A.

The only government-funded survey to date that addresses take-up of parental leave reports that, in 2002, only 4% of employed parents had taken some parental leave in the past year (and with their current employer).¹⁵ This figure may underestimate current take-up, as awareness of the regulations is likely to have increased over time.

Flexible working

In March 2000, the government launched the Work–Life Balance Campaign, which sought to promote the benefits of flexible working to employers. Limited funds were available to assist with the introduction of more flexible working practices; however, it was not until the Employment Act (2002) that any legal rights were conferred. Under this Act, employees with children under 6 years of age (18 years of age if the child is disabled) have the right to request flexible working patterns, and employers have a duty to consider these requests seriously (and provide evidence of recognised business grounds for refusal).

In late 2003 and early 2004, between six and 10 months after the introduction of these rights, a Department of Trade and Industry survey found that approximately 24% of employees with children under the age of 6 (i.e. those covered by the legislation) had requested flexible working, of whom 77% had been accepted.¹⁶ These figures conceal substantial variation between covered male and female employees, however, with 37% of women and only 10% of men having requested to work more flexibly. No data exist on the number of employees with children under the age of 6 that requested flexible working before the introduction of these statutory rights in 2003.

¹² Source: www.statistics.gov.uk/cci/nugget.asp?id=369.

¹³ *Social Trends*, no. 34, 2004 (www.statistics.gov.uk/downloads/theme_social/Social_Trends34/Social_Trends34.pdf).

¹⁴ www.tueip.dircon.co.uk/er9-page2.html.

¹⁵ J. Stevens, J. Brown and C. Lee, *The Second Work–Life Balance Study: Results from the Employees' Survey*, Department of Trade and Industry, London, 2004 (www.dti.gov.uk/er/emar/errs27.pdf).

¹⁶ T. Palmer, *Results of the First Flexible Working Employee Survey*, Department of Trade and Industry, London, 2004 (www.dti.gov.uk/er/emar/flex_survey_results.pdf).

Childcare and nursery education

Childcare

The current Labour government has introduced a number of childcare initiatives since coming to power in May 1997. The August 1997 White Paper, *Excellence in Schools*, began by announcing pilot Early Excellence Centres (EECs), to demonstrate good practice in the provision of integrated services for children and their families. EECs were required to offer, amongst other things, good-quality early education and extended day care, parental support services, training opportunities for their own and other local early years staff, and links with health and social services.¹⁷

The National Childcare Strategy (1998) extended this programme and announced funding for out-of-school childcare places (via the New Opportunities Fund, a National Lottery distributor) and the training and professional development of childcare workers.¹⁸ Shortly afterwards, the 1998 Comprehensive Spending Review announced the Sure Start programme, to tackle poverty and social exclusion amongst children aged 0 to 4 (and their families) by concentrating on the provision of good-quality childcare, in combination with health services and other family support, in the most deprived areas of the country.¹⁹ The Neighbourhood Nurseries Initiative (NNI), announced in 2000, extended the government's focus on targeted provision through the introduction of supply-side subsidies to increase the number of affordable childcare places for working parents in poor neighbourhoods.

The 2003 Green Paper, *Every Child Matters*,²⁰ rebranded Early Excellence Centres, Sure Start and some Neighbourhood Nurseries into Children's Centres. These centres are community-based, open 10 hours a day, five days a week, 48 weeks a year, and are intended to provide models of excellence for the delivery of multi-agency services.²¹ The conversion of Sure Start programmes and Neighbourhood Nurseries into Children's Centres means that many of them are already located within the 20% most deprived wards in England, as defined by the 2004 Index of Multiple Deprivation,²² but the government hopes that they will eventually serve every community.

Figure 4 details spending on childcare (and nursery education, discussed shortly) over the course of Labour's terms in office. Over the period 1997–98 to 2002–03, the government has spent an average of about £2.5 billion per year on early years services. Over the same period, 626,000 new childcare places were created across all age groups in England, although 301,000 places have closed, giving a net increase of 325,000 childcare places.²³

¹⁷ Source: www.surestart.gov.uk/doc/0-8A00FF.doc.

¹⁸ Department for Education and Employment, *Meeting the Childcare Challenge: A Framework and Consultation Document*, Cm. 3959, London, 1998 (www.surestart.gov.uk/doc/0-BB628F.doc).

¹⁹ Source: www.archive.official-documents.co.uk/document/cm40/4011/401122.htm.

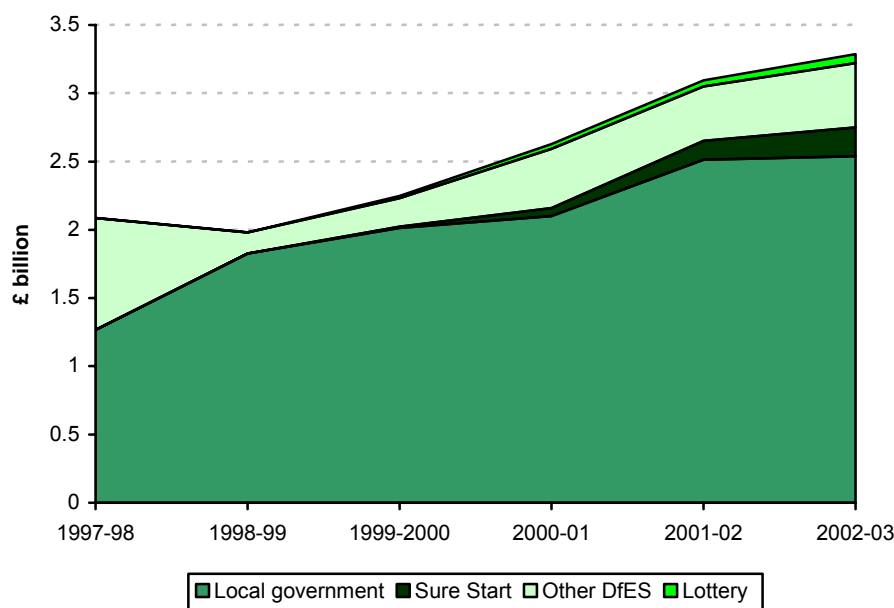
²⁰ Source: HM Treasury, *Every Child Matters*, Cm. 5860, HMSO, London, 2003 (www.rcu.gov.uk/articles/news/everychildmatters.pdf).

²¹ Source: National Audit Office, *Early Years: Progress in Developing High Quality Childcare and Early Education Accessible to All*, HC268, Session 2003–04, HMSO, London, 2004 (www.nao.org.uk/publications/nao_reports/03-04/0304268.pdf).

²² www.odpm.gov.uk/stellent/groups/odpm_control/documents/contentservertemplate/odpm_index.hcst?n=4610&l=3.

²³ Source: National Audit Office, *ibid*.

Figure 4. Expenditure on early years services



Notes: Expenditure on early years services includes funding for nursery education, out-of-hours childcare, Sure Start, NNI and EECs. Expenditure is at 2002–03 prices, adjusted using the GDP deflator. In 1997–98, DfES funding includes £527 million transferred from local government for the nursery voucher scheme, transferred back to local authorities in 1998–99. From 2001–02, funding for nursery education for 4-year-olds was transferred to local authorities.

Source: Page 19 of National Audit Office, *Early Years: Progress in Developing High Quality Childcare and Early Education Accessible to All*, HC268, Session 2003–04, HMSO, London, 2004

(www.nao.org.uk/publications/nao_reports/03-04/0304268.pdf). Graph reproduced courtesy of the National Audit Office.

Nursery education

Until 1997, the decision whether or not to provide free nursery education was made by local education authorities (LEAs) rather than by central government. This led to considerable variation in access to places across the country. Following a short-lived national voucher scheme (offering all 4-year-olds free part-time nursery places) in 1997,²⁴ the new Labour government launched its solutions to the issues of childcare provision, including early years education, in the National Childcare Strategy (1998).²⁵

A commitment was made to offer all 4-year-olds free part-time nursery places, with the intention to extend this opportunity to 3-year-olds over time. Progress has been made on this initiative throughout Labour's terms in office, and since April 2004, it has been mandatory for LEAs to provide free nursery places for all 3- and 4-year-olds for 12.5 hours a week (to be taken in up to five 2.5-hour sessions) and for 33 weeks of the year. All 4-year-olds have been entitled to this statutory minimum level of provision since September 1998, and all 3-year-olds since April 2004.

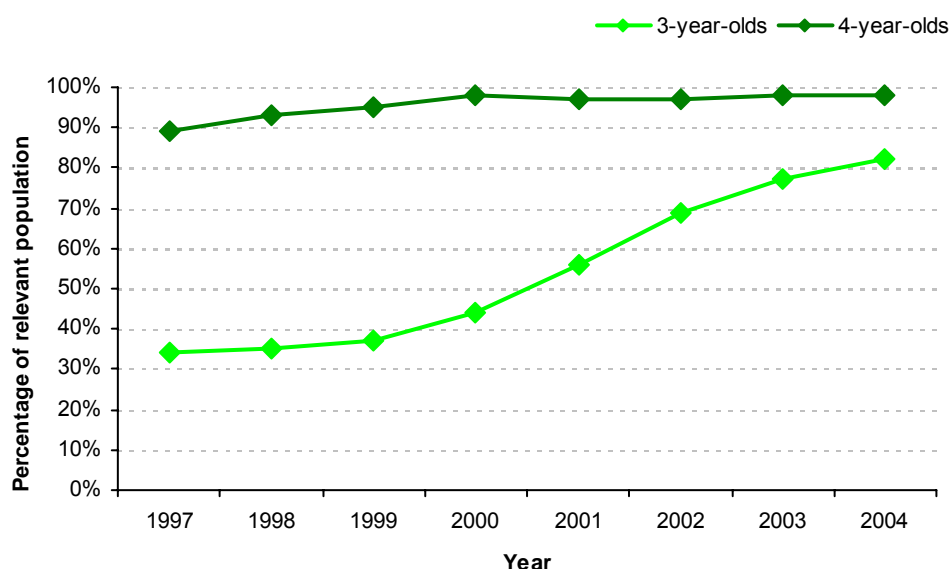
²⁴ For more information, see chapter 9 of R. Chote, C. Emmerson, D. Miles and Z. Oldfield (eds), *The IFS Green Budget: January 2005*, Institute for Fiscal Studies, London, 2005.

²⁵ Department for Education and Employment, *Meeting the Childcare Challenge: A Framework and Consultation Document*, Cm. 3959, London, 1998 (www.surestart.gov.uk/doc/0-BB628F.doc).

The Department for Education and Skills estimates that total expenditure on education for 3- and 4-year-olds is currently around £2.7 billion per year, of which approximately £1.1 billion goes towards providing free part-time nursery places.²⁶

Figure 5 outlines the pattern of take-up of free nursery places over time. Take-up amongst 4-year-olds has been high throughout Labour's terms in office, rising from 89% in 1997 to 98% in 2004. Take-up amongst 3-year-olds has increased more rapidly over the same period, from 34% in 1997 to 82% in 2004.

Figure 5. Provision of free nursery places over time



Notes: Figures as of January each year. The statutory entitlement to free provision was introduced in 1998 for 4-year-olds, so these figures accurately reflect take-up of places provided. For 3-year-olds, statutory provision was not introduced until 2004, so figures before 2004 may reflect 100% take-up of all free places provided.

Sources: Department for Education and Skills, *Provision for Children under Five Years of Age in England – January 2002*, SB08/2002, London, December 2002 (http://www.dfes.gov.uk/rsgateway/DB/SBU/b000364/b08_02v3.pdf); Department for Education and Skills, *Provision for Children under Five Years of Age in England: January 2004 (Final)*, SFR 39/2004, London, October 2004 (<http://www.dfes.gov.uk/rsgateway/DB/SFR/s000531/sfr39-2004v5.pdf>).

The affordability of childcare: the childcare tax credit

The first programmes to subsidise parents' spending on childcare were introduced by the last Conservative government, which implemented childcare disregards in various means-tested benefits (family credit, housing benefit and council tax benefit). This system remained in place until October 1999, when family credit was replaced with the working families' tax credit, and the childcare disregard in family credit was replaced with the childcare tax credit.²⁷ The childcare tax credit reimbursed low-income working families up to 70% of their formal childcare costs,²⁸ with the size of the reimbursement dependent on family income, number of children and amount spent on formal childcare.

²⁶ Data released in response to a Freedom of Information request on 16 March 2005.

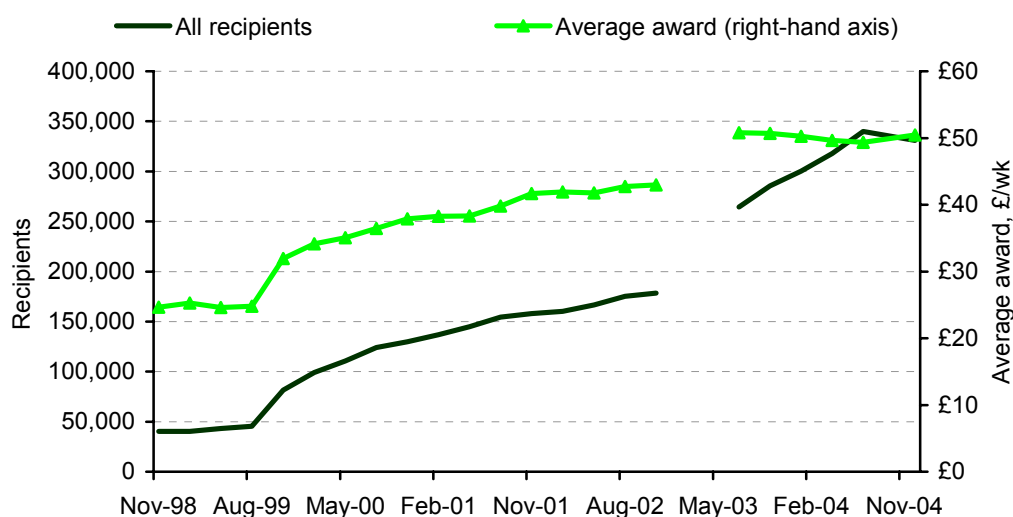
²⁷ Income disregards for housing and council tax benefit remained; their generosity increased over time.

²⁸ See Box B1 in Appendix B for a definition of formal childcare.

When working tax credit and child tax credit were introduced in April 2003, the childcare tax credit was replaced by the childcare element of the working tax credit. This works in almost exactly the same way as the childcare tax credit, with payment being made to the main carer of eligible low-income working families to subsidise up to 70% (up to a limit of £175 for one child, or £300 for two or more children, as of April 2005) of the cost of formal, registered childcare for children under the age of 15.

The cost of this programme has increased dramatically since 1997: it cost £45.6 million in 1997²⁹ and around £735 million in 2003–04, and it is likely to cost around £880 million in 2004–05.³⁰ Since November 1998, the average award has doubled in real terms, and more than eight times as many families are benefiting (see Figure 6).

Figure 6. Average award and number of recipients of childcare tax credit and its predecessors



Notes: Deflated using RPI to April 2004 prices. No statistics were published between November 2002 and July 2003 while the new tax credits were being introduced. Average weekly award is the mean award paid at particular dates. Sources: Authors' calculations from various editions of *Family Credit: Quarterly Enquiry*, *Working Families' Tax Credit Statistics: Quarterly Enquiry* and *Child and Working Tax Credits: Quarterly Statistics*, published by the Department of Social Security, the Inland Revenue and the Inland Revenue respectively.

By its design, the childcare tax credit can only benefit working families that use formal childcare. These families tend not to be the poorest in society, because the families with the lowest incomes tend to be those where no adults are working. The majority of families that are entitled to the childcare tax credit are on middle or average incomes, with around 7% of families in each of the 3rd to 7th deciles entitled to the childcare tax credit (see Figure 7, which shows at the top of each bar our estimate of the proportion of families in each tenth of the income distribution of families with children that were estimated to be entitled to the childcare tax credit in 2004–05). The vast majority of families that are entitled are not in poverty, and many are in the top half of the income distribution of families. To the extent that the childcare

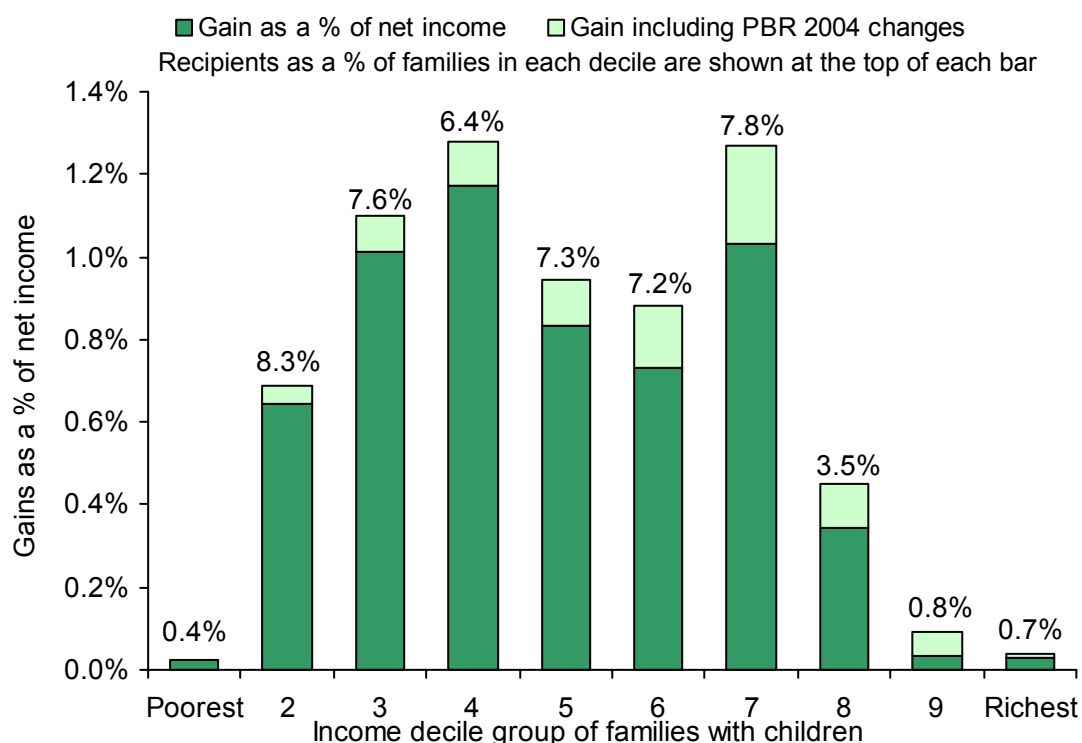
²⁹ Source: Chapter 9 of R. Chote, C. Emmerson, D. Miles and Z. Oldfield (eds), *The IFS Green Budget: January 2005*, Institute for Fiscal Studies, London, 2005.

³⁰ Our estimate for 2003–04 is based on weekly spending in July 2003, October 2003 and January 2004. Our estimate for 2004–05 is based on weekly spending in December 2004.

tax credit encourages low-income mothers to work, though, it will have an indirect effect that reduces poverty.

Two changes to the childcare tax credit were announced or confirmed in the 2004 Pre-Budget Report, at a cost of £160 million a year from 2006–07: the ceiling on eligible childcare costs will rise to £175 or £300 a week for families with one or more than one child respectively from April 2005 (cost: £30 million), and the subsidy rate will be increased from 70% to 80% of total (formal) childcare costs from April 2006 (cost: £130 million). These changes mean that the childcare tax credit could theoretically benefit families with joint incomes of up to £58,666 from April 2006: the distributional impact of these reforms is shown in Figure 7. Both opposition parties are committed to implementing the second of these reforms if they are elected.

Figure 7. Distributional impact of the childcare tax credit



Notes: Deciles are of families with children only; there are around 700,000 families with children in each decile. Results assume full take-up of tax credits, but have been calibrated so that the estimated number of recipients and total spending match administrative data shown in Figure 6. The graph does not show the impact of childcare disregards in means-tested benefits, which will disproportionately benefit low-income families.

Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on data from the Family Resources Survey 2002–03, uprated to current prices.

In addition to the childcare tax credit, the Finance Act (2004) extended tax and National Insurance (NI) exemptions for workplace nurseries (introduced by the Finance Act (1990)) to the first £50 of all employer-supported childcare schemes using registered or approved providers that are open to all employees. This includes employer-provided childcare vouchers, assuming that the childcare purchased by parents is registered.³¹

³¹ See Box B1 in Appendix B for a definition of registered childcare.

3. Policies for 2005 to 2015

In December 2004, the government launched *Choice for Parents, the Best Start for Children: A Ten Year Strategy for Childcare*³² alongside its Pre-Budget Report. Some elements of this strategy have already been implemented, but other parts remain aspirations to be achieved at some unspecified point in the future.

The government claims that its public spending forecasts are consistent with implementing all aspects of the strategy. But it is hard to verify this statement, both because the government has not said how much some elements of the strategy would cost and because it has not yet set out detailed spending plans beyond 2008–09.

The Labour Party would presumably instigate all aspects of the strategy if it were re-elected; the Liberal Democrats would take forward most of the outlined proposals; and the Conservatives would match the government's commitments to 2008–09. The main features of the strategy are outlined in our discussion of Labour's plans going forwards in Section 3.1.

3.1 Labour

Labour would implement the planned increase in paid maternity leave from six months to nine months in 2007, and the rise in generosity of the childcare tax credit from 70% to 80% of formal childcare costs in April 2006, as discussed in Section 2.2. Both the Conservatives and the Liberal Democrats would do the same. Other issues from Labour's manifesto are summarised in Table 4.

Table 4. Summary of Labour's manifesto

Policy	Introduced when?	Announced cost (annual)	IFS cost estimate (annual)
12 months' paid maternity leave, with the ability to transfer some of this leave to the father			£195m
3,500 Children's Centres (one in every community), offering information, healthcare, family support and childcare	2010		
Free nursery education for 3- and 4-year-olds for 15 hours a week (to be taken over at least three days), 38 weeks a year	2010		£500m
A school-based childcare place for every child aged 5–14 between the hours of 8am and 6pm throughout the year	2010		

³² http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr04/assoc_docs/prebud_pbr04_adchildcare.cfm.

Other elements of the 10-year childcare strategy that Labour would introduce over the course of the next parliament include:

- legislation to place a duty on local authorities to ensure a sufficient supply of high-quality childcare to meet the needs of families (by 2008);
- a Transformation Fund of £125 million a year from April 2006 to invest in the provision of high-quality, sustainable, affordable childcare;
- consultation on a new qualification/career structure for the childcare workforce (2005);
- reform of the regulation and inspection regime to improve standards and give parents access to better information;
- work with the Greater London Authority to address childcare affordability in London (from April 2006).

The Department of Trade and Industry (DTI) is also consulting on the possibility of extending the right to request flexible working to people with sick or disabled relatives and/or to the parents of older children; however, there is no definite commitment to any extension of this right.

Work-life balance

Maternity leave and pay

The Labour Party has announced its intention to increase the length of paid maternity leave from six months to nine months in 2007. It has also set a goal of extending it from nine months to 12 months by 2010. In both cases, this applies to all women claiming SMP or MA.³³

The DTI has already estimated the change in take-up rates resulting from the initial extension of paid maternity leave (from six months to nine months) and used these estimates to obtain a cost to the exchequer of approximately £329 million.³⁴

From Table 5, we can estimate the cost of extending paid maternity leave from nine months to 12 months to be around £212 million, of which £197 million would be paid by the exchequer and £15 million by employers (because of the 7% net contribution made by employers). This estimate assumes that there is no real growth in mothers' earnings between 2004 and 2008; positive growth in mothers' real earnings will slightly increase the cost and the amount by which mothers gain. This caveat also applies to our estimates of the costs of the Conservatives' and Liberal Democrats' maternity pay policies.

It is also important to remember that the increase in paid maternity leave may have an impact on pre-birth labour supply: the increased generosity of SMP and MA may induce some currently ineligible women to enter or re-enter the labour market in order to become eligible for payment, or it may induce women who would currently receive MA to increase their hours

³³ If current entitlement conditions were to remain, women in receipt of maternity allowance would be entitled to nine months' pay but only six months' leave (see Appendix A for further details). The DTI is consulting on ways to overcome this disparity.

³⁴ Source: Department of Trade and Industry, *Work and Families: Choice and Flexibility – Regulatory Impact Assessment*, 2005 (www.dti.gov.uk/er/workandfamilies_ria.pdf). In Appendix C, we outline our own estimates of the cost of this policy.

Table 5. Analysis of Labour's maternity leave proposals

Projected maternity leave taken	Number of women returning to work, with length of paid leave:		Average gain in SMP/MA arising from increasing paid leave from 9 to 12 months
	9 months ^a	12 months	
<i>Maternity allowance</i>			
End of paid leave	26,400	26,400	£1,202.93 ^b
<i>Statutory maternity pay</i>			
0–25 weeks	35,300	35,300	£0
26 weeks	28,800	28,800	£0
27–38 weeks	26,200	26,200	£0
39 weeks	58,500	53,820 ^c	£0
40–51 weeks ^d	24,050	8,300	£630.90 ^e
52 weeks	70,000	90,430	£1,261.79 ^f
More than 52 weeks	48,050	48,050	£1,261.79 ^f
Total	317,300	317,300	£667.28

^a See table A2, page 24 of Department of Trade and Industry, *Work and Families: Choice and Flexibility – Regulatory Impact Assessment*, 2005 (www.dti.gov.uk/er/workandfamilies_ria.pdf).

^b This figure was calculated using data from Waves 1 to 11 of the British Household Panel Survey (BHPS), which allows us to estimate the income distribution (in 2004) of mothers who were eligible for MA.

^c The DTI (see note a) assumes that 8% of those taking the current maximum amount of paid maternity leave will switch to the new maximum amount of paid maternity leave. They further assume that take-up of the full amount of paid maternity leave under the new system increases by 9.2% for every week of unpaid maternity leave taken under the old system. We use these assumptions to estimate the change in take-up rates resulting from the introduction of 12 months' paid maternity leave.

^d We have had to make assumptions about the distribution of returns to work where the amount of leave taken is 40 weeks or longer, as the DTI (see note a) groups these women together in a 'more than 39 weeks' category. These assumptions are: that there is a large spike in returns at 52 weeks, at the end of unpaid maternity leave; and that after subtracting this figure from the total number of women returning after 39 weeks, as calculated by the DTI, returns are uniformly distributed between 40 and 51 weeks, and between 52 and 76 weeks.

^e This figure is based on women returning to work after 45.5 weeks on average, using data from Waves 1 to 11 of the BHPS, which allows us to estimate the income distribution (in 2004) of mothers who were eligible for SMP.

^f This figure was calculated using data from Waves 1 to 11 of the BHPS, which allows us to estimate the income distribution (in 2004) of mothers who were eligible for SMP.

per week or their weeks of work in the year before birth, in order to become eligible for the more generous SMP.

In addition to the extension of paid maternity leave, Labour is also proposing to allow mothers to transfer some of their leave entitlement to fathers. The DTI is currently consulting on exactly how much leave mothers will be allowed to transfer. If total leave taken remains the same (i.e. mothers take less than they currently do and fathers make up the difference), then the only additional costs will be administrative, mainly borne by the employers of couples involved in switches. If, as is more likely to be the case, mothers currently taking less than the total amount of paid leave on offer continue to take the same amount of leave, while fathers take up to the maximum number of weeks remaining, then the total cost to the exchequer of paid maternity leave will rise. The DTI estimates that while the number of families eligible for

this reform will be around 311,000, the proportion actually taking up the option will be extremely low, at around 2%.³⁵

Childcare and nursery education

Childcare

Labour plans to offer year-round, affordable school-based childcare between the hours of 8am and 6pm to half of all families with children aged 5–11 by 2008 and to all families with children in this age group by 2010. By 2008, one-third of all secondary schools will be open between 8am and 6pm year round, with all secondary schools keeping these hours by 2010.

Nursery education

In our 2005 Green Budget, we estimated the cost to the exchequer of extending free nursery provision for all 3- and 4-year-olds to 15 hours a week, 38 weeks a year (from the current base of 12.5 hours a week, 33 weeks a year) to be around £500 million.³⁶

3.2 Conservatives

The Conservatives are committed to matching the government's commitments on childcare and nursery education through to 2008–09. In addition, they have announced an eight-point

Table 6. Summary of the Conservatives' manifesto

Policy	Introduced when?	Announced cost (annual)	IFS cost estimate (annual)
Offer support and advice to new parents			
Give mothers the option of receiving a set amount of maternity pay over either six or nine months	2007		£69m
Introduce a £50 per week flexible childcare payment (FCP) for each child whose parents qualify for the working tax credit, regardless of the type of childcare used	2008–09		£460m
Enable registered childminders to claim FCP while looking after their own children			Negligible
Provide a course specifically designed to encourage grandparents to become registered childminders			Negligible
Provide grants of £10,000 to facilitate the start-up of more workplace nurseries			Negligible
Allow wraparound care (from 8am to 6pm) to be based in locations other than schools			Negligible
Financially support the establishment of 150 youth clubs	2007		

³⁵ Department of Trade and Industry, *Work and Families: Choice and Flexibility – Regulatory Impact Assessment*, 2005 (www.dti.gov.uk/er/workandfamilies_ria.pdf).

³⁶ For more information, see chapter 9 of R. Chote, C. Emmerson, D. Miles and Z. Oldfield (eds), *The IFS Green Budget: January 2005*, Institute for Fiscal Studies, London, 2005.

reform package designed to support families further. We analyse two of these policies, concerning paid maternity leave and financial support for working parents using childcare, in detail, and give a summary of all eight measures in Table 6.³⁷

The Conservatives would also implement the planned increase in paid maternity leave from six months to nine months in 2007, and the rise in generosity of the childcare tax credit from 70% to 80% of formal childcare costs in April 2006.

Work–life balance

Maternity leave and pay

Alongside plans to raise paid maternity leave, affecting women claiming SMP or MA, from six months to nine months, the Conservatives are also proposing to inject more flexibility into the system by offering mothers eligible for SMP the option of receiving a higher rate over six months instead of over nine months.

Under this proposal, mothers eligible for SMP would be able to choose between:

- six weeks at 90% of their average weekly earnings, followed by 33 weeks at £102.80 (or 90% of their average weekly earnings if that is lower);
- six weeks at 90% of their average weekly earnings, followed by 20 weeks at £169.62 (or 90% of their average weekly earnings if that is lower).³⁸

The higher rate of £169.62 has been chosen so that women with earnings above £188.47 per week who plan to take at least nine months of maternity leave would receive the same amount of SMP in total under both options (although they might prefer to choose the six-month option so as to receive the money sooner and give themselves more flexibility over when to return to work).

All women who choose to take maternity leave of six months or less would be at least as financially well off under the second (six-month) option as they would be under the first (nine-month) option. However, for women who take more time off work than this, an individual's appropriate choice would depend on weekly earnings. Table 7 outlines our estimates of the number of women who would benefit financially from the Conservatives' alternative maternity policy, and the average gain for those choosing the six-month option. Using data from the British Household Panel Survey on the pre-birth earnings of SMP recipients, we estimate that the total cost of this policy, assuming no behavioural change, would be around £74 million, which is in addition to the cost of extending paid maternity leave to nine months in total. Given that employers make a net contribution of 7% of total SMP costs, however, the actual cost to the exchequer would be approximately £69 million. We have ignored the one-off cost to the exchequer that results from some women receiving their SMP earlier through choosing the six-month option even when they would receive the same amount of SMP as under the nine-month option.

³⁷ The funding implications of the Conservative policies that have not been examined in detail in this document are likely to be relatively small.

³⁸ The precise rates are likely to be higher in 2008–09 when the policy would be introduced.

Table 7. Analysis of Conservatives' maternity pay proposals^a

Projected maternity leave taken in 2007–08 ^b	Number of women choosing each option		Average gain in SMP from choosing six-month option ^c
	Six-month	Nine-month	
0–25 weeks	35,300	-	£875.90 ^d
26 weeks	28,800	-	£1,094.87
27–38 weeks	21,484	4,716	£527.91 ^e
39 weeks	44,460	14,040	£0
More than 39 weeks	107,996	34,104	£0
Total	238,040	52,860	£310.00

^a This table assumes that no behavioural change arises from the introduction of the six-month policy option. The consequences of relaxing this assumption are discussed in the text.

^b Following the projections of maternity leave duration resulting from implementation of Labour's nine-month paid maternity leave period, as outlined in table A2, page 24 of Department of Trade and Industry, *Work and Families: Choice and Flexibility – Regulatory Impact Assessment*, 2005 (www.dti.gov.uk/er/workandfamilies_ria.pdf).

^c These calculations use an estimate of the income distribution of women in receipt of SMP from Waves 1 to 11 of the British Household Panel Survey.

^d This figure is based on women returning to work after 22 weeks on average.

^e This figure is based on women returning to work after 32.5 weeks on average.

Some women may change the point at which they go back to work after maternity leave as a result of the introduction of the six-month option:³⁹

- Women who return to work in under six months, even after maternity pay is extended to nine months, may choose to take a longer period of maternity leave under the Conservatives' policy. This is because such women would be better off from a given amount of time on maternity leave, and would face a smaller reward to going back to work before the 26th week.
- The impact of the policy on women who would go back to work after 26 weeks but before 39 weeks of maternity leave is ambiguous. On the one hand, the Conservatives' six-month option would mean that they receive more income for their chosen amount of time off, which may induce them to delay their return; on the other hand, the cost of going back (in terms of maternity pay forgone), falls to zero after six months, which may induce them to return to work earlier than they currently do (but not before six months).
- Women who would go back to work after nine months or longer would receive the same amount of maternity pay under both options. However, if they choose the Conservatives' six-month option, the cost of going back to work (in terms of maternity pay forgone) falls to zero after six months, which may induce them to return to work before 9 months (but not before six months).

Welfare should increase for all women, as no one is worse off following the introduction of the Conservatives' policy. However, those most likely to benefit from this policy will be relatively medium- to high-earning women, in receipt of SMP, who currently choose to return to work in under nine months.

³⁹ What follows is relative to the situation under Labour's 2007 proposals, where there will be nine months' paid maternity leave.

The affordability of childcare

Flexible childcare support

The Conservatives have proposed a flexible childcare payment as part of the working tax credit, to be introduced from April 2008. This would incorporate the existing childcare tax credit, and would also include a new payment for some families with children under 5. We estimate the cost of this change to be around £460 million a year.

Under the flexible childcare scheme, families with children under 5 who meet the work test for the childcare tax credit would have a choice between two payments:⁴⁰

- They could claim a credit worth 80%⁴¹ of their spending on formal childcare (capped at one level for families with one child and another for families with more than one child), as in the existing childcare tax credit. Such families would have to report details of their childcare use to the Inland Revenue, as is currently the case.
- Or, they could claim a credit worth £50 a week for each child under 5. These families would not have to report details of their childcare use to the Inland Revenue.

Families with no children under 5 would see no change under the flexible childcare programme, and could only claim the existing childcare tax credit.

In all three of these cases, this credit would be subject to the usual means test in the tax credit system (sometimes known as the ‘income test’), which means that families with incomes above certain limits (which depend on the number of children) would not benefit.

This programme would benefit an estimated 250,000 families with children under 5 that currently meet the work and income test of the existing childcare tax credit, but that either do not use formal childcare or only use a small amount of formal childcare (see Box 1 for the derivation of this number).

The key difference between the existing childcare tax credit and the new payment is that the latter would not be connected in any way to the family’s use of childcare: it is effectively an extra credit for working parents, to spend in any way that they wish, whether this be on formal childcare, informal childcare or something else. The new payment would also impose lower compliance costs on parents, who, rather than having to give details of their formal childcare use, would only have to show the Inland Revenue that they meet the work test and have a child under 5.

Box 1 explains how we have estimated the cost of the policy.

The policy may lead some families to change their behaviour. Because the payment would only be available to parents who meet the work test of the childcare tax credit, it would increase the incentive for lone parents or the second earner in a couple to work 16 or more hours, particularly if the family would prefer not to use formal childcare. However, the policy would increase the effective marginal tax rate faced by some working parents, which would

⁴⁰ The work test for the childcare tax credit requires a lone parent to be working 16 or more hours a week, and both adults in a couple to be working 16 or more hours a week (or one to be working 16 or more hours a week and the other to be disabled).

⁴¹ By 2008, the subsidy rate will have increased from 70% to 80%, as outlined in the 10-year childcare strategy.

Box 1. Estimating the cost of the Conservatives' proposed flexible childcare payment

The new flexible childcare payment would benefit families with a child under 5 that meet the work and income tests for the childcare tax credit, and that either do not use formal childcare or use only a small amount of formal childcare.

Estimating the costs and number of beneficiaries requires us to estimate the number of families that would benefit from the childcare tax credit in 2008 and the distribution of awards. We assume that these are unchanged from estimates of the number benefiting from the childcare tax credit in December 2004.^a

Using the IFS tax and benefit model, TAXBEN, we estimate that there are around 2.6 million families with a child under 5, but only 850,000 of these meet the work test (i.e. are lone parents working 16 or more hours a week, or are couples with both adults working 16 or more hours a week, or are couples with one adult working 16 or more hours a week and the other one disabled). Around 340,000 of these 850,000 should be entitled to a payment under the flexible childcare programme; the other 510,000 are too rich and would fail the income test.

Of the 340,000 families that would be eligible for a payment under the flexible childcare scheme, around 210,000 families would have received a payment through the existing childcare tax credit; this means that 130,000 of the families that would gain are currently not using formal childcare and, as such, would gain by the largest amount. Around 120,000 of the 210,000 families currently receiving the childcare tax credit would be better off by choosing the new payment of £50 per child under 5 rather than receiving 80% of their formal childcare costs. Thus the total number of families that would benefit from the Conservatives' proposal is around 250,000, with an average gain of £35 a week.

^a Source: Inland Revenue (2004), *Child and Working Tax Credit Statistics*, London: Inland Revenue and HC Deb (2004–05), 430, col. 1411, question from Mrs May.

reduce their incentives to progress in the labour market by taking a pay rise or increasing the hours they worked.⁴²

It is unlikely that this policy will increase the amount of formal childcare being used. Indeed, there are good reasons to suspect that some parents may switch from using formal childcare to informal childcare as a result of this policy. This is because the existing childcare tax credit gives working parents a subsidy to use formal childcare, which would disappear if a family chose the new payment; although these families would still have the same ability to afford formal childcare if they chose the new payment, they might discover that they preferred not to use as much formal childcare if they had to pay the full cost, rather than only 20% (as 80% would be subsidised under the childcare tax credit) of the cost.

We have ignored such behavioural effects when estimating the cost of this policy.

⁴² For more discussion of how tax credits affect financial work incentives, see chapter 9 of R. Chote, C. Emmerson, D. Miles and Z. Oldfield (eds), *The IFS Green Budget: January 2005*, Institute for Fiscal Studies, London, 2005, or M.

3.3 Liberal Democrats

The Liberal Democrats would implement many of the proposals put forward in the government's 10-year childcare strategy, as outlined in Table 8. The implications of these policies have already been addressed in Section 3.1 on Labour's election manifesto. The main area of departure between Labour and Liberal Democrat plans is in maternity leave and pay policy, which we discuss in detail below.

Table 8. Summary of the Liberal Democrats' manifesto

Policy	Introduced when?	Announced cost (annual)	IFS cost estimate (annual)
Implement the following elements of the government's 10-year childcare strategy:			
3,500 children's centres	2010		
15 hours a week of free nursery education for all 3- and 4-year-olds	2010		£500m
Wraparound care for all children aged 5-14	2010		
Introduction of a minimum income guarantee of £170 per week for the first 6 months after birth for first-time mothers as an alternative to MA or SMP	2007?	£141m	£126m

In addition, the Liberal Democrats would implement the planned increase in paid maternity leave from six months to nine months in 2007, and the rise in generosity of the childcare tax credit from 70% to 80% of formal childcare costs in April 2006.

Work-life balance

Maternity leave and pay

In addition to the extension of paid maternity leave to nine months, as would be the case under both Labour and the Conservatives, the Liberal Democrats are planning to offer first-time mothers a minimum income guarantee (MIG) of £170 for the first six months of maternity leave as an alternative to statutory maternity pay or maternity allowance over the same period.⁴³ Women receiving the MIG would then subsequently be entitled to either MA or SMP for the final three months of their paid maternity leave period.

Assuming no behavioural change, we estimate that the cost to the exchequer of introducing the MIG would be approximately £126 million per year, which is on top of the cost of extending paid maternity leave to nine months in total.

It is clear from Table 9 that any woman currently eligible for MA will always be better off by choosing the MIG. This is because MA claimants receive the lesser of £102.80 and 90% of average earnings in every week of the six-month period for which the MIG would be available;

Brewer and J. Shaw, 'Childcare use and mothers' employment: a review of British data sources', Department for Work and Pensions, Working Paper no. 16, 2004.

⁴³ This means that in order to be eligible for the MIG, women effectively have to meet the employment criteria for maternity allowance.

thus they would be a minimum of £67.20 per week better off under the Liberal Democrat system.

Table 9. Analysis of the Liberal Democrats' maternity pay proposals^a

Projected maternity leave taken in 2007–08 ^b	Number of eligible women rationally choosing each policy		Estimated average gain from choosing MIG ^c
	SMP/MA	MIG	
<i>Maternity allowance</i>			
39 weeks	–	13,200 ^d	£1,828.67 ^e
<i>Statutory maternity pay</i>			
0–25 weeks	8,190 ^f	12,284	£730.61 ^g
26 weeks	5,011 ^h	11,693	£893.80 ⁱ
27–38 weeks	4,559	10,637	£893.80 ⁱ
39 weeks	10,179	23,751	£893.80 ⁱ
More than 39 weeks	24,726	57,692	£893.80 ⁱ
Total	52,665	129,257	£973.76

^a This table assumes that no behavioural change arises from the introduction of the MIG. The consequences of relaxing this assumption are discussed in the text.

^b Following the projections of maternity leave duration resulting from implementation of Labour's nine-month paid maternity leave period, as outlined in table A2, page 24 and on page 26 of Department of Trade and Industry, *Work and Families: Choice and Flexibility – Regulatory Impact Assessment*, 2005 (www.dti.gov.uk/er/workandfamilies_ria.pdf).

^c We use 2004–05 figures for MA and SMP rates, i.e. the maximum weekly amount is £102.80. This is because we could only obtain estimates of the relevant income distributions for 2004 (see note e below).

^d This figure is equivalent to 50% of the number of women claiming MA in November 2004, where 50% is the proportion of children born each year to mothers eligible for MA who are first births, i.e. whose mothers would be eligible for the MIG. This figure was estimated using data from the British Household Panel Survey (BHPS).

^e This figure was calculated using data from Waves 1 to 11 of the BHPS, which allows us to estimate the income distribution (in 2004) of first-time mothers who were eligible for MA.

^f This figure is calculated using the fact that 58% of women eligible for SMP are first-time mothers. This figure was estimated using data from the BHPS. We then estimated the proportion of women who are likely to be better off by choosing each policy (SMP or MIG). To do this, we calculate how much gross weekly income a woman would have to earn in order to be better off by choosing SMP; we then use the income distribution of first-time mothers in receipt of SMP (from Waves 1 to 11 of the BHPS) to work out the proportion of women who actually earn more than this amount. In all calculations for this group, we use an average return time of 22 weeks; changing this assumption will alter the average weekly income required to make SMP more attractive than the MIG. Under the 22-week assumption, the gross weekly income above which SMP will be more attractive than the MIG is £388.00; 60% of women earn less than this amount and so would be better off choosing the MIG.

^g This figure was calculated using data from Waves 1 to 11 of the BHPS, which allowed us to estimate the income distribution (in 2004) of first-time mothers who were eligible for SMP.

^h See note f above for further details. For all groups who return to work at or after six months, the average weekly income required to make SMP more attractive than the MIG is £437.78; 70% of women earn less than this amount and so would be better off by choosing the MIG.

ⁱ This figure is based on women returning to work after 22 weeks on average and was calculated using data from Waves 1 to 11 of the British Household Panel Survey, which allowed us to estimate the income distribution (in 2004) of first time mothers who were eligible for statutory maternity pay.

The situation is more complicated for women currently claiming SMP, because they receive an unrestricted 90% of average weekly earnings for the first six weeks of maternity leave.

By relaxing our assumption of no behavioural change, it becomes clear that the MIG is likely to increase the amount of maternity leave that eligible women take.

Those who choose to return to work before the six-month mark under the nine-month paid leave system and who claim the MIG will receive more income for a given amount of time off, and will also face a higher cost, in terms of maternity pay forgone, of returning to work early, both of which may induce such women to take more maternity leave.

Women currently taking six months or more maternity leave will receive higher income for a given amount of time off, which may induce them to remain out of the labour market for longer, but they face the same cost of working (in terms of maternity pay forgone) as they would under the nine-month MA or SMP systems, which, by itself, should have no impact on their labour supply decisions. Combining these two effects implies that women in these categories are likely to increase the length of their maternity leave.

The outlined labour supply implications of the Liberal Democrat system would have bigger cost implications than those resulting from the Conservatives' flexible maternity pay policy. This is because any increase in the number of weeks' leave taken by women who currently return to work in under nine months will be paid, whereas this was only the case for women taking less than six months off work under the Conservatives' system.

It is clear from our analysis that those women most likely to benefit from the introduction of the MIG are those on relatively low incomes, currently in receipt of either MA or SMP. This can be contrasted with the group of women most likely to benefit from the introduction of the Conservatives' policy of offering the same amount of SMP over a shorter time period.

The affordability of childcare

The Liberal Democrats are looking to amend the tax credit system (including the childcare element of the working tax credit) so that families receive awards that are fixed for at least six months, in much the same way that the former working families' tax credit used to work. This change would mean that families would know for certain how much tax credit they would receive for at least six months. It would also mean that families could not run up debts by not reporting changes in their use of formal childcare to the Inland Revenue, as is currently the case. However, it would mean that tax credits would be less responsive to changes in circumstances, and that some families would have to fill in more claim forms than is currently the case.

Appendix A. Benefit entitlement conditions

Work–life balance

Maternity leave and pay

Statutory maternity pay (SMP) is available to employees who were employed for at least part of the qualifying week (the 15th week prior to the baby’s due date) and continuously for the 26 weeks leading up to the qualifying week (with the same employer), and who earned at least the

Table A1. Maternity allowance: summary

Year	Total entitlement	Rates of pay ^a		Conditions of entitlement
		Higher rate ^b	Lower rate	
First term				
1997–98	18 weeks	£55.70	£48.35	An employee, paying Class 1 or 2 NI contributions for at least 26 of the 52 weeks immediately preceding the qualifying week
1998–99	18 weeks	£57.50	£50.10	An employee, paying Class 1 or 2 NI contributions for at least 26 of the 66 weeks immediately preceding the due date
1999–00	18 weeks	£59.55	£51.70	As above
2000–01 ^c	18 weeks	£60.20	£52.25	As above
		Standard rate	Variable rate	
2000–01 ^d	18 weeks	£60.20	90% of average weekly earnings	(Self-)Employed for 26 of the 66 weeks immediately preceding the due date: for standard rate MA, must have earnings ≥ LEL for 13 of those 66 weeks; for variable rate, MA threshold (£30 per week) ≤ earnings < LEL for 13 consecutive weeks of those 66
Second term				
2001–02	18 weeks	£62.20	As above	As above
2002–03	18 weeks	£75.00	As above	As above
2003–04	26 weeks	The lesser of £100 and 90% of average earnings		(Self-)Employed for 26 of the 66 weeks immediately preceding the due date: average earnings over 13 of those 26 weeks must be ≥ MA threshold (£30 per week)
2004–05	26 weeks	The lesser of £102.80 and 90% of average earnings		As above

Notes to table appear on next page.

Notes to Table A1

^a There is also a supplement available for adult dependants. This has remained roughly constant since 1997, at a rate of approximately £30 per week.

^b Women receive the higher rate of maternity allowance if they were employed at any point during the qualifying week (the 15th week before the baby's due date); otherwise, they receive the lower rate (assuming, in both cases, that they also meet the other employment and earnings/contribution conditions).

^c Until 19 August 2000.

^d From 20 August 2000.

lower earnings limit (LEL) for National Insurance contributions in the final eight of those 26 weeks. These conditions have remained the same throughout Labour's terms in office.

The entitlement conditions for maternity allowance (MA) can be found in Table A1.

Paternity leave and pay

Fathers who have been continuously employed for 26 weeks (ending with the qualifying week, or the week in which the adopter is notified of having been matched with a child) are eligible for one or two consecutive weeks' paternity leave for the purpose of caring for a child for whom they are responsible. Leave must be taken within 56 days of the baby's birth or placement with the family.

Statutory paternity pay (SPP) is available to employees who were continuously employed for the 26 weeks necessary to be eligible for paternity leave, plus the weeks between the qualifying week and the due date (or the date of notification of placement and the actual date of placement for adoptive fathers), and who earned at least the LEL in the eight weeks leading up to the qualifying week (or date of notification).

When SPP was introduced in 2003–04, the rate of pay was the lesser of £100.00 and 90% of average weekly earnings over the eight weeks immediately prior to the qualifying week; this rate has now increased approximately in line with inflation to the lesser of £102.80 and 90% of average earnings in 2004–05.

Adoption leave and pay

Adoption leave is the equivalent of maternity leave for adoptive mothers.⁴⁴ If the qualifying criteria are met, individuals are entitled to 26 weeks' ordinary and 26 weeks' additional leave, exactly the same as for maternity leave; however, unlike maternity leave, there is no automatic entitlement to ordinary adoption leave regardless of length of employment. To be eligible for both ordinary and additional adoption leave, the individual must have been continuously employed for the 26 weeks immediately prior to the date of notification.

Statutory adoption pay (SAP) was introduced alongside SPP in April 2003, with the same entitlement conditions and rates of pay, i.e. the lesser of £100.00 and 90% of average earnings for individuals who worked continuously for the 26 weeks immediately preceding the date of notification, and earned at least the LEL for the final eight of those 26 weeks. SAP is available throughout the period of ordinary adoption leave, i.e. for up to 26 weeks. As with SPP, the rate of pay in 2004–05 rose to the lesser of £102.80 and 90% of average earnings. This is the same

⁴⁴ There is no legal stipulation that it must be the mother who takes adoption leave, but if the father chooses to take the leave, there is no legal right to time off equivalent to paternity leave for the adoptive mother.

rate as for mothers claiming maternity allowance and is therefore slightly less generous than statutory maternity pay.⁴⁵

Parental leave

The parental leave legislation entitles all parents (birth and adoptive) who have been continuously employed for at least one year to 13 weeks unpaid leave per child; parents of disabled children (those entitled to disability living allowance) are permitted up to 18 weeks leave per child. The leave must be used to care for the child in question, and must be taken on or before their 5th birthday (on or before the 5th anniversary of the date of placement if the child was adopted), or before their 18th birthday if the child is disabled. If no other arrangement is made with the employer, parents must take their leave in multiples of one week (one day in the case of disabled children), with no more than four weeks being taken in any given year.

Time off for dependants

In addition to planned parental leave, working parents have also been granted the right to a 'reasonable' amount of time off to deal with unexpected circumstances or emergencies relating to dependants, including the arrangement of alternative longer-term care. This right is available to all employees, regardless of terms of contract or length of service, and there is no statutory limit on the number of times an employee can be absent from work under this right.

Appendix B, Childcare and nursery education

Childcare

Box B1 provides definitions of formal and registered childcare, as used in the context of eligibility for the childcare element of the working tax credit and its predecessors.

Box B1. Definitions of 'formal childcare' and 'registered childcare'

Formal childcare is defined as a child being looked after by someone who is neither a member, nor a friend, of the family. For example, it includes nurseries, out-of-school clubs, childminders, nannies and au pairs. Childcare provided by relatives or friends is known as **informal childcare**, whether paid or unpaid.

The childcare tax credit and its predecessors, and the new tax-free childcare vouchers, can reduce the cost to parents of certain types of formal childcare known as **registered childcare**. To be registered, childminders and other formal carers for the under-8s will have to meet 14 minimum national standards assessed through on-site inspections by the Office for Standards in Education (Ofsted), but nannies and au pairs just need a relevant childcare qualification and a recent first-aid certificate and to undergo an enhanced criminal records check. All registered childcare is formal, but not all formal childcare is registered: for example, the childcare tax credit does not help parents who use unregistered childminders.^a

^a In the 2003 Pre-Budget Report, the government confirmed that a registration system for nannies and other childcarers who provide care in the parental home would start in April 2005. This means that parents who employ registered nannies will, from April 2005, be able to use the childcare tax credit to cover some of their childcare costs.

⁴⁵ This may be because adopted children are likely to be older when their adoptive mother or father takes leave.

Nursery education

Box B2 outlines the providers who can offer free nursery places for 3- and 4-year-olds.

Table B1 details take-up of free nursery education places by 3- and 4-year-olds (split by type of provider) since Labour came to power in 1997. Almost all growth in places for 3-year-olds, particularly over the second term, has been in ‘other’ places, i.e. places that are not operated by the local education authority.

Box B2. Eligible providers of free nursery places

Free nursery places can be taken up in any of the following establishments (split into ‘maintained’ and ‘other’ providers), assuming Ofsted has inspected and passed them:

Maintained (i.e. funded by the LEA)

- **Nursery schools** have their own funding and management system, and can be distinguished from **nursery classes**, which are staffed, managed and funded through primary schools. Nursery schools tend to have a more teaching-orientated staff (in terms of their qualifications) and higher pupil–staff ratios than nursery classes. Provision is usually on a part-time basis.
- **Day nurseries** primarily provide places for children ‘in need’, and focus on care and protection, as well as education. Staff are not required to hold a teaching degree (in common with nursery classes), emphasising this focus on care; pupil–staff ratios are much lower, commonly around 8:1. Places are usually full-time.

Other (includes private, voluntary and independent provision)

- **Playgroups or pre-schools** may be private or, more commonly, voluntary, and offer places on a part-time basis. Staff are frequently volunteers and may have little or no formal training. Pupil–staff ratios are similar to those found in day nurseries. Cost to parents is usually relatively low compared with that of other types of non-maintained provision.
- **Registered childminders** can care for a small number of under-5s in their own home. Costs and qualifications vary widely between providers. **Nannies**, who provide childcare in the user’s home, are due to become eligible for registration under this scheme in April 2005.
- **Private nurseries** usually have a pupil–staff ratio similar to that of childminders for the youngest children, rising to a level similar to those in day nurseries and playgroups for older children. Staff have similar qualifications to those found in nursery classes and day nurseries, but cost to parents can be extremely high. Places can be on a full-time or a part-time basis, dependent on parents’ needs.
- **Independent schools** may provide nursery or reception classes similar to those found in the maintained sector. Staff qualification levels are likely to be similar to, although pupil–teacher ratios may be lower and cost to parents higher than in, the maintained sector. Places may be full- or part-time.

Sources: P. Moss and H. Penn, *Transforming Nursery Education*, Paul Chapman Publishing Ltd, London, 1996; Sure Start, *A Code of Practice on the Provision of Free Nursery Education Places for Three and Four Year Olds – 2004–05*, Department for Education and Skills, London, 2004.

Table B1. Take-up of free nursery education places by 3- and 4-year-olds

Year	Total places (Places per 100 children)		
	Maintained ^a	Other ^b	Total (England)
3-year-olds			
<i>First term</i>			
1997	214,200 (34)		214,200 (34)
1998	222,000 (35)		222,000 (35)
1999	225,700 (37)		225,700 (37)
2000	229,900 (38)	40,300 (7)	270,200 (44)
<i>Second term</i>			
2001	226,600 (38)	108,800 (18)	335,400 (56)
2002	223,500 (38)	184,700 (31)	408,300 (69)
2003	218,700 (38)	226,100 (39)	444,800 (77)
2004	215,300 (38)	246,200 (44)	461,600 (82)
4-year-olds			
<i>First term</i>			
1997			576,200 (89)
1998			591,500 (93)
1999			593,800 (95)
2000	483,700 (80)	114,800 (19)	598,500 (98)
<i>Second term</i>			
2001	482,800 (79)	106,500 (17)	589,300 (97)
2002	477,700 (80)	106,800 (18)	584,500 (97)
2003	472,200 (80)	109,600 (18)	581,800 (98)
2004	461,100 (80)	110,000 (19)	571,200 (98)

^a Includes maintained nursery and primary schools. See Box B2 for further details.

^b Includes private, voluntary and independent providers. See Box B2 for further details.

Sources: Department for Education and Skills, *Provision for Children under Five Years of Age in England – January 2002*, SB08/2002, London, December 2002 (http://www.dfes.gov.uk/rsgateway/DB/SBU/b000364/b08_02v3.pdf); Department for Education and Skills, *Provision for Children under Five Years of Age in England: January 2004 (Final)*, SFR 39/2004, London, October 2004 (<http://www.dfes.gov.uk/rsgateway/DB/SFR/s000531/sfr39-2004v5.pdf>).

Appendix C. Cost estimates

Table C1 gives our estimate of the cost of extending paid maternity leave from six months to nine months, and an analysis of the average gain for various sorts of mothers. We estimate that this policy will cost the exchequer £280 million per year (given that employers make a net contribution of 7%). This estimate is slightly lower than the estimate given by the DTI, perhaps because we have assumed no real growth in mothers' earnings after 2004.

Table C1. Analysis of extending paid maternity leave to nine months

Projected maternity leave taken when SMP extended to 39 weeks ^a	Number of women	Average increase in SMP/MA
<i>Maternity allowance</i>		
End of paid leave	26,400	£1,202.93 ^b
<i>Statutory maternity pay</i>		
0–25 weeks	35,300	£0
26 weeks	28,800	£0
27–38 weeks	26,200	£630.90 ^c
39 weeks	58,500	£1,261.79 ^d
More than 39 weeks	142,100	£1,261.79 ^d
Total	317,300	£949.90

^a Following the projections of maternity leave duration resulting from implementation of Labour's nine-month paid maternity leave period, as outlined in table A2, page 24 of Department of Trade and Industry, *Work and Families: Choice and Flexibility – Regulatory Impact Assessment*, 2005 (www.dti.gov.uk/er/workandfamilies_ria.pdf).

^b This figure was calculated using data from Waves 1 to 11 of the British Household Panel Survey (BHPS), which allows us to estimate the income distribution (in 2004) of mothers who were eligible for MA.

^c This figure is based on women returning to work after 32.5 weeks on average, using data from Waves 1 to 11 of the BHPS, which allows us to estimate the income distribution (in 2004) of mothers who were eligible for SMP.

^d This figure was calculated using data from Waves 1 to 11 of the BHPS, which allows us to estimate the income distribution (in 2004) of mothers who were eligible for SMP.